ANNUAL REPORT

2016

Because of our members.
For our members.

FARM CREDIT
OF CENTRAL FLORIDA

What's Inside

FARM CREDIT
OF CENTRAL FLORIDA

Our Mission

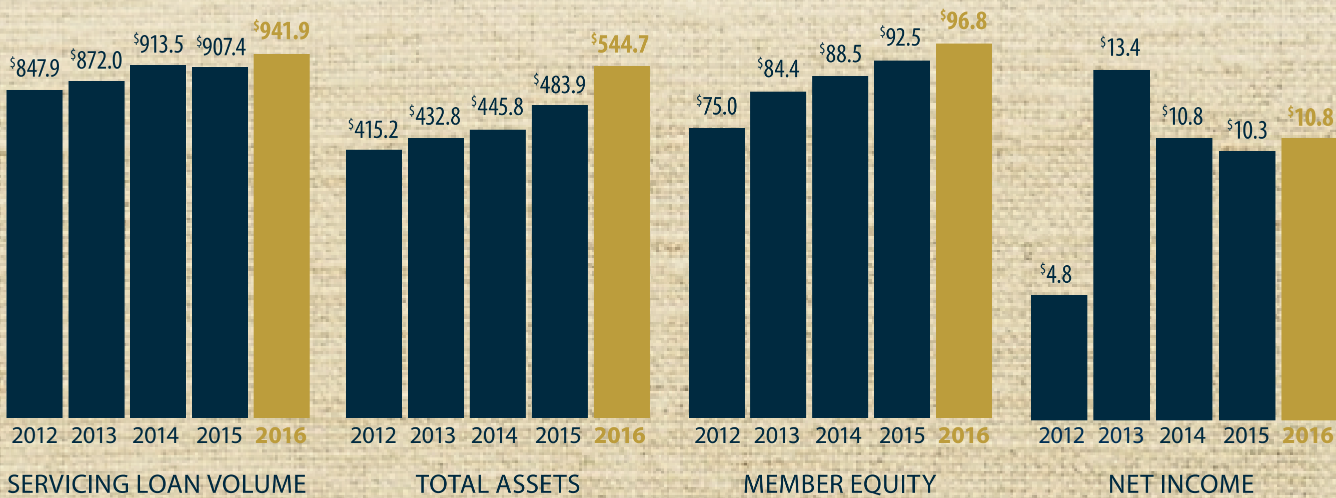
Farm Credit of Central Florida's mission is to provide reliable, consistent credit and financial services to the agricultural and rural communities of Central Florida.

Reggie Holt
Chief Executive Officer

From the President's Desk

In 2016, Farm Credit celebrated 100 years of service to rural communities and agriculture — a milestone accomplishment that few organizations reach. Perhaps more remarkable than our longevity is the fact that, over the course of a century, Farm Credit has kept its dedication to agriculture and rural America. I have been with the Farm Credit System for 35 years and I can say that while many things have changed, that dedication has remained the same.

Central Florida has faced a great deal of change, adversity and prosperity in the agricultural industry. From the freezes in the 80's to the Great Recession



*Dollar amounts in millions

and now citrus greening, Farm Credit has been there along the way to support Florida agriculture through the tough times. Farm Credit has remained customer-focused through the ups and downs and values your membership to the cooperative.

Fortunately for farmers and ranchers in our area, Farm Credit reached its centennial stronger than ever. During 2016, loan volume grew approximately 13.5 percent with total assets growing 12.6 percent. Our performance shows in the numbers. We are a cooperative you can be proud to be a part of. In this annual report, you will find information about our patronage program, new members of our leadership team, several new faces on the board of directors and a few words from our borrower-owners.

We are a streamlined and efficient organization that operates with integrity. Agriculture is becoming more diverse and we are responding to the needs of the next generation — entrepreneurial farmers who will be the backbone of tomorrow's rural communities — while continuing to serve established farmers.

Agriculture touches every life every day. As the financial engine that keeps American agriculture running, Farm Credit will continue to be there to help our rural communities keep pace.

So, for the next century, we're looking forward to an even stronger rural America.

Reggie Holt

Our Core Values

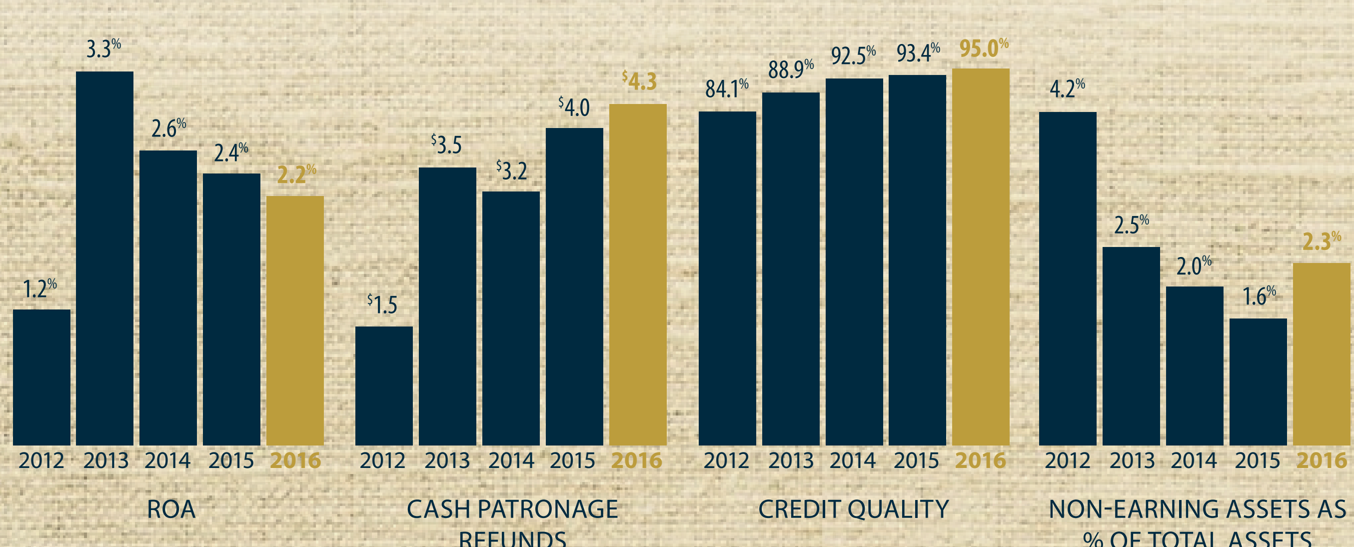
Customer focused
We strive to provide the best customer experience while never forgetting that our customers are our member-owners.

Integrity
We do what is right and we keep confidences.

Diversity
We attract, motivate, reward, and retain a high-performing and diverse workforce.

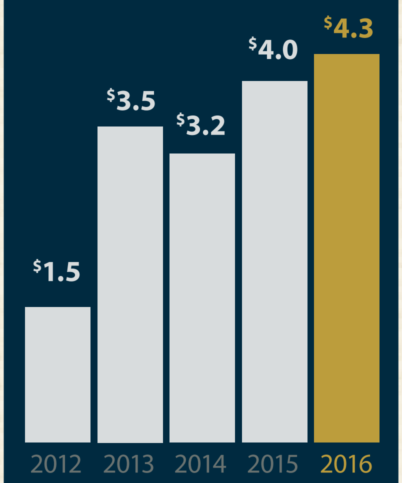
Performance
We aim to achieve excellence in the delivery of all services.

