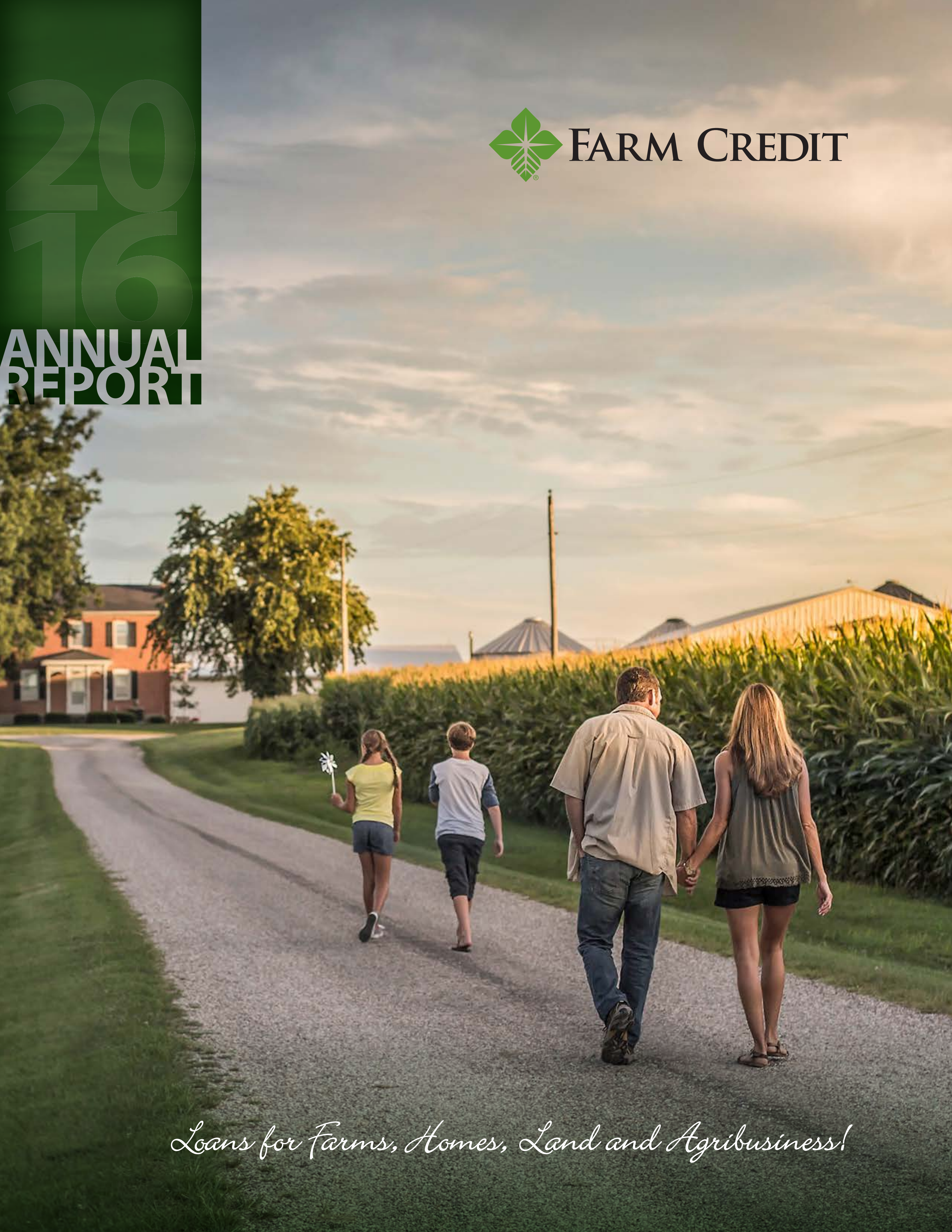
2016 ANNUAL REPORT

FARM CREDIT



Loans for Farms, Homes, Land and Agribusiness!

Farm Credit of the Virginias, ACA

2016 Annual Report

Contents

Management

C. Peery Heldreth .... Chief Executive Officer
Bette B. Brand .... Chief Sales Officer
M. Kay Manchester .... Director of Human Capital
David G. Sauer .... Chief Financial Officer
Al P. Saufley .... Chief Lending Officer

Board of Directors

Charles B. Leech, IV .... Chairperson
Donna M. Brooke-Alt .... Vice Chairperson
Ronald L. Bennett .... Director
William J. Franklin, Jr. .... Director
Bobby C. Gray .... Director
Charles E. Horn, Jr. .... Director
Paul M. House .... Director
Melody S. Jones .... Director
James F. Kinsey .... Director
Milton L. McPike, Jr. .... Director
Donald W. Reese .... Director
Wallace W. Sanford, III .... Director
Barry W. Shelor .... Director
Alfred W. Stephens, Jr. .... Director
Joseph W. Wampler .... Director
John E. Wells .... Director

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Message from the Chief Executive Officer

Farm Credit of the Virginias (FCV) enjoyed another successful year in 2016, a year marked by significant developments both inside and outside our cooperative.

One important change was to the leadership of our organization, and it is with some sadness but abounding respect that we bid farewell to long-time CEO Dave Lawrence. Dave led FCV for 13 years, guiding the organization's growth to serving more than 11,000 customers and nearly $2 billion in assets.

FCV's tenured and committed board, ever focused on the good of the organization, undertook a comprehensive search for a new leader for our cooperative. I am proud to have been selected from what I know to be a highly qualified field. I look forward to leading this great organization into its next chapter, building on the strong foundation our customers and employees have helped to build over the past 100 years.

In 2016 this foundation led to continued, though modest, growth and ongoing strengthening of our financial position, enabling us to continue to support our customer-owners. Net interest income increased whereas net non-interest income decreased mostly due to a reduction in the special patronage from AgFirst Bank. Overall net income decreased slightly as a result of the aforementioned reduction in special patronage, higher personnel costs, increases in our captive insurance premiums, and higher assessments from the Farm Credit Administration. Permanent capital did increase as well as total member equity. Net loan volume also increased, and overall credit quality across our portfolio has continued to improve despite stress in certain commodity sectors.

The downturn of the agriculture economy has put stress on several segments of our portfolio, particularly beef and dairy which represent 20 percent of our portfolio. FCV's disciplined approach to improving credit quality while building capital reserves and maintaining a diversified portfolio has enabled us to respond to changing needs while delivering strong overall returns to our customer-owners. As a result of FCV's strong financial position, we expect to distribute patronage dividends of 12 percent from your cooperative's generated income and pay another special distribution as a result of AgFirst Bank, our funding bank's decision to pay an additional distribution to FCV.

FCV's support for our customer-owners goes far beyond the loans we provide. In late 2015, we launched a new initiative to support young and beginning farmers, who we believe will be key contributors to the future strength of the agriculture industry and our cooperative. The FarmLaunch program will provide loans to new producers who do not qualify for traditional lending, and provide mentorship and education to help them succeed. Young and beginning farmers represent 20% of our new loan originations in 2016, a level in line with our business plan, and we expect to continue to see farms transition to the next generation.

Another resource for farmers and rural residents is FCV's Knowledge Center, which continued to deliver workshops on a diversity of topics to educate producers on best practices in business planning, financial reporting and production techniques. The Knowledge Center will continue to serve as a Network Agent to facilitate the sharing of knowledge and resources among all those interested in agriculture for the betterment of ALL farmers.

One of the most valuable resources FCV offers is our dedicated staff of high-caliber employees. Our team has a passion for agriculture, many with deep expertise in specific industry sectors, and comprehensive insight into the intricacies and subtleties of financing options. They are committed to understanding each of our customer-owners and their operations, and offering optimal solutions to your financing needs.

Guiding our cooperative into a successful future is our elected Board of Directors, which is focused on continuing to make effective strategic decisions to ensure the continued strength of our cooperative, including an ongoing commitment to the cooperative structure and approving patronage dividends to our customer-owners.

2016 Financial Results Highlights

- Net Income of $43.2, down from $44.1 million in 2015
- Net Interest Income of $51.2 million, compared with $50.1 million in 2015
- Return on Assets of 2.43%, compared with 2.62% in 2015
- Permanent Capital of 20.75%, up from 20.07% in 2015
- Patronage dividend of $15 million, which included $4.5 million of a special patronage, similar to 2015

FCV exists to fulfill a specific mission: supporting agriculture and our rural communities, in both good and challenging times. As a cooperative, we exist to serve our customer-owners, and are only successful because of your success and participation. Looking forward, our commitment remains to you, to agriculture and to our rural communities.

C. Peery Heldreth III

C. Peery Heldreth, III
Chief Executive Officer

March 13, 2017

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 the Virginias, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

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

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

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2016 Annual Report of Farm Credit of the Virginias, 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.

Charles B. Leech IV

Charles B. Leech, IV
Chairperson of the Board

C. Peery Heldreth III

C. Peery Heldreth, III
Chief Executive Officer

David G Sauer

David G. Sauer
Chief Financial Officer

March 13, 2017

Report on Internal Control Over Financial Reporting

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

C. Peery Heldreth III

C. Peery Heldreth, III
Chief Executive Officer

David G. Sauer

David G. Sauer
Chief Financial Officer

March 13, 2017

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2016	2015	2014	2013	2012
Balance Sheet Data					
Cash	**$ 5,730**	$ 2,945	$ 6,038	$ 5,617	$ 6,368
Loans	**1,798,996**	1,692,633	1,583,241	1,483,454	1,466,371
Allowance for loan losses	**(14,483)**	(14,487)	(12,465)	(11,878)	(9,968)
Net loans	**1,784,513**	1,678,146	1,570,776	1,471,576	1,456,403
Investments in other Farm Credit institutions	**19,698**	25,330	25,344	26,390	28,212
Other property owned	**2,467**	4,803	2,786	2,337	3,657
Other assets	**46,125**	46,451	49,569	54,861	44,456
Total assets	**$ 1,858,533**	$1,757,675	$1,654,513	$1,560,781	$1,539,096
Notes payable to AgFirst Farm Credit Bank*	**$ 1,423,922**	$1,354,433	$1,275,765	$1,209,905	$1,229,830
Accrued interest payable and other liabilities with maturities of less than one year	**43,788**	38,464	42,521	40,266	28,870
Total liabilities	**1,467,710**	1,392,897	1,318,286	1,250,171	1,258,700
Capital stock and participation certificates	**10,433**	12,606	13,159	17,313	17,344
Retained earnings					
Allocated	**92,568**	92,568	92,568	92,568	92,568
Unallocated	**287,846**	259,626	230,527	200,739	170,501
Accumulated other comprehensive income (loss)	**(24)**	(22)	(27)	(10)	(17)
Total members' equity	**390,823**	364,778	336,227	310,610	280,396
Total liabilities and members' equity	**$ 1,858,533**	$1,757,675	$1,654,513	$1,560,781	$1,539,096
Statement of Income Data					
Net interest income	**$ 51,160**	$ 50,072	$ 47,859	$ 43,920	$ 41,743
Provision for loan losses	**2,750**	2,700	1,200	3,450	6,000
Noninterest income (expense), net	**(5,190)**	(3,273)	4,129	10,768	(50)
Net income	**$ 43,220**	$ 44,099	$ 50,788	$ 51,238	$ 35,693
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.43%**	2.62%	3.22%	3.36%	2.34%
Total members' equity	**11.25%**	12.40%	15.40%	17.04%	13.07%
Net interest income as a percentage of average earning assets	**2.95%**	3.05%	3.13%	2.98%	2.84%
Net (chargeoffs) recoveries to average loans	**(0.159)%**	(0.041)%	(0.040)%	(0.105)%	(0.259)%
Total members' equity to total assets	**21.03%**	20.75%	20.32%	19.90%	18.22%
Debt to members' equity (:1)	**3.76**	3.82	3.92	4.02	4.49
Allowance for loan losses to loans	**0.81%**	0.86%	0.79%	0.80%	0.68%
Permanent capital ratio	**20.75%**	20.07%	19.91%	19.88%	16.95%
Total surplus ratio	**20.08%**	19.29%	19.15%	18.68%	15.73%
Core surplus ratio	**20.08%**	19.29%	19.15%	18.68%	15.73%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 15,000**	$ 15,000	$ 21,000	$ 21,000	$ 10,565
Nonqualified retained earnings	**—**	—	—	—	3,107

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 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 the Virginias, ACA, (Association) for the year ended December 31, 2016 with comparisons to the years ended December 31, 2015 and December 31, 2014. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for 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 Virginia, West Virginia and Maryland. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, **www.farmcreditofvirginias.com**, or by calling 1-540-886-3435, extension 5020, or writing David Sauer, Farm Credit of the Virginias, P.O. Box 899, Staunton, VA 24402-0899. 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 internet, 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.

