

2017
ANNUAL REPORT

BIGGER, BETTER,
STRONGER



FARM
CREDIT
OF FLORIDA

TOGETHER WE ARE AG

¹ Joseph C. Joyce

² Robert S. Sexton

³ Susan M. Cummings

⁴ Charles R. Thomas

⁵ Harold Phillips

⁶ Doug Moore

⁷ JBI

⁸ Lisa Starnan

⁹ Jeff Ammons

¹⁰ Andrea Skurn

¹¹ W. Eric Hopkin

¹² Eugene E. Waldron

¹³ John Dine

¹⁴ Martin J. McKeena

¹⁵ Roger W. Davis

¹⁶ Rowdy Bateman

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¹⁸ J.R. Nunamaker

BIGGER, BETTER, STRONGER

Throughout modern history, humans have relied upon a stable source of food to establish communities, create culture, and foster prosperity. Today less than two percent of the American population produces enough food for the other 98 percent. American farmers are a driving force for innovation. Agriculture has evolved into the modern age by producing Bigger yields, Better products, and creating Stronger ties to the land, their products and the consumer. Just as the farmer has evolved, so have the services that he or she relies upon. Farm Credit of Florida is proud to stand shoulder to shoulder with the best and brightest agriculturists in our state, whose sole mission is to feed a growing world. Thanks to the hard work and dedication of employees, stakeholders, and our members, Farm Credit of Florida is entering 2018 Bigger, Better, and Stronger than ever before.

ALEX JOHNS: A **BIGGER** FUTURE

The streets of Brighton are now paved with asphalt and used frequently by gamblers and visitors alike. However, it was not always this way.

Located between Lake Placid and Okeechobee, the Brighton Seminole Indian Reservation spans 36,000 acres on the western side of Lake Okeechobee. This serves as the base of the Seminole Tribe's cattle operation, the 12th largest in the nation.

The cattle industry in the U.S started in Florida in 1521, and the Seminole Tribe was involved from the very beginning. With over 500 years of experience, the Seminole Tribe has faced many challenges but continued to persevere and began to expand their cattle operations in the late 20th century. The Seminole Tribe currently has over 12,000 head of cattle making them the fourth largest cattle producer in the state of Florida.

"I feel like cattle are part of my DNA. It's in my blood. It's what we do and raising cattle is an important part of our history," Alex Johns, a proud Seminole cattle rancher, said.

For Alex Johns, raising cattle has always been a part of his lifestyle. He currently serves as the Natural Resource Director for the Seminole Tribe of Florida, where he oversees the ranching operations and marketing efforts of Seminole Pride Beef. On top of managing the natural resources of the Tribe, Johns has his own herd of cattle.

Although Johns still uses some of the traditional methods of raising cattle, the technological advancements that have been made recently in the Cattle industry have helped him become more productive.

"There is a lot of difference in how we raise the cattle now, with the biggest being technology. From the improved pharmaceuticals we can use today to animal tracking and handling procedures, we have completely modernized the herd," Johns said.

His cattle are still worked by horseback, with some of the horses used being decedents of the original Seminole Marshstackies, more commonly known today as Florida Cracker horses.

Beyond the nostalgia of riding through the herd on horseback, the cattle industry can be a tough business. The Seminole Tribe lost most of their cattle in the 1800s and were not able to re-establish a herd until the 1930s. Much like the Tribe as a whole, Johns has individually experienced his fair share of hardships in the industry as well. "The cattle industry is a hard business. It's a hard way to make a living. We do a lot of work for a little bit of money, but that's because we appreciate the product we are producing. We know that we are producing a wholesome, safe product and we are feeding the world off the sweat from our brow," Johns said.

Regardless of the hardships that go along with raising cattle, Johns continues to expand his personal cattle operation with the mission of feeding the growing world. When he needed an agricultural lender to partner with, he chose Farm Credit of Florida.

"Farm Credit understands agriculture. It's simple for me to go in and talk with a Farm Credit representative and present my business plan where they have an understanding of what I am trying to accomplish. If I go to a traditional lender it's an education process."

On top being easier to work with, Johns feels at home when dealing with Farm Credit.

"Farm Credit is like dealing with family. It is easy to explain your position and situation and they understand you. They get it. It's just simpler to work with Farm Credit."

Johns has recently teamed up with Florida Cattle Ranchers, LLC. to market his cattle as locally sourced beef to restaurants and grocery stores throughout Florida.

"I believe in producing local food and I know that local Florida ranchers produce a good product. I was able to bring some of my experience from marketing Seminole Pride beef to the table and we look forward to continuing to grow our market share," Johns said.

Beyond working hard to provide beef to the worlds growing markets, Johns likes to invest his time in the younger generations, encouraging the youth of the Tribe to get involved in 4-H and FFA programs and continues to be a leader in the Florida Cattle Industry.

"FARM CREDIT UNDERSTANDS AGRICULTURE. IT'S SIMPLE FOR ME TO GO IN AND TALK WITH A FARM CREDIT REPRESENTATIVE AND PRESENT MY BUSINESS PLAN WHERE THEY HAVE AN UNDERSTANDING OF WHAT I AM TRYING TO ACCOMPLISH. IF I GO TO A TRADITIONAL LENDER IT'S AN EDUCATION PROCESS."

~ ALEX JOHNS

**FARM CREDIT OF FLORIDA MEMBER,
FIRST AMERICAN RANCH NATIONAL
RESOURCE DIRECTOR FOR THE SEMINOLE
TRIBE OF FLORIDA INC.**



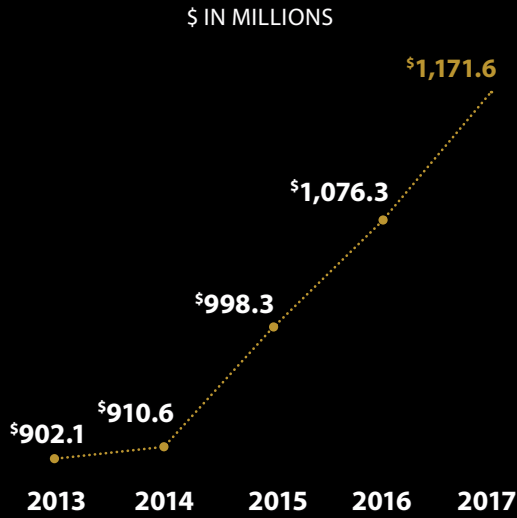
“FARM CREDIT IS LIKE DEALING WITH FAMILY. IT IS EASY TO EXPLAIN YOUR POSITON AND SITUATION AND THEY UNDERSTAND YOU. THEY GET IT. IT’S JUST SIMPLER TO WORK WITH FARM CREDIT.”

~ ALEX JOHNS

**FARM CREDIT OF FLORIDA
MEMBER, FIRST AMERICAN RANCH
NATIONAL RESOURCE DIRECTOR
FOR THE SEMINOLE TRIBE OF
FLORIDA INC.**

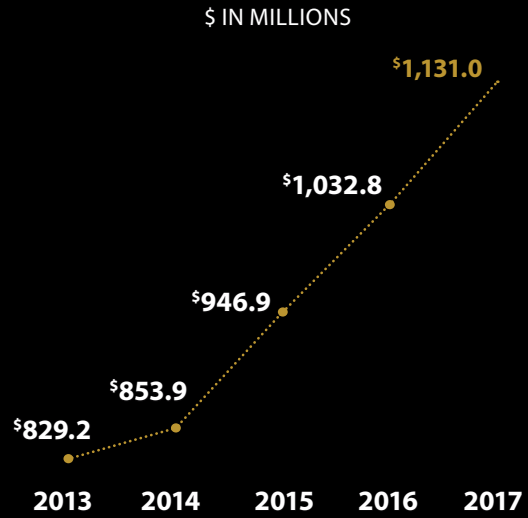
FINANCIALLY STRONG

TOTAL ASSETS



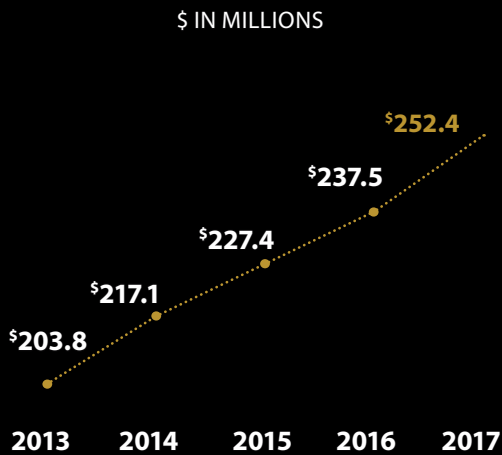
INCLUDES LOANS, INVESTMENTS
AND RECEIVABLES

LOANS



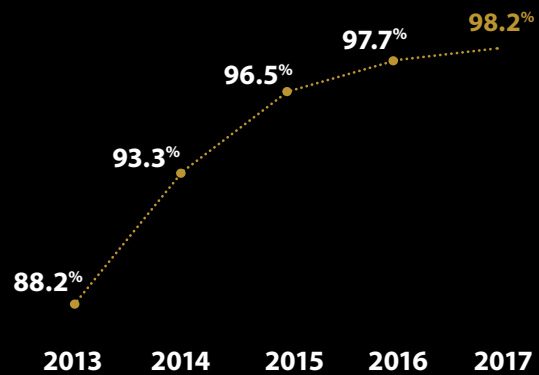
FARM CREDIT OF FLORIDA LOAN
VOLUME HAS GROWN 36.4%
OVER THE PAST FIVE YEARS.

MEMBERS' EQUITY



TOTAL ASSETS MINUS
TOTAL LIABILITY

CREDIT QUALITY

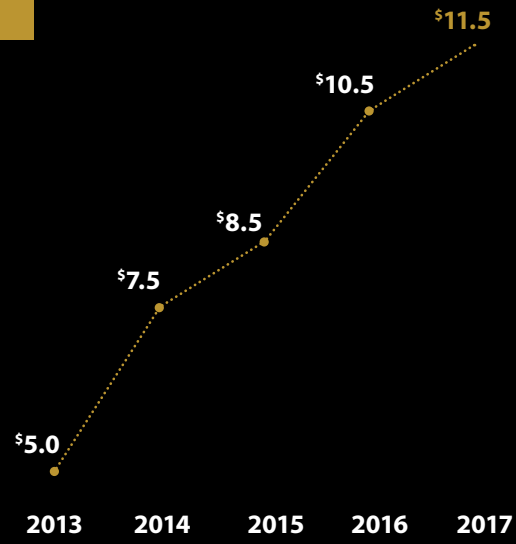


THE PERCENTAGE OF ACCEPTABLE
LOANS WITHIN THE FARM CREDIT
OF FLORIDA PORTFOLIO

PATRONAGE DISTRIBUTION

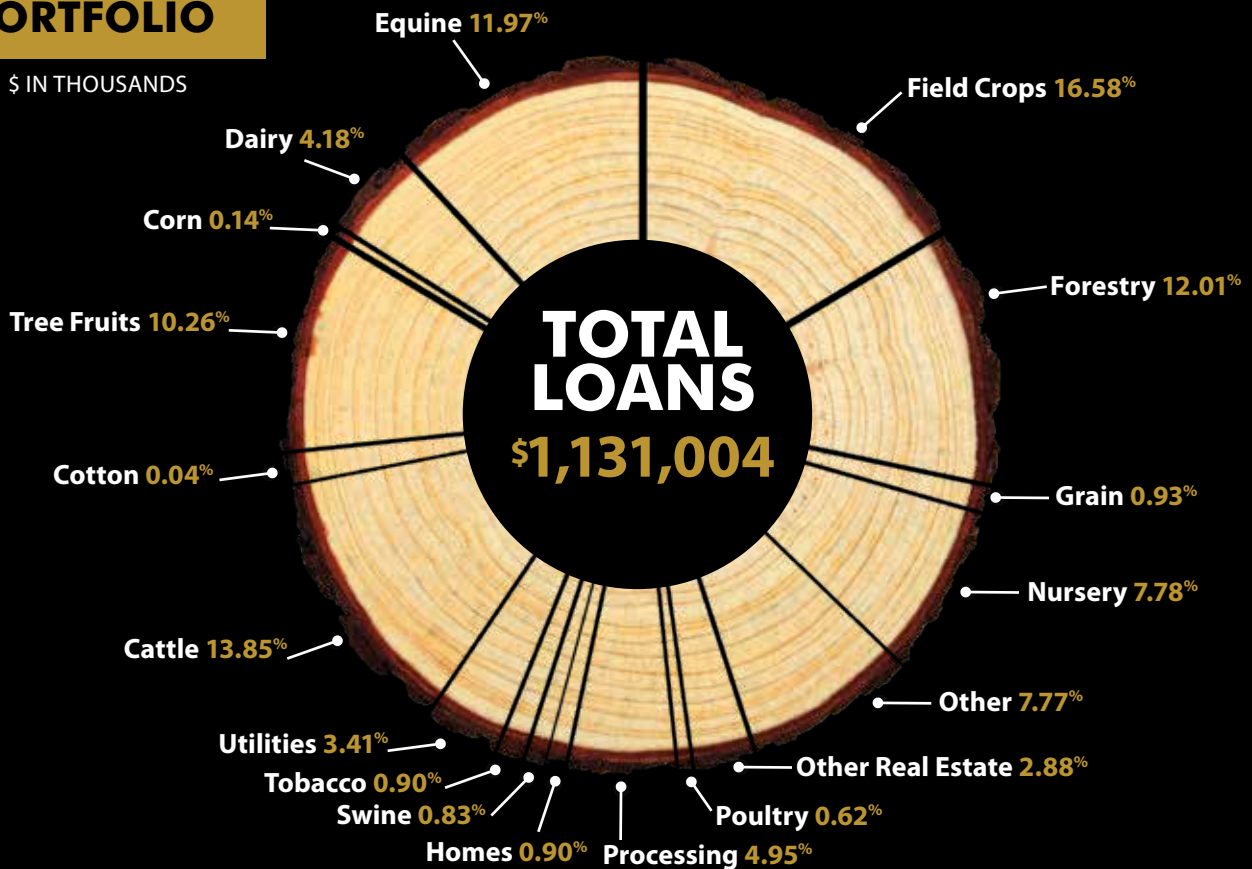
\$ IN MILLIONS

PATRONAGE DIVIDENDS ARE PAYABLE 100% IN CASH AS DIRECTED BY ASSOCIATION BOARD OF DIRECTORS.



COMMODITY PORTFOLIO

\$ IN THOUSANDS



A BETTER COMMUNITY

At the beginning of 2017, Farm Credit of Florida placed a special emphasis on giving back to the local communities served by the 11 branch offices across the state. In 2017, Farm Credit of Florida provided meals to over 6,300 people after Hurricane Irma and donated over \$40,000 to local charities. The donations were made as a part of Farm Credit of Florida's Commitment to Community Plan, which places an emphasis on supporting charitable causes that directly support the local communities served by Farm Credit of Florida's 11 branch offices across the state.

In the wake of Hurricane Irma on Thursday, September 14, 2017, Farm Credit of Florida joined together with U.S Sugar Corp., Wedgworth Inc., Florida Crystals Corp., TKM-Bengard Farms and

"OUR COMPANY WAS PROUD TO JOIN FORCES WITH OTHER LEADERS IN THE FLORIDA AGRICULTURAL INDUSTRY TO PROVIDE THE CITIZENS OF BELLE GLADE, LABELLE AND LAKE PLACID WITH A HOT MEAL AND A FRIENDLY SMILE IN THIS TIME OF HARDSHIP."

~ GREG CUNNINGHAM

FARM CREDIT OF FLORIDA PRESIDENT AND CHIEF EXECUTIVE OFFICER

Sugar Cane Growers Cooperative of Florida to provide meals to 2,500 people in the Belle Glade area. On the following Saturday, Farm Credit again teamed up with U.S Sugar, Florida Crystals and TKM-Bengard Farms with the addition of the Gulf Citrus Growers and Hood Citrus Inc. to provide an additional 2,000 meals to the people of LaBelle and Montura.

On Friday, September 22, Farm Credit of Florida worked with Bethel Farms, Wheeler Farms, The Arcadia Stockyard, Lake Placid First Presbyterian Church and the First Baptist Church of Lake Placid to provide meals to an estimated 1,000 people in the Lake Placid area.

"After Hurricane Irma left a path of destruction across Florida, people in the Southwest Florida area were left without power and needed a helping hand," Greg Cunningham, Farm Credit of Florida President and Chief Executive Officer, said. "Our company was proud to join forces with other leaders in the Florida Agricultural Industry to provide the citizens of Belle Glade, Labelle and Lake Placid with a hot meal and a friendly smile in this time of hardship."

In addition to partnering with local companies to feed residents in areas affected by Hurricane Irma, Farm Credit of Florida also individually fed over 775 first responders and power linemen around the state of Florida.

The meals went to first responders from Alachua County Sheriff's Office, Gainesville Fire and Rescue, Florida Highway



“...THANKS TO FARM CREDIT FOR SPREADING THE WORD ABOUT OUR CAUSE AND GENEROUSLY DONATING TIME AND MONEY TO AG ANGELS. WITH THEIR HELP WE WERE ABLE TO RAISE \$76,250 IN 45 DAYS.”

**~ SCOTT KIROUAC
FOUNDER OF AG ANGELS**

Patrol, City of Alachua Police Department, Gilchrist County Sheriff's Office, Arcadia Police Department and the Desoto County Sherriff's Office. In addition to providing meals to local first responders, Farm Credit of Florida also provided 270 boxed lunches for Clay Electric Cooperative Lineman Crews and the City of Newberry Lineman Crews.

“We as a company recognized just how hard police officers, firefighters, paramedics and lineman crews worked in the aftermath of Hurricane Irma,” Cunningham said. “Providing meals for these hard working men and women is the least we can do to thank them for their service to our communities.”

After providing meals and supplies to the Hurricane Irma relief effort, Farm Credit of Florida continued to support local communities by donating over \$40,000 to local charities in December.

North Florida area charities that received donations include Love Inc. of Suwannee County, Christmas Dream Machine of Lake City, The Lee Conlee House, Heart of Putnam Food Pantry, Starke Police Department, 10 Can Inc., Ocala Farm Ministry, Florida Thoroughbred Farm Managers and local FFA chapters in the Trenton area.

“What a blessing it was to receive a donation from Farm Credit,” Lisa Kriehn, Executive Director of Love Inc. said. “This was an amazing time of year to receive a donation of this amount. This donation helped provide a Christmas for 984 children and 139 food baskets for families in need. What a blessing Farm Credit is to our community.”

South Florida charities that received donations include Ag Angels, Children's Guardian Fund, Guardian Ad Litem Foundation, The Boys and Girls Club of Palm Beach County and the Dade County Farm Bureau Christmas Toy Drive.

“With the support of Farm Credit of Florida we were able to expand our donations to all seven schools in Hardee County,” Scott Kirouac, founder of Ag Angels, said. “Our organization provides new clothing and toys to children in Florida's Heartland that would otherwise go without a Christmas at all. Thanks to Farm Credit for spreading the word about our cause and generously donating time and money to Ag Angels. With their help we were able to raise \$76,250 in 45 days.”

Farm Credit of Florida's individual branch offices decided which charities in their local area were helping the communities that the branch offices serve. Donations to these charities ranged from \$500 to \$5000.



“Farm Credit of Florida is committed to making a difference in our local communities,” Greg Cunningham, President and CEO of Farm Credit of Florida, said. “2017 was a great year for Farm Credit of Florida, and I am extremely proud of our staff for making a positive difference in their local communities. We look forward to continuing our commitment to the communities where we are proud to live and work in 2018.”

SERVING YOU BETTER

You already know Farm Credit of Florida offers excellent service on lending for your equipment, farming operations, and land. Did you also know we are your go-to experts for servicing home mortgages and crop insurance?

THE COUNTRY IS CALLING

If your busy life has you longing for more quality time with the family, open spaces for outdoor enjoyment or simply a peaceful, laid-back lifestyle, Farm Credit of Florida can help.

Our home loan experts specialize in financing home and land purchases, large and small. No other lender understands rural living – and the intricacies of financing rural property – the way Farm Credit of Florida does. From home improvements to construction or refinancing, we can finance everything you need for your land and your lifestyle.

If you are planning on building, improving or renovating property you already own, Farm Credit of Florida can help. We have the expertise to offer custom financial services just for you.

- Acreage is no problem; we finance large and small tracts of land.
- We can finance land with homes, building sites and renovations of existing homes on acreage.
- We offer competitive interest rates and loan terms.
- Our customer service team is experienced, knowledgeable and dedicated to serving you.

NEW CONSTRUCTION

Are you building a new home? Or maybe you have the perfect piece of land in the country just waiting for you to build your weekend getaway home.