Dedication
We are a socially responsible corporate citizen supporting and promoting rural America and core cooperative principles.



*Dollar amounts in millions

Five-Year Patronage History



**Dollar amounts in millions*

"Patronage is a benefit of doing business with a cooperative and we are proud to demonstrate that."

— Reggie Holt,
President and CEO

Patronage: For Our Members

Being a cooperative is what sets Farm Credit of Central Florida apart from traditional lenders. While we adhere to the same strict financial management practices, our borrowers are also our members and our owners. Membership to the cooperative grants the ability to have a voice in the governance of the Association and to share in the profits through patronage.

Each year, the board of directors establishes the patronage payment plan based on Farm Credit of Central Florida's earnings that year. Since 1988, the Association has declared patronage refunds exceeding $156 million. Each member's share in the profits is proportional to the amount borrowed from the Association. As a cooperative, the Association has a commitment to its members and their communities.

"Patronage helps reward members for their loyalty to the Association and returns money directly into the communities we serve," Chairman of the Board Robert Roberson said.

"Cash patronage not only benefits our members' wallets, it reduces their overall cost of borrowing by as much as 0.75 percent and helps them understand the link between their investment in the Association and the benefits derived from membership to a cooperative," President and CEO Reggie Holt said.

"Patronage is a benefit of doing business with a cooperative and we are proud to demonstrate that."

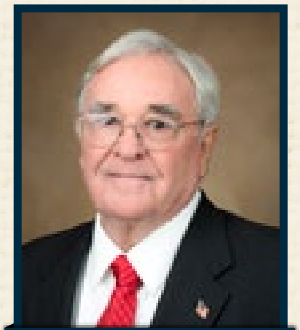
Distributing a $4.3 million patronage for 2016 to our members is a testimony to the strength of agriculture and rural America. When our members are successful, we are successful. It speaks to the strong board of directors and staff who continue to move the Association forward into our next 100 years of service.

"Patronage helps reward members for their loyalty to the Association and returns money directly into the communities we serve."

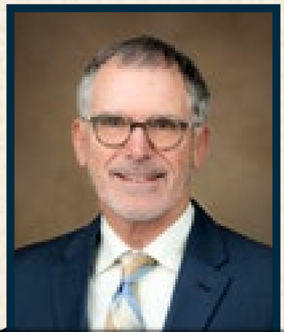
— Robert Roberson,
Board Chairman

Your Board of Directors

Our board of directors is dedicated to **ensuring your prosperity** by always keeping your interests in mind.



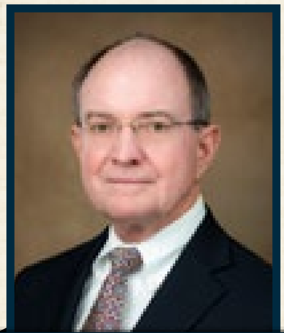
Robert R. Roberson
Chairman



W. Rex Clonts Jr.
Vice Chairman

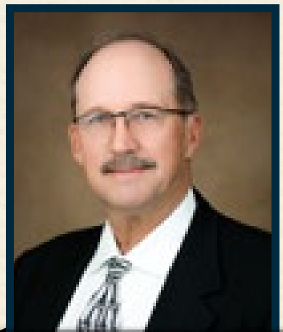
Jenny R. Black

C. Dennis Carlton Sr.

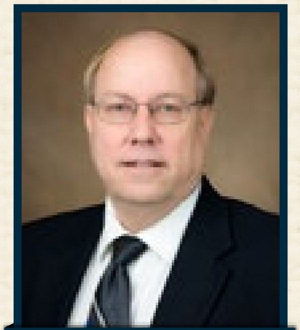


John S. Langford

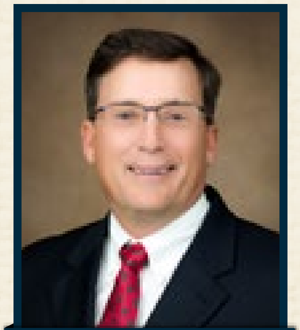
Randy L. Larson



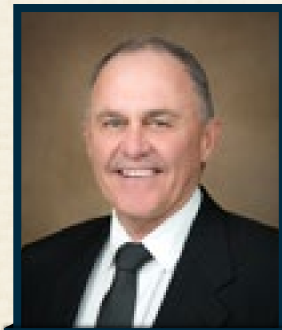
Dale McClellan



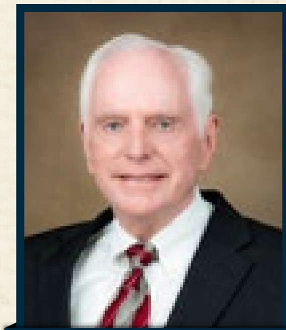
David A. Mereness



Keith D. Mixon



Randall E. Strode

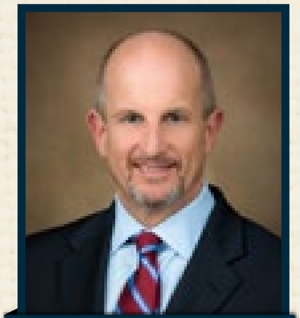


Ronald R. Wetherington

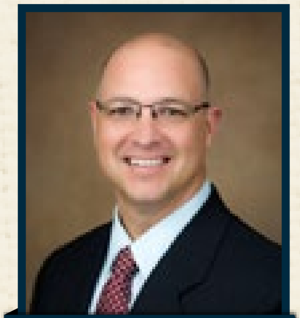
People Who Work For You

Our strong team of leaders make **supporting you, the agriculture industry, and its stakeholders** our number one priority.