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.

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

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2016 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

ECONOMIC CONDITIONS

During 2016, the general economy continued to grow at about the same pace as last year. Economic growth during the first half of the year was fairly slow but rebounded with stronger growth during the second half of the year. Housing and real estate market continued to show growth in both sales and higher prices. Agricultural real estate prices remained fairly flat during the year. Unemployment remained at the same low levels during the year. With the economy showing more strength, the Federal Reserve hiked short-term interest rates in December.

Of the major agricultural commodities served by the Association, many producers experienced a difficult year. Continued low prices for cattle and milk negatively impacted the gross farm income of cattle and dairy farmers. The strong U.S. dollar put pressure on export markets and prices for U.S. agricultural producers. Another year of good weather in the grain producing parts of the United States, kept grain prices in check during the year. The low grain prices continue to help most of our farmers who use feed grain in their operations. For the second year in a row, the weather in most of the Association's territory was also very good during the year. As a result, there was plenty of pasture and hay for livestock. Poultry companies continued to expand production in our territory, which resulted in the Association financing the construction of poultry houses. For the forestry and timber industry, the industry continued to experience a steady demand for lumber and logs.

LOAN PORTFOLIO

The Association loan volume was $1,798,996 at December 31, 2016 compared to $1,692,633 at December 31, 2015, an increase of $106,363 or 6.28 percent. The increase in loan volume was mainly due to the repurchase of loans sold to AgFirst under its capitalized participation pool program. Adjusting for this repurchase of these loans, the Association loan volume increased $22,712 or 1.26%.

During November of 2016, the Association repurchased participation loans sold to AgFirst under the AgFirst's capitalized participation pool program. Due to the Association's strong capital position these loans were bought back and are now included in the Association's loan volume. Approximately $73,000 in loans were repurchased. As part of the repurchase, Agfirst refunded $5,886 in stock the Association had purchased under this program.

The Bank's capitalized participation pool program was designed to improve the Association's and Bank's capital positions. Under this program, when the Association sells a pool of loans to the Bank, the Bank maintains a separate patronage pool for these loans and pays a patronage to the Association in an amount that the Association would earn if the loans remained with the Association. Further, under this program, the Association also increased its stock investment in the Bank. While the sale of these loans impacts the loan volume of the Association, it does not materially impact its net income. As of December 31, 2016, loans sold to the Bank under this program totaled $0 compared to $83,651 at December 31, 2015.

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.

	December 31,					
Loan Type	**2016**		**2015**		**2014**	
	(dollars in thousands)					
Real estate mortgage	$ 1,307,311	72.67%	$ 1,188,861	70.24%	$ 1,118,633	70.65%
Production and intermediate-term	387,878	21.56	397,512	23.48	365,308	23.07
Rural residential real estate	46,175	2.57	46,746	2.76	43,302	2.74
Processing and marketing	30,144	1.67	40,223	2.38	37,375	2.36
Farm-related business	17,754	0.99	13,756	0.81	12,659	0.80
Communication	9,670	0.54	5,419	0.32	5,964	0.38
Loans to cooperatives	64	–	116	0.01	–	–
Total	$ 1,798,996	100.00%	$ 1,692,633	100.00%	$ 1,583,241	100.00%

While we make loans and provide financial 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/state for the past three years is as follows:

	December 31,		
Branch/State	**2016**	**2015**	**2014**
Abingdon, VA	7%	8%	8%
Bedford, VA	3	3	3
Charlottesville, VA	3	3	3
Chatham, VA	3	3	3
Clarksburg, WV	2	2	2
Culpeper, VA	5	5	5
Elkins, WV	2	2	3
Gate City, VA	1	1	1
Halifax, VA	2	2	2
Harrisonburg, VA	14	14	13
Leesburg, VA	9	8	8
Lewisburg, WV	3	3	3
Lexington, VA	3	3	3
Moorefield, WV	4	4	4
Oakland, MD	3	3	3
Orange, VA	5	7	7
Ripley, WV	3	3	4
Roanoke, VA	3	3	3
Rocky Mount, VA	3	4	4
Romney, WV	1	2	1
Verona, VA	6	6	6
Warrenton, VA	5	5	6
Wytheville, VA	4	4	4
Agribusiness	4	5	5
Special Assets Group	2	2	2
Participation Loans Purchased	1	1	1
Participation Loans Sold	(1)	(6)	(7)
	100%	100%	100%

The major commodities in the Association's loan portfolio are shown below. The predominant commodities are livestock, field crops, and timber, which constitute 66 percent of the entire portfolio.

	December 31,					
Commodity Group	**2016**		**2015**		**2014**	
	(dollars in thousands)					
Livestock	$ 655,549	36%	$ 639,119	38%	$ 578,400	37%
Field Crops	342,287	19	310,656	18	283,839	17
Timber	187,522	11	177,455	11	178,034	11
Dairy	192,293	10	174,089	10	161,848	11
Poultry	156,896	9	151,905	9	127,534	8
Rural Home	47,873	3	48,629	3	46,176	3
Tobacco	22,446	1	19,075	1	19,497	1
Other	194,130	11	171,705	10	187,914	12
Total	$ 1,798,996	100%	$ 1,692,633	100%	$ 1,583,241	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of livestock producers. Although a large percentage of the loan portfolio is concentrated in these commodities, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the prices of these commodities. To proactively reduce overall risk exposure, the concentration of large loans has decreased over the few years. The agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

During 2016, the Association continued to buy and sell loan participations within the System. Loan participations provide a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen its capital position. Purchasing of participation loans increased during 2016. Participation loans sold decreased due to the Association repurchasing loans sold to AgFirst under the AgFirst's capitalized participation pool program.

	December 31,		
Loan Participations:	**2016**	**2015**	**2014**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 30,091	$ 23,204	$ 16,624
Participations Sold	(14,897)	(93,261)	(106,193)
Total	$ 15,194	$ (70,057)	$ (89,569)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2016.

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2016, the Association originated loans for resale totaling $43,170, which were all sold into the secondary market.

MISSION RELATED INVESTMENTS

In October 2005, the FCA authorized AgFirst and the associations to make investments in Rural America Bonds under a three-year pilot period. 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. Effective December 31, 2014, the FCA concluded each pilot program approved as part of the Investment in Rural America Bonds program. Each System 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 ended, the FCA can consider future requests on a case-by-case basis.

The Association did not hold any Rural American bonds during the period of January 1, 2014, thru December 31, 2016.

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

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 at December 31.

Credit Quality	2016	2015	2014
Acceptable & OAEM	97.29%	97.04%	96.06%
Substandard	2.68%	2.94%	3.90%
Doubtful	0.03%	0.02%	0.04%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

	December 31,		
High-risk Assets	2016	2015	2014
	(dollars in thousands)		
Nonaccrual loans	$ 33,578	$ 28,394	$ 29,329
Restructured loans	1,442	1,185	873
Accruing loans 90 days past due	114	205	370
Total high-risk loans	35,134	29,784	30,572
Other property owned	2,467	4,803	2,786
Total high-risk assets	$ 37,601	$ 34,587	$ 33,358
Ratios			
Nonaccrual loans to total loans	1.87%	1.68%	1.85%
High-risk assets to total assets	2.02%	1.97%	2.02%

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 increased $5,184 or 18.26 percent in 2016. The increase was mainly due to several loans being downgraded to nonaccrual status offset somewhat by payments received on loans, loans being reinstated into accruing status and loans which went thru the foreclosure process and the property was acquired. Of the $33,578 in nonaccrual volume at December 31, 2016, $21,177 or 63.07 percent, compared to 66.35 percent and 63.96 percent at December 31, 2015 and 2014, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring 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.

Other property owned totaled $2,467 at December 31, 2016. This was a decrease of $2,336 as compared to December 31, 2015. The decrease was mainly due to several properties being sold during the year. The Association actively markets these properties in order to sell them.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The following table presents the activity in the allowance for loan losses for the most recent three years:

	Year Ended December 31,		
Allowance for Loan Losses Activity:	2016	2015	2014
	(dollars in thousands)		
Balance at beginning of year	$ 14,487	$ 12,465	$ 11,878
Charge-offs:			
Real estate mortgage	(1,005)	(372)	(681)
Production and intermediate-term	(1,677)	(740)	(655)
Agribusiness	(222)	–	–
Rural residential real estate	(80)	–	(6)
Total charge-offs	(2,984)	(1,112)	(1,342)
Recoveries:			
Real estate mortgage	147	251	419
Production and intermediate-term	83	183	304
Agribusiness	–	–	5
Rural residential real estate	–	–	1
Total recoveries	230	434	729
Net (charge-offs) recoveries	(2,754)	(678)	(613)
Provision for (reversal of allowance for) loan losses	2,750	2,700	1,200
Balance at end of year	$ 14,483	$ 14,487	$ 12,465
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.159)%	(0.041)%	(0.040)%

Net charge-offs increased during 2016 as compared to 2015, due to loans going through the collection process with no other option than to charge-off the loan.

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

	December 31,		
Allowance for Loan Losses by Type	2016	2015	2014
	(dollars in thousands)		
Real estate mortgage	$ 6,472	$ 6,920	$ 5,678
Production and intermediate-term	6,989	6,594	5,981
Agribusiness	697	613	537
Rural residential real estate	325	360	269
Total Allowance	$ 14,483	$ 14,487	$ 12,465

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

Allowance for Loan Losses	December 31,		
as a Percentage of:	2016	2015	2014
Total loans	0.81%	0.86%	0.79%
Nonaccrual loans	43.13%	51.02%	42.50%

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 and prior years reclassification of loan types as defined by FCA.

