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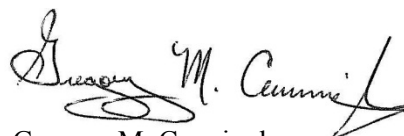
*Farm Credit of Florida, ACA*  
**THIRD QUARTER 2016**

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**CERTIFICATION**

The undersigned certify that we have reviewed the September 30, 2016 quarterly 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.



Gregory M. Cunningham  
Chief Executive Officer



Laura Craker  
Chief Financial Officer



Robert G. Sexton  
Chairman of the Board

November 8, 2016


*Farm Credit of Florida, ACA*  
**Report on Internal Control Over Financial Reporting**


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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of September 30, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of September 30, 2016.

  
Gregory M. Cunningham  
Chief Executive Officer

  
Laura Craker  
Chief Financial Officer

November 8, 2016

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*Farm Credit of Florida, ACA*

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of Farm Credit of Florida, ACA, (Association) for the period ended September 30, 2016. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2015 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## **LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners, farm-related businesses, and other agribusiness firms for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in the north and southern regions of Florida. The commodities include cattle, citrus, dairy, equine, field crops, nurseries, sugar, timber, tropical fruits, and vegetables. All commodity groups identified within the portfolio have experienced generally favorable operating results over the last two production seasons. The horticultural or nursery segment continues to rebound from the previous stress resulting from the recession and reduced activity in commercial and residential construction. Several loans in produce segments have also exhibited stress as a result of weather events in 2015 and early 2016. Farm size varies throughout the regions and many borrowers have diversified farming operations. This factor, along with numerous opportunities for non-farm income in the territory, reduces the level of repayment dependency on a single agricultural commodity. On October 6<sup>th</sup> and 7<sup>th</sup>, the eastern coast of Florida was impacted by Hurricane Matthew. While significant property damage was reported in coastal communities in both southeast and northeast Florida, agricultural interests in the Association's territory did not report any significant storm impacts. The Association does not project any significant impacts to the loan portfolio from the event.

Land values in the north region continue to exhibit stability since their improvement in 2014. Land values in the south region show stability with value increase in more urban areas. There have been no significant weather events in the territory that have adversely impacted borrower operations over the past

12 months except select locations in the produce segment. Management recognizes mounting risk in the citrus industry resulting from impacts of citrus greening disease. Continued stress in production, profitability, and asset values may adversely impact citrus growers over the near and long term horizon. All Florida citrus production continues to decline according to the most recent USDA crop forecast and preliminary estimates for the 2016-2017 seasons indicate an even further decline with only 60 million boxes forecast for next season. To date, the Association's citrus portfolio has continued to perform satisfactorily.

The gross loan volume of the Association as of September 30, 2016, was \$947,123, an increase of \$223 or 0.02 percent as compared to \$946,900 at December 31, 2015. Net loans outstanding at September 30, 2016, were \$940,497 as compared to \$940,803 at December 31, 2015, a decrease of \$306 or 0.03 percent. Net loans accounted for 95.57 percent of total assets at September 30, 2016, as compared to 94.24 percent of total assets at December 31, 2015. Loan volume year to date exhibits relatively little change. Volume increased through mid-year but then declined in the third quarter as a result of pay-downs of seasonal lines of credit and liquidation and curtailments on several large relationships. Competition continues to be strong in the large loan segment. Activity in small and middle market loans in the north region continues to be strong.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has improved compared to year end 2015 as a result of new loan volume, movement of loans from Substandard and OAEM to Acceptable, and the liquidation of loans in process of collection. Acceptable and OAEM credit quality as a percentage of the total loan portfolio was 97.94% as of September 30, 2016 compared to 97.11% at December 31, 2015. During the nine months, nonaccrual loans decreased to \$13,924 from the \$17,040 balance at December 31, 2015. The nonaccrual loan decline is primarily attributed to liquidation of loans in process of collection and other liquidation and curtailments on troubled assets. The balance of Other Property Owned at September 30, 2016 was \$1,228 a decrease of \$4,337 or 77.93 percent from the \$5,565 balance at December 31, 2015. Sales of properties outpaced acquisitions during the period resulting in this decrease.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions.

The allowance for loan losses at September 30, 2016, was \$6,626 compared to \$6,097 at December 31, 2015. This increase is the result of recoveries of \$1,548 recorded during the period offset by a provision for loan loss reversal of \$1,005 and \$14 in charge-offs recorded on loans transferred to nonaccrual or other property owned. Management considers the current level of allowance adequate to cover additional possible losses. The ratio of the allowance for loan losses to gross loans at September 30, 2016 was 0.70 percent.