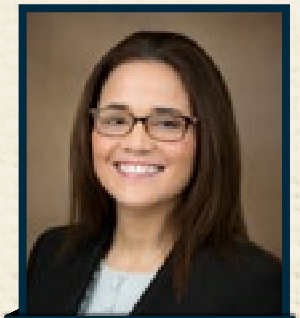
Executive Management



Reggie Holt
Chief Executive Officer



Scott Fontenot
Chief Operating Officer



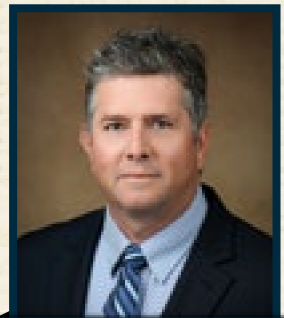
Courtney Eelman
Chief Credit Officer

Scarlet Detjen
Chief Audit Executive

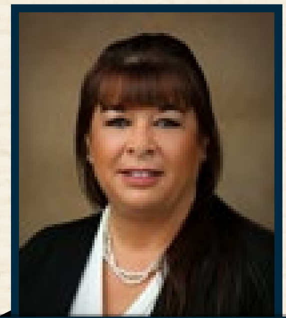
Strategic Leadership Team

Annie Sullivan
Chief Financial Officer

Mark McRae
Chief Sales Officer

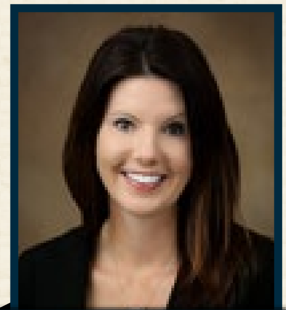


Jeff Phillips
Chief Relationship Manager

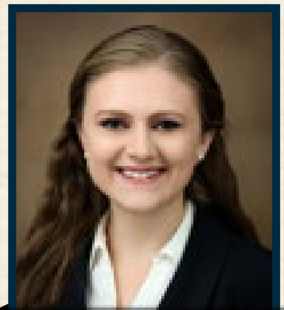


Gayle Yanes
Lifestyle & Small Business Lending Manager

Regina Thomas
Director of Financially Related Services



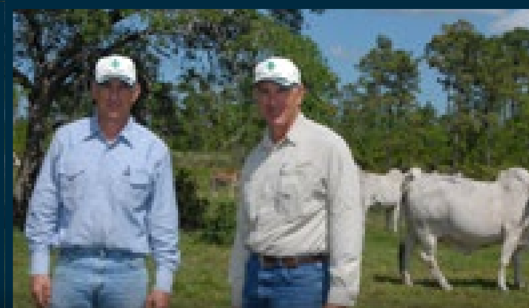
Dawn Tuten
Corporate Secretary



Tory Moore
Marketing Manager







Customer Conversations






Brantley Nurseries

brantleynurseries.com

Brantley Nurseries

"There's been a history of us using Farm Credit through the years, and if it wasn't around, I don't think we would have survived the recession. Everyone at Farm Credit has always been very easy to work with, concerned about our needs, and if we do need to modify loans, they have always been very open to listening to how they can help. They've been a real asset to the company, and it's been a great partnership. The personal relationships you develop with Farm Credit are fantastic. You can pick up the phone and say 'we need you,' and the service is always impeccable. Great people, super people to deal with."

— Bill, John, and Dan Klinger, Brantley Nurseries

M & D Gator Products, Fagan Alligator Farm

"I found Farm Credit, and was referred to Thomas. We have become very good friends through this entire process, and he has done more than I ever anticipated. I have been tickled to death with Farm Credit ever since, and anyone I come into contact with that has any type of agricultural deal, I try to send them Farm Credit's way. I would recommend them to anybody."

— Mickey Fagan, Fagan Alligator Farm

EIP Citrus Management

precisioncitrus.com

"The trust and confidence they put in me will always be a reason I'm thankful for Farm Credit. Because of them, doors are being opened for hundreds of extra acres of citrus to be planted in 2017. I needed Farm Credit to understand my vision, my goals, and my plans. From the very beginning, Chris has been the most helpful, and Farm Credit has been very up front. All of the excitement my operation has created would not have happened if Farm Credit didn't jump in and say 'Hey, we believe in this guy.'"

— Ed Pines, EIP Citrus Management

Wish Farms

wishfarms.com

Wish Farms

"Farm Credit sticks with agricultural operations through thick and thin, and they know the business. They understand the cycles of the produce industry, and that is one of the reasons we've been happy to stick with them and will continue to do so."

— Gary Wishnatzki, Wish Farms

FernTrust, Inc.

ferntrust.com

FernTrust, Inc.

"It's nice working with people who understand agriculture and the cycles you have, and the needs that you have. Sometimes you need something quick, and Farm Credit always provides. I really can't say enough good things about Farm Credit and what they've done for us. They've always been really fair about our rates, and all the loan officers we've had over the years, they've all been great. I'm just so thankful we have an organization like Farm Credit to help farmers and to understand them."

— David Register, FernTrust, Inc.

Mathis Farms

Mathis Farms

"Farm Credit has made farming easy. They've been really great to work with, and I can't say enough. I would definitely recommend them. There are other competitors out there, but there is no reason to leave. We've been treated too well."

— Steve Mathis, Mathis Farms

George Henry Partnership

"We felt comfortable borrowing from Farm Credit because they support our industry and know agriculture."

— George and Henry Kempfer, George Henry Partnership

Astin Farms

astinfarms.com

Astin Strawberry Exchange

"We've been with Farm Credit for 20 years, and I don't have to worry about the next season, because I know the funds will always be there and on time. Jeff has done an outstanding job. Farm Credit financed our first project, and they have always been there to make the process easy, smooth, and straightforward. Extremely easy to deal with."

— Sam Astin, Astin Farms

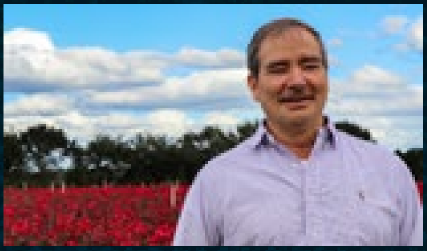
Webb's Honey

webbshoney.com

Webb's Honey

"I was familiar with Farm Credit, I've known people that worked for Farm Credit for years, and they're good friends of mine. I ran into David and he managed to acquire the funds I needed for my operation, and it helped me out a lot. I was very happy with the projects I was able to complete with my loan from Farm Credit."

— David Webb, Webb's Honey



Dewar Nurseries, Inc.

dewarnurseries.com

Dewar Nurseries, Inc.

"My family has always done business with Farm Credit, never anyone else. Farm Credit is great, and the best thing about this company is that you understand the business. We all understand that we have to be responsible and perform on our side, and Farm Credit makes that part easy."

— Bill Dewar, Dewar Nurseries

Adams Ranch

adamsranch.com

Adams Ranch, Inc.

"Farm Credit understands our business and financing needs. They're always friendly and easy to work with."

— Bud Adams, Rancher

2016 Financial Results

Report of Management

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

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

The Consolidated Financial Statements have been audited by independent 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 Central Florida, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Keith D. Mixon
Chairman of the Audit Committee

Reginald T. Holt
Chief Executive Officer

Anne M. Sullivan
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.