We can handle your lending needs, from buying land to financing construction even if you're not going to build right away.

Here are just a few of the financing features we offer:

- Fixed, interim fixed or variable rates, including rate conversion.
- Unusually flexible terms, including long-term options.
- No limit on acres.
- Loans without prepayment penalties.
- One-time closing — saves time, closing costs and risk of changing interest rates.
- Mortgage loans may be eligible for cash-back dividends.

PROTECT YOUR INVESTMENT

Farm Credit of Florida is here to also help you protect your biggest investment — your crops. Crop Insurance is the tool you shouldn't be without.

Our full-time experienced crop insurance agents on staff have one job — crop insurance. You will not find a more knowledgeable, helpful staff with over 25 years of policy writing experience. Not only do they want to be your agent; they want to be a resource for you and a consultant on your team.

Why buy crop insurance?

Crop insurance is a risk management tool used to put a safety net under cash income. In times of low production and damaging weather such as drought, flood, hail and windstorms, crop insurance enables farm families to meet their financial obligations — both business and personal. Keeping long-term financial plans on track increases credibility and creditworthiness at the bank.

How much does crop insurance cost?

Through our multiple insurance providers, our agents have access to systems that allow you to compare several coverage levels to pick the one that best suits your farm operation. As with any insurance, the cost is relevant to the size of the underlying risk.

What types of crop insurance are there?

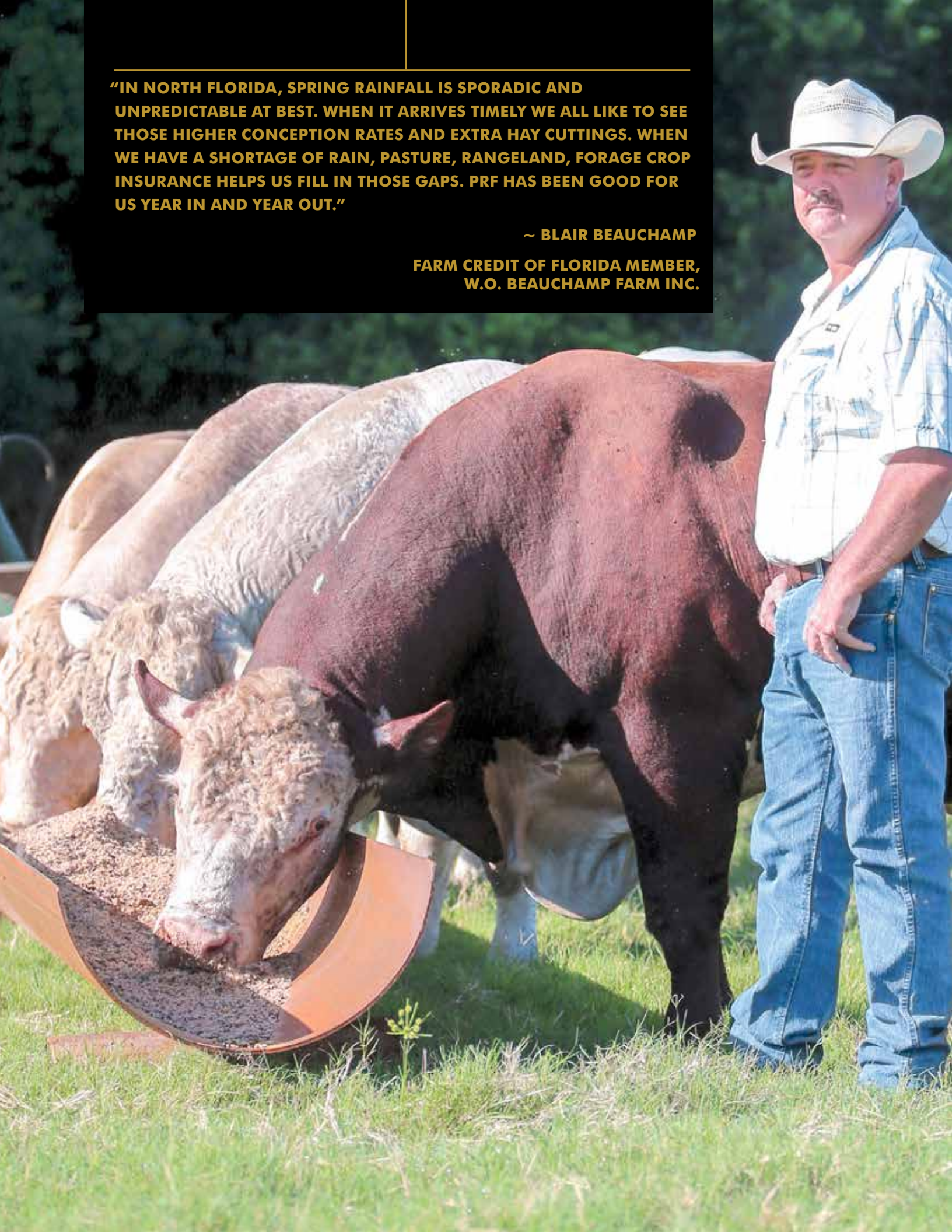
- Livestock Risk Protection (LRP)
- Pasture, Rangeland and Forage (PRF) Rainfall policy
- Multi-Peril and Actual Production History Policies in Select Counties for:
 - Avocado, Blueberry, Cabbage, Citrus, Grain Corn, Cotton
 - Fresh Market Peppers, Tomatoes and Sweet Corn
 - Nurseries, Peanuts, Pecans, Potatoes, Rice, Soybeans, Sugarcane and Tobacco
- Crop/Hail Coverage
- Apiary Rainfall Coverage
- Whole Farm Revenue Policy

For more information on how we can protect your crops from weather-related events or turn your country living dreams into reality visit our website: farmcreditfl.com or speak directly to a local agent by calling: 800.432.4156.

"IN NORTH FLORIDA, SPRING RAINFALL IS SPORADIC AND UNPREDICTABLE AT BEST. WHEN IT ARRIVES TIMELY WE ALL LIKE TO SEE THOSE HIGHER CONCEPTION RATES AND EXTRA HAY CUTTINGS. WHEN WE HAVE A SHORTAGE OF RAIN, PASTURE, RANGELAND, FORAGE CROP INSURANCE HELPS US FILL IN THOSE GAPS. PRF HAS BEEN GOOD FOR US YEAR IN AND YEAR OUT."

~ BLAIR BEAUCHAMP

**FARM CREDIT OF FLORIDA MEMBER,
W.O. BEAUCHAMP FARM INC.**



JOHN R. NEWBOLD III: STRONGER TODAY

On September 10, 2017 Hurricane Irma, the most powerful storm to hit Florida in over a decade, made landfall in Marco Island, Florida before moving up the center of the state, leaving a path of destruction in her wake. For farmers in Northeast Florida, Irma brought hurricane force winds and torrential rain less than one year after Hurricane Matthew skirted Florida's Northeast Coast as a Category 4 hurricane.

For the Newbold family, Hurricane Irma seemed like déjà vu. As growers of cut foliage under shade cloth, any wind event can bring devastation to the crop and cause major damage to growing structures, as was the case with Hurricane Matthew, and now again with Hurricane Irma.

While most other businesses would consider giving up after facing two devastating storms in as many years, John Newbold has taken a different point of view.

"I am encouraged by the future," John Newbold, owner of Forest Groves, Inc., said. "Less than a year ago we had virtually the same issue. And last time I wasn't sure we were going to make it."

"I WOULD THINK THAT GREG WOULD BE CALLING THE GUY WITH THE BIGGEST LOAN FIRST, BUT HE HAD ACCESS TO ME, HE REACHED OUT AND IT MEANT A LOT TO ME. THEY CARE ABOUT THE ENTIRE PORTFOLIO, WHETHER YOU ARE A BIG GUY OR A LITTLE GUY, AND THAT'S MEANINGFUL."

**~ JOHN NEWBOLD,
FARM CREDIT OF FLORIDA MEMBER
AND BOARD MEMBER**

In preparation for the storm and in beginning the rebuilding process, Newbold believes that the experiences from last year helped him and his family better prepare for the storm and rebuild faster than they ever have before. Newbold also points to Farm Credit for being instrumental in the rebuilding process since they were there before, during and after the storm.

"Last year, through the help of Farm Credit, the help of our employees and the help of local industry, we made it through the storm. Now that we are looking at a similar catastrophe, we can look back and say 'we were going to make it.'"

For Newbold, Farm Credit's response began before Hurricane Irma had completely passed.

"The first call I received after the storm was from Farm Credit of Florida CEO Greg Cunningham asking about my family's wellbeing and that meant a lot to me," Newbold said. "I've done business with several other banks and you don't get



that kind of attention from them. Farm Credit cared for us, and that's valuable to me."

As a cut foliage farmer, Newbold makes up one of the smallest portions of the Farm Credit loan portfolio. This is why he was shocked by the response he received after the storm.

"I am in the cut foliage business, and we were the smallest fish in the Farm Credit pond," Newbold said. "I would think that Greg would be calling the guy with the biggest loan first, but he had access to me, he reached out and it meant a lot to me. They care about the entire portfolio, whether you are a big guy or a little guy, and that's meaningful."

Farm Credit of Florida's storm response began with the Board of Directors, where Newbold serves as the District 4 representative.

"Storm Preparedness is a big topic of conversation at board meetings, and it's a big deal," Newbold said. "In the case of Hurricane Matthew and now Irma, the board did not need to provide any direction. It is already ingrained in the culture of Farm Credit that the staff and the employees care about their borrowers."

Farm Credit of Florida's hurricane response plan includes donations to areas of need, volunteering in the local community, and most importantly providing excellent service to their customers before, during and after the storm.

"I would be surprised if Farm Credit members haven't been contacted already by their lenders or their loan officer and been offered help," Newbold said. "And if anyone needs help I urge them to reach out to the Farm Credit staff because that help is there."

Overall, Newbold takes a positive look on the future of his farm after the storm.

"We are going to rely on all the same things we did last time to make it better, but I really feel happy about the prospects for our business and the cut foliage industry as a whole. It's a tough day, but there is a brighter one on the horizon."



“I’VE DONE BUSINESS WITH SEVERAL OTHER BANKS AND YOU DON’T GET THAT KIND OF ATTENTION FROM THEM. FARM CREDIT CARED FOR US, AND THAT’S VALUABLE TO ME.”

**~ JOHN NEWBOLD,
FARM CREDIT OF FLORIDA
MEMBER AND BOARD MEMBER**

STRONGER TOGETHER

At Farm Credit of Florida our goal is to provide you with superior customer service at all times. How do we know how we are doing? We utilize several methods to grade our service. One way that we measure our service is through member surveys emailed to you after you close a loan and following certain marketing efforts. Another way is through our Advisory Committees.

Your Board of Directors recognized the importance of generating feedback from a diverse group of members from the agricultural community, including: local growers, specialized (including organic) start-up operations, large and small operations, as well as other leaders in the agricultural community including non-Farm Credit members. These advisory committees represent our geographically diverse area and include many commodity groups to ensure we are meeting the needs of our Farm Credit of Florida footprint.

The board's recommendation to implement these committees has made your Association stronger by the invaluable feedback generated by these groups as your Association seeks to support, educate and service farmers and ranchers in Florida.

In 2017 the Farm Credit of Florida Advisory Committees were comprised of four groups: two in the South Florida area and two in the North Florida area. Participants are nominated and elected by committee members. Each charter-governed group meets twice a year and is tasked with making your Association stronger by:

- Identifying ways to improve doing business with Farm Credit of Florida.
- Pinpointing specific needs for members/borrowers to gain entrance or expand into different fields of agriculture to be successful.
- Providing to further improve the association's image and reputation in the agricultural and rural communities
- Suggesting solutions to challenges and obstacles related to Florida's agricultural community.
- Informing the association of programs and resources that can be leveraged to help members/borrowers advance their skills and improve their businesses.

Committee members not only provide feedback for the association, they also get a deeper look into the operation of the Farm Credit system and the many services offered to association members.

"It's a pleasure to serve on the advisory committee for a lending institution that understands the farmer's needs at any given time," said advisory committee member, Paul Allen of R.C. Hatton Farms. "The fact that Farm Credit of Florida takes such direct initiatives, such as these advisory committees, to fully and completely understand the different dynamics of farming on a seasonal basis proves their desire to continually strengthen their business and relationship with local growers."

Farm Credit of Florida board members are encouraged by the results of the advisory committees. Board members are provided with committee minutes following each advisory meeting and take to heart the feedback given on suggested improvements and testimonials of association superior service.

"THE ADVISORY COMMITTEES PROVIDE FARM CREDIT OF FLORIDA A FORUM TO HEAR DIRECTLY FROM OUR STAKEHOLDERS. THE COMMITTEES ARE ORGANIZED TO GIVE SELECTED REPRESENTATIVE STAKEHOLDERS THE OPPORTUNITY TO INTERACT DIRECTLY WITH KEY STAFF AND BOARD MEMBERS IN ORDER TO STAY INFORMED ON LENDING AND CREDIT SERVING ISSUES. THIS IS AN IMPORTANT ASPECT OF A STRONG COOPERATIVE ORGANIZATION BECAUSE IT WILL INSURE THAT WE ARE PROVIDING THE LEVEL OF SERVICE AND BENEFITS EXPECTED OF THE PREMIER FARM AND RURAL LENDING ORGANIZATION."

**~ DR. JOE JOYCE,
CHAIRMAN OF FARM CREDIT OF FLORIDA
BOARD OF DIRECTORS**

2017 ADVISORY COMMITTEE MEMBERS

South Florida Advisory Committee:

Paul Allen - RC Hatton Inc.

Amaury "Murphy" Dominguez - Triple O Nursery Farms

Cody Estes - Estes Citrus

Jeff Hurwitz - Bernard Egan & Co.

Valerie Lewis - 3L Farms/CPA

Brian Lohmann - Sugar Cane Growers Cooperative

Javier Riera - Excel Farms

South Florida Young, Beginning and Small Farmer Committee:

Susie Acosta - Acosta Brothers

Eric Barkwell - Petersons Groves & Nursery

Jeff DeMott - Redland Nursery

LeAnna Himrod - Florida Department of Citrus

Kiley Larsen - Ag Safety Lady, PrimusLabs, NK Lago Farms

Jacob Larson - Larson Dairy, Inc.

Everton Lyle - Tropical Fruit

Justin Sorrells - DeSoto Fruit and Harvesting

Jodi Swank - Swank Specialty Produce

Roland Yee - Yee Farms

North Florida Advisory Committee:

Richard Barber - Barber Farm

Dale Barnes - Barnes Farms & Barnes Fertilizer

Dr. William Bennett - DVM and timber owner

Michael Griffin - Diamond D Ranch

Tommy Harper - Red Angus Ranch

Jan Henderson - Alliance Dairies

Gail Hodge - Hodge Farms

Keith Kelley - Dee Dot Timberland

Dr. Phillip Matthews - Peterson & Smith Equine Hospital

Tripp Norfleet - Norfleet and Sons Cattle Co.

Dugan Whiteside - Anguilla Fish Farm

Sonny Register - Register Farm

North Florida Young, Beginning and Small Committee:

Jason Davis - Circle H Farms

Jim Dukes - Dukes Farm

Jake Sache - Sache Farms

Scott Myer - Congaree and Penn Farm & Mills

Jordan Brown - The Family Garden

Anthony Boggess - Suwannee Lumber Company

Brittany Lee - Florida Blue Farms

Dr. Joy Rumble - UF/ IFAS

BIGGER, BETTER, STRONGER LEADERSHIP

BOARD OF DIRECTORS



Joseph C. Joyce
Chairman
Outside Director



**Howard P. "Rowdy"
Bateman**
Vice Chairman



John L. Alger



**Tobin J. "Toby"
Basore**



Roger W. Davis



W. Eric Hopkins
Appointed
Stockholder Director



**Bobby G. "Bob"
Lines**



**Martin J. "Marty"
McKenna**



**Douglas I. "Doug"
Moore**



John R. Newbold, III



**Harrell H. "Hal"
Phillips, Jr.**



**Robert G. "Bobby"
Sexton**



Lisa Sherman
Appointed Stockholder
Director



Wayne H. Simmons



Charles R. Thomas



Andrea Thurn
Outside Director



**E.E. "Bucky"
Waldron**
Outside Director

MANAGEMENT TEAM



Gregory M. Cunningham
*President and
Chief Executive Officer*



Laura Craker
*Senior Vice President and
Chief Financial Officer*



Robert W. Teston
*Senior Vice President
and Chief Credit Officer*



Marcus A. Boone
*Senior Vice President and
Chief Lending Officer*



Roland Kampf
*Senior Vice President
and Chief Risk Officer*



Dawn Goodspeed
*Senior Vice President and
Chief Operations Officer*



Deborah Caldeira
*Senior Vice President
and Chief Human
Resources Officer*



Ashley Layson
*Senior Vice President and
Chief Marketing Officer*

**TO LEARN MORE ABOUT FARM
CREDIT OF FLORIDA'S BOARD OF
DIRECTORS AND MANAGEMENT
TEAM VISIT OUR WEBSITE:**

[FARMCREDITFL.COM/ABOUT-US](https://farmcreditfl.com/about-us)

2017 MESSAGE FROM THE CEO

The year 2017 is one we will not soon forget — from the swearing in of Donald Trump as our President of the United States of America, to the natural disasters of hurricanes, floods and fires, to record breaking highs on Wall Street. It was also a record year for your Association, at Farm Credit of Florida.

In 2017 we not only met, we exceeded our business goals set by your Board of Directors. We set out to become a **Bigger, Better, and Stronger** Association in 2017, and I can report to you with much pride that this goal was achieved.

We are **Bigger** through the growth in our number of stockholders and loan volume, and our increase in market share throughout the territory. Your Association reported significant growth in both loan volume and total assets. In addition, we successfully achieved greater visibility in our underserved markets and significantly increased our earnings.

We have become **Better** by delivering superior customer service and improving our delivery of credit to you our members. We have increased our commitment to our communities and our “giving” to local charities, including providing support to the areas we serve that were impacted by Hurricane Irma.

And finally, we have become **Stronger** as is evident through our increased earnings, strong capital position, and improved efficiency in our operations, along with enhancing our public relations and marketing efforts throughout our territory. Your **\$10.5 million** cash patronage paid in 2017 was the largest return on record for Farm Credit of Florida, and due to our strong earnings in 2017, your Board of Directors voted to increase this cash patronage to a new record amount of **\$11.5 million** to be paid in the spring of 2018.

None of this would be possible without you, our loyal members. Your commitment to this Association and to agriculture ensures that together we can continue to grow **Bigger, Better, Stronger** by providing the financing that you require, the customer service you deserve, and by paying back the patronage that belongs to you as an owner of this Association.



Gregory Cunningham
President and Chief Executive Officer

YOUR \$10.5 MILLION CASH PATRONAGE PAID IN 2017 WAS THE LARGEST RETURN ON RECORD FOR FARM CREDIT OF FLORIDA, AND DUE TO OUR STRONG EARNINGS IN 2017, YOUR BOARD OF DIRECTORS VOTED TO INCREASE THIS CASH PATRONAGE TO A NEW RECORD AMOUNT OF \$11.5 MILLION TO BE PAID IN THE SPRING OF 2018.

**~ GREG CUNNINGHAM
PRESIDENT AND CHIEF EXECUTIVE OFFICER**





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REPORT OF MANAGEMENT

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

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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2017 Annual Report of Farm Credit of Florida, 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.



Dr. Joseph C. Joyce
Chairman of the Board



Gregory M. Cunningham
Chief Executive Officer



Laura Craker
Chief Financial Officer

March 13, 2018

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Association’s management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2017. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the “COSO” criteria.