The allowance for loan losses at September 30, 2016 does not include \$4,676 million 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 September 30, 2016, the amount of credit risk reduction in addition to the allowance for loan losses, provided by these remaining discounts would equate to 0.49 percent of gross loans.

## RESULTS OF OPERATIONS

### *For the three months ended September 30, 2016*

The Association recorded net income for the three months ended September 30, 2016 of \$5,101 as compared to \$5,466 for the same period in 2015. This \$365 decrease is primarily attributed to a reduction in the reversal of allowance for loan losses offset by an increase in net interest income resulting from growth in loan volume compared to the same period in last year.

Reversal of allowance for loan losses was \$788 for the three months ended September 30, 2016 as compared to \$2,816 during the same period in 2015, a decrease of \$2,028 or 72.02 percent. This decrease is attributed to a decline in net loan recoveries compared to prior year. Net loan recoveries were \$566 during the period in 2016 compared to \$2,442 for the same period in 2015, a decline of \$1,876 or 76.82 percent.

Net interest income was \$7,359 for the three months ended September 30, 2016 as compared to \$6,221 during the same period in 2015. The change in net interest income represents a \$1,138 or 18.29 percent increase when compared to the same period last year and is attributed to an increase in loan volume over the past 12 months.

Noninterest income for the three months ended September 30, 2016, totaled \$2,041 as compared to \$1,451 for the same period of 2015, an increase of \$590 or 40.66 percent. This increase is attributed primarily to an increase in gains on other transactions of \$275 and increases in patronage refunds from other Farm Credit institutions of \$210.

Noninterest expense for the three months ended September 30, 2016, totaled \$5,087 as compared to \$5,022 for the same period of 2015, an increase of \$65 or 1.29 percent. The primary reason

for the increase in noninterest expense is attributed to \$119 increase in insurance fund premiums, and \$107 increase in salaries and employee benefits offset by \$168 increase in gains on other property owned.

### *For the nine months ended September 30, 2016*

Net income for the nine months ended September 30, 2016, totaled \$14,717 compared to \$12,079 for the same period in 2015, an increase of \$2,638 or 21.84 percent. The increase is primarily attributed to an increase in net interest income resulting from growth in loan volume offset by a reduction in the reversal of allowance for loan losses.

Reversal of allowance for loan losses was \$1,005 for the nine months ended September 30, 2016 as compared to \$3,349 during the same period in 2015, a decrease of \$2,344 or 69.99 percent. This decrease is attributed to a decline in net loan recoveries compared to prior year. Net loan recoveries were \$1,534 during the period in 2016 compared to \$2,812 for the same period in 2015, a decline of \$1,278 or 45.45 percent.

Net interest income increased \$4,377 or 23.20 percent for the nine months ended September 30, 2016, as compared to the same period in 2015. This increase is attributed to the increased loan volume over the last 12 months along with an increase in recoveries of interest on nonaccrual loan liquidations.

Noninterest income for the nine months ended September 30, 2016, totaled \$6,876 as compared to \$5,786 for the same period of 2015, an increase of \$1,090 or 18.84 percent. This increase is attributed to increases in patronage refunds from other Farm Credit institutions of \$466, and reduction in losses on other transactions of \$262.

Noninterest expense for the nine months ended September 30, 2016, increased \$485 or 3.05 percent compared to the same period of 2015. The primary reason for the increase is attributed to \$509 increase in losses on other property owned, and \$280 increase in insurance fund premiums offset by \$365 decrease in other operating expenses.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. These funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2016, was

\$723,897 as compared to \$743,688 at December 31, 2015. The decrease during the period of \$19,791 is primarily attributed to an increase in members' equity resulting from net income for the nine months ended September 30, 2016 and receipt of 2015 patronage dividends due from AgFirst Farm Credit Bank.

## CAPITAL RESOURCES

Total members' equity at September 30, 2016, increased to \$242,230 from the December 31, 2015 total of \$227,426. The increase is primarily attributed to net income during the period.

Total capital stock and participation certificates were \$2,698 on September 30, 2016, compared to \$2,616 on December 31, 2015. The slight increase is attributed to the issuance of capital stock to new members offset by the retirement of protected stock and participation certificates on loans liquidated in the normal course of business.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2016, the Association's total surplus ratio and core surplus ratio were 20.95 percent and 20.95

percent, respectively, and the permanent capital ratio was 21.08 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

## REGULATORY MATTERS

On March 10, 2016, the FCA adopted a final regulation to modify the regulatory capital requirements for System banks and associations. The stated objectives of the rule are as follows:

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

The final rule will replace existing core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 and Total Capital risk-based capital ratio requirements. The final rule will also replace the existing net collateral ratio with a Tier 1 Leverage ratio and is applicable to all banks and associations. The Permanent Capital Ratio will remain in effect with the final rule. The following sets forth the new regulatory capital ratios:

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

On July 28, 2016, the FCA published the final regulation in the Federal Register, and the effective date of the new capital requirements will be January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. District institutions are expected to be in compliance with the new requirements at adoption.