Reginald T. Holt
Chief Executive Officer

Anne M. Sullivan
Chief Financial Officer

March 13, 2017

Consolidated Five-Year Summary of Selected Financial Data

(dollars in thousands)	2016	2015	December 31, 2014	2013	2012
Balance Sheet Data					
Cash	**$ 1,087**	$ 320	$ 271	$ 277	$ 56
Investment securities	**19,008**	24,612	31,756	39,511	47,900
Loans	**508,773**	445,550	399,417	374,964	356,337
Allowance for loan losses	**(4,766)**	(6,803)	(9,237)	(8,095)	(11,626)
Net loans	**504,007**	438,747	390,180	366,869	344,711
Investments in other Farm Credit institutions	**6,481**	6,598	6,931	7,611	9,116
Other property owned	**216**	16	—	1,108	1,759
Other assets	**13,875**	13,640	16,619	17,426	11,662
Total assets	**$ 544,674**	$ 483,933	$ 445,757	$ 432,802	$ 415,204
Notes payable to AgFirst Farm Credit Bank*	**$ 435,590**	$ 379,668	$ 344,844	$ 337,140	$ 333,645
Accrued interest payable and other liabilities with maturities of less than one year	**12,287**	11,717	12,409	11,245	6,609
Total liabilities	**447,877**	391,385	357,253	348,385	340,254
Protected borrower stock	**—**	—	—	—	1
Capital stock and participation certificates	**861**	858	860	902	952
Retained earnings					
Allocated	**26,269**	28,505	30,740	34,167	34,202
Unallocated	**70,166**	63,673	57,369	49,767	39,813
Accumulated other comprehensive income (loss)	**(499)**	(488)	(465)	(419)	(18)
Total members' equity	**96,797**	92,548	88,504	84,417	74,950
Total liabilities and members' equity	**$ 544,674**	$ 483,933	$ 445,757	$ 432,802	$ 415,204
Statement of Income Data					
Net interest income	**$ 11,129**	$ 10,954	$ 11,384	$ 10,810	$ 10,637
Provision for (reversal of allowance for) loan losses	**(2,340)**	(1,983)	1,340	(747)	2,595
Noninterest income (expense), net	**(2,676)**	(2,633)	758	1,809	(3,268)
Net income	**$ 10,793**	$ 10,304	$ 10,802	$ 13,366	$ 4,774
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.22%**	2.36%	2.59%	3.27%	1.20%
Total members' equity	**11.23%**	11.27%	12.34%	16.67%	6.45%
Net interest income as a percentage of average earning assets	**2.34%**	2.54%	2.79%	2.71%	2.76%
Net (chargeoffs) recoveries to average loans	**0.067%**	(0.112)%	(0.053)%	(0.783)%	(0.337)%
Total members' equity to total assets	**17.77%**	19.12%	19.85%	19.50%	18.05%
Debt to members' equity (:1)	**4.63**	4.23	4.04	4.13	4.54
Allowance for loan losses to loans	**0.94%**	1.53%	2.31%	2.16%	3.26%
Permanent capital ratio	**18.95%**	20.42%	21.18%	21.13%	19.15%
Total surplus ratio	**18.77%**	20.21%	20.96%	20.87%	18.85%
Core surplus ratio	**17.53%**	18.86%	18.24%	17.64%	16.42%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 4,300**	$ 4,000	$ 3,200	$ 3,500	$ 1,528
Nonqualified retained earnings	**—**	—	—	—	1,019

** 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 Central Florida, 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 over 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 central Florida. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association 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, Post Office 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.FarmCreditCFL.com***, or by calling 1-800-533-2773, or writing Anne M. Sullivan, Chief Financial Officer, Farm Credit of Central Florida, ACA, Post Office Box 8009, Lakeland, FL 33802-8009. 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.

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

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

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

- *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.

REGIONAL ECONOMICS

The election results of 2016 bring a platform of policies that will likely boost the growth rate of the U.S. economy and as a result will catalyze economic growth in Florida. The combination of tax reform/cuts and infrastructure spending will help boost real GDP growth towards 3%, in a recovery that for seven and a half years has not been able to sustain growth much faster than 2%. More importantly will be the rollback of a regulatory blitz that has entangled the economy in a red tape flood, which, as much as anything else, has been responsible for the lackluster growth of the U.S. economy.

The U.S. economy has not been a tailwind for Florida's economy since the state's economy began to outpace the national's in 2012 for job growth and 2013 for GDP growth. This will change in the upcoming years as federal policy shifts toward a pro-growth stance that will accelerate growth in Florida pushing the state even further ahead of the national economy.

Real Gross State Product (RGSP) or real state GDP growth in Florida is expected to grow at a faster pace than forecasted for U.S. Real GDP growth over the next four years, as it has been since 2013. Growth of RGSP in the first year of the state's recovery, 2012, showed Florida's economy expanding at a 1.7% pace, while U.S. GDP was growing at 2.2%. In 2013, Florida's economy accelerated with a growth rate of 2.3% as rising consumer confidence, progress in the housing market recovery, population growth, and healing of the damage in the labor market helped lay the foundation for even faster economic growth in the state. Meanwhile, growth in the U.S. economy slowed to 1.7% in 2013. The two paths for the U.S. and Florida remain at different levels but both are poised to move higher over the next three years.

The improvement of the fundamentals of the state's economy helped accelerate growth in 2015, when RGSP expanded at 3.1%, the fastest growth rate in the recovery to date. In 2016 through 2019, however, growth will accelerate even more as federal policy helps to boost Florida's economy. Growth in that four-year stretch is expected to be 3.2%, 3.8%, 3.9%, and 3.8%, respectively. During 2016-2019, Florida's RGSP is expected to grow an average of 3.7% annually.

Housing prices have made substantial progress from the bottom of the housing crisis. During the crisis, median existing home prices fell to a low of $122,200 but now stand at $220,000. This ongoing price appreciation continues to repair damage done to household balance sheets in Florida, but even at today's double digit price appreciation, it will take several years to recover all the wealth lost in the housing market collapse. Housing prices plummeted from the median-price high of $257,800 in June of 2006.

In 2016, real disposable income will average 3.8%, down from the previous year's 4.6% growth rate. Average growth in

Florida during 2016-2019 will remain a solid 4.0%, with U.S. real disposable income growth expected to average 3.0% during the same time frame.

Home equity in Florida has not recovered as rapidly, nor as completely, as financial asset wealth, but housing prices have been rising over the past four years. An acceleration in the rate of price appreciation in 2015 to a double-digit pace, which has been sustained to date, is creating significant gains in home equity wealth. However, for many households in Florida, the effects of the lost home equity wealth will continue to weigh upon consumer spending through the end of 2019. Financial asset wealth and home equity wealth should continue to grow, boosting consumer spending and financing with the retirement of more Baby Boomers in Florida.

The labor market in Florida continues to show robust job creation in 2016, and this will also lift consumer sentiment and consumption spending in the state. Gasoline and oil prices are still low by historical levels and that has boosted confidence and served to support retail sales outside of gasoline purchases. With more money staying in consumers' pockets that previously went into the tank, households will be able to increase spending on other goods and services.

With Florida's strong labor market recovery sustaining its momentum and more home equity being recovered, retail spending will accelerate in 2016 and 2017, with growth averaging 3.7% during those two years. The average growth rate of retail sales will be over 6.3% during 2016-2019.

Agricultural Sectors

Agriculture, agribusiness, food processing and manufacturing are still a significant driver to the Florida economy. These business segments provide significant jobs and revenues to the state and local economies.

The agricultural industry in the Central Florida region produces a wide variety of farm commodities with nursery, citrus and strawberries still the largest market segments and principal commodities financed. None of the commodities produced in the region are included in any USDA government support programs and are not materially impacted by changes in U.S. farm legislation. The agricultural demographics of the region have significantly changed as a result of non-agricultural development pressures and three devastating freeze events that occurred in the 1980's. Other than some adverse impacts of hurricanes during 2004, the region has not suffered a major catastrophic event such as a freeze event since December 1989.

While the overall agricultural economy in the central Florida region has been good over the last few years, there are several significant issues that have affected the area. These issues include the introduction of pest and plant diseases such as citrus canker and greening to the citrus industry, weather-related risks, water-use regulations, environmental rules and regulations, land use and growth management regulations, and challenges to property rights. Nursery growers have seen stabilization in the market as the economy has improved from the recent recession.

Floriculture and Nursery

The floriculture and nursery product sectors continue to be a significant market for the Association, with production concentrated primarily in the Apopka area (including Orange, Lake and Volusia counties). Nursery producers in the Association's territory produce a variety of nursery products, including but not limited to woody ornamentals and trees, annual and perennial bedding and garden plants, and potted foliage and greens. History has shown that the demand for each of these crops is driven by different market factors.