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



Gregory M. Cunningham
Chief Executive Officer



Laura Craker
Chief Financial Officer

March 13, 2018

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(dollars in thousands)	December 31,				
	2017	2016	2015	2014	2013
Balance Sheet Data					
Cash	\$ 211	\$ 244	\$ 23	\$ 36	\$ 75
Investment securities	5,467	7,417	10,072	13,063	20,769
Loans	1,131,004	1,032,804	946,900	853,947	829,151
Allowance for loan losses	(7,774)	(6,560)	(6,097)	(6,110)	(7,408)
Net loans	1,123,230	1,026,244	940,803	847,837	821,743
Investments in other Farm Credit institutions	13,940	13,697	13,002	13,684	15,078
Other property owned	95	366	5,565	3,845	7,216
Other assets	28,641	28,362	28,835	32,134	37,196
Total assets	\$ 1,171,584	\$ 1,076,330	\$ 998,300	\$ 910,599	\$ 902,077
Notes payable to AgFirst Farm Credit Bank*	\$ 894,913	\$ 809,137	\$ 743,688	\$ 662,690	\$ 673,175
Accrued interest payable and other liabilities with maturities of less than one year	24,261	29,684	27,186	30,847	25,143
Total liabilities	919,174	838,821	770,874	693,537	698,318
Protected borrower stock	445	445	531	554	765
Capital stock and participation certificates	2,452	2,272	2,085	1,961	2,028
Additional paid-in-capital	7,873	7,873	7,873	7,873	7,873
Retained earnings					
Allocated	114,789	109,960	106,263	103,837	102,421
Unallocated	127,089	117,171	110,881	103,079	90,829
Accumulated other comprehensive income (loss)	(238)	(212)	(207)	(242)	(157)
Total members' equity	252,410	237,509	227,426	217,062	203,759
Total liabilities and members' equity	\$ 1,171,584	\$ 1,076,330	\$ 998,300	\$ 910,599	\$ 902,077
Statement of Income Data					
Net interest income	\$ 30,093	\$ 30,109	\$ 25,707	\$ 26,485	\$ 25,107
Provision for (reversal of allowance for) loan losses	28	(1,101)	(3,446)	(8,117)	(5,845)
Noninterest income (expense), net	(3,817)	(10,722)	(10,425)	(7,099)	(7,979)
Net income	\$ 26,248	\$ 20,488	\$ 18,728	\$ 27,503	\$ 22,973
Key Financial Ratios					
Rate of return on average:					
Total assets	2.41%	2.04%	2.07%	3.15%	2.64%
Total members' equity	10.56%	8.58%	8.28%	12.79%	11.78%
Net interest income as a percentage of average earning assets	2.83%	3.09%	2.95%	3.16%	3.02%
Net (chargeoffs) recoveries to average loans	0.112%	0.162%	0.399%	0.832%	0.185%
Total members' equity to total assets	21.54%	22.07%	22.78%	23.84%	22.59%
Debt to members' equity (:1)	3.64	3.53	3.39	3.20	3.43
Allowance for loan losses to loans	0.69%	0.64%	0.64%	0.72%	0.89%
Permanent capital ratio	19.77%	21.49%	21.62%	22.55%	20.34%
Total surplus ratio	**	21.35%	21.49%	22.00%	19.48%
Core surplus ratio	**	21.35%	21.49%	22.00%	19.48%
Common equity tier 1 capital ratio	19.64%	**	**	**	**
Tier 1 capital ratio	19.64%	**	**	**	**
Total regulatory capital ratio	20.34%	**	**	**	**
Tier 1 leverage ratio	21.67%	**	**	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	16.37%	**	**	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	\$ 11,500	\$ 10,500	\$ 8,500	\$ 7,500	\$ 5,000
Nonqualified retained earnings	5,387	4,072	3,015	6,372	6,566

* General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2018.

** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

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

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

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, www.farmcreditfl.com or by calling 1-800-432-4156, extension 3070, or writing Laura Craker, Chief Financial Officer, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the

Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

The February 2018 USDA forecast estimates 2017 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at \$96.9 billion, up \$2.9 billion from 2016 and down \$9.0 billion from its 10-year average of \$105.9 billion. The increase in net cash income in 2017 was

primarily due to increases in livestock receipts of \$12.5 billion and cash farm-related income of \$1.8 billion, partially offset by a decrease in crop cash receipts of \$4.7 billion and an increase in cash expenses of \$5.1 billion.

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

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

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

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

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

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

As estimated by the USDA in February 2018, the System's market share of farm business debt (defined as debt incurred by

those involved in on-farm agricultural production) increased slightly to 40.9 percent at December 31, 2016 (the latest available data), as compared with 40.6 percent at December 31, 2015.

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

CRITICAL ACCOUNTING POLICIES

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

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

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural

economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

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

- *Acquisition accounting* — Acquisitions are accounted for under the acquisition method of accounting. Purchased assets, including identifiable intangible assets, and assumed liabilities are recorded at their respective acquisition date fair values. See *Valuation methodologies* section below. The purchase date valuations and any subsequent adjustments also determine the amount of goodwill or bargain purchase gain recognized in connection with the business combination. Certain assumptions and estimates must be updated regularly in connection with the ongoing accounting for purchased loans. Valuation assumptions and estimates may also have to be revisited in connection with periodic assessments of possible value impairment, including impairment of goodwill, intangible assets and certain other long-lived assets. The use of different assumptions could produce significantly different valuation results, which could have material positive or negative effects on the Association's results of operations.
- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

ECONOMIC CONDITIONS

The U.S. and the world appear to have emerged from the worst recession since the Great Depression. National economic indicators are modestly positive but job growth is still slow and the number of workers in the workforce has declined. The Florida economy is exhibiting a rebound as unemployment has declined and trade, tourism, and housing are showing positive

growth. The economy of the area served by the Association began a significant decline during 2007 and continued to decline rapidly through 2009 with no significant improvement noted through mid-2012. New home and commercial construction, the leading non-farm economic driver in the South Florida economy, was stagnant but began to show signs of life in late 2012. Improvement in activity continued through 2017. The inventory of new homes and permitted lots has been substantially absorbed by the market and new development is commencing or planned in some locations throughout the territory. The foreclosure process and timeline has improved and much of the backlog has been absorbed by the courts. The Florida unemployment rate that peaked at 9.8% in 2011 has now declined to below 4.4%.

The 2017 farm operating year realized favorable production conditions and prices for most farm products. Nursery products and sod have been the slowest to improve but it appears demand and supply is nearing equalization with demand increasing. Also, the market for landscape trees also exhibited improvement with moderate activity for the growers who maintained quality. The row crop segments in corn and peanuts have exhibited moderate price declines.

Citrus growers continue to observe decline in total state production due to a number of industry disease issues. Citrus canker, citrus greening and other diseases have resulted in the loss of significant acreage and production over the past five years. Prices for citrus products have been very good due to the demand for juice and fresh fruit and the reduction in crop supply. The industry's infrastructure capacity continues to exceed producer needs. Growers continue to seek alternative crops and solutions to disease threats but have had little success. Citrus greening continues to be the most significant threat to tree mortality and production. Citrus growers received significant damage to the on-tree crop due to Hurricane Irma in September 2017.

Cattle herd reductions across the U.S. in 2012 and 2013 resulted in record cattle prices in Florida, where production conditions have remained favorable for feeder calves and replacement heifers. During the last half of 2017, cattle producers noted a decline in prices as the cattle cycle appears to be rotating to the down side. Dairy prices rebounded to very profitable levels in 2015 and early 2016, but began to show a decline near year end 2016 as supply outpaces world demand. Dairy prices have remained at or below cost of production throughout 2017. Vegetable prices and production in 2017 was good for most producers financed by the Association with isolated weather impacts. Sugar producers in Florida have remained profitable and observed a positive price increase in 2017. The Association's timber portfolio has exhibited improved conditions with many sawmills returning to operation and prices on saw timber improving. Timberland values have remained stable.

Performance and asset quality of the Association's loan portfolio exhibited improvement in 2016 which continued throughout 2017. A significant number of non-performing loans were resolved and significant recoveries were received. There was little migration experienced in loans transferring to a nonperforming status. The volume of criticized loans to total regulatory capital improved and is now within an acceptable risk level. Beginning in 2016 and throughout 2017, many distressed borrowers were able to sell land to reduce debt. Improved real estate prices and economic activity continues to

assist troubled customers. Real estate sales activity has improved on certain property types but continues to be slow on non-income producing property. Overall, real estate values appear stable on all property types with improved pricing across the service territory. The Association has a department specifically dedicated to working with troubled borrowers. As in past economic downturns and natural disasters, Farm Credit stands ready to work with our members who have long-term viable operations even though they are currently experiencing cash flow and profitability problems.

LOAN PORTFOLIO

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

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

Loan Type	December 31,					
	2017		2016		2015	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 666,425	58.92%	\$ 595,253	57.63%	\$ 597,598	63.11%
Production and intermediate-term	227,567	20.12	231,159	22.38	182,591	19.28
Processing and marketing	86,255	7.63	88,202	8.54	104,459	11.03
Farm-related business	45,421	4.02	30,015	2.91	22,310	2.36
Communication	33,726	2.98	33,287	3.22	25,858	2.73
Loans to cooperatives	28,912	2.56	32,777	3.17	1,206	0.12
Power and water/waste disposal	17,029	1.51	3,685	0.36	3,009	0.32
International	9,972	0.88	9,980	0.97	1,568	0.17
Rural residential real estate	9,090	0.80	8,446	0.82	8,301	0.88
Other (including Mission Related)	6,607	0.58	—	—	—	—
Total	\$ 1,131,004	100.00%	\$ 1,032,804	100.00%	\$ 946,900	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the loan volume by branch/city for the past three years is as follows:

Branch	December 31,		
	2017	2016	2015
West Palm	17.59%	17.02%	18.45%
Okeechobee	12.14%	11.35%	11.74%
Wauchula	8.66%	6.65%	7.17%
Alachua	7.23%	7.76%	13.20%
Ocala	7.09%	6.85%	5.76%
Homestead	6.11%	5.69%	5.77%
Palatka	5.53%	5.07%	5.42%
Trenton	4.99%	5.24%	3.03%
Arcadia	3.81%	5.17%	4.10%
Live Oak	3.21%	3.50%	2.95%
Vero Beach	2.11%	2.76%	2.56%
Purchased Loans	21.53%	22.94%	19.85%
Total	100.00%	100.00%	100.00%

Nonaccrual loans are included in the percentages above.

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are field crops, cattle, forestry, equine, tree fruits and nuts, and nursery/greenhouse, which constitute over 70 percent of the entire portfolio. From 2015 to year end 2017, the nursery group's outstanding volume increased. During the past recession, the nursery portfolio was adversely impacted by the economy and resulted in declining credit quality and a large number of nonperforming loans. As the Florida and national economy has improved, the nursery industry has experienced improving markets and financial results. Trees, landscape plants and sod are dependent on a vibrant home and commercial construction industry while flowering plants and foliage are dependent upon the general economy and ability of consumers to spend discretionary funds. The average credit quality of the nursery segment has improved to 85.6% acceptable. Increases in field crops, cattle, forestry, and equine are due to origination of new loans in these commodity segments. The Association has experienced increases in brood cow operations and row and field crops in both the north and south Florida regions.

Commodity Group	December 31,					
	2017		2016		2015	
	<i>(dollars in thousands)</i>					
Field Crops	\$ 187,481	16.58%	\$ 149,171	14.44%	\$ 122,451	12.93%
Cattle	156,686	13.85	133,931	12.97	127,060	13.42
Forestry	135,868	12.01	138,675	13.43	124,654	13.16
Equine	135,368	11.97	109,823	10.63	96,050	10.14
Tree Fruits and Nuts	116,042	10.26	120,700	11.69	115,893	12.24
Nursery/Greenhouse	87,949	7.78	79,219	7.67	72,229	7.63
Processing	56,037	4.95	68,230	6.61	62,658	6.62
Dairy	47,279	4.18	38,731	3.75	21,804	2.30
Utilities	38,531	3.41	36,978	3.58	28,874	3.05
Other Real Estate	32,582	2.88	33,915	3.28	48,713	5.14
Grain	10,566	0.93	10,362	1.00	11,825	1.25
Tobacco	10,174	0.90	8,633	0.84	9,701	1.02
Rural Home Loan	10,126	0.90	10,283	1.00	10,560	1.12
Swine	9,423	0.83	6,870	0.67	3,717	0.39
Poultry	6,991	0.62	6,222	0.60	3,990	0.42
Corn	1,614	0.14	3,722	0.35	3,140	0.34
Cotton	401	0.04	411	0.04	-	-
Others	87,886	7.77	76,928	7.45	83,581	8.83
Total	\$ 1,131,004	100.00%	\$ 1,032,804	100.00%	\$ 946,900	100.00%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association enjoys a diverse commodity portfolio mix with no significant single concentration in any one commodity in excess of 16.58%. While the Nursery/Greenhouse group represents 7.78% of the portfolio, it should be noted this group is a broad classification covering interior foliage and exterior landscape plants, trees, and sod products with very different market characteristics and credit risk profiles. Citrus, which is included in Tree Fruits and Nuts commodity group, represents approximately 10% of the portfolio. Many citrus customers have diversified sources of farm and nonfarm income. Timber at approximately 12% also has characteristics of diversified income sources. Other concentrations, such as citrus, sugar and vegetables contain operations that are vertically integrated with processing, sales and marketing which increases their profitability and reduces credit risk to the Association. For purposes of calculating concentration risks, each loan is classified by the principal product grown. However, many operations produce a number of products in addition to the principal product, thus reducing overall risks to the operation and the Association. In addition, the Association also segments repayment based upon whether the primary repayment source is from agricultural or nonfarm personal and business income. Approximately 28.25% of agricultural loans have nonfarm income sources as the primary repayment source.

The increase in loan volume during 2017 and 2016 was a result of increased demand for credit in the market and more concerted marketing efforts by Association lenders.

Much of our territory was impacted by wind damage and widespread power outages caused by Hurricane Irma which made landfall on September 10th and 11th. Agricultural interests in our territory have reported storm impacts especially in the Citrus, Dairy, and Nursery industries. Management continues to assess and quantify the financial impact this storm will have on our customers and the Association. Some credit quality deterioration and credit losses are expected. Loss reduction options that are available for some of our customers, such as the use of loan guarantees, crop insurance, and federal disaster relief, will help to mitigate the losses associated with this storm event. The Association is well capitalized and maintains

adequate allowance for loan losses, which allows us to withstand stress in our loan portfolio.

Management recognizes continuing risk in the citrus industry resulting from the impacts of citrus greening disease and now Hurricane storm impact. Continued stress in production, profitability, and asset values may adversely impact citrus growers over the near and long term horizon. To date, the Association's citrus portfolio has continued to perform satisfactorily, but some performance issues on several stressed growers have been observed. Nursery growers did receive structure impacts and some crop losses as a result of the Hurricane. Insurance is expected to mitigate the extent of losses. In February 2018, the U.S. Senate and House of Representatives passed a spending bill that includes more than \$2.3 billion for agricultural assistance which covers a variety of commodities.

The Association continues to see a minor shift in loan assets. The Association grew volume in long term real estate loans and capital market purchases. While short and intermediate-term volume was down slightly, the volume has been stable but down as a percentage of total volume. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in the fall and rapidly declines in the late spring and early summer months as commodities are marketed and proceeds are applied to repay operating loans. The Association continues to exhibit new loan growth in commercial corporate market transactions.

The Association continues to have activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen our capital position.

Loan Participations:	December 31,		
	2017	2016	2015
	<i>(dollars in thousands)</i>		
Participations Purchased			
– FCS Institutions	\$ 252,705	\$ 247,033	\$ 194,904
Participations Purchased			
– Non-FCS Institutions	4,060	4,820	5,131
Participations Sold	(249,952)	(226,162)	(202,805)
Total	\$ 6,813	\$ 25,691	\$ (2,770)

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

The Association sells qualified long-term mortgage residential loans into the secondary market. For the periods ended December 31, 2017, 2016 and 2015, the Association originated loans for resale totaling \$26,918, \$19,759, and \$12,314, respectively, which were sold into the secondary market.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2017, 2016, and 2015, the Association had loans amounting to \$12, \$148, and \$302, respectively, that are 100 percent guaranteed by Farmer Mac.

The Association additionally has loans wherein a certain portion of the loans are guaranteed by various governmental entities for the purpose of reducing risk. At December 31, 2017, 2016, and 2015, the balance of these loans was \$34,131, \$35,095, and \$36,012, respectively.

MISSION RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2017, the Association had \$9,042 in Rural America Bonds, of which \$6,509 was classified as Loans and \$2,533 were classified as Investments on the Consolidated Balance Sheets. As of December 31, 2016, the Association had \$9,718 in Rural America Bonds, of which \$6,806 was classified as Loans and \$2,912 were classified as Investments. As of December 31, 2015, the Association had \$13,118 in Rural America Bonds, of which \$10,151 were classified as Loans and \$2,967 was classified as Investments.

Effective December 31, 2016, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

In 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Association purchased total equity investments in the RBIC of \$500. There are no outstanding commitments to make additional equity purchases beyond this amount.

During 2015, analyses indicated that decreases in value of the investment had occurred that were other than temporary, due to a series of losses and other factors. As a result, for the year ended December 31, 2015, the Association recognized other-than-temporary impairment of \$80, which is included in Impairment Losses on Investments in the Statements of Income. At December 31, 2017, 2016, and 2015, the Association had \$0, \$0, and \$0, respectively, in RBIC outstanding.

Refer to Note 4, *Investments*, of the Notes to the Consolidated Financial Statements for additional information regarding these Mission Related Investments.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist primarily of asset-backed securities (ABS). The ABS investments amounted to \$2,934 at December 31, 2017, \$4,505 at December 31, 2016 and \$7,105 at December 31, 2015. These investments are rated AAA, as they are guaranteed by the full faith and credit of the United States government.

In view of the recent economic conditions and volatility related to these types of securities, the Association is actively monitoring the creditworthiness of these securities. These securities are supported by various forms of credit enhancements including insurance guarantees from AAA rated insurers, over-collateralization and favorable priority of payments. Based on our evaluations, we believe these securities do not pose a significant risk of loss given the credit enhancements and relatively short weighted average lives. However, in the event a security is downgraded, we may be

required by our regulator to dispose of the security. FCA approval has been requested to allow the Association to continue to hold one Rural America Bond in the amount of \$112 whose credit quality has deteriorated beyond the program limits.

Investment securities classified as being held-to-maturity totaled \$5,467 at December 31, 2017, \$7,417 at December 31, 2016 and \$10,072 at December 31, 2015. These held-to-maturity investments consist of pools of loans with United States government guarantees.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Long term mortgage real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a long term basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The Association's collateral standards normally result in actual loan to appraised value lower than the statutory maximum percentage. Appraisals are required for non-business purpose loans of more than \$250,000 or for business purpose loans of more than \$1 million. At origination, each loan is assigned a credit risk rating based upon the Association's loan underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

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

The following table presents selected statistics related to the credit quality of loans including accrued interest excluding impact of financial marks as a result of the merger at December 31.

Credit Quality	2017	2016	2015
Acceptable & OAEM	98.19%	97.66%	96.51%
Substandard	1.81%	2.34%	3.49%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Portfolio credit quality improved compared to 2015. The improvement in credit quality is a result of a reduction in the level of substandard and criticized assets and adding new volume of acceptable assets. Management does note a gradual increase in OAEM assets in the 4th quarter of 2017. This increase is a result of continued stress in the dairy industry and impacts from Hurricane Irma to citrus customers.

Nonperforming Assets

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

Nonperforming Assets	December 31,		
	2017	2016	2015
	<i>(dollars in thousands)</i>		
Nonaccrual loans	\$ 11,423	\$ 13,395	\$ 17,040
Accruing restructured loans	1,029	1,119	2,017
Accruing loans 90 days or more past due	–	–	–
Total nonperforming loans	12,452	14,514	19,057
Other property owned	95	366	5,565
Total nonperforming assets	\$ 12,547	\$ 14,880	\$ 24,622
Ratios:			
Nonaccrual loans to total loans	1.01%	1.30%	1.80%
Nonperforming assets to total assets	1.07%	1.38%	2.47%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased \$1,972 or 14.72 percent in 2017 after having decreased \$3,645 or 21.39 percent in 2016. These decreases resulted from repayments, charge-offs, and transfers to other property owned in excess of loans transferred into nonaccrual status with the most significant declines occurring in the Others and Nursery/Greenhouse commodity groups. Field Crops

represents the largest % of total nonaccrual loans at approximately 29% at December 31, 2017. Of the \$11,423 in nonaccrual volume at December 31, 2017, \$4,698 or 41.13 percent compared to 76.00 percent and 75.59 percent at December 31, 2016 and 2015, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

At December 31, 2017, other property owned consisted of 4 properties and the net carrying value of the properties are equivalent to their fair value. The number of properties decreased by 2 during 2017 and the balance declined \$271, or 74.04 percent compared to December 31, 2016. Sales of properties outpaced acquisitions during the year resulting in the decline.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

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

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2017	2016	2015
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 6,560	\$ 6,097	\$ 6,110
Charge-offs:			
Real estate mortgage	–	(11)	(1,218)
Production and intermediate-term	(1,431)	(48)	(23)
Rural Residential Real Estate	–	(4)	(3)
Total charge-offs	(1,431)	(63)	(1,244)
Recoveries:			
Real estate mortgage	2,517	1,560	4,281
Production and intermediate-term	99	55	396
Agribusiness	1	–	–
Rural Residential Real Estate	–	12	–
Total recoveries	2,617	1,627	4,677
Net (charge-offs) recoveries	1,186	1,564	3,433
Provision for (reversal of allowance for) loan losses	28	(1,101)	(3,446)
Balance at end of year	\$ 7,774	\$ 6,560	\$ 6,097
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.112%	0.162%	0.399%

The loan recoveries in 2017, 2016, and 2015 were primarily associated with Nursery/Greenhouse and Non-Farm Income commodity groups. Due to the improvement in collateral values and return of credit availability in the market, several nonaccrual loans within these commodity groups were fully collected during the year. The charge-offs in 2017 were

primarily associated with the Tree Fruits and Nuts commodity group. With the decline in nonperforming loans along with recoveries received of amounts previously charged-off, the Association was able to reverse \$1,101 and \$3,446 of the allowance for loan losses in 2016 and 2015, respectively. The Association recorded a small provision for loan losses of \$28 in 2017 as a result of reserves needed on loan growth and estimated impacts from Hurricane Irma offset by net recoveries received.