RESULTS OF OPERATIONS

The Association's net income was $43,220 for 2016, $44,099 for 2015, and $50,788 for 2014. The decrease in net income for 2016 compared to 2015 was mainly due to an increase in noninterest expense offset somewhat by an increase in net interest income. The decrease in net income for 2015 compared to 2014 was mainly due to a decrease in the AgFirst patronage refund.

Interest income was $88,990 for 2016, $85,166 for 2015, and $80,038 for 2014. The increase in interest income for 2016 compared to 2015 was mainly due to an increase in loan volume during 2016. The increase in interest income for 2015 compared to 2014 was also primarily due to an increase in loan volume during 2015.

Net Interest Income

Net interest income was $51,160 for 2016, $50,072 for 2015 and $47,859 for 2014. 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. Net interest income increased during 2016 compared to 2015 mainly due to an increase in loan volume. 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
	(dollars in thousands)			
12/31/16 - 12/31/15				
Interest income	$ 5,959	$ (982)	$ (1,153)	$ 3,824
Interest expense	1,776	960	–	2,736
Change in net interest income	$ 4,183	$ (1,942)	$ (1,153)	$ 1,088
12/31/15 - 12/31/14				
Interest income	$ 5,790	$ (950)	$ 288	$ 5,128
Interest expense	2,198	717	–	2,915
Change in net interest income	$ 3,592	$ (1,667)	$ 288	$ 2,213

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

Noninterest Income

Total noninterest income for the period ended December 31, 2016, totaled $23,715, a decrease of $141 or 0.59 percent, as compared to $23,856 for 2015.

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

Noninterest Income	For the Year Ended December 31, 2016	2015	2014	Increase/(Decrease) 2016/ 2015	2015/ 2014
		(dollars in thousands)			
Loan fees	$ 745	$ 720	$ 779	$ 25	$ (59)
Fees for financially related services	68	106	121	(38)	(15)
Patronage refund from other Farm Credit Institutions	21,860	22,014	28,502	(154)	(6,488)
Gains (losses) on sales of rural home loans	851	914	447	(63)	467
Gains (losses) on sales of premises and equipment, net	55	38	67	17	(29)
Gains (losses) on other transactions	55	5	64	50	(59)
Other noninterest income	81	59	62	22	(3)
Total noninterest income	$ 23,715	$ 23,856	$ 30,042	$ (141)	$ (6,186)

Income from loan fees increased during 2016 compared to 2015 mainly due to an increase in loan fees on participation purchased loans.

As anticipated, the patronage refund from other Farm Credit Institutions decreased for 2016 when compared to 2015. The patronage refund, which was from primarily from AgFirst, decreased $154 compared to last year. The decrease was due to AgFirst reducing its special additional patronage refund paid to the Association. For 2016, the special patronage refund was $8,943. For 2015 and 2014, special patronage refund was $9,205 and $15,739, respectively. Agfirst paid the special patronage refunds due to its strong financial position.

Noninterest Expense

Total noninterest expense increased $1,752 or 6.46 percent for the year ended December 31, 2016, as compared to the same period for 2015.

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

Noninterest Expense	For the Year Ended December 31, 2016	2015	2014	Increase/(Decrease) 2016/ 2015	2015/ 2014
	(dollars in thousands)				
Salaries and employee benefits	$ 18,423	$ 17,167	$ 16,650	$ 1,256	$ 517
Occupancy and equipment	1,369	1,255	1,228	114	27
Insurance Fund premiums	2,316	1,690	1,462	626	228
(Gains) losses on other property owned, net	286	451	252	(165)	199
Other operating expenses	6,473	6,552	6,188	(79)	364
Total noninterest expense	$ 28,867	$ 27,115	$ 25,780	$ 1,752	$ 1,335

Salaries and employee benefits increased for 2016 compared to 2015 mainly due to an increase in employees' salaries. The increase in employees' salaries was primarily due to merit increases, promotions and incentive.

Insurance Fund premiums increased $626 for 2016 compared to 2015 primarily due to higher premium assessment rate for 2016 compared to 2015.

Income Taxes

The Association recorded a provision for income taxes of $38 for the year ended December 31, 2016, as compared to a provision for income taxes of $14 for 2015 and a provision of $133 for 2014. Refer to Note 2, *Summary of Significant Accounting Policies*, and Note 12, *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 12/31/16	12/31/15	12/31/14
Return on average assets	2.43%	2.62%	3.22%
Return on average members' equity	11.25%	12.40%	15.40%
Net interest income as a percentage of average earning assets	2.95%	3.05%	3.13%
Net (charge-offs) recoveries to average loans	(0.159)%	(0.041)%	(0.040)%

Lower net income for 2016 drove the return on average assets and return on average members' equity lower when compared to last year. Net interest income as a percentage of average earning assets decreased for 2016 compared to 2015 due to lower spreads on loans.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2016, was $1,423,922 as compared to $1,354,433 at December 31, 2015 and $1,275,765 at December 31, 2014. The average volume of outstanding notes payable to the Bank was $1,369,135 and $1,303,176 for the years ended December 31, 2016 and 2015, respectively. Refer to Note 6, *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. There are no known trends likely to result in a liquidity deficiency for the Association. The Association did not have any lines of credit from third party financial institutions as of December 31, 2016.

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 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 is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements 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, *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 2016 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Members' equity at December 31, 2016, totaled $390,823, an increase of $26,045 or 7.14 percent compared to $364,778 at December 31, 2015. At December 31, 2015, total members' equity increased 8.49 percent from the December 31, 2014 total of $336,227. The increase was primarily attributed to the earnings of the Association offset by the cash profit-sharing distribution (patronage dividend) to the Association's member-stockholders, and the retirement of C-common stock and participation certificates. The Association plans to distribute approximately $15 million of its 2016 net income in cash to its member-stockholders during the second quarter of 2017.

Total capital stock and participation certificates were $10,433 on December 31, 2016, compared to $12,606 on December 31, 2015 and $13,159 on December 31, 2014. The decrease for 2016 compared to 2015 was primarily attributed to the refund of excess C-common stock and participation certificates to stockholders who had more that $1,000 in stock or participation certificates and the retirement of C-common stock and participation certificates.

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

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

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	20.75%	20.07%	19.91%	7.00%
Total surplus ratio	20.08%	19.29%	19.15%	7.00%
Core surplus ratio	20.08%	19.29%	19.15%	3.50%

The capital ratios increased for 2016 compared to 2015 due to an increase in members' equity.

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 Notes to 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.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2016 goals were established and met.

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

	As of December 31, 2016	
(dollars in thousands)	**Number of Loans**	**Amount of Loans**
Young	2,583	$235,108
Beginning	4,077	$444,497
Small	11,638	$1,093,275

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 has been used as a benchmark to measure penetration of the Association's marketing efforts. The Association currently has a high penetration in the Young, Beginning, and Small farm market. As of December 31, 2016, the Association was doing business with 82 percent of the Young farmers, 35 percent of the Beginning farmers, and 18 percent of Small farmers identified by the 2012 Ag census.

The following strategies and outreach programs have been conducted which allowed the Association to meet its objectives and goals in the young, beginning, and small farmer program:

- Began in 2011, the sponsorship of the Ag Biz Planner financial training program for YBS farmers. This has continued each year through 2016 with a total of 70 participants completing the program since its inception. In 2016, sponsored trip for 7 participants to visit congress in Washington D.C.

- Began in 2014, the initiation of a Knowledge Center. This provides educational opportunities and resources for all farmers including YBS farmers.

- In 2015, initiate new "Farm Launch" program that is designed primarily for YBS farmers.

- Support of 4-H, FFA, and Young farmer organizations through sponsorships and donations.

- Sponsor and host, four, one-day, Farm Management Institute seminars; these are facilitated by nationally recognized agricultural business consultant, Dr. David Kohl. Total attendance was 225 in 2016.

- Sponsor and host, two, one-day, Dairy Management seminars. Total attendance was 165 in 2016.

- Sponsor and host, three, one-day Risk Management seminars. Total attendance was 105 in 2016.

- Support Young and Beginning farmers through many youth programs including a Youth Loan program.

- Support numerous trade shows and conferences that benefit YBS borrowers.

The Association is committed to the future success of Young, Beginning and Small farmers.

* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

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

REGULATORY MATTERS

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

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

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

The following sets forth the new regulatory capital ratios:

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

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

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

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

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

FINANCIAL REGULATORY REFORM

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

Description of Property

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

Location	Description	Form of Ownership
106 Sangers Lane Augusta County, VA	Administrative	Owned
19292 Lee Highway Abingdon, VA	Branch	Owned
1356-B American Way Court Bedford, VA	Branch	Rented *($1,400 per month)*
1445 E. Rio Road Suite 103 Charlottesville, VA	Branch	Rented *($2,197 per month)*
29 Military Drive Chatham, VA	Branch	Owned
4579 Buckhannon Pike Suite 102 Clarksburg, WV	Branch	Rented *($2,510 per month)*
15574 Ira Hoffman Lane Culpeper, VA	Branch	Owned
308 Railroad Avenue Elkins, WV	Branch	Rented *($650 per month)*
268 E. Jackson Street Gate City, VA	Branch	Owned
161 South Main Street Halifax, VA	Branch	Rented *($531 per month)*
4646 South Valley Pike Harrisonburg, VA	Branch	Owned
406 Market Street Harrisonburg, VA	Processing Center	Owned
27 Fort Evans Road, NE Leesburg, VA	Branch	Owned
880 North Jefferson Street Lewisburg, WV	Branch	Owned
152 Maury River Road Lexington, VA	Branch	Owned
550 South Main Street Moorefield, WV	Branch	Owned
13195 Garrett Highway Oakland, MD	Branch	Owned
13284 James Madison Hwy Orange, VA	Branch	Rented *($1,575 per month)*
2112 Ripley Road Ripley, WV	Branch	Rented *($2,889 per month)*
38 Murray Farm Road Roanoke, VA	Branch	Owned
670 Old Franklin Turnpike Rocky Mount, VA	Branch	Owned
452 North High Street Romney, WV	Branch	Owned
1557 Commerce Road Suite 202 Verona, VA	Branch	Rented *($1,806 per month)*
516 Fauquier Road Warrenton, VA	Branch	Owned
660 Pepper's Ferry Road Wytheville, VA	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 intrasystem financial assistance rights 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.

Description of Unincorporated Business Entities

The Association holds an equity investment at December 31 2016, in the following Unincorporated Business Entity (UBE) as an equity interest holder of the limited liability company (LLC). The LLC was 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 the Operating Agreements of the respective LLC.

Entity Name	Entity Purpose
Ethanol Holdings, LLC	Manage Acquired Property

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 5 years.

Senior Officer	Position
C. Peery Heldreth, III	*Chief Executive Officer,* since January, 2017. He had previously served as Chief Relationship Officer since 2012 and as Regional Sales and Lending Manager.
David E. Lawrence	*Chief Executive Officer,* until his retirement in January, 2017. He had been Chief Executive Officer since 2003.
Bette B. Brand	*Chief Sales Officer* since 2005 and had previously served as a Regional Sales and Lending Manager. She currently serves on the Boards of Directors of the Virginia Agribusiness Council, Virginia Horse Council, State Fair of Virginia, Inc., and Virginia Foundation for Agriculture in the Classroom.
Dewey L. Brown	*Chief Reviewer* since 2000.
Carolyn L. Hite	*Corporate Secretary* since 2001.
M. Kay Manchester	*Director of Human Capital* since 2006.
David G. Sauer	*Chief Financial Officer* since 1998.
Al P. Saufley	*Chief Lending Off*icer since 2012 and had previously served as Business Line Leader and as Director of Risk Management and Underwriting.