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

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The

public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2016. The proposed investment regulations are expected to have a minimal impact for District institutions. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
- To comply with the requirements of section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and

- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

## **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.

On October 17, 2016, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2017. The Association will receive approximately \$4,681 which will be recorded in October 2016 as patronage refunds from other Farm Credit institutions.

## **FINANCIAL REGULATORY REFORM**

See discussion of the Dodd-Frank Act in the Financial Regulatory Reform section of the Association's 2015 Annual Report.

## **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

Please refer to Note 1, "*Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*", in the Notes to the Financial Statements, and the 2015 Annual Report to Shareholders for recently issued accounting pronouncements.

**Note:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 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 at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request, free of charge, by calling (561)-965-9001, or writing Laura Craker, CFO, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421, or accessing the website, [www.farmcreditfl.com](http://www.farmcreditfl.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# Farm Credit of Florida, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2016 <i>(unaudited)</i>	December 31, 2015 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 65	\$ 23
Investment securities:		
Held to maturity (fair value of \$8,658 and \$10,447, respectively)	8,035	10,072
Loans	947,123	946,900
Allowance for loan losses	(6,626)	(6,097)
Net loans	940,497	940,803
Loans held for sale	368	74
Accrued interest receivable	4,729	3,854
Investments in other Farm Credit institutions	12,770	13,002
Premises and equipment, net	6,663	6,558
Other property owned	1,228	5,565
Accounts receivable	5,141	11,102
Other assets	4,631	7,247
Total assets	<b>\$ 984,127</b>	<b>\$ 998,300</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 723,897	\$ 743,688
Accrued interest payable	1,439	1,382
Patronage refunds payable	404	8,896
Accounts payable	2,451	2,592
Advanced conditional payments	1,594	1,352
Other liabilities	12,112	12,964
Total liabilities	<b>741,897</b>	<b>770,874</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Protected borrower stock	527	531
Capital stock and participation certificates	2,171	2,085
Additional paid-in-capital	7,873	7,873
Retained earnings		
Allocated	105,888	106,263
Unallocated	125,972	110,881
Accumulated other comprehensive income (loss)	(201)	(207)
Total members' equity	<b>242,230</b>	<b>227,426</b>
Total liabilities and members' equity	<b>\$ 984,127</b>	<b>\$ 998,300</b>

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

# Farm Credit of Florida, ACA

## Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
<b>Interest Income</b>				
Loans	\$ 11,702	\$ 9,778	\$ 36,191	\$ 29,230
Investments	64	79	208	272
Total interest income	<b>11,766</b>	9,857	<b>36,399</b>	29,502
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	<b>4,407</b>	3,636	<b>13,158</b>	10,638
Net interest income	<b>7,359</b>	6,221	<b>23,241</b>	18,864
Provision for (reversal of allowance for) loan losses	<b>(788)</b>	(2,816)	<b>(1,005)</b>	(3,349)
Net interest income after provision for (reversal of allowance for) loan losses	<b>8,147</b>	9,037	<b>24,246</b>	22,213
<b>Noninterest Income</b>				
Loan fees	<b>191</b>	169	<b>620</b>	424
Fees for financially related services	<b>4</b>	6	<b>758</b>	770
Patronage refunds from other Farm Credit institutions	<b>1,591</b>	1,381	<b>5,024</b>	4,558
Gains (losses) on sales of rural home loans, net	<b>68</b>	59	<b>168</b>	153
Gains (losses) on sales of premises and equipment, net	<b>6</b>	5	<b>26</b>	81
Gains (losses) on other transactions	<b>74</b>	(201)	<b>(26)</b>	(288)
Other noninterest income	<b>107</b>	32	<b>306</b>	88
Total noninterest income	<b>2,041</b>	1,451	<b>6,876</b>	5,786
<b>Noninterest Expense</b>				
Salaries and employee benefits	<b>3,872</b>	3,765	<b>11,740</b>	11,723
Occupancy and equipment	<b>308</b>	276	<b>885</b>	841
Insurance Fund premiums	<b>324</b>	205	<b>897</b>	617
(Gains) losses on other property owned, net	<b>(143)</b>	25	<b>491</b>	(18)
Other operating expenses	<b>726</b>	751	<b>2,392</b>	2,757
Total noninterest expense	<b>5,087</b>	5,022	<b>16,405</b>	15,920
Net income	<b>\$ 5,101</b>	\$ 5,466	<b>\$ 14,717</b>	\$ 12,079