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

Allowance for Loan Losses by Type	December 31,		
	2017	2016	2015
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 4,258	\$ 3,774	\$ 4,012
Production and intermediate-term	2,400	1,884	1,561
Agribusiness	831	659	324
Communication	129	121	109
Rural residential real estate	102	81	76
Power and Water/Waste Disposal	44	33	14
International	9	8	1
Other (including Mission Related)	1	–	–
Total Allowance for Loan Losses	\$ 7,774	\$ 6,560	\$ 6,097

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

Allowance for Loan Losses as a Percentage of:	2017	December 31,	
		2016	2015
Total loans	0.69%	0.64%	0.64%
Total nonperforming loans	62.43%	45.20%	31.99%
Nonaccrual loans	68.05%	48.97%	35.78%

The allowance for loan losses at December 31, 2017, 2016 and 2015 does not include \$3.9 million, \$4.9 million and \$5.6 million, respectively of net purchase discounts related to the acquired loans. The allowance for these loans was not carried forward at acquisition per accounting guidance. However, they were purchased at a net discount, which is the direct reduction to the recorded loan amount, to reflect the credit and market metrics related to the acquired portfolios.

At December 31, 2017, the amount of credit risk reduction, in addition to the allowance for loan losses, provided by these remaining discounts would equate to 0.35% for Total loans, 31.35% of Total nonperforming loans and 34.18% of Nonaccrual loans.

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

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2017, totaled \$26,248, an increase of \$5,760 or 28.11 percent, as compared to net income of \$20,488 for the same period of 2016 and an increase of \$7,520 or 40.15 percent, as compared to net income of \$18,728 for the same period of 2015. The increase in net income for the year ending 2017 as compared to 2016 is attributed to an increase in noninterest income and a reduction in noninterest expense offset by a reduction in the reversal of allowance for loan losses. The increase in noninterest income is

attributed to an increase in the special patronage dividend from the Bank and the reduction in noninterest expense is attributed to a decrease in postretirement benefits expense. The reduced reversal of allowance for loan losses resulted from less net recoveries received during 2017 compared to 2016 of amounts previously charged-off along with reserves needed on loan growth and estimated impacts from Hurricane Irma.

Net Interest Income

Net interest income was \$30,093, \$30,109 and \$25,707 in 2017, 2016 and 2015, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
<i>(dollars in thousands)</i>				
12/31/17 - 12/31/16				
Interest income	\$ 4,417	\$ 2,357	\$ (1,973)	\$ 4,801
Interest expense	1,736	3,081	–	4,817
Change in net interest income	\$ 2,681	\$ (724)	\$ (1,973)	\$ (16)
12/31/16 - 12/31/15				
Interest income	\$ 4,664	\$ 393	\$ 2,060	\$ 7,117
Interest expense	1,900	815	–	2,715
Change in net interest income	\$ 2,764	\$ (422)	\$ 2,060	\$ 4,402

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

Net interest income decreased by \$16 or 0.05 percent in 2017 compared to 2016 and increased by \$4,402 or 17.12 percent in 2016 compared to 2015. The primary reason for the decrease during 2017 compared to 2016 is due to a decrease in nonaccrual income offset by an increase in average loan volume outstanding during 2017. The decrease in net interest income during 2017 results from a decrease of \$1,973 attributed to a decrease in nonaccrual income along with a decrease of \$724 attributed to a decrease in rates offset by an increase of \$2,681 attributed to an increase in volume. The Association's net interest income as a percentage of average earning assets was 2.83 percent in 2017, compared to 3.09 percent and 2.95 percent in 2016 and 2015, respectively. The decrease in this ratio is primarily a result of a decrease in nonaccrual income during 2017.

Noninterest Income

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

Noninterest Income	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2017/	2016/
	2017	2016	2015	2016	2015
<i>(dollars in thousands)</i>					
Loan fees	\$ 869	\$ 840	\$ 767	3.45%	9.52%
Fees for financially related services	1,066	962	982	10.81	(2.04)
Patronage refunds from other Farm Credit Institutions	15,164	11,257	10,454	34.71	7.68
Gains (losses) on sales of rural home loans, net	353	231	208	52.81	11.06
Gains (losses) on sales of premises and equipment, net	60	27	79	122.22	(65.82)
Gains (losses) on other transactions	210	(54)	(278)	(488.89)	(80.58)
Total other-than-temporary impairment losses on investments	–	–	(80)	–	(100.00)
Other noninterest income	373	393	175	(5.09)	124.57
Total noninterest income	\$ 18,095	\$ 13,656	\$ 12,307	32.51%	10.96%

The increase in noninterest income of \$4,439 or 32.51 percent in 2017 compared to 2016 is primarily due to increases in patronage refunds from other Farm Credit Institutions.

Patronage refunds from other Farm Credit Institutions increased \$3,907 or 34.71 percent largely due to an increase in the special patronage dividend from the Bank of \$3,260 along with an increase in the Association borrowing more from the Bank during 2017. The special patronage dividend from the Bank was \$7,916 in 2017 compared to \$4,656 in 2016 and \$4,365 in 2015.

An impairment charge of \$80 was recognized during 2015 on an investment in a Rural Business Investment Company venture capital fund due to losses realized in the underlying investments in the fund. Additional information on the impairment charge may be found in Note 4, *Investments*, of the Notes to the Consolidated Financial Statements.

Noninterest Expense

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

Noninterest Expense	For the Year Ended			Percentage Increase/(Decrease)	
	December 31,			2017/	2016/
	2017	2016	2015	2016	2015
	<i>(dollars in thousands)</i>				
Salaries and employee benefits	\$ 13,960	\$ 12,862	\$ 12,284	8.54%	4.71%
Postretirement benefits	1,478	4,754	4,908	(68.91)	(3.14)
Occupancy and equipment	1,103	1,295	1,123	(14.83)	15.32
Insurance Fund premiums	1,200	1,226	838	(2.12)	46.30
(Gains) losses on other property owned, net	59	713	(9)	(91.73)	(8022.22)
Other operating expenses	4,112	3,528	3,591	16.55	(1.75)
Total noninterest expense	\$ 21,912	\$ 24,378	\$ 22,735	(10.12)%	7.23%

Non-interest expense decreased \$2,466 or 10.12 percent for the year ended December 31, 2017, as compared to the same period in 2016, and increased \$1,643 or 7.23 percent in 2016 compared to 2015.

Salaries and employee benefits increased \$1,098 or 8.54 percent in 2017, as compared to 2016. This increase is primarily attributable to an increase in the number of employees in 2017.

Postretirement benefits decreased by \$3,276 or 68.91 percent. During 2017, the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. This change resulted in the reduction of Other Assets by \$4,597 and the reduction of Other Liabilities by \$6,810 on the Association's Balance Sheets, and a corresponding reduction of postretirement benefit costs on the Association's Statements of Income of \$2,213 during 2017. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

The \$192 or 14.83 percent decrease in occupancy and equipment expense in 2017 compared to 2016 is due to a decrease in furniture and equipment costs and facilities maintenance expenses.

Insurance Fund premiums decreased \$26 or 2.12 percent for the twelve months ended December 31, 2017, compared to the same period of 2016. This decrease is primarily attributed to a decrease in the insurance premium charged by the Farm Credit System Insurance Corporation in 2017 compared to 2016.

Losses on other property owned decreased \$654 or 91.73 percent due to decline in the number of other property owned properties sold during 2017 compared to 2016.

Other operating expenses increased \$584 or 16.55 percent in 2017 as compared to 2016 primarily resulting from an increase in nonaccrual loan expenses.

Income Taxes

The Association recorded a benefit for income taxes of \$3 for the year ended December 31, 2015. Refer to Note 2, *Summary of Significant Accounting Policies, I. Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended		
	12/31/17	12/31/16	12/31/15
Return on average assets	2.41%	2.04%	2.07%
Return on average members' equity	10.56%	8.58%	8.28%
Net interest income as a percentage of average earning assets	2.83%	3.09%	2.95%
Net (charge-offs) recoveries to average loans	0.112%	0.162%	0.399%

Return on average assets and return on average members' equity increased during 2017 compared to 2016 as a result of increased net income in 2017 compared to 2016. The net interest income as a percentage of average earning assets, or net interest margin, decreased 26 basis points in 2017 from 2016 due to a decrease in nonaccrual income during 2017.

The Association recorded net recoveries of \$1,186 in 2017 which is 0.112 percent of average loans compared to net recoveries of \$1,564 or 0.162 percent of average loans in 2016. During 2017, the Association recovered \$2.6 million of amounts previously charged-off which surpassed the amount of charge-offs recorded during the year. This was offset by reserves needed on loan growth and estimated impacts of Hurricane Irma resulting in the recording of a small provision for loan losses of \$28 in 2017. The 2017 provision for loan losses was a decline in the reversal compared to 2016 when the reversal of the allowance for loan losses was \$1,101 and a decline in the reversal compared to 2015 when the reversal of the allowance for loan losses was \$3,446. The Association had higher net recoveries in both 2016 and 2015 along with the impacts of Hurricane Irma in 2017 resulting in the lower reversal of the allowance in 2017 compared to prior years. Due to the improvement in collateral values and return of credit availability in the market, several nonaccrual loans were fully collected during 2017, 2016 and 2015.

The past years have been favorably impacted by a special patronage dividend from AgFirst Farm Credit Bank which totaled \$7,916 in 2017, \$4,656 in 2016 and \$4,365 in 2015. The Association does not forecast continued receipt of these distributions.

A key factor in the growth of net income for future years will be an increase in acceptable loan volume, continued improvement in net interest income and controlling loan losses

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

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2017, was \$894,913 as compared to \$809,137 at December 31, 2016 and \$743,688 at December 31, 2015. The 2017 increase of 10.60 percent compared to December 31, 2016 was a result of an increase in total asset growth offset by an increase in members' equity attributable to net income. The average volume of outstanding notes payable to the Bank was \$823,096 and \$747,670 for the years ended December 31, 2017 and 2016, respectively. Refer to Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations.

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

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank and the Bank's ability to access capital of the Association is discussed in Note 4, *Investments, Investments in Other Farm Credit Institutions*, and Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements included in this Annual Report

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Debt, Notes Payable to AgFirst Farm Credit Bank*, included in this annual report.

CAPITAL RESOURCES

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

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

Total members' equity at December 31, 2017, increased 6.27 percent to \$252,410 from the December 31, 2016, total of \$237,509. At December 31, 2016, total members' equity increased 4.43 percent from the December 31, 2015 total of \$227,426. The increase during 2017 was primarily attributed to 2017 net income from operations of \$26,248 less the \$11,500 patronage distribution declared. Total capital stock

and participation certificates were \$2,897 on December 31, 2017, compared to \$2,717 on December 31, 2016 and \$2,616 on December 31, 2015. The 2017 and 2016 increase is attributed to the issuance of capital stock to new stockholders.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2017
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	0.625%	5.125%	19.64%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	19.64%
Total Capital Ratio	8.0%	0.625%	8.625%	20.34%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.77%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	21.67%
UREE Leverage Ratio	1.5%	0.0%	1.5%	16.37%

* 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. For all periods presented, the Association exceeded minimum regulatory standards for all capital ratios.

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	21.49%	21.62%	22.55%	20.34%	18.98%
Total Surplus Ratio	7.00%	21.35%	21.49%	22.00%	19.48%	18.11%
Core Surplus Ratio	3.50%	21.35%	21.49%	22.00%	19.48%	17.74%

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

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

distributions of \$11,500 in 2017, \$10,500 in 2016, and \$8,500 in 2015.

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

The Association's mission is to support rural communities and agriculture with reliable, consistent credit, which includes providing credit to Young*, Beginning** and Small*** farmers, ranchers, producers or harvesters of aquatic products (YBS Farmers and Ranchers). Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual lending goals to increase our market share of loans to YBS Farmers and Ranchers. Specific marketing plans have been developed to target this segment, and resources have been designated to help ensure YBS Farmers and Ranchers have access to a stable source of credit and financially related services. Although the Association maintained its same level of marketing efforts to this segment, the Association was not able to meet all its annual

lending goals and produced the following new loans and related volume to YBS Farmers and Ranchers. These results are considered a one time event and do not represent any dilution of the Association's efforts to meet its mission objectives to this segment of borrowers.

2017 YBS Goals and Results			
	2017 Goal	2017 Actual	% of Goal
Young Farmers & Ranchers			
Number of New loans	110	103	93.64%
New Volume	\$25,400	\$22,398	88.18%
Beginning Farmers & Ranchers			
Number of New loans	215	248	115.35%
New Volume	\$65,000	\$58,480	89.97%
Small Farmers & Ranchers			
Number of New loans	310	371	119.68%
New Volume	\$44,200	\$55,511	125.59%

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

December 31, 2017 Total YBS Loan Data		
Total Loans & Commitments	12/31/17	% of Total
Number of Loans	3,437	100.00%
Volume Outstanding	1,359,228	100.00%
Young Farmers & Ranchers		
Number of Loans	403	11.73%
Volume Outstanding	118,225	8.70%
Beginning Farmers & Ranchers		
Number of Loans	960	27.93%
Volume Outstanding	238,238	17.53%
Small Farmers & Ranchers		
Number of Loans	1,367	39.77%
Volume Outstanding	176,533	12.99%

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

The 2012 USDA Ag census data is used as the benchmark to measure penetration of the Association's marketing efforts. The census data indicates that within the Association's chartered territory of thirty-six counties, there are 26,252 farmers of which, by definition, 947 or 3.6% are Young, 6,648 or 25.3% are Beginning, and 24,283 or 92.5% are Small. Further defined within the category of Small farmers and ranchers is the subcategory of "Mini", which represents farms with sales volume less than \$1,000. There are 8,694 farms in this subcategory (35.8%) of Small farmers and ranchers. Related to the total number of borrowers in the Association, Young farmers and ranchers represent 329 or 12.9% of the total, Beginning Farmers and Ranchers represent 820 or 32.2% of the total and Small Farmers and Ranchers represent 1,219 or 47.8% of the total. Similarly, of the total number of Farmers and Ranchers reported as Young (947), Beginning (6,648) and Small (24,283) within the Association's territory, the Association has a segment penetration percent of 34.7%, 12.3% and 5.0% respectively.

The YBS Plan contains several components including staffing, identification, education, development, and direct financial support. Staffing and education represents the foundation of the program as the Association recognizes that to serve the community; its staff must understand the culture and needs of each group and to provide programs that not only assist this segment in getting into agriculture, but also assure this segment remains in agriculture. The Association has focused on diversity in its employment practices because we believe strongly that our staff should reflect the diversity of the

community we serve. The Association also hired an individual to provide educational opportunities and has trained all staff to serve the YBS Community. Specific quantitative and qualitative goals are annually established for the YBS Program to ensure our performance in reaching this segment of our market.

Identification and outreach are also critical components of the program. The Association constantly monitors public record databases, organizational membership roles, etc. that are available and could assist in identification of potential YBS Farmers and Ranchers. In addition, staff is active in community, trade and cultural organizations believed to have membership that include potential YBS Farmers and Ranchers and works with agricultural trade organizations and agencies such as the Federal, State and County Agricultural Agencies to ensure these organizations and agencies understand our programs and will refer YBS Farmers and Ranchers with credit or financially related service needs to the Association. The Association has also worked with these organizations and agencies in providing training and development opportunities for YBS Farmers and Ranchers. The Association aggressively attempts to partner with these organizations and agencies in joint programs. The Association is a "Preferred Lender" in the USDA Guaranteed Lending Program.

A final component of the program is in the area of youth development programs. The Association actively supports those organizations such as FFA, 4-H, and other youth based programs that are training and developing the farmers and ranchers of the future.

The Association is committed to the future success of Young, Beginning and Small farmers, ranchers, producers or harvesters of aquatic products.

- * Young Farmers and Ranchers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- ** Beginning Farmers and Ranchers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- *** Small Farmers and Ranchers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than \$250 thousand in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

Slight differences between the Census and our YBS information are as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information shows young farmers up to age 35.
- The Census shows years on present farm up to nine years, whereas the Association's YBS information shows 10 years or less for a beginning farmer.
- The Census data is based on number of farms, whereas the Association's YBS information is based on number of loans.

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.

FINANCIAL REGULATORY REFORM

Derivatives transactions are subject to myriad regulatory requirements including, among other things, clearing through a third-party central clearinghouse trading on regulated exchanges or other multilateral platforms. Margin is required for these transactions. Derivative transactions that are not subject to mandatory trading and clearing requirements may be subject to minimum margin and capital requirements. The Commodity Futures Trading Commission and other federal banking regulators have exempted System institutions from certain, but not all, of these new requirements, including for swaps with members, mandatory clearing and minimum margin for non-cleared swaps.

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

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

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

OTHER MATTERS

During the third quarter of 2015, the Association entered into an agreement with and began providing certain standard and as-requested optional or negotiated services to Puerto Rico Farm Credit, ACA for a fee. These services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources, and loan on-boarding and servicing. The agreement is expected to leverage synergies and realize operating efficiencies and savings for both institutions. Both institutions are required to meet specified obligations under the agreement, which is automatically renewable for a one year term unless terminated by either institution with 180 days prior written notice or sooner if specified obligations are not satisfied.

In a letter dated February 21, 2018, the Risk Management Agency (“RMA”) of the United States Department of Agriculture notified the Association that the RMA had determined that the Association did not meet an exception under the Federal Crop Insurance Act that allows the Association to provide patronage dividends based on its crop insurance business. Based on this determination, and absent a future change in applicable statutory or case law, the Association will cease paying patronage dividends to members based on its crop insurance business. RMA’s determination has no effect on patronage income from other sources.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
<i>Accounting Standards Update (ASU) 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities</i>	
<ul style="list-style-type: none"> • 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 for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. 	<ul style="list-style-type: none"> • The investment securities portfolio includes 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 using the modified retrospective method with a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption.

<i>ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>	
<ul style="list-style-type: none"> Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. Changes the present incurred loss impairment guidance for loans to a CECL model. The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. 	<ul style="list-style-type: none"> 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: <ol style="list-style-type: none"> 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 nonaccretible 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.
<i>ASU 2016-02 – Leases (Topic 842)</i>	
<ul style="list-style-type: none"> Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. Lessor accounting activities are largely unchanged from existing lease accounting. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. Also, expands qualitative and quantitative disclosures of leasing arrangements. Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented. Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. 	<ul style="list-style-type: none"> The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. As a lessee the Association is developing its methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.
<i>ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities</i>	
<ul style="list-style-type: none"> The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments. Requires certain equity instruments be measured at fair value, with changes in fair value recognized in earnings. The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. Effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. 	<ul style="list-style-type: none"> The Association is currently evaluating any impacts to the financial statements. The Association’s implementation efforts include the identification of securities within the scope of the guidance, the evaluation of the measurement alternative available for equity securities without a readily determinable fair value, and the related impact to accounting policies, presentation, and disclosures. Any investments in nonmarketable equity investments accounted for under the cost method of accounting (except for other Farm Credit Institution stock) will be accounted for either at fair value with unrealized gains and losses reflected in earnings or, if elected, using an alternative method. The alternative method is similar to the cost method of accounting, except that the carrying value is adjusted (through earnings) for subsequent observable transactions in the same or similar investment. The Association is currently evaluating which method will be applied to these nonmarketable equity investments. Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, the Association is evaluating valuation methods to determine the necessary changes to conform to an “exit price” notion as required by the Standard. Accordingly, the fair value amounts disclosed for such loans may change upon adoption. The Association expects to adopt the guidance in first quarter 2018 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for changes related to nonmarketable equity investments, which is applied prospectively. The Association expects the primary accounting changes will relate to equity investments.