Compensation Overview

The Association's compensation philosophy is to pay for performance that supports the Association's short-term and long-term business strategies and enhances the member-shareholders' value in the Association. The overall compensation programs which include base salary, incentive compensation and retirement benefits, are designed to offer competitive pay opportunities to employees and enable the Association to effectively attract, retain and motivate highly qualified employees.

The compensation programs for senior officers include both fixed and variable compensation components. The mix of fixed and variable components is designed to balance the need to motivate senior management and employees to find new business opportunities and to promote the Association's mission to ensure a safe, sound, and dependable source of credit for agriculture and rural America. The fixed component of compensation is the annual salary. The variable component of compensation is an incentive program. The incentive program is designed to promote pay for performance while balancing the needs of the Association to manage risk and promote sound credit decisions. The incentive compensation is paid in two parts. Part of the incentive is paid to employees shortly after the end of the year. This part is referred to as the short-term incentive. The remaining component of the incentive is paid after the completion of three more years and this is the long-term incentive.

The Chief Executive Officer (CEO) and the Internal Audit employees do not participate in the incentive program. Instead the Board of Directors, at its discretion, may award a bonus. Historically, the Board of Directors has used the results of the senior officers' short-term and long-term incentive plan to determine the payout amount.

Salary. The CEO, senior officers and all employees of the Association have a base salary as part of their compensation program. The base salary is determined based on position, responsibilities and performance. The Association strives to provide employees with base salaries that are competitive with respect to the position, as identified in compensation surveys conducted by external compensation consultants, and the need to maintain careful control of salaries and benefits expense. The Board of Directors has delegated the base salaries administration for senior officers to the CEO. The CEO's base salary is reviewed and approved by the Board of Directors.

Short-Term Incentives. The Association provides short-term incentive programs for senior officers and eligible employees. The short-term incentive programs are designed to promote new business development, increased loan volume and revenue growth, and increased Association's net income. These financial measures were selected since they align with our mission and enhance the Association's ability to pay a patronage refund to our member-stockholders. The senior officers' short-term incentive is based on the performance of the sales and lending team. Performance of the sales and lending team is based on the production of loans made during the year and the number of new customers who joined the Association. The senior officers' short term incentive is reduced if key financial business goals are below established targets. The short-term incentive programs are reviewed and approved annually by the Board of Directors.

The short-term incentive for 2016 was expensed during 2016 with the payment to be made in the first quarter of 2017.

Long-term Incentives. The Association provides a long-term incentive program for senior officers. The long-term incentive plan is designed to motivate and reward the senior officers to meet and exceed financial and performance goals of the Association. The financial and performance goals are return on equity, return on assets, loan portfolio credit quality, loan delinquency rate, and level of nonaccrual loan volume. These performance areas are weighted equally. A target goal is set for each financial and performance goal. The incentive amount is determined by the Association's performance compared to the goals. The long-term incentive for 2016 will be paid during the first quarter of 2020. The payment can be reduced if the financial and performance results for the last year, 2019, are less than the target goals in the 2016 long-term incentive program. Since the 2016 long-term incentive will be paid out after three years, it will be expensed equally over the next three years. The long-term incentive program is reviewed and approved by the Board of Directors.

Retirement benefits. The Association provides retirement benefits to the CEO, senior management and employees to offer a competitive compensation program.

Employees hired before January 1, 2003, participate in the AgFirst Farm Credit Retirement Plan. The plan is an employer-funded qualified defined benefit pension plan. Benefits under this plan are determined by a formula based on years of service and eligible compensation. Employees are eligible to retire and begin receiving unreduced pension benefits at age 65 or when years of service plus age equal "85". Upon retirement, annual payout is equal to 2.0 percent of the highest three years of average salary, not including incentives, times years of credited service, subject to the Internal Revenue Code limitations.

Employees hired on or after January 1, 2003, but prior to November 4, 2014, participated in the AgFirst Farm Credit Cash Balance Retirement Plan. This plan was a qualified defined contribution pension plan. The plan was terminated as of December 31, 2015 and vested benefits of the plan will be distributed to plan participants in 2017.

All employees may participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan that has employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to $0.50 for each $1.00 of employee compensation contributed up to 6.0 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003, receive a maximum employer matching contribution equal to $1.00 for each $1.00 of employee compensation contributed up to 6.0 percent, and employer nonelective contribution equal to 3.0 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees may participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) plan, a non-qualified deferred compensation plan. The purpose of the plan is to allow these employees to defer income taxes on a portion of their compensation until retirement or separation from the Association and to restore benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan includes a provision for discretionary contributions by the Association.

Employees who choose to defer a portion of their compensation may defer part or all of their base salary, short term incentive, and long term incentive and or bonus. This is shown under the deferred compensation column in the Summary of Compensation table below.

The following Summary of Compensation table includes compensation paid to the CEO and the senior officers as a group, excluding the CEO, during the years ended December 31, 2016, 2015 and 2014:

Name of CEO	Year	Salary	Bonus Short Term	Bonus Long term	Deferred Comp.	Change in Pension Value (1)	Perq/ Other(2)	Total
David E. Lawrence, CEO	2016	$ 402,466	$ –	$ –	$ 80,490	$ 441,317	$ 15,615	$ 939,888
David E. Lawrence, CEO	2015	$ 378,328	$ –	$ –	$ 75,666	$ (76,492)	$ 12,606	$ 390,108
David E. Lawrence, CEO	2014	$ 350,304	$ –	$ –	$ 70,061	$ 620,301	$ 16,156	$ 1,056,822

Aggregate No. of Senior Officers	Year	Salary	Short Term Incentive	Long Term Incentive	Deferred Comp.	Change in Pension Value (1)	Perq/ Other(2)	Total
7	2016	$ 1,130,025	$ 190,164	$ 141,981	$ 64,219	$ 1,039,272	$ 27,775	$ 2,593,436
9	2015	$ 1,330,272	$ 233,954	$ 150,639	$ 120,543	$ 321,015	$ 39,952	$ 2,196,375
11	2014	$ 1,350,739	$ 191,600	$ 188,361	$ 126,358	$ 1,888,292	$ 96,460	$ 3,841,810

(1) The change in pension values in 2016 as reflected in the table above, was primarily from changes in the actuarial assumptions for discount rate. The changes in pension values in 2014 resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

(2) The Perquisites/Other amount disclosed in the above chart include group life insurance, automobile compensation, severance pay, and spousal expense reimbursements for attendance at Association meetings.

Pension Benefits for the year ended December 31, 2016,

Pension Benefits Table
As of December 31, 2016

Name of CEO	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2016
David E. Lawrence, CEO	2016	AgFirst Retirement Plan	35	$ 3,492,360	$ –
				$ 3,492,359	$ –
Aggregate No. of Senior Officers					
7	2016	AgFirst Retirement Plan	27*	$ 7,653,043	$ –
				$ 7,653,043	$ –

**Represents the average years of credit service for the group*

The disclosure of information on the total compensation paid during 2016 to any senior officer as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

On February 4, 2015, the FCA Board approved the final rule, “Disclosure to Shareholders; Pension Benefit Disclosures”. The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a “highly compensated employee” solely because of payments related to or change(s) in value of the employee’s qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. The Association was required to comply with the rule for compensation reported in the table for fiscal year 2015, and could implement the rule retroactively for the 2014. The Association chose not implement the rule retroactively for 2014.

Employee Travel Reimbursement

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.

Defined Benefit-Type Plans

The Association sponsors a non-qualified defined benefit supplemental executive retirement plan for Donald L. Shiflet, retired CEO. The purpose of the non-qualified plan is to provide benefits that supplement the qualified defined benefit plan in which the Association’s employees participate. For Mr. Shiflet, compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit in the qualified defined benefit plan will be made up through the non-qualified plan. 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.

Directors

The following chart details the current term of each director and total cash compensation paid for 2016:

DIRECTOR	CURRENT TERM	TOTAL COMPENSATION PAID DURING 2016
Charles B. Leech, IV, **Chairperson**	2016-2019	$ 31,300
Donna M. Brooke-Alt, **Vice Chairperson**	2014-2017	21,250
Melody S. Jones, **Chairperson of Audit Committee**	2015-2018	19,000
Ronald L. Bennett	2014-2017	13,400
William J. Franklin, Jr.	2015-2018	23,425
Bobby C. Gray	2015-2018	19,975
Charles E. Horn, Jr.	2016-2019	20,000
Paul M. House	2013-2016	21,750
James F. Kinsey	2014-2017	19,950
Milton L. McPike, Jr.	2013-2016	15,800
Donald W. Reese	2014-2017	16,900
Wallace W. Sanford, III	2015-2018	17,650
Barry W. Shelor	2013-2016	16,325
Alfred W. Stephens, Jr.	2013-2016	15,300
Joseph W. Wampler	2013-2016	15,000
John E. Wells	2016-2019	18,450
		$ 305,475

The following represents certain information regarding the directors of the Association, including their principal occupation for the past five years:

Charles B. Leech, IV, Chairperson, is an owner-operator of the family’s dairy farm. He serves as a director on the Virginia State Dairymen’s Association Board and on the Rockbridge Farmers’ Cooperative Board.

Donna M. Brooke-Alt, ***Vice Chairperson***, is President of Brookedale Farms, LLC and also owns/operates a greenhouse, event building and Agri-tainment operation. She serves on the Mineral County FSA Board and the Mineral County Family Resource Network Board. Ms. Brooke-Alt also serves on the Potomac State College Ag Advisory Committee and the Potomac State College Gerstell Ag Development Award Committee.

Ronald L. Bennett operates a dairy farm. He serves on the Alleghany County Farm Bureau Board, the Virginia Farm Bureau Dairy Advisory Board, and on the Rockbridge/Alleghany/Bath FSA Committee.

William J. Franklin, Jr., is a livestock producer in Scott County, Virginia. He also produces hay and corn for his 165 beef cows. Mr. Franklin is employed off the farm at Scott County Telephone Cooperative where he serves as the Chief Executive Officer. He serves on the Carolina-Virginia's Telephone Membership Association Board; the PAC Board of the National Rural Broadband Association; the IRIS Board which is a Tennessee LLC regional network provider; and the LIT Board which is a Virginia LLC regional network provider and Scott County Cattle Association Board. Mr. Franklin also serves on the National Rural Broadband Association’s Membership Committee and is a member of the Scott County Rotary Club.

Bobby C. Gray operates a diversified farm operation which includes raising dairy heifers, a beef cow herd, growing corn and hay on 1200 acres in Washington County, Virginia. Mr.

Gray serves on the Advisory Committee for the Washington County School System.

Charles E. Horn, Jr. owns and operates a poultry operation and raises replacement dairy heifers. Mr. Horn is currently serving as chairman of the Augusta Petroleum Cooperative Board which is a part of Southern States Cooperative.