A majority of the Association's nursery portfolio is with growers involved in the production of outdoor plant material and trees. These segments are highly sensitive to construction activity, and as such, were adversely impacted during the recent recession. Financing of tropical foliage grown primarily for indoor use represents a lesser, but still significant portion of the Association's nursery portfolio. The condition of this mature market correlates highly with general economic conditions. With the improving national and state economies and increased construction in Florida, growers in all nursery segments have generally enjoyed positive revenue and earnings trends over the past four years. Additional discussion of the tree and woody ornamental segments is provided below.

Trees: Oaks, magnolia, elm and other tree varieties are primarily grown for end-use in the outdoor landscape market. As such, a large portion of the total demand for these crops is driven by landscape regulation, new housing construction and home-improvement activity. As demand for landscape trees fell between 2006 and 2011, nurseries decreased or stopped planting new production, abandoned existing fields, ceased maintaining critical infrastructure, and in many cases completely exited the market. Demand is increasing due to shortages in various product lines combined with an increase in housing starts, which is resulting in prices slowly and steadily increasing. The growers that were able to maintain production and inventory levels are well positioned to take advantage of the shortages that are now being seen in the marketplace. Producers willing and able to make the capital investment today to expand capacity will need to wait 4-6 years for the inventories to mature. It is projected that housing starts will continue to increase over the next several years; therefore, shortages in plant material could occur during that time.

Woody ornamentals: This segment is similar to the tree sector in its reliance and sensitivity to landscape regulation, new housing starts, and home improvement activity. This sector has also seen a steady increase in demand with shortages due to lack of production and inventory shrink during the previous recession. Growers that were able to maintain inventories or that were able to react in a timely fashion are taking advantage of these shortages and demanding higher prices. Inventory turn in this sector is somewhat shorter than the tree sector and would range from 18 months to 3 years.

Nursery growers in the Association's territory should continue to benefit from the unique growing conditions inherent to the region and the established marketing and transportation infrastructure that exists. With improvement seen in the housing and development sectors, ornamental and tree markets are likely to experience an increase in demand.

Strawberries

The U.S. strawberry industry is primarily located in the southern and coastal areas in California where production practices thrive under moderate climates with warm days and low humidity. The 2012 census data reported 38,500 acres of strawberries were harvested in California. Florida and Oregon are the second and third largest strawberry-producing states, respectively. Florida production for 2012 was reported at 8,700 acres while Oregon was approximately 2,000 acres. The census data also reported 2.76 billion pounds of strawberry production was harvested in California, with Florida and Oregon reporting 182.7 million and 21.3 million pounds produced, respectively. Since 2012, Florida's strawberry growing production area has continued to increase. It is estimated that almost 11,000 acres were planted during the most recently completed 2015/16 season. The Association finances a significant majority of strawberry producers in Hillsborough County, Florida.

Although Florida produces about fifteen percent of the nation's strawberries, it produces nearly all of the berries harvested in the U.S. during the winter months. Florida's typical harvest season begins around Thanksgiving and goes into March with typical peak season in March. California production ramps down by November and what little remains stays west of the Mississippi. In March, California shipments start ramping upward enough to begin supplying eastern markets and cut into Florida strawberry profit margins. This leaves Florida with an advantageous market window in the winter months.

Over the last two decades, the U.S. strawberry industry has experienced increased rates of consumption at a higher rate than other fruits and vegetables. Strawberries are the fifth most preferred fresh fruit in the United States, behind bananas, apples, watermelon and grapes.

Per capita fresh strawberry use in the United States has generally trended higher since 1980, reaching a record 7.9 pounds per person in 2013. Greater awareness of the importance of fruits and vegetables in a healthy diet (health benefits include antioxidant levels, folate, potassium, vitamin C, and fiber content), increased year-round availability through domestic production and imports, and adoption of better varieties helped promote increased strawberry consumption in the United States.

There are some threats to the profitability of Florida's winter strawberry growers. These include potential increases in competing production from Mexico, a marketing window that can be shortened by California production, water availability and regulations as well as local weather conditions. A number of strawberry growers have vertically integrated their operations by performing functions such as cooling, packing, processing and marketing. In fact, many of the Association's larger growers (and hence those to which the ACA has the greatest exposure) are fully integrated with strawberry growing, packing and shipping operations, and are consequently less vulnerable to changes in growing conditions from season to season. Due to improved vegetable crop demand and price, many strawberry growers practice double cropping techniques by following strawberries with vegetables planted on the same prepared beds.

Citrus

The citrus industry is an essential part of the Florida economy. Florida Citrus Mutual reports that the citrus industry in the state provides a total economic revenue impact of $9 billion. Florida is second behind Brazil in orange production for juice. The industry supports 76,000 jobs in Florida and is the backbone of many communities in the state's heartland. The Florida citrus industry is, however, under threat by a number of challenges in dealing with diseases (e.g., citrus canker, citrus greening, black spot and tristeza), extreme weather conditions (e.g., hurricanes), constrained nursery and budwood supply, urban development, energy cost increases, environmental policy, labor issues, and long-term uncertainty.

Citrus greening, a bacterial disease spread by the Asian citrus psyllid, poses a serious threat to Florida's citrus industry. The disease causes citrus trees to die and adversely impacts fruit production and quality, and this is evident in commercial citrus acreage and production declines. The USDA National Agricultural Statistics preliminary report on *Commercial Citrus Inventory* dated September 12, 2016 states that Florida citrus acreage had decreased to 480,121 acres. This was down 4% from the previous USDA survey, and the lowest citrus acreage in the state since the mid-1960's. The September 2016 report indicated that there had been 10,090 acres planted since the previous year. Offsetting new plantings was a loss of 31,365 citrus acres, primarily attributed to greening, which resulted in the net loss of 13,751 acres or 3%. Along with the declining citrus acreage, there has been a significant decrease in Florida citrus production. The USDA Florida citrus estimate was only 72 million boxes of oranges for the current 2016/17 season. This represents a 12% decline from the previous 2015/16 season and was 26% less than the 2014/15 season. Compared with the prior ten seasons, forecasted 2016/17 orange production represents a significant decline, and is approximately 42% of the 170.2 million boxes harvested during the 2007/08 season.

Florida has also experienced declines in grapefruit and specialty citrus fruit. Although grown to some extent within the Association's chartered territory, these citrus types do not comprise a large component in most of our citrus growers' operations. Our growers' primary citrus crop remains oranges grown for processing into concentrated and not-from-concentrate orange juice.

As noted above, there is still interest in planting new citrus groves within the state despite the challenges from greening and high grove maintenance expenses. This is being bolstered by currently high citrus prices and the availability of long term contracts with fruit processors. Also, many industry participants believe that the considerable research into greening will yield significant results in the near future. This includes the development of new treatments and greening resistant trees. At this time, however, combating greening primarily involves control of psyllid populations to prevent spread and enhanced tree nutritional programs.

Blueberries

Commercial blueberry production has significantly increased in Florida since 2000. Florida has become a major producer of early-season blueberries. In Florida, blueberries can be grown commercially as far south as Highlands and DeSoto counties and north to the Georgia border. U-pick blueberry farms are scattered throughout Florida, primarily near population centers.

Advantages of blueberries include their high market value for early-season fruit, wide consumer acceptance and health benefits, and the availability of commercial and/or pick-your-own (u-pick) marketing channels. The primary disadvantages include freeze hazard to early-flowering cultivars, exacting cultural requirements to maintain good plant health, insects, pests, diseases, and birds.