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



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**Farm Credit of Florida, ACA**  
**Consolidated Statements of**  
**Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 5,101	\$ 5,466	\$ 14,717	\$ 12,079
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	2	2	6	6
Comprehensive income	\$ 5,103	\$ 5,468	\$ 14,723	\$ 12,085

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

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

*(unaudited)*

*(dollars in thousands)*

	Protected Borrower Stock	Capital		Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Stock and Participation Certificates	Additional Paid-in-Capital	Allocated	Unallocated		
Balance at December 31, 2014	\$ 554	\$ 1,961	\$ 7,873	\$ 103,837	\$103,079	\$ (242)	\$217,062
Comprehensive income					12,079	6	12,085
Protected borrower stock issued/(retired), net	(23)						(23)
Capital stock/participation certificates issued/(retired), net		47					47
Patronage distribution adjustment				(589)	589		—
<b>Balance at September 30, 2015</b>	<b>\$ 531</b>	<b>\$ 2,008</b>	<b>\$ 7,873</b>	<b>\$ 103,248</b>	<b>\$115,747</b>	<b>\$ (236)</b>	<b>\$229,171</b>
Balance at December 31, 2015	\$ 531	\$ 2,085	\$ 7,873	\$ 106,263	\$110,881	\$ (207)	\$227,426
<b>Comprehensive income</b>					<b>14,717</b>	<b>6</b>	<b>14,723</b>
<b>Protected borrower stock issued/(retired), net</b>	<b>(4)</b>						<b>(4)</b>
<b>Capital stock/participation certificates issued/(retired), net</b>		<b>86</b>					<b>86</b>
<b>Patronage distribution adjustment</b>				<b>(375)</b>	<b>374</b>		<b>(1)</b>
<b>Balance at September 30, 2016</b>	<b>\$ 527</b>	<b>\$ 2,171</b>	<b>\$ 7,873</b>	<b>\$ 105,888</b>	<b>\$125,972</b>	<b>\$ (201)</b>	<b>\$242,230</b>

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

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*Farm Credit of Florida, ACA*

# Notes to the Consolidated Financial Statements

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

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

### **Organization**

The accompanying financial statements include the accounts of Farm Credit of Florida, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

### **Basis of Presentation**

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

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

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

### **Significant Accounting Policies**

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and

financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

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

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

- In August, 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). Stakeholders had indicated there was diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. 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.
- In June, 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The Update improves financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant

estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Update will take effect for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For public 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. For all other organizations, the ASU will take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

- In May, 2016, the FASB issued ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The guidance addresses certain issues identified by the Transition Resource Group (TRG) in the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).
- In April, 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The Update clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).
- In March, 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments clarify the implementation guidance on principal versus agent considerations. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).
- In March, 2016, the FASB issued ASU 2016-07 Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method

of Accounting. To simplify the accounting for equity method investments, the amendments in the Update eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

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

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

Potential effects of ASUs issued in previous periods:

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued an update that requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued an update that is intended to improve the recognition and measurement of financial instruments. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2015-14 Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date: In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

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

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

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) – The amendment was adopted prospectively. There were no changes to the Association’s statements of financial condition or results of operations as a result of this guidance. See Note 6, *Fair Value Measurement*, for the disclosures required by this guidance.
- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the Association’s statements of financial condition or results of operations as a result of this guidance.
- 2014-15 Income Statement – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern: This amendment is effective for the annual reporting period ended

December 31, 2016 and interim and annual periods thereafter. It may require additional disclosures but will not have a material impact on the Association’s financial condition or results of operations.

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

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

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

A summary of loans outstanding at period end follows:

	September 30, 2016	December 31, 2015
Real estate mortgage	\$ 569,693	\$ 597,598
Production and intermediate-term	183,216	182,591
Loans to cooperatives	32,555	1,206
Processing and marketing	82,288	104,459
Farm-related business	26,377	22,310
Communication	30,995	25,858
Energy and water/waste disposal	3,937	3,009
Rural residential real estate	8,084	8,301
International	9,978	1,568
Total Loans	\$ 947,123	\$ 946,900

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

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

	September 30, 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	\$ 6,184	\$ 122,816	\$ –	\$ 26,851	\$ 4,325	\$ –	\$ 10,509	\$ 149,667
Production and intermediate-term	37,173	22,709	8,424	–	295	–	45,892	22,709
Loans to cooperatives	32,614	–	–	–	–	–	32,614	–
Processing and marketing	67,568	8,961	7,703	20,883	–	–	75,271	29,844
Farm-related business	74	10,309	3,603	1,916	314	–	3,991	12,225
Communication	31,094	–	–	–	–	–	31,094	–
Energy and water/waste disposal	3,945	–	–	–	–	–	3,945	–
International	10,000	–	–	–	–	–	10,000	–
Total	\$ 188,652	\$ 164,795	\$ 19,730	\$ 49,650	\$ 4,934	\$ –	\$ 213,316	\$ 214,445