Paul M. House is president of Kettle Wind Farm, LLC, a dairy, grain, and sod farm. He is also a shareholder in Dutchland Farm Inc., a family dairy farm.

Melody S. Jones is an outside director and is chairperson of the Audit Committee. She is a self-employed sole practitioner Certified Public Accountant. She serves on the BC Bank, Inc. as a director and also serves as treasurer for the Barbour County Chamber of Commerce.

James F. Kinsey is owner/manager of Kinsey's Oak Front Farms which is a 200 head seed stock Angus farm. He is also a member of the West Virginia Cattlemen's Association, West Virginia Farm Bureau, West Virginia Angus Association and American Angus Association.

Milton L. McPike, Jr. is an outside director. He is the Project Manager Cooked Meats for Cargill, Inc in Wichita, Kansas.

Donald W. Reese is a partner in Reese's Farm Fresh Produce, a retail produce operation and a partner and manager of Reese Farms, Inc., a family owned vegetable farm. He also teaches agriculture at Halifax County High School.

Wallace W. Sanford, III, is a dairy and beef farmer in partnership with his family. He serves on the Maryland-Virginia Milk Producers Board and is a director for the Virginia State Dairymen Association.

Barry W. Shelor operates a dairy farm. He serves on the Board of Directors for Shelor's Dairy, Inc. and Mountain Meadows Dairy, LLC. Mr. Shelor also serves as vice president on the Patrick County Farm Bureau Board.

Alfred W. Stephens, Jr. is a dairy and beef cow/calf farmer and has a small produce business. He serves as secretary-treasurer on the Wythe/Bland DHIA.

Joseph W. Wampler is a general livestock and poultry farmer.

John E. Wells is a full-time beef farmer. He is a member of the West Virginia Cattlemen's Association, Wirt County Farm Bureau, and is vice president of the Jackson County Calf Pool Cooperative and serves on the AgFirst Farm Credit Council Board. Mr. Wells also serves as director for the Wirt County Group, Inc.

Subject to approval by the board, the Association may allow directors honorarium of $500 for attendance at meetings, committee meetings, or special assignments, and $100 for telephone conferences. In addition to the honoraria, the board chairperson was paid a quarterly retainer fee of $1,500, the audit committee chairperson was paid a quarterly retainer fee of $1,375 and the directors were paid a quarterly retainer fee of $1,250.

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

	Days Served			
Name of Director	**Regular Board Meetings**	**Other Official Activities***	**Committee Assignments**	**Compensation Paid For Other Activities****
Charles B. Leech, IV, **Chairperson**	13	44	Governance Committee and Chairperson of Compensation Committee	$ 18,800
Donna M. Brooke-Alt, **Vice Chairperson**	13	23	Compensation Committee and Governance Committee	9,100
Melody S. Jones, **Chairperson of Audit Committee**	13	19	Chairperson of Audit Committee	5,900
Ronald L. Bennett	13	7	Audit Committee	1,500
William J. Franklin, Jr.	13	25	Compensation Committee and Chairperson of Governance Committee	10,100
Bobby C. Gray	13	18	Audit Committee	7,000
Charles E. Horn, Jr.	13	20	Risk Management Committee	8,400
Paul M. House	13	24	Compensation Committee and Governance Committee	9,600
James F. Kinsey	13	17	Audit Committee	6,900
Milton L. McPike, Jr.	11	12	Chairperson of Risk Management Committee	4,000
Donald W. Reese	13	13	Chairperson of Communication Advocacy Program/Sales Committee	4,500
Wallace W. Sanford, III	13	16	Risk Management Committee	6,000
Barry W. Shelor	13	12	Compensation Committee and Governance Committee	4,000
Alfred W. Stephens, Jr.	10	13	Communication Advocacy Program/Sales Committee	4,500
Joseph W. Wampler	13	10	Risk Management Committee	3,400
John E. Wells	13	14	Communication Advocacy Program/Sales Committee	5,000
				$ 108,700

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

Directors and senior officers are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include 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 $202,958 for 2016, $156,047 for 2015, and $169,302 for 2014.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Notes to the Consolidated Financial Statements in this Annual Report.

Transactions Other Than Loans

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Certified Public Accountants

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

Aggregate fees incurred by the Association for services rendered by its independent certified public accountants for the year ended December 31, 2016 were as follows:

(dollars in thousands)	2016
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP Audit services	$ 71
Total	$ 71

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

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 13, 2017, and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-540-886-3435, extension 5020, or writing David Sauer, Farm Credit of the Virginias, P.O. Box 899, Staunton, VA 24402-0899 or accessing the web site, **www.farmcreditofvirginias.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 website within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

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 could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's 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 the Virginias, 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 certified public accountants for 2016, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from Farm Credit of the Virginias, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2016. The foregoing report is provided by the following independent directors, who constitute the Committee:

Melody Jones

Melody S. Jones
Chairperson of the Audit Committee

Members of Audit Committee

Kevin C. Craun
Bobby C. Gray
James F. Kinsey

March 13, 2017

pwc

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated financial statements of Farm Credit of the Virginias, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2016, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Certified Public Accountants' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit of the Virginias, ACA and its subsidiaries as of December 31, 2016, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 13, 2017

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

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2016	2015	2014
Assets			
Cash	**$ 5,730**	$ 2,945	$ 6,038
Loans	**1,798,996**	1,692,633	1,583,241
Allowance for loan losses	**(14,483)**	(14,487)	(12,465)
Net loans	**1,784,513**	1,678,146	1,570,776
Loans held for sale	**1,317**	2,269	1,077
Accrued interest receivable	**9,352**	8,680	7,854
Investments in other Farm Credit institutions	**19,698**	25,330	25,344
Premises and equipment, net	**10,228**	8,035	8,092
Other property owned	**2,467**	4,803	2,786
Accounts receivable	**22,046**	22,239	28,685
Other assets	**3,182**	5,228	3,861
Total assets	**$ 1,858,533**	$ 1,757,675	$ 1,654,513
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,423,922**	$ 1,354,433	$ 1,275,765
Accrued interest payable	**3,265**	3,060	2,809
Patronage refunds payable	**15,230**	15,259	21,209
Accounts payable	**3,380**	2,463	2,074
Other liabilities	**21,913**	17,682	16,429
Total liabilities	**1,467,710**	1,392,897	1,318,286
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**10,433**	12,606	13,159
Retained earnings			
Allocated	**92,568**	92,568	92,568
Unallocated	**287,846**	259,626	230,527
Accumulated other comprehensive income (loss)	**(24)**	(22)	(27)
Total members' equity	**390,823**	364,778	336,227
Total liabilities and members' equity	**$ 1,858,533**	$ 1,757,675	$ 1,654,513

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

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2016	2015	2014
Interest Income			
Loans	**$ 88,990**	$ 85,166	$ 80,033
Investments	**—**	—	5
Total interest income	**88,990**	85,166	80,038
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**37,830**	35,094	32,179
Net interest income	**51,160**	50,072	47,859
Provision for loan losses	**2,750**	2,700	1,200
Net interest income after provision for loan losses	**48,410**	47,372	46,659
Noninterest Income			
Loan fees	**745**	720	779
Fees for financially related services	**68**	106	121
Patronage refunds from other Farm Credit institutions	**21,860**	22,014	28,502
Gains (losses) on sales of rural home loans, net	**851**	914	447
Gains (losses) on sales of premises and equipment, net	**55**	38	67
Gains (losses) on other transactions	**55**	5	64
Other noninterest income	**81**	59	62
Total noninterest income	**23,715**	23,856	30,042
Noninterest Expense			
Salaries and employee benefits	**18,423**	17,167	16,650
Occupancy and equipment	**1,369**	1,255	1,228
Insurance Fund premiums	**2,316**	1,690	1,462
(Gains) losses on other property owned, net	**286**	451	252
Other operating expenses	**6,473**	6,552	6,188
Total noninterest expense	**28,867**	27,115	25,780
Income before income taxes	**43,258**	44,113	50,921
Provision for income taxes	**38**	14	133
Net income	**$ 43,220**	$ 44,099	$ 50,788

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2016	2015	2014
Net income	**$ 43,220**	$ 44,099	$ 50,788
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(2)**	5	(17)
Comprehensive income	**$ 43,218**	$ 44,104	$ 50,771

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2013	$ 17,313	$ 92,568	$ 200,739	$ (10)	$ 310,610
Comprehensive income			50,788	(17)	50,771
Capital stock/participation certificates issued/(retired), net	(4,154)				(4,154)
Patronage distribution					
Cash			(21,000)		(21,000)
Balance at December 31, 2014	$ 13,159	$ 92,568	$ 230,527	$ (27)	$ 336,227
Comprehensive income			44,099	5	44,104
Capital stock/participation certificates issued/(retired), net	(553)				(553)
Patronage distribution					
Cash			(15,000)		(15,000)
Balance at December 31, 2015	$ 12,606	$ 92,568	$ 259,626	$ (22)	$ 364,778
Comprehensive income			**43,220**	**(2)**	**43,218**
Capital stock/participation certificates issued/(retired), net	**(2,173)**				**(2,173)**
Patronage distribution					
Cash			**(15,000)**		**(15,000)**
Balance at December 31, 2016	**$ 10,433**	**$ 92,568**	**$ 287,846**	**$ (24)**	**$ 390,823**

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

Consolidated Statements of Cash Flows

	For the year ended December 31,		
(dollars in thousands)	**2016**	**2015**	**2014**
Cash flows from operating activities:			
Net income	**$ 43,220**	$ 44,099	$ 50,788
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**814**	774	810
Amortization (accretion) of net deferred loan costs (fees)	**200**	274	(367)
Premium amortization (discount accretion) on investments	**—**	—	(5)
Provision for loan losses	**2,750**	2,700	1,200
(Gains) losses on other property owned	**180**	294	166
(Gains) losses on sales of premises and equipment, net	**(55)**	(38)	(67)
(Gains) losses on sales of rural home loans, net	**(851)**	(914)	(447)
(Gains) losses on other transactions	**(55)**	(5)	(64)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(43,170)**	(40,837)	(26,896)
Proceeds from sales of loans held for sale, net	**44,973**	40,559	26,988
(Increase) decrease in accrued interest receivable	**(672)**	(826)	(346)
(Increase) decrease in accounts receivable	**193**	6,446	2,677
(Increase) decrease in other assets	**2,046**	(1,367)	665
Increase (decrease) in accrued interest payable	**205**	251	(49)
Increase (decrease) in accounts payable	**917**	389	(1,543)
Increase (decrease) in other liabilities	**4,290**	1,274	3,846
Total adjustments	**11,765**	8,974	6,568
Net cash provided by (used in) operating activities	**54,985**	53,073	57,356
Cash flows from investing activities:			
Net (increase) decrease in loans	**(110,745)**	(113,725)	(101,381)
(Increase) decrease in investment in other Farm Credit institutions	**5,632**	14	1,046
Proceeds from payments received on other investments	**—**	—	2,994
Purchases of premises and equipment	**(3,014)**	(719)	(1,153)
Proceeds from sales of premises and equipment	**62**	40	72
Proceeds from sales of other property owned	**3,578**	1,059	733
Net cash provided by (used in) investing activities	**(104,487)**	(113,331)	(97,689)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**69,489**	78,668	65,860
Capital stock and participation certificates issued/(retired), net	**(2,173)**	(553)	(4,154)
Patronage refunds and dividends paid	**(15,029)**	(20,950)	(20,952)
Net cash provided by (used in) financing activities	**52,287**	57,165	40,754
Net increase (decrease) in cash	**2,785**	(3,093)	421
Cash, beginning of period	**2,945**	6,038	5,617
Cash, end of period	**$ 5,730**	$ 2,945	$ 6,038
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ 1,428**	$ 3,381	$ 1,348
Estimated cash dividends or patronage distributions declared or payable	**15,000**	15,000	21,000
Employee benefit plans adjustments (Note 9)	**2**	(5)	17
Supplemental information:			
Interest paid	**37,625**	34,843	32,228
Taxes (refunded) paid, net	**37**	—	172