<i>ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates</i>	
<ul style="list-style-type: none"> • Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service, and transfers of nonfinancial assets, in an amount equaling the consideration expected to be received. • Changes the accounting for certain contract costs, including whether they may be offset against revenue in the Consolidated Statements of Income, and requires additional disclosures about revenue and contract costs. • May be adopted using a full retrospective approach or a modified, cumulative effect approach wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date. • Effective for reporting periods beginning after December 15, 2017. Early application is not permitted. 	<ul style="list-style-type: none"> • The Association's revenue is the sum of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the Association's revenues will not be affected. • The Association is performing an assessment of revenue contracts as well as working with industry participants on matters of interpretation and application. Accounting policies will not change materially since the principles of revenue recognition from the Update are largely consistent with existing guidance and current business practices. The Association has not identified material changes to the timing or amount of revenue recognition. • The Association expects a minor change to the presentation of costs for certain underwriting activities which will be presented in expenses rather than the current presentation against the related revenues. The Association will provide qualitative disclosures of performance obligations related to revenue recognition and will continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance. • The Association intends to adopt the guidance in first quarter 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings.

DISCLOSURE REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

Description of Business

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

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

Unincorporated Business Entities

The Association holds an equity investment in certain Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC).

The Association has an equity investment in a Rural Business Investment Company, Meritus Ventures, L.P, a Delaware Limited Partnership. Meritus Ventures, L.P. is licensed under the Rural Business Investment Program and provides guarantees and grants to promote rural economic development and job opportunities and supplies equity capital investment to small rural enterprises. The Association has a 4.12% ownership in the limited partnership. Additional information may be found in Note 4, *Investments*, of the Notes to the Consolidated Financial Statements included in this Annual Report to shareholders.

The following LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Entity Purpose
CBF Holdings, LLC	LLC	Manage Acquired Property
DeSoto County Land Holdings Acquisition, LLC	LLC	Manage Acquired Property
DeSoto Peaceful Acquisition, LLC	LLC	Manage Acquired Property
Hardee Peaceful Horse Acquisition, LLC	LLC	Manage Acquired Property
Ethanol Holding Company, LLC	LLC	Manage Acquired Property
Black Fox Holdings, LLC	LLC	Manage Acquired Property
A 1 Ledges Wilder, LLC	LLC	Manage Acquired Property
A 1 Sequatchie Pointe, LLC	LLC	Manage Acquired Property
Pickens County Properties LLC	LLC	Manage Acquired Property

Description of Property

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

Location	Description	Form of Ownership
11903 Southern Blvd. Ste. 200/114 West Palm Beach	Administrative/ Branch	Owned
12300 NW US Hwy 441 Alachua	Branch	Owned
340 N. Brevard Avenue Arcadia	Branch	Owned
24700 SW 177 th Avenue Homestead	Branch	Owned
15 N. Oak Avenue Lake Placid	Branch	Leased
1606 Canyon Avenue Live Oak	Branch	Owned
5075 NW Blitchton Road Ocala	Branch	Owned
403 NW 6th Street Okeechobee	Branch	Owned

Location	Description	Form of Ownership
309 North 2 nd Street Palatka	Branch	Owned
721 South Main Street Trenton	Branch	Owned
7925 20 th Street Vero Beach	Branch	Owned
1311 Highway 17 North Wauchula	Branch	Owned

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

Senior Officer	Position & Other Business Interests
Gregory M. Cunningham	<i>President and Chief Executive Officer</i> since November 2012. Previously employed as Chief Executive Officer at Legacy Ag Credit since 2010, Chief Credit Officer at Alabama Ag Credit since 2008 and Senior Vice President at commercial banks since 2004.
Laura Craker	<i>Senior Vice President and Chief Financial Officer</i> since June 2012. Previously employed by community banks as a Chief Financial Officer and Director of Accounting since 2005.
Robert W. Teston	<i>Senior Vice President and Chief Credit Officer</i> since January 2013 previously employed as President of a commercial Real Estate firm since 2011, Interim CEO and COO for Legacy Ag Credit since 2009 and provided credit management consulting services to various Farm Credit Associations since 2008.
Marcus A. Boone	<i>Senior Vice President and Chief Lending Officer</i> since April 2013 previously employed as Vice President of the Association Direct Lending Unit at Farm Credit Bank of Texas since 2006.
Roland Kampf	<i>Senior Vice President and Chief Risk Officer</i> since February 2016 and Director of Risk Management since February 2013 and Risk Manager since April 2012, previously employed as Chief Risk Officer and Chief Credit Officer at AgCarolina Financial since 2000, with Farm Credit since 1991.
Deborah Caldeira	<i>Senior Vice President and Chief Human Resources Officer</i> since March 2016 and Director of Human Resources since December 2012, previously employed as Vice President, Manager of Employment & Employee Relations at BankAtlantic since 2005.
April Dawn Goodspeed	<i>Senior Vice President and Chief Operations Officer</i> since April 2017 and Director of Loan Operations and Information Technology since 2015, with Farm Credit since 1989.
Ashley Layson	<i>Senior Vice President and Chief Marketing Officer</i> since April 2017 and Director of Marketing since September 2013, previously employed as Marketing & Public Relations Director at Alabama Ag Credit since 2008.

The total amount of compensation earned by the CEO and highest paid officers as a group during the years ended December 31, 2017, 2016 and 2015, is as follows:

Name of Individual or Number in Group	Year	Annual		Deferred Comp.	Change in Pension value**	Perq./ Other	Total
		Salary	Bonus				
Gregory M. Cunningham	2017	\$ 393,050	\$ 137,562	\$ -	\$ 43,284	\$ 84,321	\$ 658,217
Gregory M. Cunningham	2016	\$ 370,802	\$ 129,776	\$ -	\$ 25,424	\$ 57,695	\$ 583,697
Gregory M. Cunningham	2015	\$ 349,813	\$ 122,430	\$ -	\$ (11,509)	\$ 8,382	\$ 469,116
8	2017	\$ 1,386,415	\$ 360,659	\$ -	\$ 524,980	\$ 27,497	\$ 2,299,551
6	2016	\$ 1,072,283	\$ 288,737	\$ -	\$ 350,439	\$ 20,201	\$ 1,731,660
5	2015	\$ 923,534	\$ 207,611	\$ -	\$ 59,539	\$ 11,554	\$ 1,202,238

** Change in the expected future benefit payment stream based on actuarial assumptions. Does not represent any actual cash compensation provided to any employee. On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures." The rule amends FCA Regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. System banks and associations were required to comply with the rule for compensation reported in the table for the fiscal year ending 2015.

**Pension Benefits Table
As of December 31, 2017**

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits **	Payments During 2017
CEO:					
Gregory M. Cunningham	2017	AgFirst Retirement Plan	5	\$ 266,170	\$ 17,702
Gregory M. Cunningham	2017	Supplemental Retirement Plan	5	156,533	-
				\$ 422,703	\$ 17,702
Senior Officers and Highly Compensated Employees:					
8 Officers, excluding the CEO	2017	AgFirst Retirement Plan	15.0*	\$ 3,551,442	\$ 49,541
8 Officers, excluding the CEO	2017	Supplemental Retirement Plan	15.0*	636	-
				\$ 3,552,078	\$ 49,541

* Represents the average years of credited service for the group
 ** The value of expected future benefit payment stream based on actuarial assumptions. Does not represent any actual cash compensation provided to any employee. Actual funds received can differ based on how actual events compare to assumptions used in the calculation.

Disclosure of information on total compensation paid during 2017 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Amounts in the table classified as Perquisites/Other are comprised primarily of automobile allowance, group life insurance, spousal travel, paid accumulated annual leave, relocation, and severance upon retirement or separation. It also includes amounts contributed by the Association on behalf of the employee to a defined contribution plan unless the plan is made available to all employees on the same basis.

In addition to a base salary, all employees earn additional compensation under an incentive plan. The Association incentive plan is designed to focus employees on the factors that produce success for the Association and its shareholders, and to reward employees for contributing to the Association exceeding its goals. The factors incorporated in the 2017 plan include return on assets, credit quality, credit administration, accrual loan volume growth and net income.

All Association employees, with the exception of the Chief Executive Officer are eligible for incentives under the plan. Participation is not allowed for employees terminating employment prior to the payment of the incentive except for retirement, disability or death which may be paid at the discretion of the CEO or persons having unsatisfactory performance evaluations. New employees receive a pro rata share and must be employed for a minimum of three months to participate in the current year's plan. The incentive earned is based on percentage of salary paid during the year and is calculated based on a matrix of four performance factors and four performance tiers up to a maximum percentage cap. Allowable incentives ranged up to 25 percent of salary paid for senior officers and up to 15 percent of salary paid for other employees depending upon their position.

For loan officers, an additional incentive award opportunity is available to those who perform in excess of a minimum % of their goal as defined by their position. The pool for Loan Officers is funded if the performance objectives of the plan are achieved. However, individual awards ranging up to 20 percent of salary paid will be determined by loan production and fee income goals achieved by that officer.

The incentive plan also includes referral awards to employees for qualified referrals to other lines of business. All Association employees, except for the CEO who administers the awards, are eligible to receive discretionary awards based on special or exemplary performance as recommended by another employee, the employee's supervisor or directly by the CEO. The discretionary award pools are approved by the Board annually.

The Chief Executive Officer's bonus is at the discretion of the Board of Directors. Bonuses are shown in the year earned, which may be different than the year of payment.

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

All employees are eligible to receive awards based on (a) years of service on five year, or multiple of five year anniversaries and (b) new hire referrals.

The Association provides retirement benefit plans to all employees. Employees' participation in a plan is mostly determined by date of hire. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements.

The Association sponsors a non-qualified supplemental deferred compensation plan for eligible employees. The purpose of the non-qualified plan is to provide supplemental deferred compensation options to eligible key employees. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

The "Actuarial Present Value of Accumulated Benefits" column in the *Pension Benefits Table* represents the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2017
Joseph C. Joyce, <i>Chairman, Outside Director</i>	2008	2019	\$ 39,250
Howard P. Bateman, <i>Vice Chairman</i>	2004	2019	34,600
John L. Alger	2007	2018	27,900
Tobin J. Basore	2014	2020	31,500
Roger W. Davis	1998	2019	37,800
W. Eric Hopkins, <i>Appointed Stockholder Director</i>	2014	2020	31,500
Bobby G. Lines	2015	2018	28,800
Martin J. McKenna	2009	2018	23,400
Douglas I. Moore	2015	2018	24,600
John R. Newbold, III	2014	2020	30,000
Harrell H. Phillips, Jr.	2015	2020	26,700
Robert G. Sexton	1995	2019	34,600
Lisa Sherman, <i>Appointed Stockholder Director</i>	2014	2020	27,150
Wayne H. Simmons	2014	2020	30,000
Charles R. Thomas	2013	2019	33,000
Andrea Thurn, <i>Outside Director</i>	2007	2019	24,750
E. E. Waldron, <i>Outside Director</i>	2001	2019	27,900
			<u>\$ 513,450</u>

Subject to approval by the board, the Association may allow directors honoraria of \$600 for attendance at regular board meetings and board committee meetings for the first day of the meeting and \$300 each day thereafter if the meeting extends beyond one day. If a committee meeting is held on a day other than the board meeting date, the Association may allow directors honoraria of \$600 for attendance. If a committee meeting is held via conference call, the Association may allow directors honoraria of \$300 for attendance. If a director is requested by the board to attend a special meeting, other than a regular board or committee meeting, the Association may allow directors honoraria of \$600 per day. Directors are paid a monthly retainer fee of \$1,200, except for the chairman and vice chairman of the board who receive \$1,700 and \$1,450, respectively. Committee chairs are paid an additional monthly retainer of \$250 for Audit and \$150 for Credit and Lending, Governance, and Compensation. Non-cash compensation for the year was less than \$5,000.

The following chart details the number of meetings, other activities, current committee assignments, and additional compensation paid for other activities (if applicable) for each director:

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities*
	Regular Board Meetings	Other Official Activities*		
Joseph C. Joyce, <i>Chairman</i>	12	12	Executive	\$ 13,200
Howard P. Bateman, <i>Vice Chairman</i>	12	15	Audit, Compensation, Executive	9,900
John L. Alger	11	9	Audit	6,900
Tobin J. Basore	12	12	Audit	9,900
Roger W. Davis	12	14	Credit/Lending, Compensation	16,200
W. Eric Hopkins	12	17	Compensation, Governance, Executive	9,000
Bobby G. Lines	11	11	Audit	7,800
Martin J. McKenna	10	12	Credit/Lending, Governance	3,300
Douglas I. Moore	10	8	Governance	4,500
John R. Newbold, III	12	16	Credit/Lending, Compensation	8,400
Harrell H. Phillips, Jr.	12	10	Governance	5,100
Robert G. Sexton	12	10	Credit/Lending, Governance	10,500
Lisa Sherman	10	21	Audit, Credit/Lending, Executive	5,400
Wayne H. Simmons	12	13	Credit/Lending	8,400
Charles R. Thomas	12	14	Credit/Lending, Governance	11,400
Andrea Thurn	10	10	Audit, Executive	2,100
E. E. Waldron	10	11	Compensation, Governance	7,500
				<u>\$ 139,500</u>

* Includes board committee meetings and other board activities other than regular board meetings

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$163,415 for 2017, \$125,772 for 2016 and \$119,696 for 2015.

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

Joseph C. Joyce, Chairman, serves as an Outside Director of the Association. He is the Executive Director of the University of Florida Leadership and Education Foundation, Inc. He also serves as Faculty Advisor to the Wedgworth Agricultural and Natural Resources Leadership Institute within the Institute of Food and Agricultural Sciences (IFAS). He retired from the University of Florida in 2015 as a Professor Emeritus after serving 20 years as Senior Associate Vice President for IFAS. He is a 2016 inductee to the Florida Agricultural Hall of Fame. He was appointed by the Governor to the Florida Environmental Regulation commission in 2008, 2012, and 2015. He is a past Director of the Citrus Research and Development Foundation, and retired as a Brigadier General, US Army Reserves after a 28 year career. Dr. Joyce was appointed to the Farm Credit of North Florida board in 2008 and his current term of office is 2016 - 2019. He is a current member and serves as the chair of the Executive Committee.

Howard P. "Rowdy" Bateman, Vice Chairman, has interests in a family cattle operation, as well as his own cattle operation and is President of Bateman Enterprises, Inc. and is Managing Member of I S Ranch, LLC. He was elected to the Farm Credit of Southwest Florida board in 2004 and his current term of office is 2016 - 2019. Mr. Bateman serves as chair of the

Compensation Committee, and is a current member of the Audit and Executive Committees.

John L. Alger is a vegetable grower and nurseryman in Miami-Dade County and is President of Alger Farms, Inc. He is an owner, officer and Director of S. M. Jones and Company, Inc., a produce sales company in Belle Glade, and HAB Packing, LLC, a vegetable packing company in Brinson, Georgia. Mr. Alger is also on the board of Florida Fruit and Vegetable Association, and a member of the Baptist Health South Florida Founders Society and the University of Miami UHealth Champions. Mr. Alger was elected to the Farm Credit of South Florida board in 2007 and his current term of office is 2015 - 2018. He is a current member of the Audit Committee.

Tobin J. "Toby" Basore is a vegetable grower in Western Palm Beach County. He is an owner and manager of TKM Bengard Farms, LLC, and Cypress Cooling, LLC. He is an owner and President of TKM Farms, Inc., and an owner and senior officer of TKM Management, Inc. He is an owner and managing member of American Berry Company, LLC, a blueberry growing business. He is a Director of the Florida Fruit and Vegetable Association (and serves as Chairman of the Florida Vegetable Exchange), and a Director of the Wedgworth Leadership Institute Alumni Association, a graduate of the Wedgworth Leadership Institute and a member and past Director of the Leadership Palm Beach County organization. Mr. Basore was elected to the Farm Credit of Florida board in 2014 and his current term of office is 2017 - 2020. He is a current member of the Audit Committee.

Roger W. Davis is a tobacco, corn, and timber farmer and cattle rancher based in Alachua County. He is owner, President and Director of R & H Farms, Inc. He owns CWH Land, LLC and is an owner and Managing Partner of 848 Land, LLC. Mr. Davis was elected to the Farm Credit of North Florida board in 1998 and his current term of office is 2016 - 2019. He also serves on the AgFirst Farm Credit Bank Nominating Committee and the AgFirst District Advisory Committee. He is a current member of the Compensation and the Credit/Lending Committees.

W. Eric Hopkins is a sugar cane and vegetable grower in Western Palm Beach County, employed by, and part owner of, Hundley Farms, Inc. He is the Board Chairman of Pioneer Growers Cooperative and serves as Director on the boards of Hundley Farms, Inc., Frontier Produce, Inc., Double H Farms, Inc., Leadership Palm Beach County, Florida Fruit and Vegetable Association (and serves as Chairman of the Supply Chain Management Committee), and Law Enforcement Assistance Foundation, a fund raising organization. He serves as a Director of Elberta Logistics International, LLC, an agricultural transport business, is an owner and managing member of Many H's, LLC, an agricultural transport business, and is an owner and managing member of American Berry Company, LLC, a blueberry growing business. Mr. Hopkins had previously held elected director positions on the Boards of Farm Credit of South Florida and Farm Credit of Florida from 2009 until 2013. During this time, he was a member of the Audit Committee. On January 30, 2014, the Board appointed Mr. Hopkins as an appointed stockholder director, a position established under the Bylaws and his current term of office is 2017 - 2020. Mr. Hopkins serves as chair of the Governance Committee and is a current member of the Compensation and Executive Committees.

Bobby G. "Bob" Lines is a cattle rancher, as well as a Bahia sod and seed producer in Palm Beach and Martin Counties. Mr. Lines owns and operates Agricultural Land Services, Inc., a grassing contractor, that provides sodding and seeding services to various government projects. Additionally, he supervises 4L Land & Cattle, LLC which has over 400 head of beef cattle and 250 roping type cattle. He serves as a Director and is past President of the Florida Quarter Horse Association and as National Director of the American Quarter Horse Association. He was originally appointed to the Farm Credit of Florida board in 2015 for a term that expired in 2016, and then was elected to serve his current term of office, 2016 - 2018. He is a current member of the Audit Committee.

Martin J. "Marty" McKenna operates McKenna Brothers, Inc., a privately owned citrus and harvesting operation. He has ownership in Dixie Belle Grove Partnership, Tombstone Grove Partnership, JMCK Enterprises, LLC, New Port Groves Partnership, EdMac Partnership, and McKenna Family Enterprises, LLC. Mr. McKenna is a Director, Officer, and has ownership interest in McKenna & Associates Citrus, Inc., Lakemont Harvesting, Inc., M & M Groves, Inc., McKenna Harvesting, Inc., and Poachers Hammock Grove, Inc. He manages Firetower Grove Partnership. He is past Chairman of the Florida Citrus Commission. Mr. McKenna was elected to the Farm Credit of Southwest Florida board in 2009. His current term of office is 2015 - 2018. He is a current member of the Credit/Lending and Governance Committees.

Douglas I. "Doug" Moore is a beef cattle farmer in Duval County and timber farmer in Baker County. Mr. Moore spent over 30 years in the dairy business. Mr. Moore is a Director, Officer, and has ownership interests in M & M Dairy, Inc., a timber farm, Southeastern Stainless Fabricators, Inc., a metal fabrication business, TM Livestock, Inc., a land development business, and Flatwoods Management, LLC, an agricultural consulting business. Mr. Moore serves as a Vice President of Baker County Farm Bureau and is on the Farm Bureau Forestry Advisory Committee. He serves on the Advisory Committee of the Florida Wildlife Commission and the Florida Forest Service. Mr. Moore is the Chairman of the Baker County Soil and Water Board, and Mr. Moore served as past Director and President of Sunshine State Milk Producers, Inc., as past Director and Secretary of Southeast Milk, Inc., and as past Chairman of the Duval County Soil and Water Board. Mr. Moore previously served as Director for 17 years on the North Florida Farm Credit and Farm Credit of Florida Boards. In 2015, Mr. Moore was elected to serve his current term of office, 2015 - 2018. He is a current member of the Governance Committee.

John R. Newbold, III is a cut-foilage farmer in Crescent City, Florida. He owns, operates, and is President of Forest Groves, Inc. He is an owner and manager of Newbold Farms, LLC. He is a Director of the Putnam County Fair Authority, Crescent City Cemetery Association, Florida Wine and Grape Growers Association, and Florida Wildflower Cooperative. Mr. Newbold was elected to the Farm Credit of Florida board in 2014 and his current term of office is 2017 - 2020. He is a current member of the Compensation and Credit/Lending Committees.