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	-
Energy 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:

	September 30, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 22,542	\$ 143,085	\$ 404,066	\$ 569,693
Production and intermediate term	52,872	93,834	36,510	183,216
Loans to cooperatives	-	20,768	11,787	32,555
Processing and marketing	4,454	50,269	27,565	82,288
Farm-related business	3,774	6,467	16,136	26,377
Communication	2,625	18,495	9,875	30,995
Energy and water/waste disposal	-	3,937	-	3,937
Rural residential real estate	285	1,372	6,427	8,084
International	-	9,978	-	9,978
Total Loans	\$ 86,552	\$ 348,205	\$ 512,366	\$ 947,123
Percentage	9.14%	36.76%	54.10%	100.00%

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

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

	September 30, 2016	December 31, 2015		September 30, 2016	December 31, 2015
<b>Real estate mortgage:</b>			<b>Communication:</b>		
Acceptable	94.35%	93.17%	Acceptable	100.00%	100.00%
OAEM	3.42	3.59	OAEM	-	-
Substandard/doubtful/loss	2.23	3.24	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Energy and water/waste disposal:</b>		
Acceptable	90.51%	91.05%	Acceptable	100.00%	100.00%
OAEM	6.05	4.76	OAEM	-	-
Substandard/doubtful/loss	3.44	4.19	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Loans to cooperatives:</b>			<b>Rural residential real estate:</b>		
Acceptable	100.00%	100.00%	Acceptable	95.76%	95.01%
OAEM	-	-	OAEM	0.99	1.19
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	3.25	3.80
	100.00%	100.00%		100.00%	100.00%
<b>Processing and marketing:</b>			<b>International:</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Farm-related business:</b>			<b>Total Loans:</b>		
Acceptable	98.31%	99.70%	Acceptable	94.68%	93.91%
OAEM	0.76	0.30	OAEM	3.26	3.20
Substandard/doubtful/loss	0.93	-	Substandard/doubtful/loss	2.06	2.89
	100.00%	100.00%		100.00%	100.00%

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

September 30, 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	\$ 2,403	\$ 1,236	\$ 3,639	\$ 569,513	\$ 573,152	\$ -
Production and intermediate-term	3,952	818	4,770	179,212	183,982	-
Loans to cooperatives	-	-	-	32,666	32,666	-
Processing and marketing	-	-	-	82,387	82,387	-
Farm-related business	-	-	-	26,476	26,476	-
Communication	-	-	-	30,998	30,998	-
Energy and water/waste disposal	-	-	-	3,938	3,938	-
Rural residential real estate	62	-	62	8,058	8,120	-
International	-	-	-	10,053	10,053	-
Total	\$ 6,417	\$ 2,054	\$ 8,471	\$ 943,301	\$ 951,772	\$ -

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	-
Energy 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 the recorded investment for loans) and related credit quality statistics at period end were as follows:

	September 30, 2016	December 31, 2015
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 6,816	\$ 11,526
Production and intermediate-term	6,687	5,293
Farm-related business	246	-
Rural residential real estate	175	221
Total	\$ 13,924	\$ 17,040
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 490	\$ 1,487
Production and intermediate-term	315	530
Total	\$ 805	\$ 2,017
<b>Accruing loans 90 days or more past due:</b>		
Total	\$ -	\$ -
Total nonperforming loans	\$ 14,729	\$ 19,057
Other property owned	1,228	5,565
Total nonperforming assets	\$ 15,957	\$ 24,622
Nonaccrual loans as a percentage of total loans	1.47%	1.80%
Nonperforming assets as a percentage of total loans and other property owned	1.68%	2.59%
Nonperforming assets as a percentage of capital	6.59%	10.83%

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

	September 30, 2016	December 31, 2015
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 7,455	\$ 12,880
Past due	6,469	4,160
Total	<u>13,924</u>	<u>17,040</u>
<b>Impaired accrual loans:</b>		
Restructured	805	2,017
90 days or more past due	-	-
Total	<u>805</u>	<u>2,017</u>
Total impaired loans	<u>\$ 14,729</u>	<u>\$ 19,057</u>
Additional commitments to lend	<u>\$ 4</u>	<u>\$ 4</u>