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of the Virginias, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in forty-six counties in the state of Virginia, forty-eight counties in the state of West Virginia, and two counties in the state of Maryland as follows:

Virginia: Counties of Albemarle, Alleghany, Arlington, Augusta, Bath, Bedford, Bland, Botetourt, Buchanan, Carroll, Craig, Culpeper, Dickenson, Fairfax, Fauquier, Floyd, Franklin, Giles, Grayson, Greene, Halifax, Henry, Highland, Lee, Loudoun, Madison, Montgomery, Nelson, Orange, Patrick, Pittsylvania, Prince William, Pulaski, Rappahannock, Roanoke, Rockbridge, Rockingham, Russell, Scott, Smyth, Spotsylvania, Stafford, Tazewell, Washington, Wise, and Wythe;

West Virginia: Counties of Barbour, Boone, Braxton, Cabell, Calhoun, Clay, Doodridge, Fayette, Gilmer, Grant, Greenbrier, Hampshire, Hardy, Harrison, Jackson, Kanawha, Lewis, Lincoln, Logan, Marion, Mason, McDowell, Mercer, Mineral, Mingo, Monongalia, Monroe, Nicholas, Pendleton, Pleasants, Pocahontas, Preston, Putnam, Raleigh, Randolph, Ritchie, Roane, Summers, Taylor, Tucker, Tyler, Upshur, Wayne, Webster, Wetzel, Wirt, Wood, and Wyoming; and

Maryland: Counties of Allegany and Garrett.

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

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

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

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

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

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

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

The Bank primarily lends to the District Associations in the form of 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 lending agreement between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Investments

As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the Consolidated Statements of Income and the balance of these investments, totaling $1,611, is included in Other Assets on the accompanying Consolidated Balance Sheet as of December 31, 2016.

Investment in Other Farm Credit Institutions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing. The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

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

Please see further discussion in Note 8.

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

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

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

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

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

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

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

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

In August, 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). Stakeholders had indicated there was diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or

equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.

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

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

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

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

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31,		
	2016	**2015**	**2014**
Real estate mortgage	$ 1,307,311	$ 1,188,861	$ 1,118,633
Production and intermediate-term	387,878	397,512	365,308
Rural residential real estate	46,175	46,746	43,302
Processing and marketing	30,144	40,223	37,375
Farm-related business	17,754	13,756	12,659
Communication	9,670	5,419	5,964
Loans to cooperatives	64	116	–
Total Loans	$ 1,798,996	$ 1,692,633	$ 1,583,241

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. During 2016, the Association canceled its participation in the Capitalized Participation Pool program with the Bank. As a result, the Association repurchased $73,558 of participations previously sold to AgFirst. The following tables present the principal balance of participation loans at periods ended:

	December 31, 2016							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 3,961	$ 10,312	$ –	$ –	$ –	$ –	$ 3,961	$ 10,312
Production and intermediate-term	9,540	4,585	415	–	–	–	9,955	4,585
Processing and marketing	6,204	–	189	–	–	–	6,393	–
Farm-related business	110	–	–	–	–	–	110	–
Communication	9,672	–	–	–	–	–	9,672	–
Total	$ 29,487	$ 14,897	$ 604	$ –	$ –	$ –	$ 30,091	$ 14,897

	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	$ 3,767	$ 88,113	$ –	$ –	$ –	$ –	$ 3,767	$ 88,113
Production and intermediate-term	5,033	4,969	551	–	–	–	5,584	4,969
Processing and marketing	7,787	–	227	–	–	–	8,014	–
Farm-related business	384	179	25	–	–	–	409	179
Communication	5,430	–	–	–	–	–	5,430	–
Total	$ 22,401	$ 93,261	$ 803	$ –	$ –	$ –	$ 23,204	$ 93,261

	December 31, 2014							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 102,167	$ –	$ –	$ –	$ –	$ –	$ 102,167
Production and intermediate-term	3,296	3,803	570	–	–	–	3,866	3,803
Processing and marketing	6,745	–	–	–	–	–	6,745	–
Farm-related business	–	223	39	–	–	–	39	223
Communication	5,974	–	–	–	–	–	5,974	–
Total	$ 16,015	$ 106,193	$ 609	$ –	$ –	$ –	$ 16,624	$ 106,193

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 the latest period end:

	December 31, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 10,429	$ 37,157	$ 1,259,725	$ 1,307,311
Production and intermediate-term	170,783	163,419	53,676	387,878
Rural residential real estate	2,195	1,521	42,459	46,175
Processing and marketing	21,363	4,980	3,801	30,144
Farm-related business	3,413	3,229	11,112	17,754
Communication	–	6,504	3,166	9,670
Loans to cooperatives	62	2	–	64
Total Loans	$ 208,245	$ 216,812	$ 1,373,939	$ 1,798,996
Percentage	11.58%	12.05%	76.37%	100.00%

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

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

	December 31, 2016	2015	2014
Real estate mortgage:			
Acceptable	95.55%	95.42%	94.17%
OAEM	1.79	1.84	2.21
Substandard/doubtful/loss	2.66	2.74	3.62
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	94.44%	94.69%	93.32%
OAEM	2.21	2.32	2.62
Substandard/doubtful/loss	3.35	2.99	4.06
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	97.08%	97.28%	96.05%
OAEM	2.09	1.13	1.39
Substandard/doubtful/loss	0.83	1.59	2.56
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	61.10%	67.39%
OAEM	–	27.77	17.42
Substandard/doubtful/loss	–	11.13	15.19
	100.00%	100.00%	100.00%

	December 31, 2016	2015	2014
Farm-related business:			
Acceptable	97.43%	97.94%	97.65%
OAEM	–	–	–
Substandard/doubtful/loss	2.57	2.06	2.35
	100.00%	100.00%	100.00%
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	95.46%	94.52%	93.44%
OAEM	1.83	2.52	2.62
Substandard/doubtful/loss	2.71	2.96	3.94
	100.00%	100.00%	100.00%

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

December 31, 2016

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 6,995	$ 4,936	$ 11,931	$ 1,301,054	$ 1,312,985	$ 114
Production and intermediate-term	2,511	5,405	7,916	383,408	391,324	–
Rural residential real estate	129	–	129	46,218	46,347	–
Processing and marketing	139	–	139	30,009	30,148	–
Farm-related business	–	193	193	17,615	17,808	–
Communication	–	–	–	9,672	9,672	–
Loans to cooperatives	–	–	–	64	64	–
Total	$ 9,774	$ 10,534	$ 20,308	$ 1,788,040	$ 1,808,348	$ 114

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	$ 11,311	$ 2,626	$ 13,937	$ 1,180,311	$ 1,194,248	$ –
Production and intermediate-term	2,726	4,653	7,379	393,224	400,603	205
Rural residential real estate	62	244	306	46,590	46,896	–
Processing and marketing	–	–	–	40,246	40,246	–
Farm-related business	–	–	–	13,784	13,784	–
Communication	–	–	–	5,420	5,420	–
Loans to cooperatives	–	–	–	116	116	–
Total	$ 14,099	$ 7,523	$ 21,622	$ 1,679,691	$ 1,701,313	$ 205

	December 31, 2014					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 7,468	$ 4,713	$ 12,181	$ 1,111,318	$ 1,123,499	$ –
Production and intermediate-term	2,855	3,319	6,174	361,911	368,085	370
Rural residential real estate	980	245	1,225	42,219	43,444	–
Processing and marketing	–	–	–	37,419	37,419	–
Farm-related business	39	299	338	12,345	12,683	–
Communication	–	–	–	5,965	5,965	–
Total	$ 11,342	$ 8,576	$ 19,918	$ 1,571,177	$ 1,591,095	$ 370

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

	December 31,		
	2016	2015	2014
Nonaccrual loans:			
Real estate mortgage	$ 20,813	$ 15,888	$ 19,670
Production and intermediate-term	9,963	9,332	6,014
Farm-related business	2,657	2,765	3,046
Rural residential real estate	145	409	599
Total	$ 33,578	$ 28,394	$ 29,329
Accruing restructured loans:			
Real estate mortgage	$ 976	$ 1,099	$ 375
Production and intermediate-term	466	86	498
Total	$ 1,442	$ 1,185	$ 873
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 114	$ –	$ –
Production and intermediate-term	–	205	370
Total	$ 114	$ 205	$ 370
Performing impaired loans:			
Real estate mortgage	$ 2,175	$ 2,364	$ 2,399
Production and intermediate-term	712	1,975	2,095
Processing and marketing	–	4,481	5,684
Total	$ 2,887	$ 8,820	$ 10,178
Total nonperforming loans	$ 38,021	$ 38,604	$ 40,750
Other property owned	2,467	4,803	2,786
Total nonperforming assets	$ 40,488	$ 43,407	$ 43,536
Nonaccrual loans as a percentage of total loans	1.87%	1.68%	1.85%
Nonperforming assets as a percentage of total loans and other property owned	2.25%	2.56%	2.74%
Nonperforming assets as a percentage of capital	10.36%	11.90%	12.95%

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

	December 31, 2016	December 31, 2015	December 31, 2014
Impaired nonaccrual loans:			
Current as to principal and interest	$ 21,177	$ 18,838	$ 18,758
Past due	12,401	9,556	10,571
Total	$ 33,578	$ 28,394	$ 29,329
Impaired accrual loans:			
Performing	2,887	8,820	10,178
Restructured	1,442	1,185	873
90 days or more past due	114	205	370
Total	4,443	10,210	11,421
Total impaired loans	$ 38,021	$ 38,604	$ 40,750
Additional commitments to lend	$ 191	$ 354	$ 45

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, 2016 Recorded Investment	December 31, 2016 Unpaid Principal Balance	December 31, 2016 Related Allowance	Year Ended December 31, 2016 Average Impaired Loans	Year Ended December 31, 2016 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 2,593	$ 2,753	$ 218	$ 2,579	$ 80
Production and intermediate-term	4,940	5,698	513	4,912	152
Farm-related business	2,465	3,229	92	2,451	76
Rural residential real estate	–	–	–	–	–
Total	$ 9,998	$ 11,680	$ 823	$ 9,942	$ 308
With no related allowance for credit losses:					
Real estate mortgage	$ 21,485	$ 24,460	$ –	$ 21,364	$ 661
Production and intermediate-term	6,201	9,596	–	6,166	191
Farm-related business	192	430	–	191	6
Rural residential real estate	145	292	–	144	4
Total	$ 28,023	$ 34,778	$ –	$ 27,865	$ 862
Total impaired loans:					
Real estate mortgage	$ 24,078	$ 27,213	$ 218	$ 23,943	$ 741
Production and intermediate-term	11,141	15,294	513	11,078	343
Farm-related business	2,657	3,659	92	2,642	82
Rural residential real estate	145	292	–	144	4
Total	$ 38,021	$ 46,458	$ 823	$ 37,807	$ 1,170