Harrell H. "Hal" Phillips, Jr. is a cattleman and veterinarian in Levy and Marion Counties. Dr. Phillips owns and operates Phillips Ranch, a ranching and background / stocker operation, with almost 1,200 breeding age beef cattle and background

approximately 1,500 calves annually. The ranch also produces hay, sod, grass seed, small grains, and timber. Dr. Phillips has 30 years of experience as a veterinarian. He serves as Director, and is past President, of both the Florida Cattlemen's Association and the Marion County Cattlemen's Association. Dr. Phillips is a past Director of the National Cattlemen's Beef Association. He has ownership in The Creek at Wekiva, LLC, a recreation and conservation property. He serves as Director on the Southeastern Youth Fair Board. He was originally appointed to the Farm Credit of Florida board in 2015 for a term that expired in 2016, and then was elected to serve a term of office from 2016 – 2017. His current term of office is 2017 - 2020. He is a current member of the Governance Committee.

Robert G. "Bobby" Sexton is a citrus grower and juice processor from Vero Beach, Florida. He is owner and President of Oslo Citrus Growers Association, and co-owner of Lost Legend, LLC and Orchid Island Juice Company. He serves as a Director on the boards of Oslo Citrus Growers Association, Oslo, Inc., Lost Legend, LLC, Florida Citrus Packers, Sexton Grove Holdings, an agricultural company, Sexton Citrus, LLC, Sexton Properties of Vero Beach, Inc., Oslo Packing Company, and Sexton, Inc., family commercial real estate companies. He also serves as a Director on the board of Scholarship Foundation of Indian River County, and serves as an Outside Director for McArthur Farms. Mr. Sexton is a member of the Citrus Administrative Committee. Mr. Sexton was elected to the Farm Credit of South Florida board in 1995 and his current term of office is 2016 - 2019. Mr. Sexton is a current member of the Governance and Credit/Lending Committees.

Lisa Sherman is a citrus grower in Highlands County and has ownership interest in Black Bear Citrus, LLC and Lake Childs Citrus, Inc. She is a Certified Public Accountant in Lake Placid. Ms. Sherman is an officer and serves on the board of Black Bear Citrus, LLC, Lake Childs Citrus, Inc., The Great Fruit Company, Inc., Highlands County 4H Club Foundation, Embassy Ministries, Inc., Good Care Home, Inc., and Lisa Sherman, CPA, P.A. Mrs. Sherman had previously held an Outside Director position on the boards of Farm Credit of Southwest Florida and Farm Credit of Florida from 2008 until May 2014. On May 29, 2014, the board appointed Mrs. Sherman as an appointed stockholder director, a position established under the Bylaws and her current term of office is 2017 - 2020. Ms. Sherman is a current member of the Audit, Credit/Lending, and Executive Committees. She serves as chair of the Credit/Lending Committee.

Wayne H. Simmons is a citrus grower, timber farmer, realtor, and rental property owner from LaBelle, Florida. He is an owner and President of Simmons Family Grove, Inc. He is an owner and manager of Labelle Fruit Company, LLC, Labelle Housing Company, LLC and Labelle Timber Company, LLC. Mr. Simmons is a Broker Associate of Southern Heritage Real Estate and Investments. He is also licensed in Georgia as an associate with Green Forest & Farm Realty, LLC. He is a Director and Past President of the Gulf Citrus Growers Association. Mr. Simmons is a past Director of the Citrus Research and Development Foundation. He is also a member of the Florida Citrus Production Managers Association, Hendry County Farm Bureau, and Realtors Land Institute. Mr. Simmons was elected to the Farm Credit of Florida board in 2014 and his term of office is 2017 - 2020. He is a current member of the Credit/Lending Committee.

Charles R. Thomas is a timber and cattle farmer in Suwannee County. His timber operation consists of pine plantation and pine straw. In addition, Mr. Thomas is a restaurant owner, automobile dealer, and rental property owner. He has ownership interest in and operates Dixie Grill Restaurant, Dixie Motors, LLC, Thomas Farms, Thomas Rental, Block 60 Holdings, LLC, Fields of McAlpin, LLC, Bragg Branch Crossing, Inc., and MCN Partners, LLC. Mr. Thomas is Chairman of the Suwannee County Tourist Development Council, and a member of Farm Bureau and Florida Forestry Association. Mr. Thomas was elected to the Farm Credit of Florida board in 2013 and his current term of office is 2016 - 2019. He is a current member of the Governance and Credit/Lending Committees.

Andrea Thurn serves as an Outside Director for the Association. She is a Certified Public Accountant and a Partner/Owner in Morgan, Jacoby, Thurn, Boyle and Associates, P.A. in Vero Beach. She is co-owner and serves as Secretary/Treasurer of Vero Chemical Distributors, a janitorial paper and chemical supplier. Ms. Thurn was appointed to the Farm Credit of South Florida board in 2007 and her current term of office is 2016 - 2019. She is a current member of the Audit and Executive Committees. She serves as chair of the Audit Committee.

E.E. "Bucky" Waldron serves as an Outside Director for the Association. He is an attorney with a private civil practice in Arcadia. Mr. Waldron is a board member of Kingsway Country Club, Inc., a private non-profit corporation. He was appointed to the Farm Credit of Southwest Florida board in 2001 and his current term of office is 2016 - 2019. He is a current member of the Compensation and Governance Committees.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations. In the opinion of management, none of the loans outstanding at December 31, 2017 to senior officers or directors as defined in FCA regulations involved more than the normal risk of collectability.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

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

	<u>2017</u>
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	\$ 81,937
Total	<u>\$ 81,937</u>

Audit fees were for the annual audit of the consolidated financial statements.

Consolidated Financial Statements

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

Copies of the Association’s Annual and Quarterly reports are available upon request free of charge by calling 1-800-432-4156 or writing Laura Craker, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421 or accessing the web site, www.farmcreditfl.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 Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the Association’s web site, within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

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



REPORT OF THE AUDIT COMMITTEE

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

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

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

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



Andrea Thurn

Chairman of the Audit Committee

Members of Audit Committee

John L. Alger
Tobin J. Basore
Howard P. Bateman
Bobby G. Lines
Lisa Sherman

March 13, 2018

REPORT OF INDEPENDENT AUDITORS



Report of Independent Auditors

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP
Certified Public Accountants
Miami, Florida

March 13, 2018

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

CONSOLIDATED BALANCE SHEETS

<i>(dollars in thousands)</i>	December 31,		
	2017	2016	2015
Assets			
Cash	\$ 211	\$ 244	\$ 23
Investment securities:			
Held to maturity (fair value of \$5,853, \$7,784, and \$10,447, respectively)	5,467	7,417	10,072
Loans	1,131,004	1,032,804	946,900
Allowance for loan losses	(7,774)	(6,560)	(6,097)
Net loans	1,123,230	1,026,244	940,803
Loans held for sale	8	577	74
Accrued interest receivable	5,393	4,243	3,854
Investments in other Farm Credit institutions	13,940	13,697	13,002
Premises and equipment, net	6,942	6,626	6,558
Other property owned	95	366	5,565
Accounts receivable	15,401	11,421	11,102
Other assets	897	5,495	7,247
Total assets	\$ 1,171,584	\$ 1,076,330	\$ 998,300
Liabilities			
Notes payable to AgFirst Farm Credit Bank	\$ 894,913	\$ 809,137	\$ 743,688
Accrued interest payable	2,062	1,541	1,382
Patronage refunds payable	11,803	10,899	8,896
Accounts payable	2,954	3,195	2,592
Advanced conditional payments	1,105	1,096	1,352
Other liabilities	6,337	12,953	12,964
Total liabilities	919,174	838,821	770,874
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	445	445	531
Capital stock and participation certificates	2,452	2,272	2,085
Additional paid-in-capital	7,873	7,873	7,873
Retained earnings			
Allocated	114,789	109,960	106,263
Unallocated	127,089	117,171	110,881
Accumulated other comprehensive income (loss)	(238)	(212)	(207)
Total members' equity	252,410	237,509	227,426
Total liabilities and members' equity	\$ 1,171,584	\$ 1,076,330	\$ 998,300

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

CONSOLIDATED STATEMENTS OF INCOME

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2017	2016	2015
Interest Income			
Loans	\$ 51,976	\$ 47,140	\$ 39,945
Investments	235	270	348
Total interest income	52,211	47,410	40,293
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	22,118	17,301	14,586
Net interest income	30,093	30,109	25,707
Provision for (reversal of allowance for) loan losses	28	(1,101)	(3,446)
Net interest income after provision for (reversal of allowance for) loan losses	30,065	31,210	29,153
Noninterest Income			
Loan fees	869	840	767
Fees for financially related services	1,066	962	982
Patronage refunds from other Farm Credit institutions	15,164	11,257	10,454
Gains (losses) on sales of rural home loans, net	353	231	208
Gains (losses) on sales of premises and equipment, net	60	27	79
Gains (losses) on other transactions	210	(54)	(278)
Total other-than-temporary impairment losses on investments	—	—	(80)
Other noninterest income	373	393	175
Total noninterest income	18,095	13,656	12,307
Noninterest Expense			
Salaries and employee benefits	13,960	12,862	12,284
Postretirement benefits (Notes 2 and 9)	1,478	4,754	4,908
Occupancy and equipment	1,103	1,295	1,123
Insurance Fund premiums	1,200	1,226	838
(Gains) losses on other property owned, net	59	713	(9)
Other operating expenses	4,112	3,528	3,591
Total noninterest expense	21,912	24,378	22,735
Income before income taxes	26,248	20,488	18,725
Provision for income taxes	—	—	(3)
Net income	\$ 26,248	\$ 20,488	\$ 18,728

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2017	2016	2015
Net income	\$ 26,248	\$ 20,488	\$ 18,728
Other comprehensive income net of tax			
Employee benefit plans adjustments	(26)	(5)	35
Comprehensive income	\$ 26,222	\$ 20,483	\$ 18,763

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
				Allocated	Unallocated		
Balance at December 31, 2014	\$ 554	\$ 1,961	\$ 7,873	\$ 103,837	\$ 103,079	\$ (242)	\$ 217,062
Comprehensive income					18,728	35	18,763
Protected borrower stock issued/(retired), net	(23)						(23)
Capital stock/participation certificates issued/(retired), net		124					124
Patronage distribution							
Cash					(8,500)		(8,500)
Nonqualified retained earnings				3,015	(3,015)		—
Patronage distribution adjustment				(589)	589		—
Balance at December 31, 2015	\$ 531	\$ 2,085	\$ 7,873	\$ 106,263	\$ 110,881	\$ (207)	\$ 227,426
Comprehensive income					20,488	(5)	20,483
Protected borrower stock issued/(retired), net	(86)						(86)
Capital stock/participation certificates issued/(retired), net		187					187
Patronage distribution							
Cash					(10,500)		(10,500)
Nonqualified retained earnings				4,072	(4,072)		—
Patronage distribution adjustment				(375)	374		(1)
Balance at December 31, 2016	\$ 445	\$ 2,272	\$ 7,873	\$ 109,960	\$ 117,171	\$ (212)	\$ 237,509
Comprehensive income					26,248	(26)	26,222
Capital stock/participation certificates issued/(retired), net		180					180
Patronage distribution							
Cash					(11,500)		(11,500)
Nonqualified retained earnings				5,387	(5,387)		—
Patronage distribution adjustment				(558)	557		(1)
Balance at December 31, 2017	\$ 445	\$ 2,452	\$ 7,873	\$ 114,789	\$ 127,089	\$ (238)	\$ 252,410

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	\$ 26,248	\$ 20,488	\$ 18,728
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	552	546	561
Amortization (accretion) of net deferred loan costs (fees)	(561)	(703)	(592)
Premium amortization (discount accretion) on investments	83	162	183
Amortization (accretion) of yield mark resulting from merger	(1,219)	(2,051)	(2,033)
Provision for (reversal of allowance for) loan losses	28	(1,101)	(3,446)
(Gains) losses on other property owned	32	288	(182)
Net impairment losses on investments	—	—	80
(Gains) losses on sales of premises and equipment, net	(60)	(27)	(79)
(Gains) losses on sales of rural home loans, net	(353)	(231)	(208)
(Gains) losses on other transactions	(210)	54	278
Changes in operating assets and liabilities:			
Origination of loans held for sale	(26,918)	(19,759)	(12,314)
Proceeds from sales of loans held for sale, net	27,840	19,487	12,876
(Increase) decrease in accrued interest receivable	(1,150)	(389)	(645)
(Increase) decrease in accounts receivable	(3,980)	(319)	3,332
(Increase) decrease in other assets	4,598	1,752	(164)
Increase (decrease) in accrued interest payable	521	159	196
Increase (decrease) in accounts payable	(241)	603	463
Increase (decrease) in other liabilities	(6,425)	(63)	(4,908)
Total adjustments	(7,463)	(1,592)	(6,602)
Net cash provided by (used in) operating activities	18,785	18,896	12,126
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investment securities, held to maturity	1,882	2,556	2,885
Net (increase) decrease in loans	(95,479)	(80,644)	(92,415)
(Increase) decrease in investment in other Farm Credit institutions	(243)	(695)	682
Purchases of premises and equipment	(868)	(610)	(249)
Proceeds from sales of premises and equipment	60	23	109
Proceeds from sales of other property owned	490	3,607	3,817
Net cash provided by (used in) investing activities	(94,158)	(75,763)	(85,171)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	85,748	65,741	81,079
Net increase (decrease) in advanced conditional payments	9	(256)	(620)
Protected borrower stock retired	—	(86)	(23)
Capital stock and participation certificates issued/(retired), net	180	187	124
Patronage refunds and dividends paid	(10,597)	(8,498)	(7,528)
Net cash provided by (used in) financing activities	75,340	57,088	73,032
Net increase (decrease) in cash	(33)	221	(13)
Cash, beginning of period	244	23	36
Cash, end of period	\$ 211	\$ 244	\$ 23
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	\$ —	\$ 2,231	\$ —
Receipt of property in settlement of loans	258	934	5,362
Estimated cash dividends or patronage distributions declared or payable	11,500	10,500	8,500
Employee benefit plans adjustments (Note 9)	26	5	(35)
Supplemental information:			
Interest paid	21,569	17,434	14,471

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. Organization: Farm Credit of Florida, ACA (the Association) is a member-owned cooperative which provides credit and credit-related services to qualified borrowers in the counties of Alachua, Baker, Bradford, Broward, Charlotte, Clay, Collier, Columbia, DeSoto, Dixie, Duval, Flagler, Gilchrist, Glades, Hamilton, Hardee, Hendry, Highlands, Indian River, Lafayette, Lee, Levy, Manatee, Marion, Martin, Miami-Dade, Monroe, Nassau, Okeechobee, Palm Beach, Putnam, St. Johns, St. Lucie, Sarasota, Suwannee and Union in the state of Florida.

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

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

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

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

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure

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

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

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

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

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

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or

harvesters of aquatic products, rural residents, and farm-related businesses.

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

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

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

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

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

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

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

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

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

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

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

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

The Association may acquire loans individually, in groups or portfolios. Acquired loans are recorded at estimated fair value on their purchase date with no carryover of any related allowance for loan losses. Acquired loans are segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considers such factors as past due status, nonaccrual status and credit risk ratings. The fair value of acquired performing loans is determined by discounting expected cash flows, both principal and interest, for each loan at prevailing market interest rates. The difference between the fair value and principal balances due at

acquisition date, the fair value discount, is accreted into income over the estimated life of each loan.

Purchased Credit Impaired (PCI) Loans

For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Association would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretible difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretible yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. The purchaser then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretible yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all PCI loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

- C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value. Generally, only home loans that are to be sold on the secondary mortgage market through various lenders are held for sale.
- D. **Other Property Owned:** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount

of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) from Other Property Owned, Net in the Consolidated Statements of Income.

- E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

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

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

Investment Securities

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

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

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

to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in OCI.

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

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

Other Investments

As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the Consolidated Statements of Income and the balance of these investments, totaling \$740, is included in Other Assets on the accompanying Consolidated Balance Sheets as of December 31, 2017.

The Association holds minority equity interests in a Rural Business Investment Company (RBIC). This investment is accounted for under the cost method and is carried at the lower of cost or fair value.

Investment in Other Farm Credit Institutions

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

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

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

Defined Contribution Plans

Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal

Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

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

Multi-Employer Defined Benefit Plans

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

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

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

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

Single Employer Defined Benefit Plans

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

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

- I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent

reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

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

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

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

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

- J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District associations on an accrual basis.
- K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

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

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

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

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

Please see further discussion in Note 8.

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

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

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

- M. **Acquisition Accounting:** Mergers are accounted for under the acquisition method of accounting. Purchased assets, including identifiable intangibles, and assumed liabilities are recorded at their respective acquisition date fair values. If the fair value of net assets purchased exceeds the consideration given, a "bargain purchase gain" is recognized. If the consideration given exceeds the fair

value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. See Loans and Allowance for Loan Losses section above for accounting policy regarding loans acquired in a business combination.

- N. **Revenue Recognition:** The largest source of revenue for the Association is interest income. Interest income is recognized on an accrual basis driven by nondiscretionary formulas based on written contracts, such as loan agreements or securities contracts. Credit-related fees, including letter of credit fees, finance charges and other fees are recognized in non-interest income when earned. Other types of non-interest revenues, such as service charges, professional services and broker fees, are accrued and recognized into income as services are provided and the amount of fees earned is reasonably determinable.
- O. **Accounting Standards Updates (ASUs):** In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted.

In March 2017, the FASB issued ASU 2017-08 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 March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments will be effective for the Association for interim and annual periods beginning after December 15, 2017 for public business entities. Early adoption is

permitted. The Association does not expect these amendments to have a material effect on its financial statements.

In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. The Association does not expect these amendments to have a material effect on its financial statements.

In October 2016, the FASB issued ASU 2016-16 Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This Update requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public business entities, the amendments are effective, on a modified retrospective basis, for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Association does not expect these amendments to have a material effect on its financial statements.

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

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The Update improves financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for

fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The Association does not expect these amendments to have a material effect on its financial statements.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance changes the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB has issued several additional Updates that generally provide clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606. The guidance and all related updates will be effective for reporting periods beginning after December 15, 2017 for public business entities. The amendments are to be applied retrospectively. The Association has identified ancillary revenues that will be affected by this Update. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations. The Association expects to adopt the guidance in first quarter 2018 using the modified retrospective method and that adoption will result in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2017	2016	2015
Real estate mortgage	\$ 666,425	\$ 595,253	\$ 597,598
Production and intermediate-term	227,567	231,159	182,591
Loans to cooperatives	28,912	32,777	1,206
Processing and marketing	86,255	88,202	104,459
Farm-related business	45,421	30,015	22,310
Communication	33,726	33,287	25,858
Power and water/waste disposal	17,029	3,685	3,009
Rural residential real estate	9,090	8,446	8,301
International	9,972	9,980	1,568
Other (including Mission Related)	6,607	—	—
Total loans	\$ 1,131,004	\$ 1,032,804	\$ 946,900

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

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

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

	December 31, 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	\$ 13,442	\$ 97,757	\$ —	\$ 23,217	\$ —	\$ —	\$ 13,442	\$ 120,974
Production and intermediate-term	57,369	9,922	4,938	—	14	—	62,321	9,922
Loans to cooperatives	28,961	—	—	—	—	—	28,961	—
Processing and marketing	75,768	21,781	5,429	72,863	—	—	81,197	94,644
Farm-related business	2,521	19,586	3,346	2,019	23	—	5,890	21,605
Communication	33,849	—	—	—	—	—	33,849	—
Power and water/waste disposal	17,082	—	—	—	—	—	17,082	—
International	10,000	—	—	—	—	—	10,000	—
Other (including Mission Related)	—	2,807	—	—	4,023	—	4,023	2,807
Total	\$ 238,992	\$ 151,853	\$ 13,713	\$ 98,099	\$ 4,060	\$ —	\$ 256,765	\$ 249,952

	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	\$ 17,290	\$ 116,443	\$ —	\$ 18,136	\$ 4,253	\$ —	\$ 21,543	\$ 134,579
Production and intermediate-term	56,331	21,452	6,279	—	272	—	62,882	21,452
Loans to cooperatives	32,834	—	—	—	—	—	32,834	—
Processing and marketing	74,404	4,243	7,315	52,000	—	—	81,719	56,243
Farm-related business	2,353	11,188	3,129	2,700	295	—	5,777	13,888
Communication	33,397	—	—	—	—	—	33,397	—
Power and water/waste disposal	3,701	—	—	—	—	—	3,701	—
International	10,000	—	—	—	—	—	10,000	—
Total	\$ 230,310	\$ 153,326	\$ 16,723	\$ 72,836	\$ 4,820	\$ —	\$ 251,853	\$ 226,162