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

Impaired loans:	September 30, 2016			Quarter Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 122	\$ 198	\$ 123	\$ 109	\$ 6	\$ 122	\$ 29
Production and intermediate-term	104	107	29	93	6	104	25
Farm-related business	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
Total	<u>\$ 226</u>	<u>\$ 305</u>	<u>\$ 152</u>	<u>\$ 202</u>	<u>\$ 12</u>	<u>\$ 226</u>	<u>\$ 54</u>
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 7,184	\$ 17,560	-	\$ 6,398	\$ 392	\$ 7,179	\$ 1,714
Production and intermediate-term	6,898	14,174	-	6,145	375	6,894	1,647
Farm-related business	246	320	-	219	13	246	59
Rural residential real estate	175	408	-	156	10	175	42
Total	<u>\$ 14,503</u>	<u>\$ 32,462</u>	<u>\$ -</u>	<u>\$ 12,918</u>	<u>\$ 790</u>	<u>\$ 14,494</u>	<u>\$ 3,462</u>
<b>Total:</b>							
Real estate mortgage	\$ 7,306	\$ 17,758	\$ 123	\$ 6,507	\$ 398	\$ 7,301	\$ 1,743
Production and intermediate-term	7,002	14,281	29	6,238	381	6,998	1,672
Farm-related business	246	320	-	219	13	246	59
Rural residential real estate	175	408	-	156	10	175	42
Total	<u>\$ 14,729</u>	<u>\$ 32,767</u>	<u>\$ 152</u>	<u>\$ 13,120</u>	<u>\$ 802</u>	<u>\$ 14,720</u>	<u>\$ 3,516</u>

Impaired loans:	December 31, 2015			Year Ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 724	\$ 840	\$ 169	\$ 957	\$ 64
Production and intermediate-term	148	148	76	195	13
Rural residential real estate	42	45	5	56	4
Total	<u>\$ 914</u>	<u>\$ 1,033</u>	<u>\$ 250</u>	<u>\$ 1,208</u>	<u>\$ 81</u>
<b>With no related allowance for credit losses:</b>					
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	<u>\$ 18,143</u>	<u>\$ 39,988</u>	<u>\$ -</u>	<u>\$ 23,994</u>	<u>\$ 1,618</u>
<b>Total:</b>					
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	<u>\$ 19,057</u>	<u>\$ 41,021</u>	<u>\$ 250</u>	<u>\$ 25,202</u>	<u>\$ 1,699</u>



A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows. Prior to issuance of the Association's 2015 Annual Report, management identified errors in classification of the loan portfolio among the various FCA loan type categories that are used to report disaggregated loan information in footnote disclosures. As discussed in Note 3, *Loans and Allowance for Loan Losses*, of the Association's 2015 Annual Report, FCA loan type classifications prior to December 31, 2015 have been revised as necessary to reflect these loan type classifications, as adjusted. In the table below, activity for the quarter and nine months ended September 30, 2015 is presented as revised.

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Total
<b>Activity related to the allowance for credit losses:</b>								
Balance at June 30, 2016	\$ 4,245	\$ 1,599	\$ 731	\$ 146	\$ 32	\$ 93	\$ 2	\$ 6,848
Charge-offs	—	—	—	—	—	(4)	—	(4)
Recoveries	570	—	—	—	—	—	—	570
Provision for loan losses	(705)	89	(155)	(32)	2	6	7	(788)
Balance at September 30, 2016	\$ 4,110	\$ 1,688	\$ 576	\$ 114	\$ 34	\$ 95	\$ 9	\$ 6,626
Balance at December 31, 2015	\$ 4,012	\$ 1,561	\$ 324	\$ 109	\$ 14	\$ 76	\$ 1	\$ 6,097
Charge-offs	(10)	—	—	—	—	(4)	—	(14)
Recoveries	1,481	55	—	—	—	12	—	1,548
Provision for loan losses	(1,373)	72	252	5	20	11	8	(1,005)
Balance at September 30, 2016	\$ 4,110	\$ 1,688	\$ 576	\$ 114	\$ 34	\$ 95	\$ 9	\$ 6,626
Balance at June 30, 2015	\$ 4,445	\$ 660	\$ 720	\$ 62	\$ 14	\$ 46	\$ —	\$ 5,947
Charge-offs	(944)	(19)	—	—	—	—	—	(963)
Recoveries	3,177	228	—	—	—	—	—	3,405
Provision for loan losses	(2,187)	(126)	(514)	4	(5)	11	1	(2,816)
Balance at September 30, 2015	\$ 4,491	\$ 743	\$ 206	\$ 66	\$ 9	\$ 57	\$ 1	\$ 5,573
Balance at December 31, 2014	\$ 4,566	\$ 622	\$ 851	\$ 34	\$ —	\$ 37	\$ —	\$ 6,110
Charge-offs	(1,218)	(23)	—	—	—	—	—	(1,241)
Recoveries	3,809	244	—	—	—	—	—	4,053
Provision for loan losses	(2,666)	(100)	(645)	32	9	20	1	(3,349)
Balance at September 30, 2015	\$ 4,491	\$ 743	\$ 206	\$ 66	\$ 9	\$ 57	\$ 1	\$ 5,573
<b>Allowance on loans evaluated for impairment:</b>								
Individually	\$ 123	\$ 29	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 152
Collectively	3,987	1,659	576	114	34	95	9	6,474
PCI**	—	—	—	—	—	—	—	—
Balance at September 30, 2016	\$ 4,110	\$ 1,688	\$ 576	\$ 114	\$ 34	\$ 95	\$ 9	\$ 6,626
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
<b>Recorded investment in loans evaluated for impairment:</b>								
Individually	\$ 5,563	\$ 7,225	\$ 246	\$ —	\$ —	\$ 175	\$ —	\$ 13,209
Collectively	565,645	176,980	141,283	30,998	3,938	7,945	10,053	936,842
PCI**	1,944	(223)	—	—	—	—	—	1,721
Balance at September 30, 2016	\$ 573,152	\$ 183,982	\$ 141,529	\$ 30,998	\$ 3,938	\$ 8,120	\$ 10,053	\$ 951,772
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 loans.