Florida's early-season southern highbush cultivars are the first blueberries to ripen in North America. Most of the state's blueberries grown for commercial shipping are harvested between early April and late May. The Florida blueberry industry has developed despite production problems because Florida growers can produce high-quality fruit when few fresh berries are available. High prices received for this fruit have made some farms more profitable even with relatively low yields. However, high prices encourage competition. If berry prices remain high, competition from Central America, Mexico, and the Caribbean may eventually develop. The best long-term defense for Florida growers is through higher yields per acre, lower production costs, and development of currently under-exploited markets for blueberries. Improvements have been made to grower production and efficiency during the last several years – including releasing new highbush variety plants. Acreage and production continue to increase and fruit prices have generally been at levels necessary for profitable operations.

The amount of additional blueberries that can be sold on the national market without forcing the price down is unknown, but Florida has the potential to produce larger quantities of blueberries early in the year, when prices are highest. Shipment of southern highbush blueberries from Florida begins during early April. Producers in southeast Georgia can harvest southern highbush blueberries in mid-to-late April. Shipment of large quantities of blueberries from California begins in mid-May and from other eastern states in late May. At present, the market window from April 1 to May 10 is available almost exclusively to Florida and South Georgia growers who grow southern highbush blueberries. A major incentive for developing blueberry plantings in central and south-central Florida has been the ability to put blueberries on the market during late March and early April.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including horticulture, citrus, strawberries, and cattle. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the level of dependency on a given commodity.

The Association's total servicing loan volume for the past three years is shown below.

	December 31,					
Servicing Loan Volume	**2016**		**2015**		**2014**	
	(dollars in thousands)					
Net Loans Outstanding	$ 508,773	54.02%	$ 445,550	49.10%	$ 399,417	43.72%
Participations Sold	202,449	21.49	239,923	26.45	234,748	25.70
Available Commitments	211,637	22.47	197,293	21.74	247,780	27.12
Investments	19,008	2.02	24,612	2.71	31,576	3.46
Total	$ 941,867	100.00%	$ 907,378	100.00%	$ 913,521	100.00%

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	$ 247,923	48.73%	$ 224,160	50.31%	$ 208,040	52.09%
Production and Intermediate-term	164,923	32.41	144,445	32.43	135,756	33.98
Processing and marketing	55,259	10.86	56,409	12.66	37,126	9.30
Communication	15,849	3.12	5,188	1.16	3,603	0.90
Rural residential real estate	7,540	1.48	6,734	1.51	7,933	1.99
Farm-related business	6,618	1.30	8,614	1.93	5,050	1.26
International	5,830	1.15	–	–	–	–
Loans to Cooperatives	4,831	.95	–	–	–	–
Energy	–	–	–	–	1,909	0.48
Total	$ 508,773	100.00%	$ 445,550	100.00%	$ 399,417	100.00%

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

The distribution of the loan volume by line of business for the past three years is as follows:

	December 31,		
Line of Business	**2016**	**2015**	**2014**
Apopka	5.74%	6.29%	7.40%
Plant City	4.06	4.47	6.40
Brooksville	2.96	2.90	3.63
Lake Wales	–	3.06	4.26
Lakeland	2.73	0.04	0.03
Agribusiness	59.16	58.97	61.82
Capital Markets	19.45	17.08	12.33
Residential Lending	1.77	1.95	0.10
Special Assets	4.13	5.24	4.03
	100.00%	100.00%	100.00%

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are strawberry, livestock, nursery, and citrus, which constitute nearly 60 percent of the entire portfolio.

Commodity Group per SIC Codes	December 31 2016		December 31 2015		December 31 2014	
	(dollars in thousands)					
Strawberries	$ 106,187	20.88%	$ 80,854	18.15%	$ 65,353	16.36%
Livestock	83,299	16.37	75,033	16.84	66,458	16.64
Nursery	59,793	11.75	64,467	14.47	67,403	16.88
Citrus	55,298	10.87	55,366	12.43	63,867	15.99
Blueberries	27,673	5.44	25,815	5.79	26,637	6.67
Landlord/Lessors	24,344	4.78	20,662	4.64	13,513	3.38
Fruits & Vegetables	23,261	4.57	22,531	5.06	15,811	3.96
Timber	17,168	3.37	12,209	2.74	10,524	2.64
Poultry	16,909	3.32	15,285	3.43	11,715	2.93
Rural Home	6,946	1.37	7,584	1.70	9,030	2.26
Other	87,895	17.28	65,744	14.75	49,106	12.29
Total	$ 508,773	100.00%	$ 445,550	100.00%	$ 399,417	100.00%

The Association manages concentration risks, both industry and large borrower, through an internal hold limit policy based on individual loan risk ratings, loss given defaults, and industry concentrations. Industry concentrations for hold limit purposes are calculated using the repayment dependency code rather than the SIC code. As a result, for portfolio management purposes, industry classifications are determined based on high dependency of repayment coming from the actual commodity itself. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. For example, citrus and livestock industries are a large percent of the total portfolio but each also have very low repayment dependency coming from the actual commodity itself. Portfolio management industries concentrations are classified in three concentration levels based on the industry concentration (with high dependency) as a percent of total ACA capital; 1) High – greater than 100% of total capital; 2) Medium – between 50% and 100% of total capital; and 3) Low – less than 50% of total capital. The Association's loan portfolio contains two medium concentrations in the nursery and strawberry industries. All other industries are in the low concentration level.

	December 31,		
Portfolio Management Industry as % of Capital	**2016**	**2015**	**2014**
	(% of Total Capital)		
Strawberries	65.20%	74.59%	78.05 %
Nursery	59.20	66.16	72.45
Citrus	20.57	42.03	46.20
Blueberries	19.24	21.70	25.44
Fruits & Vegetables	6.22	19.05	22.57

The concentration of large loans has decreased over the past several years and 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 as well as the internal hold limit policy which limits any additional increases to already high concentrations.

The increase in loan volume for the twelve months ended December 31, 2016, is primarily attributed to increased demand for loans from within the Association's charted territory coupled with an improvement in net participation activity.

The short-term portfolio, which is cyclical in nature and heavily influenced by operating-type loans, normally reaches a minimum balance in August or September and rapidly increases in the fall months as strawberry and other winter vegetable growers increase their borrowings to prepare for the next crop season. The Association has grown the long-term portfolio through increased mortgage lending on real estate and facilities used for agriculture production.

During 2016, the Association increased activity in total loan participations purchased within the System. Loan participations purchased provides 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.

	December 31,		
Loan Participations:	**2016**	**2015**	**2014**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 99,252	$ 76,305	$ 49,367
Participations Sold	(202,449)	(239,923)	(234,748)
Total	$ (103,197)	$ (163,618)	$ (185,381)

For the years ended December 31, 2016, 2015, and 2014, 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.

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, 2016, 2015, and 2014, the Association originated loans for resale totaling $13,765, $9,827, and $5,474, respectively, which were sold into the secondary market.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist of pools of Small Business Administration (SBA) guaranteed loans. These investments carry the full faith and credit of the United States government. The balance of these SBA investments, classified as being held-to-maturity, amounted to $19,008 at December 31, 2016, $24,612 at December 31, 2015, and $31,756 at December 31, 2014.