Impaired loans:	December 31, 2015 Recorded Investment	December 31, 2015 Unpaid Principal Balance	December 31, 2015 Related Allowance	Year Ended December 31, 2015 Average Impaired Loans	Year Ended December 31, 2015 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 10,132	$ 10,831	$ 2,308	$ 9,983	$ 651
Production and intermediate-term	8,374	8,746	1,744	8,251	538
Processing and marketing	–	–	–	–	–
Farm-related business	2,765	3,359	163	2,724	178
Rural residential real estate	221	298	60	218	14
Total	$ 21,492	$ 23,234	$ 4,275	21,176	1,381
With no related allowance for credit losses:					
Real estate mortgage	$ 9,219	$ 10,628	$ –	$ 9,085	$ 593
Production and intermediate-term	3,224	5,420	–	3,176	207
Processing and marketing	4,481	4,484	–	4,415	288
Farm-related business	–	–	–	–	–
Rural residential real estate	188	293	–	185	12
Total	$ 17,112	$ 20,825	$ –	16,861	1,100
Total impaired loans:					
Real estate mortgage	$ 19,351	$ 21,459	$ 2,308	$ 19,068	$ 1,244
Production and intermediate-term	11,598	14,166	1,744	11,427	745
Processing and marketing	4,481	4,484	–	4,415	288
Farm-related business	2,765	3,359	163	2,724	178
Rural residential real estate	409	591	60	403	26
Total	$ 38,604	$ 44,059	$ 4,275	38,037	2,481

	December 31, 2014			Year Ended December 31, 2014	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 9,724	$ 10,028	$ 1,291	$ 8,338	$ 519
Production and intermediate-term	5,296	5,822	1,547	4,542	282
Processing and marketing	–	–	–	–	–
Farm-related business	3,046	3,494	187	2,611	162
Rural residential real estate	143	163	15	123	8
Total	$ 18,209	$ 19,507	$ 3,040	$ 15,614	$ 971
With no related allowance for credit losses:					
Real estate mortgage	$ 12,720	$ 15,188	$ –	$ 10,906	$ 679
Production and intermediate-term	3,681	5,738	–	3,156	197
Processing and marketing	5,684	5,684	–	4,874	303
Farm-related business	–	–	–	–	–
Rural residential real estate	456	636	–	391	24
Total	$ 22,541	$ 27,246	$ –	$ 19,327	$ 1,203
Total impaired loans:					
Real estate mortgage	$ 22,444	$ 25,216	$ 1,291	$ 19,244	$ 1,198
Production and intermediate-term	8,977	11,560	1,547	7,698	479
Processing and marketing	5,684	5,684	–	4,874	303
Farm-related business	3,046	3,494	187	2,611	162
Rural residential real estate	599	799	15	514	32
Total	$ 40,750	$ 46,753	$ 3,040	$ 34,941	$ 2,174

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

	Year Ended December 31,		
	2016	**2015**	**2014**
Interest income which would have been recognized under the original loan terms	$ 2,819	$ 3,866	$ 3,541
Less: interest income recognized	1,136	2,464	2,083
Foregone interest income	$ 1,683	$ 1,402	$ 1,458

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	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2015	$ 6,920	$ 6,594	$ 613	$ –	$ 360	$ 14,487
Charge-offs	(1,005)	(1,677)	(222)	–	(80)	(2,984)
Recoveries	147	83	–	–	–	230
Provision for loan losses	410	1,989	306	–	45	2,750
Balance at December 31, 2016	$ 6,472	$ 6,989	$ 697	$ –	$ 325	$ 14,483
Balance at December 31, 2014	$ 5,678	$ 5,981	$ 537	$ –	$ 269	$ 12,465
Charge-offs	(372)	(740)	–	–	–	(1,112)
Recoveries	251	183	–	–	–	434
Provision for loan losses	1,363	1,170	76	–	91	2,700
Balance at December 31, 2015	$ 6,920	$ 6,594	$ 613	$ –	$ 360	$ 14,487
Balance at December 31, 2013	$ 5,246	$ 4,901	$ 1,532	$ –	$ 199	$ 11,878
Charge-offs	(681)	(655)	–	–	(6)	(1,342)
Recoveries	419	304	5	–	1	729
Provision for loan losses	694	1,431	(1,000)	–	75	1,200
Balance at December 31, 2014	$ 5,678	$ 5,981	$ 537	$ –	$ 269	$ 12,465
Allowance on loans evaluated for impairment:						
Individually	$ 218	$ 513	$ 92	$ –	$ –	$ 823
Collectively	6,254	6,476	605	–	325	13,660
Balance at December 31, 2016	$ 6,472	$ 6,989	$ 697	$ –	$ 325	$ 14,483
Individually	$ 2,308	$ 1,744	$ 163	$ –	$ 60	$ 4,275
Collectively	4,612	4,850	450	–	300	10,212
Balance at December 31, 2015	$ 6,920	$ 6,594	$ 613	$ –	$ 360	$ 14,487
Individually	$ 1,291	$ 1,547	$ 187	$ –	$ 15	$ 3,040
Collectively	4,387	4,434	350	–	254	9,425
Balance at December 31, 2014	$ 5,678	$ 5,981	$ 537	$ –	$ 269	$ 12,465
Recorded investment in loans evaluated for impairment:						
Individually	$ 24,078	$ 11,141	$ 2,657	$ –	$ 145	$ 38,021
Collectively	1,288,907	380,183	45,363	9,672	46,202	1,770,327
Balance at December 31, 2016	$ 1,312,985	$ 391,324	$ 48,020	$ 9,672	$ 46,347	$ 1,808,348
Individually	$ 19,351	$ 11,598	$ 7,246	$ –	$ 409	$ 38,604
Collectively	1,174,897	389,005	46,900	5,420	46,487	1,662,709
Balance at December 31, 2015	$ 1,194,248	$ 400,603	$ 54,146	$ 5,420	$ 46,896	$ 1,701,313
Individually	$ 22,069	$ 8,932	$ 8,729	$ –	$ 600	$ 40,330
Collectively	1,101,430	359,153	41,373	5,965	42,844	1,550,765
Balance at December 31, 2014	$ 1,123,499	$ 368,085	$ 50,102	$ 5,965	$ 43,444	$ 1,591,095

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

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 $44,334, $48,726, and $50,875 at December 31, 2016, 2015, and 2014, respectively. Fees paid for such guarantee commitments totaled $54, $76, and $110 for 2016, 2015, and 2014, respectively. These amounts are classified as noninterest expense.

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

	Year Ended December 31, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 1,324	$ –	$ 1,324	
Production and intermediate-term	1,112	1,091	–	2,203	
Total	$ 1,112	$ 2,415	$ –	$ 3,527	
Post-modification:					
Real estate mortgage	$ –	$ 988	$ –	$ 988	$ –
Production and intermediate-term	1,112	1,091	–	2,203	–
Total	$ 1,112	$ 2,079	$ –	$ 3,191	$ –

Outstanding Recorded Investment	Year Ended December 31, 2015 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 2,400	$ 427	$ –	$ 2,827	
Production and intermediate-term	400	3,717	–	4,117	
Total	$ 2,800	$ 4,144	$ –	$ 6,944	
Post-modification:					
Real estate mortgage	$ 2,460	$ 427	$ –	$ 2,887	$ –
Production and intermediate-term	400	3,717	–	4,117	–
Total	$ 2,860	$ 4,144	$ –	$ 7,004	$ –

Outstanding Recorded Investment	Year Ended December 31, 2014 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Rural residential real estate	$ 297	$ 797	$ –	$ 1,094	
Total	$ 297	$ 797	$ –	$ 1,094	
Post-modification:					
Rural residential real estate	$ 297	$ 797	$ –	$ 1,094	$ –
Total	$ 297	$ 797	$ –	$ 1,094	$ –

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

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

Defaulted troubled debt restructurings	Year Ended December 31, 2016	2015	2014
Real estate mortgage	$ 60	$ 405	$ –
Production and intermediate-term	78	1,586	–
Total	$ 138	$ 1,991	$ –

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,		
	2016	2015	2014	2016	2015	2014
Real estate mortgage	$ 2,526	$ 2,016	$ 873	$ 1,550	$ 917	$ 498
Production and intermediate-term	5,190	3,978	1,050	4,724	3,892	553
Farm related business	2,465	2,765	3,046	2,465	2,765	3,046
Rural residential real estate	29	35	41	29	35	41
Total Loans	$ 10,210	$ 8,794	$ 5,010	$ 8,768	$ 7,609	$ 4,138
Additional commitments to lend	$ –	$ –	$ –			

The following table presents information as of period end:

	December 31, 2016
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 115
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 145

Note 4 — Investments

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

The Association's investment in the Bank totaled $18,878 for 2016, $24,557 for 2015 and $24,613 for 2014. The Association owns 7.46 percent of the issued stock of the Bank as of December 31, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled $32.1 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $342 million for 2016. In addition, the Association had $820 investments related to other Farm Credit institutions at December 31, 2016.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2016	2015	2014
Land	$ 3,828	$ 3,584	$ 3,402
Buildings and improvements	8,516	6,556	6,550
Furniture and equipment	5,685	5,158	4,875
	18,029	15,298	14,827
Less: accumulated depreciation	7,801	7,263	6,735
Total	$ 10,228	$ 8,035	$ 8,092

Other Property Owned

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

	December 31,		
	2016	2015	2014
(Gains) losses on sale, net	$ 188	$ –	$ (21)
Carrying value unrealized (gains) losses	(8)	294	187
Operating (income) expense, net	106	157	86
(Gains) losses on other property owned, net	$ 286	$ 451	$ 252

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 $150, $156, and $167 at December 31, 2016, 2015, and 2014, 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, 2016, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 1.89 percent for LIBOR-based loans and 1.88 percent for Prime-based loans, and the weighted average remaining maturities were 4.7 years and 8.9 years, respectively, at December 31, 2016. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.00 percent, and the weighted average remaining maturity was 12.2 years at December 31, 2016. The weighted-average interest rate on all interest-bearing notes payable was 2.78 percent and the weighted-average remaining maturity was 10.8 years at December 31, 2016. Gross notes payable consists of approximately 80.12 percent fixed rate and 19.88 percent variable rate portions, representing a match-funding of the Association's loan volume at December 31, 2016. Notes payable to the Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the note payable and corresponding interest expense. 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. **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 Common 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 a minimum of 2 percent of the loan amount or $1 thousand, or such higher amount as determined by the Board. 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.

B. **Regulatory Capitalization Requirements and Restrictions:** FCA regulations require that certain minimum standards for capital be achieved and maintained. These standards are measured based on capital as a percentage of risk-adjusted assets and off-balance-sheet commitments and surplus levels as a percentage of risk-adjusted assets.