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. In the following tables, activity for the quarter and nine months ended September 30, 2015 is presented as revised for FCA loan type reclassifications discussed above. There were no new TDRs that occurred during the three months ended September 30, 2016.

Nine months ended September 30, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ 78	\$ –	\$ –	\$ 78	
Total	\$ 78	\$ –	\$ –	\$ 78	
<b>Post-modification:</b>					
Real estate mortgage	\$ 79	\$ –	\$ –	\$ 79	\$ –
Total	\$ 79	\$ –	\$ –	\$ 79	\$ –

Three Months Ended September 30, 2015 (as revised)					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Production and intermediate-term	\$ –	\$ 102	\$ –	\$ 102	
Total	\$ –	\$ 102	\$ –	\$ 102	
<b>Post-modification:</b>					
Production and intermediate-term	\$ –	\$ 94	\$ –	\$ 94	\$ –
Total	\$ –	\$ 94	\$ –	\$ 94	\$ –

Nine Months Ended September 30, 2015 (as revised)					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ –	\$ 1,473	\$ –	\$ 1,473	
Production and intermediate-term	–	102	–	102	
Total	\$ –	\$ 1,575	\$ –	\$ 1,575	
<b>Post-modification:</b>					
Real estate mortgage	\$ –	\$ 519	\$ –	\$ 519	\$ –
Production and intermediate-term	–	94	–	94	–
Total	\$ –	\$ 613	\$ –	\$ 613	\$ –

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.

There were no 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.

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Real estate mortgage	\$ 3,784	\$ 6,802	\$ 3,294	\$ 5,315
Production and intermediate-term	453	2,951	138	2,421
Farm-related business	246	–	246	–
Rural residential real estate	–	(11)	–	(11)
Total Loans	\$ 4,483	\$ 9,742	\$ 3,678	\$ 7,725
Additional commitments to lend	\$ –	\$ –		

The following table presents information as of period end:

	September 30, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 37	\$ 212
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 253	\$ –

## Purchased Credit Impaired (PCI) Loans

For further discussion of the Association's accounting for PCI loans, see Note 2, *Summary of Significant Accounting Policies*, from the Association's most recent Annual Report.

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

	<u>September 30, 2016</u>
Real estate mortgage	\$ 1,944
Production and intermediate-term	(223)
Total Loans	<u>\$ 1,721</u>

There was no allowance for loan losses related to these loans at September 30, 2016 or December 31, 2015. During the three and nine month periods ended September 30, 2016, provision for loan losses on these loans was an expense reversal of \$177 and an expense reversal of \$468, respectively, compared with an expense reversal of \$589 and an expense reversal of \$686, respectively, for the three and nine month periods ended September 30, 2015. See above for a summary of changes in the total allowance for loan losses for the period ended September 30, 2016. There were no loans acquired during 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.