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. With certain exceptions identified in Association policy, appraisals are required for loans of more than $250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all 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	94.96%	93.36%	92.50%
Substandard	5.04%	6.64%	7.50%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

	December 31,		
High-risk Assets	2016	2015	2014
	(dollars in thousands)		
Nonaccrual loans	$ 11,501	$ 7,106	$ 7,886
Restructured loans	12,059	10,418	13,381
Accruing loans 90 days past due	–	–	–
Total high-risk loans	23,560	17,524	21,267
Other property owned	216	16	–
Total high-risk assets	$ 23,776	$ 17,540	$ 21,267
Ratios			
Nonaccrual loans to total loans	2.26%	1.59%	1.97%
High-risk assets to total assets	4.37%	3.62%	4.77%

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 $4,395 or 61.8% in 2016. This increase is primarily a result of a few large substandard borrowers that defaulted in 2016. The largest nonaccrual sectors are blueberry, fruits and vegetables and nursery loans due to the weakness associated with the individual borrower's repayment capacity and continuing decline of overall collateral values. Of the $11,501 in nonaccrual volume at December 31, 2016, $2,764 or 24%, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status compared to 66.10% and 55% at December 31, 2015 and 2014, respectively. The Association had $216 in other property owned at December 31, 2016. During 2016, the Association sold 2 properties totaling $97 and acquired 4 properties which increased the balance by $200.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is broken down between specific reserves assigned to an individual loan and general reserves which are available for the expected losses within the entire portfolio. The current allowance for loan losses at December 31, 2016 contains $2,341 in specific reserves and $2,425 in general reserves.

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	$ 6,803	$ 9,237	$ 8,095
Charge-offs:			
Real estate mortgage	–	(452)	(299)
Production and intermediate-term	(28)	(59)	(157)
Agribusiness	–	–	–
Rural residential real estate	(51)	(151)	(46)
Total charge-offs	(79)	(662)	(502)
Recoveries:			
Real estate mortgage	206	204	230
Production and intermediate-term	105	–	71
Rural residential real estate	71	7	3
Total recoveries	382	211	304
Net (charge-offs) recoveries	303	(451)	(198)
Provision for (reversal of allowance for) loan losses	(2,340)	(1,983)	1,340
Balance at end of year	$ 4,766	$ 6,803	$ 9,237
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.067%	(0.122)%	(0.053)%

The $2,340 allowance for loan loss reversal taken in 2016 was primarily the result of improved asset quality within the accruing portfolio. The net loan recovery of $303 were primarily associated with the nursery, cattle and rural home industries.

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	$ 1,481	$ 2,300	$ 4,994
Production and intermediate-term	3,096	4,301	3,387
Agribusiness	90	48	443
Communication	25	20	20
Rural residential real estate	71	134	393
International	3	--	--
Total loans	$ 4,766	$ 6,803	$ 9,237

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	0.94%	1.53%	2.31%
Nonperforming loans	20.23%	38.82%	43.43%
Nonaccrual loans	41.44%	95.74%	117.13%

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. The Allowance for Loan Losses was determined according to generally accepted accounting principles.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $11,129, $10,954, and $11,384 in 2016, 2015 and 2014, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The primary reason for the increase in net interest income for 2016 as compared to 2015 is increased loan volume offset by decreased loan spreads. Net interest income for 2014 contained a large recovery on a liquidated nonaccrual asset. 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**	**Total**
(dollars in thousands)			
12/31/16 - 12/31/15			
Interest income	$ 1,906	$ (393)	$ 1,513
Interest expense	890	448	1,338
Change in net interest income	$ 1,016	$ (841)	$ 175
12/31/15 - 12/31/14			
Interest income	$ 1,025	$ (799)	$ 226
Interest expense	322	334	656
Change in net interest income	$ 703	$ (1,133)	$ (430)

* *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

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

Noninterest Income	For the Year Ended December 31, 2016	2015	2014	Percentage Increase/(Decrease) 2016/2015	2015/2014
	(dollars in thousands)				
Loan fees	$ 342	$ 444	$ 431	(22.97)%	3.02%
Fees for financially related services	286	238	131	20.17	81.68
Patronage refund from other Farm Credit Institutions	7,287	7,115	9,945	2.42	(28. 46)
Gains (losses) on other rural home loans, net	326	207	123	57.49	68.29
Gains (losses) on other transactions	15	(2)	14	850.00	(114.29)
Gains (losses) on sales of premises and equipment, net	129	–	–	–	–
Other noninterest income	6	11	43	(45.46)	(74.42)
Total noninterest income	$ 8,391	$ 8,013	$ 10,687	4.72%	(25.02)%

Noninterest income increased $378 or 4.72% for December 31, 2016, as compared to the same period of 2015. December 31, 2015 noninterest income decreased $2,674 or 25.02% when compared to the same period of 2014. The increase in noninterest income for 2016 and 2015 is primarily the result of increased patronage refunds from other Farm Credit Institutions, gains on rural home loans and gains on the sale of premises and equipment. The Association sold the Lake Wales branch office in 2016 for a gain of $129. The Association received a $2,419 special patronage distribution from the Bank in 2016 as compared to $2,360 in 2015 and $4,150 in 2014. The Association's patronage earnings from the Capitalized Participation Pool (CPP) with AgFirst were $560 compared to prior year's $703 and 2014's $1,715. The decrease in CPP earnings is the result of a continuous decline in loan volume within the pool due to runoff or movement from the pool back to net accruing volume as compared to 2015 and 2014.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2016	2015	2014	Percentage Increase/(Decrease) 2016/2015	2015/2014
	(dollars in thousands)				
Salaries and employee benefits	$ 7,764	$ 7,452	$ 7,378	4.02%	1.00%
Occupancy and equipment	649	648	622	0.15	4.18
Insurance Fund premium	606	405	349	49.63	16.05
(Gains) losses on other Property owned, net	(5)	5	(428)	(200.00)	101.17
Other operating expenses	2,053	2,136	2,005	(3.89)	6.53
Total noninterest expense	$ 11,067	$ 10,646	$ 9,926	3.95%	7.25%

Noninterest expense increased $421 or 3.95 percent for December 31, 2016, as compared to the same period of 2015 and December 31, 2015 increased $720 or 7.25 percent compared to the same period of 2014. The primary reason for the increase in 2016 was the increase in personnel costs and insurance fund premiums.

During 2016, salaries and employee benefits increased 4.02% from 2015 as a result of normal annual merit increases and promotions. The 1.00% increase during 2015 from 2014 was also due normal annual merit increases and promotions.

Other operating expenses decreased 3.89% during 2016 as compared to 2015 primarily due to the recovery of nonaccrual expenses.

Insurance Fund premiums increased 49.63 percent for the twelve months ended December 31, 2016, compared to the same period of 2015. The Farm Credit System Insurance Corporation (FCSIC) changed the methodology in assessing the insurance premiums as a result of the 2008 Farm Bill. The FCSIC set premiums at 16 basis points on adjusted insured debt outstanding for the first six months of 2016 and 18 basis points for the last six months of 2016 with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. For 2015, the FCSIC set premiums at 13 basis points, on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. For 2014, the FCSIC set premiums at 12 basis points on adjusted insured debt outstanding with an additional 10 basis points for nonaccrual loans and any other-than-temporarily impaired investments.