	December 31, 2015							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 4,119	\$ 140,297	\$ —	\$ 20,369	\$ 4,473	\$ 351	\$ 8,592	\$ 161,017
Production and intermediate-term	32,111	27,092	16,389	1,349	658	—	49,158	28,441
Loans to cooperatives	1,216	—	—	—	—	—	1,216	—
Processing and marketing	95,067	6,280	—	5,413	—	—	95,067	11,693
Farm-related business	15,476	—	—	1,654	—	—	15,476	1,654
Communication	25,939	—	—	—	—	—	25,939	—
Power and water/waste disposal	3,019	—	—	—	—	—	3,019	—
International	1,568	—	—	—	—	—	1,568	—
Total	\$ 178,515	\$ 173,669	\$ 16,389	\$ 28,785	\$ 5,131	\$ 351	\$ 200,035	\$ 202,805

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

	December 31, 2017			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 41,917	\$ 133,132	\$ 491,376	\$ 666,425
Production and intermediate-term	82,617	125,057	19,893	227,567
Loans to cooperatives	—	22,415	6,497	28,912
Processing and marketing	2,748	54,898	28,609	86,255
Farm-related business	4,846	16,792	23,783	45,421
Communication	—	29,007	4,719	33,726
Power and water/waste disposal	3,000	991	13,038	17,029
Rural residential real estate	290	766	8,034	9,090
International	—	9,972	—	9,972
Other (including Mission Related)	—	3,659	2,948	6,607
Total loans	\$ 135,418	\$ 396,689	\$ 598,897	\$ 1,131,004
Percentage	11.97%	35.08%	52.95%	100.00%

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

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

	December 31,				December 31,		
	2017	2016	2015		2017	2016	2015
Real estate mortgage:				Communication			
Acceptable	93.74%	94.78%	93.17%	Acceptable	100.00%	100.00%	100.00%
OAEM	4.46	3.28	3.59	OAEM	—	—	—
Substandard/doubtful/loss	1.80	1.94	3.24	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Production and intermediate-term:				Power and water/waste disposal			
Acceptable	89.43%	92.63%	91.05%	Acceptable	100.00%	100.00%	100.00%
OAEM	8.81	4.83	4.76	OAEM	—	—	—
Substandard/doubtful/loss	1.76	2.54	4.19	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Loans to cooperatives:				Rural residential real estate:			
Acceptable	100.00%	100.00%	100.00%	Acceptable	97.01%	96.32%	95.01%
OAEM	—	—	—	OAEM	0.19	0.31	1.19
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	2.80	3.37	3.80
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Processing and marketing:				International:			
Acceptable	100.00%	94.22%	100.00%	Acceptable	100.00%	100.00%	100.00%
OAEM	—	5.78	—	OAEM	—	—	—
Substandard/doubtful/loss	—	—	—	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	100.00%	100.00%
Farm-related business:				Other (including Mission Related):			
Acceptable	99.31%	98.53%	99.70%	Acceptable	100.00%	—%	—%
OAEM	0.15	0.65	0.30	OAEM	—	—	—
Substandard/doubtful/loss	0.54	0.82	—	Substandard/doubtful/loss	—	—	—
	100.00%	100.00%	100.00%		100.00%	—%	—%
				Total Loans:			
				Acceptable	94.13%	94.78%	93.91%
				OAEM	4.41	3.48	3.20
				Substandard/doubtful/loss	1.46	1.74	2.89
					100.00%	100.00%	100.00%

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

December 31, 2017						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 2,116	\$ 513	\$ 2,629	\$ 667,544	\$ 670,173	\$ —
Production and intermediate-term	2,371	3,598	5,969	222,590	228,559	—
Loans to cooperatives	—	—	—	28,957	28,957	—
Processing and marketing	—	—	—	86,460	86,460	—
Farm-related business	—	—	—	45,594	45,594	—
Communication	—	—	—	33,758	33,758	—
Power and water/waste disposal	—	—	—	17,039	17,039	—
Rural residential real estate	154	24	178	8,943	9,121	—
International	—	—	—	10,014	10,014	—
Other (including Mission Related)	—	—	—	6,681	6,681	—
Total	\$ 4,641	\$ 4,135	\$ 8,776	\$ 1,127,580	\$ 1,136,356	\$ —

December 31, 2016						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 2,817	\$ 832	\$ 3,649	\$ 594,514	\$ 598,163	\$ —
Production and intermediate-term	622	476	1,098	230,896	231,994	—
Loans to cooperatives	—	—	—	32,822	32,822	—
Processing and marketing	—	—	—	88,327	88,327	—
Farm-related business	195	—	195	29,911	30,106	—
Communication	—	—	—	33,294	33,294	—
Power and water/waste disposal	—	—	—	3,689	3,689	—
Rural residential real estate	150	58	208	8,261	8,469	—
International	—	—	—	10,129	10,129	—
Total	\$ 3,784	\$ 1,366	\$ 5,150	\$ 1,031,843	\$ 1,036,993	\$ —

December 31, 2015						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 3,054	\$ 2,963	\$ 6,017	\$ 594,442	\$ 600,459	\$ —
Production and intermediate-term	295	177	472	182,818	183,290	—
Loans to cooperatives	—	—	—	1,206	1,206	—
Processing and marketing	—	—	—	104,568	104,568	—
Farm-related business	—	—	—	22,380	22,380	—
Communication	—	—	—	25,880	25,880	—
Power and water/waste disposal	—	—	—	3,010	3,010	—
Rural residential real estate	13	43	56	8,269	8,325	—
International	—	—	—	1,568	1,568	—
Total	\$ 3,362	\$ 3,183	\$ 6,545	\$ 944,141	\$ 950,686	\$ —

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

	2017	December 31,	
		2016	2015
Nonaccrual loans:			
Real estate mortgage	\$ 5,481	\$ 6,146	\$ 11,526
Production and intermediate-term	5,517	6,772	5,293
Farm-related business	247	248	—
Rural residential real estate	178	229	221
Total	\$ 11,423	\$ 13,395	\$ 17,040
Accruing restructured loans:			
Real estate mortgage	\$ 773	\$ 809	\$ 1,487
Production and intermediate-term	256	310	530
Total	\$ 1,029	\$ 1,119	\$ 2,017
Accruing loans 90 days or more past due:			
Total	\$ —	\$ —	\$ —
Total nonperforming loans	\$ 12,452	\$ 14,514	\$ 19,057
Other property owned	95	366	5,565
Total nonperforming assets	\$ 12,547	\$ 14,880	\$ 24,622
Nonaccrual loans as a percentage of total loans	1.01%	1.30%	1.80%
Nonperforming assets as a percentage of total loans and other property owned	1.11%	1.44%	2.59%
Nonperforming assets as a percentage of capital	4.97%	6.27%	10.83%

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

	2017	December 31,	
		2016	2015
Impaired nonaccrual loans:			
Current as to principal and interest	\$ 4,698	\$ 10,180	\$ 12,880
Past due	6,725	3,215	4,160
Total	11,423	13,395	17,040
Impaired accrual loans:			
Restructured	1,029	1,119	2,017
90 days or more past due	—	—	—
Total	1,029	1,119	2,017
Total impaired loans	\$ 12,452	\$ 14,514	\$ 19,057
Additional commitments to lend	\$ —	\$ 15	\$ 4

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

Impaired loans:	December 31, 2017			Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 236	\$ 334	\$ 187	\$ 252	\$ 33
Production and intermediate-term	1,800	3,000	200	1,923	251
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ 2,036	\$ 3,334	\$ 387	\$ 2,175	\$ 284
With no related allowance for credit losses:					
Real estate mortgage	\$ 6,018	\$ 11,957	\$ —	\$ 6,430	\$ 840
Production and intermediate-term	3,973	11,028	—	4,245	554
Farm-related business	247	304	—	264	34
Rural residential real estate	178	404	—	190	25
Total	\$ 10,416	\$ 23,693	\$ —	\$ 11,129	\$ 1,453
Total impaired loans:					
Real estate mortgage	\$ 6,254	\$ 12,291	\$ 187	\$ 6,682	\$ 873
Production and intermediate-term	5,773	14,028	200	6,168	805
Farm-related business	247	304	—	264	34
Rural residential real estate	178	404	—	190	25
Total	\$ 12,452	\$ 27,027	\$ 387	\$ 13,304	\$ 1,737

	December 31, 2016			Year Ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 116	\$ 195	\$ 117	\$ 118	\$ 29
Production and intermediate-term	104	107	18	106	27
Farm-related business	—	—	—	—	—
Rural residential real estate	—	—	—	—	—
Total	\$ 220	\$ 302	\$ 135	\$ 224	\$ 56
With no related allowance for credit losses:					
Real estate mortgage	\$ 6,839	\$ 17,228	\$ —	\$ 6,970	\$ 1,744
Production and intermediate-term	6,978	14,415	—	7,111	1,779
Farm-related business	248	316	—	253	63
Rural residential real estate	229	462	—	233	58
Total	\$ 14,294	\$ 32,421	\$ —	\$ 14,567	\$ 3,644
Total impaired loans:					
Real estate mortgage	\$ 6,955	\$ 17,423	\$ 117	\$ 7,088	\$ 1,773
Production and intermediate-term	7,082	14,522	18	7,217	1,806
Farm-related business	248	316	—	253	63
Rural residential real estate	229	462	—	233	58
Total	\$ 14,514	\$ 32,723	\$ 135	\$ 14,791	\$ 3,700

	December 31, 2015			Year Ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 724	\$ 840	\$ 169	\$ 957	\$ 64
Production and intermediate-term	148	148	76	195	13
Rural residential real estate	42	45	5	56	4
Total	\$ 914	\$ 1,033	\$ 250	\$ 1,208	\$ 81
With no related allowance for credit losses:					
Real estate mortgage	\$ 12,289	\$ 28,257	\$ —	\$ 16,253	\$ 1,096
Production and intermediate-term	5,675	11,312	—	7,505	506
Rural residential real estate	179	419	—	236	16
Total	\$ 18,143	\$ 39,988	\$ —	\$ 23,994	\$ 1,618
Total impaired loans:					
Real estate mortgage	\$ 13,013	\$ 29,097	\$ 169	\$ 17,210	\$ 1,160
Production and intermediate-term	5,823	11,460	76	7,700	519
Rural residential real estate	221	464	5	292	20
Total	\$ 19,057	\$ 41,021	\$ 250	\$ 25,202	\$ 1,699

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Interest income recognized on nonaccrual and accruing restructured loans was \$1,736, \$3,700, and \$1,698 in 2017, 2016, and 2015. A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:									
Balance at December 31, 2016	\$ 3,774	\$ 1,884	\$ 659	\$ 121	\$ 33	\$ 81	\$ 8	\$ -	\$ 6,560
Charge-offs	-	(1,431)	-	-	-	-	-	-	(1,431)
Recoveries	2,517	99	1	-	-	-	-	-	2,617
Provision of loan losses	(2,033)	1,848	171	8	11	21	1	1	28
Balance at December 31, 2017	\$ 4,258	\$ 2,400	\$ 831	\$ 129	\$ 44	\$ 102	\$ 9	\$ 1	\$ 7,774
Balance at December 31, 2015	\$ 4,012	\$ 1,561	\$ 324	\$ 109	\$ 14	\$ 76	\$ 1	\$ -	\$ 6,097
Charge-offs	(11)	(48)	-	-	-	(4)	-	-	(63)
Recoveries	1,560	55	-	-	-	12	-	-	1,627
Provision of loan losses	(1,787)	316	335	12	19	(3)	7	-	(1,101)
Balance at December 31, 2016	\$ 3,774	\$ 1,884	\$ 659	\$ 121	\$ 33	\$ 81	\$ 8	\$ -	\$ 6,560
Balance at December 31, 2014	\$ 4,566	\$ 622	\$ 851	\$ 34	\$ -	\$ 37	\$ -	\$ -	\$ 6,110
Charge-offs	(1,218)	(23)	-	-	-	(3)	-	-	(1,244)
Recoveries	4,281	396	-	-	-	-	-	-	4,677
Provision for loan losses	(3,617)	566	(527)	75	14	42	1	-	(3,446)
Balance at December 31, 2015	\$ 4,012	\$ 1,561	\$ 324	\$ 109	\$ 14	\$ 76	\$ 1	\$ -	\$ 6,097
Allowance on loans evaluated for impairment:									
Individually	\$ 187	\$ 200	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 387
Collectively	4,071	2,200	831	129	44	102	9	1	7,387
PCI**	-	-	-	-	-	-	-	-	-
Balance at December 31, 2017	\$ 4,258	\$ 2,400	\$ 831	\$ 129	\$ 44	\$ 102	\$ 9	\$ 1	\$ 7,774
Individually	\$ 117	\$ 18	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 135
Collectively	3,657	1,866	659	121	33	81	8	-	6,425
PCI**	-	-	-	-	-	-	-	-	-
Balance at December 31, 2016	\$ 3,774	\$ 1,884	\$ 659	\$ 121	\$ 33	\$ 81	\$ 8	\$ -	\$ 6,560
Individually	\$ 169	\$ 76	\$ -	\$ -	\$ -	\$ 5	\$ -	\$ -	\$ 250
Collectively	3,843	1,485	324	109	14	71	1	-	5,847
PCI**	-	-	-	-	-	-	-	-	-
Balance at December 31, 2015	\$ 4,012	\$ 1,561	\$ 324	\$ 109	\$ 14	\$ 76	\$ 1	\$ -	\$ 6,097
Recorded investment in loans evaluated for impairment:									
Individually	\$ 5,724	\$ 6,108	\$ 247	\$ -	\$ -	\$ 178	\$ -	\$ -	\$ 12,257
Collectively	662,243	222,787	160,764	33,758	17,039	8,943	10,014	6,681	1,122,229
PCI**	2,206	(336)	-	-	-	-	-	-	1,870
Balance at December 31, 2017	\$ 670,173	\$ 228,559	\$ 161,011	\$ 33,758	\$ 17,039	\$ 9,121	\$ 10,014	\$ 6,681	\$ 1,136,356
Individually	\$ 5,591	\$ 7,339	\$ 248	\$ -	\$ -	\$ 229	\$ -	\$ -	\$ 13,407
Collectively	590,513	224,913	151,007	33,294	3,689	8,240	10,129	-	1,021,785
PCI**	2,059	(258)	-	-	-	-	-	-	1,801
Balance at December 31, 2016	\$ 598,163	\$ 231,994	\$ 151,255	\$ 33,294	\$ 3,689	\$ 8,469	\$ 10,129	\$ -	\$ 1,036,993
Individually	\$ 11,224	\$ 5,976	\$ -	\$ -	\$ -	\$ 153	\$ -	\$ -	\$ 17,353
Collectively	587,221	177,469	128,154	25,880	3,010	8,104	1,568	-	931,406
PCI**	2,014	(155)	-	-	-	68	-	-	1,927
Balance at December 31, 2015	\$ 600,459	\$ 183,290	\$ 128,154	\$ 25,880	\$ 3,010	\$ 8,325	\$ 1,568	\$ -	\$ 950,686

* Includes the loan types; Loans to cooperatives, Processing and marketing, and Farm-related business.
 ** Purchased credit impaired (PCI) loans.

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was \$31,191, \$32,209, and \$32,526 at December 31, 2017, 2016, and 2015, respectively. Fees paid for such guarantee commitments totaled \$4, \$8, and \$26 for 2017, 2016, and 2015, respectively. These amounts are classified as noninterest expense.

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

Outstanding Recorded Investment	Year Ended December 31, 2017				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ -	\$ 169	\$ -	\$ 169	
Production and intermediate-term	-	67	-	67	
Total	\$ -	\$ 236	\$ -	\$ 236	
Post-modification:					
Real estate mortgage	\$ -	\$ 181	\$ -	\$ 181	\$ -
Production and intermediate-term	-	68	-	68	-
Total	\$ -	\$ 249	\$ -	\$ 249	\$ -

Outstanding Recorded Investment	Year Ended December 31, 2016				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 78	\$ 317	\$ -	\$ 395	
Production and intermediate-term	-	3,436	-	3,436	
Total	\$ 78	\$ 3,753	\$ -	\$ 3,831	
Post-modification:					
Real estate mortgage	\$ 79	\$ 327	\$ -	\$ 406	\$ -
Production and intermediate-term	-	3,436	-	3,436	-
Total	\$ 79	\$ 3,763	\$ -	\$ 3,842	\$ -

Outstanding Recorded Investment	Year Ended December 31, 2015				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ (1)	\$ 1,487	\$ -	\$ 1,486	
Production and intermediate-term	-	102	-	102	
Total	\$ (1)	\$ 1,589	\$ -	\$ 1,588	
Post-modification:					
Real estate mortgage	\$ (1)	\$ 533	\$ -	\$ 532	\$ -
Production and intermediate-term	-	94	-	94	-
Total	\$ (1)	\$ 627	\$ -	\$ 626	\$ -

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

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

Defaulted troubled debt restructurings	Year Ended December 31,		
	2017	2016	2015
Production and intermediate-term	\$ 67	\$ -	\$ -
Total	\$ 67	\$ -	\$ -

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2017	2016	2015	2017	2016	2015
Real estate mortgage	\$ 3,421	\$ 3,938	\$ 6,802	\$ 2,648	\$ 3,129	\$ 5,315
Production and intermediate-term	3,370	3,850	2,951	3,114	3,540	2,421
Farm-related business	247	248	—	247	248	—
Rural residential real estate	—	—	(11)	—	—	(11)
Total Loans	\$ 7,038	\$ 8,036	\$ 9,742	\$ 6,009	\$ 6,917	\$ 7,725
Additional commitments to lend	\$ —	\$ —	\$ —			

The following table presents information as of period end:

	December 31, 2017
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 51
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 24

Purchased Credit Impaired (PCI) Loans

The Association acquires loans individually and in groups or portfolios. For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Association would be unable to collect all amounts due according to the loan’s contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan’s or pool’s scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan’s cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. It then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan’s or pool’s actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan’s or pool’s remaining life.

Valuation allowances for all PCI loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

The carrying amounts of such loans acquired in a 2011 business combination included in the balance sheet amounts of loans receivable at period end were as follows:

	December 31, 2017
Real estate mortgage	\$ 2,206
Production and intermediate-term	(336)
Total Loans	\$ 1,870

There was no allowance for loan losses related to these loans at December 31, 2017, 2016 or 2015. During the years ended December 31, 2017, 2016, and 2015 provision for loan losses on these loans was an expense reversal of \$272, an expense reversal of \$477, and an expense reversal of \$888, respectively. See above for a summary of changes in the total allowance for loan losses. There were no loans acquired during the years ended December 31, 2017, 2016 or 2015 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain of the loans acquired by the Association in the 2011 business combination that were within the scope of PCI loan guidance are accounted for using a cash basis method of income recognition because the Association cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. The real estate market in Florida was extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the Association did not have the information necessary to reasonably estimate cash flows expected to be collected to compute a yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance. These amounts are included in the carrying values, net of allowance, described above.

Note 4 — Investments

Investment Securities

The Association's investments consist of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

The Association's investments also consist of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. At December 31, 2017 the Association held one RAB whose credit quality has deteriorated beyond the program limits.

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

December 31, 2017					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 2,533	\$ 424	\$ —	\$ 2,957	5.50%
ABSs	2,934	15	(53)	2,896	0.85
Total	\$ 5,467	\$ 439	\$ (53)	\$ 5,853	3.00%

December 31, 2016					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 2,912	\$ 431	\$ (5)	\$ 3,338	5.56%
ABSs	4,505	13	(72)	4,446	0.08
Total	\$ 7,417	\$ 444	\$ (77)	\$ 7,784	2.23%

December 31, 2015					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 2,967	\$ 444	\$ (10)	\$ 3,401	5.56%
ABSs	7,105	28	(87)	7,046	-0.29
Total	\$ 10,072	\$ 472	\$ (97)	\$ 10,447	1.43%

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

December 31, 2017				
	Amortized Cost	Fair Value	Weighted Average Yield	
In one year or less	\$ 927	\$ 931	4.00%	
After one year through five years	820	790	-1.03	
After five years through ten years	928	915	1.51	
After ten years	2,792	3,217	4.35	
Total	\$ 5,467	\$ 5,853	3.00%	

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because

borrowers may have the right to prepay obligations with or without prepayment penalties.

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

December 31, 2017				
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 399	\$ (1)	\$ 1,602	\$ (52)
Total	\$ 399	\$ (1)	\$ 1,602	\$ (52)

December 31, 2016				
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ —	\$ —	\$ 889	\$ (5)
ABSs	402	(2)	2,594	(70)
Total	\$ 402	\$ (2)	\$ 3,483	\$ (75)

December 31, 2015				
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ —	\$ —	\$ 904	\$ (10)
ABSs	1,106	(5)	3,651	(82)
Total	\$ 1,106	\$ (5)	\$ 4,555	\$ (92)

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

The Association performs periodic credit reviews, including other-than-temporary impairment (OTTI) 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.