## Note 3 — Investments

### Investment Securities

The Association's investments consist primarily 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 September 30, 2016, 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:

	<u>September 30, 2016</u>				
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Yield</u>
RABs	\$ 2,946	\$ 681	\$ (4)	\$ 3,623	5.56%
ABSs	5,089	21	(75)	5,035	-0.13
Total	<u>\$ 8,035</u>	<u>\$ 702</u>	<u>\$ (79)</u>	<u>\$ 8,658</u>	<u>1.95%</u>

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

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

	<u>September 30, 2016</u>		
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>
In one year or less	\$ 13	\$ 16	-17.48%
After one year through five years	3,554	3,496	0.23
After five years through ten years	768	760	0.88
After ten years	3,700	4,386	3.90
Total	<u>\$ 8,035</u>	<u>\$ 8,658</u>	<u>1.95%</u>

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.

	<u>September 30, 2016</u>			
	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
RABs	\$ —	\$ —	\$ 895	\$ (4)
ABSs	104	(1)	3,115	(74)
Total	<u>\$ 104</u>	<u>\$ (1)</u>	<u>\$ 4,010</u>	<u>\$ (78)</u>

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

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

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

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

A substantial portion of these investments were 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***

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 3.68 percent of the issued stock of the Bank as of September 30, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.7 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$241 million for the first nine months of 2016. In addition, the Association held investments of \$3,310 related to other Farm Credit institutions.

**Note 4 — Debt**

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

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

## Note 5 — Members' Equity

### Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (203)	\$ (238)	\$ (207)	\$ (242)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	2	2	6	6
Net current period other comprehensive income	2	2	6	6
Balance at end of period	\$ (201)	\$ (236)	\$ (201)	\$ (236)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				Income Statement Line Item
	Three Months Ended September 30,		Nine Months Ended September 30,		
	2016	2015	2016	2015	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$ (2)	\$ (2)	\$ (6)	\$ (6)	See Note 7.
Net amounts reclassified	\$ (2)	\$ (2)	\$ (6)	\$ (6)	

(a) Amounts in parentheses indicate debits to AOCI.

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

## Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Nine Months Ended September 30, 2016						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 660	\$ 660	\$ –	\$ –	\$ 660	
Recurring Assets	\$ 660	\$ 660	\$ –	\$ –	\$ 660	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 14,577	\$ –	\$ –	\$ 14,577	\$ 14,577	\$ 1,630
Other property owned	1,228	–	–	1,385	1,385	(360)
Nonrecurring Assets	\$ 15,805	\$ –	\$ –	\$ 15,962	\$ 15,962	\$ 1,270
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 65	\$ 65	\$ –	\$ –	\$ 65	
RABs	2,946	–	–	3,623	3,623	
ABSs	5,089	–	5,035	–	5,035	
Loans	926,288	–	–	936,949	936,949	
Other Financial Assets	\$ 934,388	\$ 65	\$ 5,035	\$ 940,572	\$ 945,672	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 723,897	\$ –	\$ –	\$ 728,848	\$ 728,848	
Other Financial Liabilities	\$ 723,897	\$ –	\$ –	\$ 728,848	\$ 728,848	

At or for the Year ended December 31, 2015						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 744	\$ 744	\$ –	\$ –	\$ 744	
Recurring Assets	\$ 744	\$ 744	\$ –	\$ –	\$ 744	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 18,807	\$ –	\$ –	\$ 18,807	\$ 18,807	\$ 4,253
Other property owned	5,565	–	–	6,274	6,274	182
Other investments	–	–	–	–	–	(80)
Nonrecurring Assets	\$ 24,372	\$ –	\$ –	\$ 25,081	\$ 25,081	\$ 4,355
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 23	\$ 23	\$ –	\$ –	\$ 23	
RABs	2,967	–	–	3,401	3,401	
ABSs	7,105	–	7,046	–	7,046	
Loans	922,070	–	–	928,085	928,085	
Other Financial Assets	\$ 932,165	\$ 23	\$ 7,046	\$ 931,486	\$ 938,555	
<b>Liabilities:</b>						
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	\$ 15,962	Appraisal	Income and expense Comparable sales Replacement cost 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 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Pension	\$ 877	\$ 883	\$ 2,631	\$ 2,649
401(k)	136	127	430	397
Other postretirement benefits	151	198	454	595
Total	\$ 1,164	\$ 1,208	\$ 3,515	\$ 3,641

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

	Actual YTD Through 9/30/16	Projected Contributions For Remainder of 2016	Projected Total Contributions 2016
Pension	\$ 32	\$ 1,890	\$ 1,922
Other postretirement benefits	252	94	346
Total	\$ 284	\$ 1,984	\$ 2,268

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Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2016.

Further details regarding employee benefit plans are contained in the 2015 Annual Report to Shareholders, including a discussion of benefit plan changes related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan.

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

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

#### **Note 9 — Subsequent Events**

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2016, which was the date the financial statements were issued.

On October 17, 2016, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2017. The Association will receive approximately \$4,681 which will be recorded in October 2016 as patronage refunds from other Farm Credit institutions.