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

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

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	20.75%	20.07%	19.91%	7.00%
Total surplus ratio	20.08%	19.29%	19.15%	7.00%
Core surplus ratio	20.08%	19.29%	19.15%	3.50%

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

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

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

The Association had the following shares outstanding at December 31, 2016:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	1,945,267	$ 9,726
Participation Certificates/Nonvoting	No	141,352	707
Total Capital Stock and Participation Certificates		2,086,619	$ 10,433

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

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

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

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

Allocated equities shall be retired solely at the discretion of the Board provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2016, allocated members' equity consisted of $92,568 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.

The patronage distributions accrued at year-end are based on estimates. The actual amounts distributed may vary from these estimates. Differences are reflected as distribution adjustments in the Consolidated Statements of Changes in Members' Equity.

Dividends

Dividends may be paid on stock and participation certificates as determined by the Board's resolution. Dividends may not be paid on common stock and participation certificates during any fiscal year with respect to which the Association has obligated itself to distribute earnings on a patronage basis pursuant to the bylaws. The rate of dividend paid on Class D Preferred Stock for any fiscal year may not be less than the rate of dividend paid on common stock or participation certificates for such year. All dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

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

Common stocks and participation certificates may be transferred to persons or entities eligible to purchase or hold such equities under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

Impairment

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

1. Nonqualified allocated members equity beginning with the most recent allocation
2. Qualified allocated members equity beginning with the most recent allocation
3. Classes A and C Common Stock and Participation Certificates
4. Class D Preferred Stock

Liquidation

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

1. Holders of Class D Preferred Stock until an amount equal to the aggregate par value of shares of Class D Preferred Stock then outstanding has been distributed to the holders;
2. Holders of Class A Stock, Class C Stock, and Participation Certificates pro rata in proportion to the number of shares or units each such class of stock and participation certificates then outstanding until an amount equal to the aggregate par value (or face value) of such shares or units has been distributed to the holders;
3. Holders of Allocated Surplus to the extent evidenced by qualified written notices of allocation, pro rata, on the basis of the oldest allocations first, until an amount equal to the total account has been distributed to such holders;
4. Holders of Allocated Surplus to the extent evidenced by nonqualified written notice of allocation, pro rata, on the basis of the oldest allocations first, until an amount equal the total account has been distributed to such holders;
5. Any remaining assets of the Association after such distributions shall be distributed to Patrons, past and present, in proportion to which the aggregate patronage of each such Patron bears to the total patronage of all such parties insofar as practicable, unless as otherwise provided by law.

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

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

	For the years ended December 31, 2016	2015	2014
Employee Benefit Plans:			
Balance at beginning of period	$ (22)	$ (27)	$ (10)
Other comprehensive income before reclassifications	(3)	4	(17)
Amounts reclassified from AOCI	1	1	–
Net current period OCI	(2)	5	(17)
Balance at end of period	$ (24)	$ (22)	$ (27)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*			
	Year to Date			
	2016	2015	2014	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	$ (1)	$ (1)	$ –	See Note 9.
Amounts reclassified	$ (1)	$ (1)	$ –	

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

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

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

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

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

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

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

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

	At or for the Year ended December 31, 2016					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,611	$ 1,611	$ –	$ –	$ 1,611	
Recurring Assets	$ 1,611	$ 1,611	$ –	$ –	$ 1,611	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 37,198	$ –	$ –	$ 37,198	$ 37,198	$ 698
Other property owned	2,467	–	–	2,735	2,735	(180)
Nonrecurring Assets	$ 39,665	$ –	$ –	$ 39,933	$ 39,933	$ 518
Other Financial Instruments						
Assets:						
Cash	$ 5,730	$ 5,730	$ –	$ –	$ 5,730	
Loans	1,748,632	–	–	1,731,474	1,731,474	
Other Financial Assets	$ 1,754,362	$ 5,730	$ –	$ 1,731,474	$ 1,737,204	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,423,922	$ –	$ –	$ 1,404,483	$ 1,404,483	
Other Financial Liabilities	$ 1,423,922	$ –	$ –	$ 1,404,483	$ 1,404,483	

	At or for the Year ended December 31, 2015					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,358	$ 1,358	$ –	$ –	$ 1,358	
Recurring Assets	$ 1,358	$ 1,358	$ –	$ –	$ 1,358	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 34,329	$ –	$ –	$ 34,329	$ 34,329	$ (1,914)
Other property owned	4,803	–	–	5,320	5,320	(294)
Nonrecurring Assets	$ 39,132	$ –	$ –	$ 39,649	$ 39,649	$ (2,208)
Other Financial Instruments						
Assets:						
Cash	$ 2,945	$ 2,945	$ –	$ –	$ 2,945	
Loans	1,646,086	–	–	1,644,803	1,644,803	
Other Financial Assets	$ 1,649,031	$ 2,945	$ –	$ 1,644,803	$ 1,647,748	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,354,433	$ –	$ –	$ 1,347,654	$ 1,347,654	
Other Financial Liabilities	$ 1,354,433	$ –	$ –	$ 1,347,654	$ 1,347,654	

	At or for the Year ended December 31, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,224	$ 1,224	$ –	$ –	$ 1,224	
Recurring Assets	$ 1,224	$ 1,224	$ –	$ –	$ 1,224	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 37,710	$ –	$ –	$ 37,710	$ 37,710	$ (226)
Other property owned	2,786	–	–	3,073	3,073	(166)
Nonrecurring Assets	$ 40,496	$ –	$ –	$ 40,783	$ 40,783	$ (392)
Other Financial Instruments						
Assets:						
Cash	$ 6,038	$ 6,038	$ –	$ –	$ 6,038	
Loans	1,534,143	–	–	1,540,271	1,540,271	
Other Financial Assets	$ 1,540,181	$ 6,038	$ –	$ 1,540,271	$ 1,546,309	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,275,765	$ –	$ –	$ 1,264,974	$ 1,264,974	
Other Financial Liabilities	$ 1,275,765	$ –	$ –	$ 1,264,974	$ 1,264,974	

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.

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	$ 39,933	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates Probability of default Loss severity

Note 9 — Employee Benefit Plans

The Association participates in four District sponsored benefit plans. These plans include two multi-employer defined benefit pension plans, the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP Plan) and the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB Plan). In addition, the Association participates in a multi-employer defined benefit other postretirement employee 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.

In November 2014, the AgFirst Plan Sponsor Committee approved and executed amendments to the CB Plan that included the following changes:

1. The CB Plan was closed to new participants effective as of December 31, 2014. Based on the plan's eligibility provisions, this change affected employees hired on or after November 4, 2014.

2. Employer contributions were discontinued effective as of January 1, 2015.

3. All participants who were not already fully vested in the CB Plan became fully vested as of December 31, 2014.

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

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

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

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

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

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
AgFirst Farm Credit Retirement Plan	86.96%	85.73%	84.56%	$2,111	$3,874	$2,613	7.40%	6.71%	6.88%
AgFirst Farm Credit Cash Balance Retirement Plan	100.21%	102.72%	100.07%	$ –	$ –	$300	0.00%	0.00%	6.03%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$426	$386	$431	5.92%	5.68%	5.57%

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

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number

2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association hired before November 4, 2014 are eligible to participate in either the FAP Plan or the CB Plan. These two plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003 through November 3, 2014, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. Prior to January 1, 2015, when employer contributions were discontinued as discussed above, the employer contribution into the CB Plan was based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $3,512 for 2016, $3,462 for 2015, and $3,672 for 2014. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $873 for 2016, $1,152 for 2015, and $689 for 2014. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $692, $632, and $430 for the years ended December 31, 2016, 2015, and 2014, respectively. Beginning in 2015, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2016, 2015, and 2014, $(2), $5 and $(17), respectively, has been recognized as a net debit, net credit and net debit 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 $117 and a net under-funded status of $117 at December 31, 2016. Assumptions used to determine the projected benefit obligation as of December 31, 2016 included a discount rate of 4.35 percent. The expenses of these nonqualified plans included in employee benefit costs were $9, $8, and $7 for 2016, 2015, and 2014, respectively.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2016 amounted to $8,075. During 2016, $2,182 of new loans were made and repayments totaled $2,432. In the opinion of management, none of these loans outstanding at December 31, 2016 involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2016, $206,399 of commitments to extend credit and no commercial letters of credit were outstanding. At December 31, 2016, there was no reserve for unfunded commitments 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, 2016, standby letters of credit outstanding totaled $510 with expiration dates ranging from January 1, 2017 to October 1, 2022. The maximum potential amount of future payments that may be required under these guarantees was $510.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$ 27	$ 4	$ 113
State	11	10	20
	38	14	133
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 38	$ 14	$ 133

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

	December 31,		
	2016	2015	2014
Federal tax at statutory rate	$ 15,140	$ 15,440	$ 17,822
State tax, net	7	4	6
Patronage distributions	(5,250)	(5,250)	(7,350)
Tax-exempt FLCA earnings	(11,257)	(10,408)	(10,813)
Change in valuation allowance	1,570	273	431
Other	(172)	(45)	37
Provision (benefit) for income taxes	$ 38	$ 14	$ 133

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2016	2015	2014
Deferred income tax assets:			
Allowance for loan losses	$ 2,955	$ 2,668	$ 2,526
Other property owned valuation allowance	–	–	–
Annual leave	542	521	494
Nonaccrual loan interest	870	598	496
Pensions and other postretirement benefits	4,314	4,044	3,689
Deferred incentive	399	300	207
Gross deferred tax assets	9,080	8,131	7,412
Less: valuation allowance	(8,033)	(6,463)	(6,190)
Gross deferred tax assets, net of valuation allowance	1,047	1,668	1,222
Deferred income tax liabilities:			
Loan origination fees	(436)	(382)	(231)
Pensions and other postretirement benefits	(535)	(1,080)	(919)
Depreciation	(76)	(206)	(72)
Gross deferred tax liability	(1,047)	(1,668)	(1,222)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2016, deferred income taxes have not been provided by the Association on approximately $1.6 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 $8,033, $6,463, and $6,190 as of December 31, 2016, 2015 and 2014, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2016 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2013 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2016				
	First	Second	Third	Fourth	Total
Net interest income	$ 12,586	$ 12,655	$ 12,882	$ 13,037	$ 51,160
Provision for (reversal of allowance for) loan losses	500	1,000	250	1,000	2,750
Noninterest income (expense), net	(3,483)	(3,617)	(3,201)	5,111	(5,190)
Net income	$ 8,603	$ 8,038	$ 9,431	$ 17,148	$ 43,220

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 12,420	$ 12,371	$ 12,360	$ 12,921	$ 50,072
Provision for (reversal of allowance for) loan losses	–	1,000	1,000	700	2,700
Noninterest income (expense), net	(3,720)	(3,340)	(2,756)	6,543	(3,273)
Net income	$ 8,700	$ 8,031	$ 8,604	$ 18,764	$ 44,099

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 11,893	$ 11,751	$ 11,853	$ 12,362	$ 47,859
Provision for (reversal of allowance for) loan losses	–	1,200	–	–	1,200
Noninterest income (expense), net	(3,353)	(3,059)	(2,451)	12,992	4,129
Net income	$ 8,540	$ 7,492	$ 9,402	$ 25,354	$ 50,788

Note 14 — Subsequent Events

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

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