A substantial portion of these investments was in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

Investments in Other Farm Credit Institutions

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

The Association’s investment in the Bank totaled \$11,576 for 2017, \$10,684 for 2016 and \$9,461 for 2015. The Association owns 4.33 percent of the issued stock of the Bank as of December 31, 2017 net of any reciprocal investment. As of that date, the Bank’s assets totaled \$32.5 billion and shareholders’ equity totaled \$2.2 billion. The Bank’s earnings were \$345 million for 2017. In addition, the Association had an investment of \$2,364 related to other Farm Credit institutions at December 31, 2017.

Other Investments

In 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA’s Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development

and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Association purchased total equity investments in the RBIC of \$500. There are no outstanding commitments to make additional equity purchases beyond this amount. Beginning in 2013, analyses indicated that decreases in value of the investment had occurred that were other than temporary, due to a series of losses and other factors. As a result, the Association ultimately wrote the investment value down to \$0.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	2017	December 31,	
		2016	2015
Land	\$ 973	\$ 677	\$ 673
Buildings and improvements	8,719	8,553	8,501
Furniture and equipment	4,852	4,552	4,080
	14,544	13,782	13,254
Less: accumulated depreciation	7,602	7,156	6,696
Total	\$ 6,942	\$ 6,626	\$ 6,558

Other Property Owned

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

	2017	December 31,	
		2016	2015
(Gains) losses on sale, net	\$ (31)	\$ (57)	\$ (276)
Carrying value unrealized (gains) losses	63	345	94
Operating (income) expense, net	27	425	173
(Gains) losses on other property owned, net	\$ 59	\$ 713	\$ (9)

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. Deferred gains totaled \$97, \$104, and \$112 at December 31, 2017, 2016, and 2015, respectively.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

2017, the Association's notes payable were within the specified limitations.

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

The weighted-average interest rate on all interest-bearing notes payable was 2.87 percent and the weighted-average remaining maturity was 7.5 years at December 31, 2017. Variable rate and fixed rate notes payable represent approximately 25.28 percent and 74.72 percent, respectively, of total notes payable at December 31, 2017. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

- A. Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.
- B. Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of two percent of the loan amount or \$1,000. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but

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

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

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

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

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

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

- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to

revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2017
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	0.625%	5.125%	19.64%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	19.64%
Total Capital Ratio	8.0%	0.625%	8.625%	20.34%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.77%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	21.67%
UREE Leverage Ratio	1.5%	0.0%	1.5%	16.37%

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

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

D. Description of Equities: The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A, B, and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association’s business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share, except for Class D Preferred Stock which, if issued, would have a par value of (\$0.01) per share.

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

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
A Common/Nonvoting	Yes	89,103	\$ 445
C Common/Voting	No	443,378	2,217
C Participation Certificates/Nonvoting	No	47,044	235
Total Capital Stock and Participation Certificates		579,525	\$ 2,897

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

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The Board determines the minimum aggregate amount of these two accounts. At the end of any fiscal year, if the retained

earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

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

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

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2017, allocated members’ equity consisted of \$56,830 of nonqualified allocated surplus and \$57,959 of nonqualified retained surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for

that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

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

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 8 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Class D Preferred Stock or on all classes of stock and participation certificates.

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

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

Transfer

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

Impairment

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

- a) **First**, Assistance Preferred Stock issued and outstanding;
- b) **Second**, allocated surplus, in its entirety, with application to most recent allocation first and then in reverse order until all allocated surplus has been exhausted;
- c) **Third**, Class C Common Stock and Class C Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;

- d) **Fourth**, Class A Common and Class B Common Stock and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired; and
- e) **Fifth**, Class D Preferred Stock issued and outstanding, if any.

Distribution on Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities, shall be distributed in the following order of priority:

- a) **First**, to the holders of Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders,
- b) **Second**, to the holders of Class A Common Stock, Class B Common Stock, Class C Common Stock and Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
- c) **Third**, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;
- d) **Fourth**, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of the year of issuance, until the total amount of such account has been distributed;
- e) **Fifth**, all unallocated surplus accrued or issued after April 22, 1995, shall be distributed to present and former Patrons from said date through the date of liquidation on a patronage basis to the extent practicable; and
- f) **Sixth**, any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of Common Stock and Participation Certificates in proportion to the number of shares or units of such class of Common Stock or participation certificates held by such holders.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made in proportion to the number of shares or units of such classes of stock or participation certificates held by such holders. All distributions to holders of allocated surplus shall be pro-rata by year of issuance.

E. Accumulated Other Comprehensive Income (AOCI):

	Changes in Accumulated Other Comprehensive Income by Component (a)		
	For the years ended December 31,		
	2017	2016	2015
Employee Benefit Plans:			
Balance at beginning of period	\$ (212)	\$ (207)	\$ (242)
Other comprehensive income before reclassifications	(35)	(13)	26
Amounts reclassified from AOCI	9	8	9
Net current period OCI	(26)	(5)	35
Balance at end of period	\$ (238)	\$ (212)	\$ (207)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)			
	Year to Date			
	2017	2016	2015	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	\$ (9)	\$ (8)	\$ (9)	See Note 9.
Amounts reclassified	\$ (9)	\$ (8)	\$ (9)	

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

Note 8 — Fair Value Measurement

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

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

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

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

Level 1

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

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

Level 2

ABSs, such as those issued through the Small Business Administration, are classified Level 2.

Level 3

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future

cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

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

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

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

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

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

There are no observable market values for the Association's RBIC investments which are included in other investments.

Management must estimate the fair value based on an assessment of the operating performance of the company and available capital to operate the venture. This analysis requires significant judgment and actual sales values could differ materially from those estimated.

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

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

December 31, 2017					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 740	\$ 740	\$ –	\$ –	\$ 740
Recurring Assets	\$ 740	\$ 740	\$ –	\$ –	\$ 740
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 1,649	\$ –	\$ –	\$ 1,649	\$ 1,649
Other property owned	95	–	–	103	103
Nonrecurring Assets	\$ 1,744	\$ –	\$ –	\$ 1,752	\$ 1,752
Other Financial Instruments					
Assets:					
Cash	\$ 211	\$ 211	\$ –	\$ –	\$ 211
RABs	2,533	–	–	2,957	2,957
ABSs	2,934	–	2,896	–	2,896
Loans	1,121,589	–	–	1,120,461	1,120,461
Other Financial Assets	\$ 1,127,267	\$ 211	\$ 2,896	\$ 1,123,418	\$ 1,126,525
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 894,913	\$ –	\$ –	\$ 891,906	\$ 891,906
Other Financial Liabilities	\$ 894,913	\$ –	\$ –	\$ 891,906	\$ 891,906

December 31, 2016					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 709	\$ 709	\$ –	\$ –	\$ 709
Recurring Assets	\$ 709	\$ 709	\$ –	\$ –	\$ 709
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 85	\$ –	\$ –	\$ 85	\$ 85
Other property owned	366	–	–	405	405
Nonrecurring Assets	\$ 451	\$ –	\$ –	\$ 490	\$ 490
Other Financial Instruments					
Assets:					
Cash	\$ 244	\$ 244	\$ –	\$ –	\$ 244
RABs	2,912	–	–	3,338	3,338
ABSs	4,505	–	4,446	–	4,446
Loans	1,026,736	–	–	1,026,848	1,026,848
Other Financial Assets	\$ 1,034,397	\$ 244	\$ 4,446	\$ 1,030,186	\$ 1,034,876
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 809,137	\$ –	\$ –	\$ 806,220	\$ 806,220
Other Financial Liabilities	\$ 809,137	\$ –	\$ –	\$ 806,220	\$ 806,220

December 31, 2015

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	\$ 744	\$ 744	\$ –	\$ –	\$ 744
Recurring Assets	\$ 744	\$ 744	\$ –	\$ –	\$ 744
Liabilities:					
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	\$ 664	\$ –	\$ –	\$ 664	\$ 664
Other property owned	5,565	–	–	6,274	6,274
Nonrecurring Assets	\$ 6,229	\$ –	\$ –	\$ 6,938	\$ 6,938
Other Financial Instruments					
Assets:					
Cash	\$ 23	\$ 23	\$ –	\$ –	\$ 23
RABs	2,967	–	–	3,401	3,401
ABSs	7,105	–	7,046	–	7,046
Loans	940,213	–	–	946,228	946,228
Other investments	\$ 950,308	\$ 23	\$ 7,046	\$ 949,629	\$ 956,698
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	\$ 743,688	\$ –	\$ –	\$ 742,781	\$ 742,781
Other Financial Liabilities	\$ 743,688	\$ –	\$ –	\$ 742,781	\$ 742,781

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	\$ 1,752	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*
Other investments - RBIC	\$ -	Third party evaluation	Income, expense, capital	Not applicable

* 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
RABs	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
ABSs	Vendor priced	**
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.

Note 9 — Employee Benefit Plans

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

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

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

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

4. The CB Plan was terminated effective as of December 31, 2015.

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

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

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

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

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

During 2017, the method of recording expenses at participating District entities for the FAP and OPEB Plans was modified. Prior to 2017, expense was recorded based on allocations of actuarially-determined costs and any differences between recorded expense and actual

contributions were recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets. For 2017 and future years, participating entities will record employee benefit costs based on the actual contributions to the Plans. This change caused the Association to modify its accounting estimates recorded in Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the Plans. The change in estimate resulted in the reduction of Other Assets by \$4,597 and the reduction of Other Liabilities by \$6,810 on the Association's Balance Sheets, and a total reduction of employee benefit costs on the Association's Statements of Income of \$2,213 during 2017.

The FAP Plan includes other District employees that are not employees of the Association and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were \$2,551 for 2017, \$3,472 for 2016, and \$3,496 for 2015. At December 31, 2017, 2016, and 2015, the total liability balance for the FAP Plan presented in the District Combined Balance Sheets is \$139,104, \$119,000, and \$123,902, respectively. The FAP Plan is 86.41%, 86.96%, and 85.73% percent funded to the projected benefit obligation as of December 31, 2017, 2016, and 2015, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Income were \$299 for 2017, \$606 for 2016, and \$793 for 2015. At December 31, 2017, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition is \$216,259.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes \$0.50 for each \$1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes \$1.00 for each \$1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee

deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were \$795, \$634, and \$577 for the years ended December 31, 2017, 2016, and 2015, respectively. Beginning in 2015, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2017, 2016, and 2015, \$(26), \$(5), and \$35 has been recognized as net debits, and a net credit, respectively, to AOCI to reflect these elements.

In addition to the multi-employer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of \$631 and a net underfunded status of \$631 at December 31, 2017. Assumptions used to determine the projected benefit obligation as of December 31, 2017 included a discount rate of 3.75 percent. The expenses of these nonqualified plans included in employee benefit costs were \$46, \$43, and \$42 for 2017, 2016, and 2015, respectively.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2017 amounted to \$90,789. During 2017, \$168,109 of new loans were made and repayments totaled \$118,035.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss

or the loss is not estimable, no liability has been recorded for any claims that may be pending.

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2017, \$285,383 of commitments to extend credit and no commercial letters of credit were outstanding with a related reserve for unfunded commitments of \$320 included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2017, standby letters of credit outstanding totaled \$2,836 with expiration dates ranging from January 1, 2018 to May 1, 2022. The maximum potential amount of future payments that may be required under these guarantees was \$2,836.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2017	2016	2015
Current:			
Federal	\$ —	\$ —	\$ (3)
			(3)
Deferred:	—	—	—
Total provision (benefit) for income taxes	\$ —	\$ —	\$ (3)

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

	2017	December 31,	
		2016	2015
Federal tax at statutory rate	\$ 9,187	\$ 7,171	\$ 6,554
Patronage distributions	(4,025)	(3,675)	(2,975)
Tax-exempt FLCA earnings	(10,802)	(7,683)	(7,479)
Dividend from FLCA	4,025	3,675	3,819
Change in deferred tax asset valuation allowance	(3,003)	590	143
Adjustment for lower statutory rate	4,618	—	—
P/Y Provision to Return, Permanent Trueup	—	(25)	(66)
Other	—	(53)	1
Provision (benefit) for income taxes	\$ —	\$ —	\$ (3)

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

	2017	December 31,	
		2016	2015
Deferred income tax assets:			
Allowance for loan losses	\$ 319	\$ 350	\$ 316
Deferred Revenue – Merger	174	270	278
Net operating loss – carryforward	7,872	10,156	9,538
Nonaccrual loan interest	627	1,044	1,048
Loss Reserve – Letters of Credit	48	91	77
Non qualified allocations	—	—	—
Gross deferred tax assets	9,040	11,911	11,257
Less: valuation allowance	(8,357)	(10,940)	(10,350)
Gross deferred tax assets, net of valuation allowance	683	971	907
Deferred income tax liabilities:			
Bank patronage allocation	(652)	(1,013)	(875)
Loan Origination Fees	(31)	42	(32)
Gross deferred tax liability	(683)	(971)	(907)
Net deferred tax asset (liability)	\$ —	\$ —	\$ —

The Tax Cuts and Jobs Act was enacted on December 22, 2017, and includes, among other items, a reduction in the federal corporate income tax rate. The reduced rate does not have an impact in our effective tax rate due to a full valuation allowance in our books. Additionally, since our deferred tax balances are calculated based on the tax rates in effect during the period, a change in federal corporate income tax rates is recorded as a component of the income tax provision for the period in which the law is enacted to change current or future tax rates. Therefore, this reduction in the corporate federal income tax rate resulted in a one-time adjustment of our deferred tax balances and a corresponding credit to income tax expense in 2017. This one-time adjustment is entirely offset by an adjustment to the valuation allowance.

At December 31, 2017, deferred income taxes have not been provided by the Association on approximately \$4.6 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$8,357, \$10,940 and \$10,350 as of December 31, 2017, 2016 and 2015, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax

benefits at December 31, 2017 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

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

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2017				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,240	8,034	7,351	7,468	30,093
Provision for (reversal of allowance for) loan losses	(253)	(522)	397	406	28
Noninterest income (expense), net	(2,522)	(2,727)	(3,105)	4,537	(3,817)
Net income	\$ 4,971	5,829	3,849	11,599	26,248

	2016				
	First	Second	Third	Fourth	Total
Net interest income	\$ 8,078	7,804	7,359	6,868	30,109
Provision for (reversal of allowance for) loan losses	(63)	(154)	(788)	(96)	(1,101)
Noninterest income (expense), net	(3,069)	(3,414)	(3,046)	(1,193)	(10,722)
Net income	\$ 5,072	4,544	5,101	5,771	20,488

	2015				
	First	Second	Third	Fourth	Total
Net interest income	\$ 6,076	6,567	6,221	6,843	25,707
Provision for (reversal of allowance for) loan losses	(653)	120	(2,816)	(97)	(3,446)
Noninterest income (expense), net	(3,114)	(3,449)	(3,571)	(291)	(10,425)
Net income	\$ 3,615	2,998	5,466	6,649	18,728

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 13, 2018, which was the date the financial statements were issued.



LIST OF SIGNATURES

1. Joseph Joyce, Chairman of the Board of Directors
2. Robert Sexton, Board member
3. Gregory Cunningham, President and Chief Executive Officer
4. Charles Thomas, Board member
5. Harrell Phillips, Board member
6. Doug Moore, Board member
7. John Alger, Board member
8. Lisa Sherman, Board member
9. Wayne Simmons, Board member
10. Andrea Thurn, Board member
11. Eric Hopkins, Board member
12. Eugene Waldron, Board member
13. Toby Basore, Board member
14. Martin McKenna, Board member
15. Roger Davis, Board member
16. Rowdy Bateman, Board member
17. Bob Lines, Board member
18. John Newbold, Board member
19. Brian Lohmann, Advisory Committee
20. Cody Estes, Advisory Committee
21. Ashley Layson, senior management team
22. Robert Teston, senior management team
23. Laura Craker, senior management team
24. Anthony Boggess, Advisory Committee
25. Roland Kampf, senior management team
26. Dawn Goodspeed, senior management team
27. Brittany Lee, Advisory Committee
28. LeAnna Himrod, Advisory Committee
29. Deborah Caldeira, senior management team
30. Kiley Larsen, Advisory Committee
31. Paul Allen, Advisory Committee
32. Justin Sorrells, Advisory Committee

BRANCH LOCATIONS

ALACHUA

386.462.4201
12300 NW U.S. Hwy. 441
Alachua, FL 32615-8500

ARCADIA

863.494.0500
340 N. Brevard Ave.
Arcadia, FL 34266

HOMESTEAD

305.248.6080
24700 S.W. 177th Ave.
Homestead, FL 33031

LAKE PLACID

863.699.2768
15 N. Oak Avenue
Lake Placid, FL 33852

LIVE OAK

386.362.2588
1606 Canyon Ave.
Live Oak, FL 32064

OCALA

352.622.4188
5075 NW Blitchton Rd. (US 27)
Ocala, FL 34482-4054

OKEECHOBEE

863.763.6466
403 N.W. 6th St.
Okeechobee, FL 34972

PALATKA

386.328.2744
309 North 2nd St.
Palatka, FL 32177

TRENTON

352.463.2376
721 South Main St.
Trenton, FL 32693

VERO BEACH

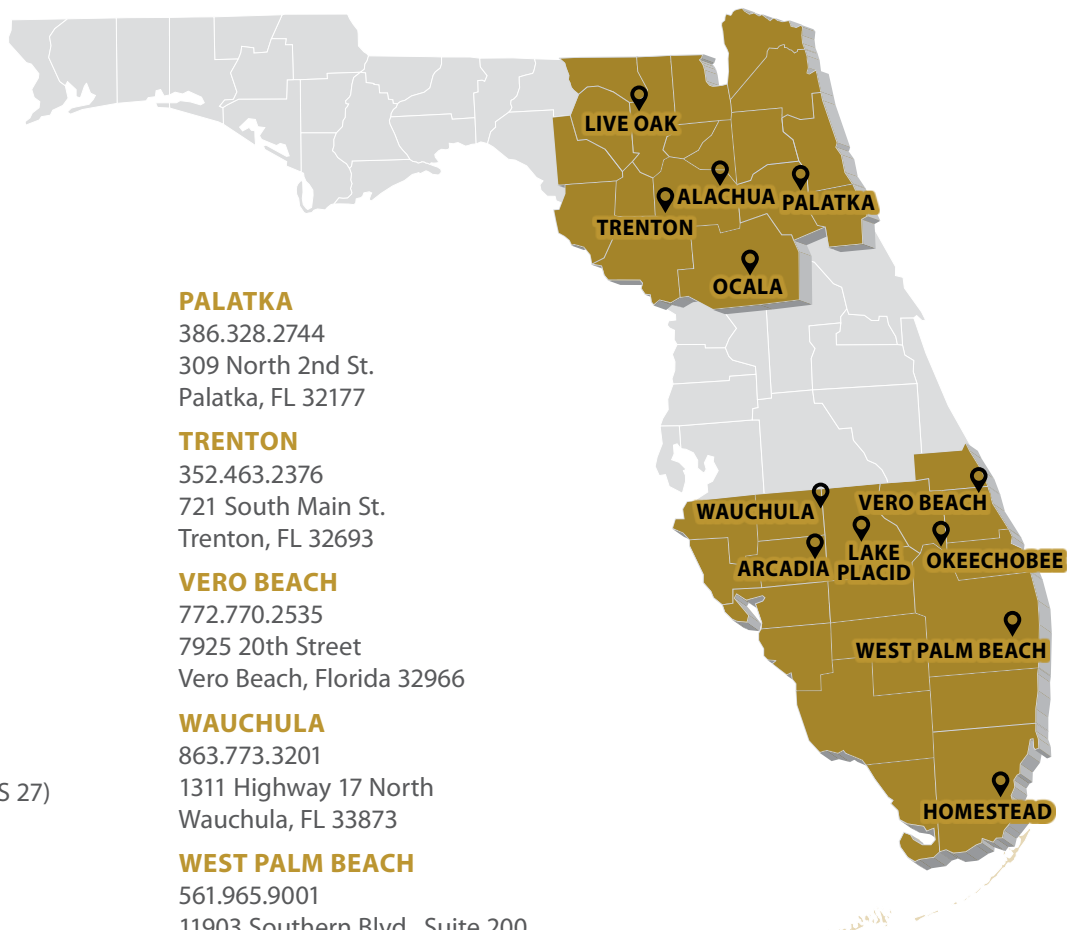
772.770.2535
7925 20th Street
Vero Beach, Florida 32966

WAUCHULA

863.773.3201
1311 Highway 17 North
Wauchula, FL 33873

WEST PALM BEACH

561.965.9001
11903 Southern Blvd., Suite 200
West Palm Beach, FL 33411



19 Brian R. Lihmann

20 Cody Estes

21 Ashley Rayson

22 Robert W. Jester

23 Lane Cr

24 

25 Robt Kampf

26 Dawn Goodspeed

27 

28 LeAnna
Simod

29 Deborah Calderia

30  Larsen

31 

32 



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