Income Taxes

The Association recorded no provision for income taxes for the year ended December 31, 2016, as compared to no provision for 2015, and $3 for 2014. Refer to Note 2, *Summary of Significant Accounting Policies, 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	2.22%	2.36%	2.59%
Return on average members' equity	11.23%	11.27%	12.34%
Net interest income as a percentage of average earning assets	2.34%	2.54%	2.79%
Net (charge-offs) recoveries to average loans	0.07%	(0.11)%	(0.05)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income as well as improvement in overall asset quality. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must stabilize and improve and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2016, was $435,590 as compared to $379,668 at December 31, 2015 and $344,844 at December 31, 2014. The increase of 14.73 percent compared to December 31, 2015 was attributable to the increase of total loan assets. The average volume of outstanding notes payable to the Bank was $382,145 and $339,329 for the years ended December 31, 2016 and 2015, respectively. Refer to Note 6, 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 investments and other secondary market programs provide additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2016.

Funds Management

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

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

Total members' equity at December 31, 2016, increased 4.59 percent to $96,797 from the December 31, 2015, total of $92,548. At December 31, 2015, total members' equity increased 4.57 percent from the December 31, 2014 total of $88,504. The increase in 2016 was primarily attributed to the positive earnings which caused an increase in retained earnings (allocated surplus and unallocated surplus) and by the increase in capital stock and participation certificates being offset by the payment of $4,300 in cash patronage distributions and the revolvement of $2,236 in allocated surplus.

Total capital stock and participation certificates were $861 on December 31, 2016, compared to $858 on December 31, 2015 and $860 on December 31, 2014. The 2016 increase from 2015 and the 2015 and 2014 were attributed to issuance of new protected borrower stock and participation certificates due to increased loan volume partially offset by the retirement of protected borrower stock and participation certificates on loans liquidated in the normal course of business and the retirement of excess stock through revolvement.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios. The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	18.95	20.42%	21.18%	7.00%
Total surplus ratio	18.77	20.21%	20.96%	7.00%
Core surplus ratio	17.53	18.86%	18.24%	3.50%

The decrease in the Association's Permanent Capital Ratio for December 31, 2016 from December 31, 2015 was attributed to increased risk weighted assets offset by an increase in capital from the prior period. The increase in capital is due to improved earnings from 2015. The increase in risk adjusted assets is primarily due to increased loan volume. It has also caused the decrease in the Association's Total Surplus Ratio for 2016. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, (b) participation loans purchased, and (c) other non-patronage sourced activities, the remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $4,300 in 2016, $4,000 in 2015 and $3,200 in 2014.

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

The Association's mission is to provide financial services to agriculture and the rural community, 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 for new volume were established. In 2016 the Association achieved all but one of its YBS goals.

2016 YBS Goals and Results	2016 Goal	2016 Result	% of Goal
Young			
# of New Loans	20	20	100.00%
$ of New Loans	$4,500	$7,337	163.05%
Beginning			
# of New Loans	45	75	166.67%
$ of New Loans	$8,000	$11,957	149.47%
Small			
# of New Loans	75	159	212.00%
$ of New Loans	$8,000	$17,644	220.56%
Total YBS Program			
# of New Loans	140	245	181.43%
$ of New Loans	$20,500	$36,939	180.19%

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

	As of December 31, 2016	
	Number of Loans	Amount of Loans
Young	66	$12,191
Beginning	206	27,490
Small	392	37,195

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 census data indicated that within the Association's chartered territory (counties) there were 16,257 reported farmers of which by definition 576 or 3.54 percent were Young, 3,070 or 18.88 percent were Beginning, and 12,611 or 77.58 percent were Small. Comparatively, as of December 31, 2016, the demographics of the Association's agricultural portfolio contained 664 YBS farmers, of which by definition 66 or 9.94 percent were Young, 206 or 31.02 percent were Beginning and 392 or 59.04 percent were Small.

The Association Board of Directors has adopted a Young, Beginning, and Small Farmer Plan with specific goals for the number of loans and new volume closed for 2017 and two succeeding years. The Association will continue to review the demographics of its territory during 2017 utilizing 2012 Ag census data.

The following strategies and outreach programs have been conducted which assists and supports the Association's efforts to meet its objectives and goals for financing to the Young, Beginning, and Small farmers.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations.
- Sponsor seminars on farm transition planning and financial management.
- Youth livestock financing program for Youth Steer and Swine Shows. Available territory wide.
- Financial Training in cooperation with Florida Southern College, Citrus and Horticulture Dept.
- Employees serve as judges for youth livestock project record books.
- Sponsor participants and participate in Florida Council of Coops, Young Cooperator Conference.
- Sponsor Florida Nursery Growers Young Professional Award.
- Sponsors and attends the statewide Farm Bureau Young Farmers and Ranchers Leadership Conference.

In addition, the Association's lending personnel actively participate in various commodity trade group conferences and continuing education programs. Association lenders have established performance goals to provide informational and financial training to agricultural youth groups and industry trade associations.

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.

Unincorporated Business Entities

The Association had no unincorporated business entities at December 31, 2016.

Description of Property

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

Location	Description	Form of Ownership
115 S. Missouri Ave.* Lakeland	Administrative/ Branch	Leased
507 E. Third Street Apopka	Branch	Owned
2301 Thonotosassa Road Plant City	Branch	Owned
31081 Cortez Blvd.** Brooksville	Branch	Leased

* *The Administrative / branch office located at 115 S. Missouri Ave. is leased through December 31, 2020.*

** *The Brooksville branch office located at 31081 Cortez Blvd. was leased through November 30, 2012 and was then converted to a month-to-month rental.*

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

Senior Officer	Time in Position	Prior Experience
Reginald T. Holt, *President & Chief Executive Officer*	8 years	Sr. VP & Director of Agribusiness Lending from October 1997 to April 2008. Area VP from June 1992 to October 1997. Also serves on the Executive Committee of the AgFirst Farm Credit Council and the AgFirst/Farm Credit Bank of Texas Benefits Plan Sponsor Committee.
D. Scott Fontenot, *Executive Vice President & Chief Operating Officer*	4 months	Association CFO from June 2009 until September 2016. Association Director of Risk Management from March 2009 to June 2009. EVP & CFO of Jack M. Berry, Inc. from 2005 to 2009. CFO of Farm Credit of Southwest Florida from 2000 to 2004.
Courtney A. Eelman *Sr. Vice President / Chief Credit Officer*	5 years	Association Director of Loan Administration from March 2008 to 2011. Association Credit Administrator from December 2003 to March 2008. Credit Analyst with AmSouth Bank from November 2001 to December 2003. Association Credit Analyst from December 1999 to October 2001.
Scarlet D. Detjen, *Sr. Vice President / Chief Audit Executive*	2 months	Association Director of Internal Audit from October 2008 until November 2016 CFO with SunnyRidge Farm, Inc. from 2006 until 2008. Controller with SunnyRidge Farm, Inc from 2001 to 2008
Anne M. Sullivan, *Sr. Vice President / Corporate Treasurer, Chief Financial Officer*	4 months	Association Controller from June 2011 until September 2016. Director of Accounting with Century Residential, LLC from June 2009 until June 2011. Senior Accountant with the NCT Group from September 2006 until June 2009.

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2016, 2015 and 2014 is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value	Perq/ Other*	Total
Reginald T. Holt	2016	$ 331,679	$ 115,955	$ –	$ 245,355	$ –	$ 692.989
Reginald T. Holt	2015	$ 321,367	$ 100,074	$ –	$ (85,423)	$ –	$ 336,018
Reginald T. Holt	2014	$ 312,512	$ 108,442	$ –	$ 513,535	$ –	$ 934,489
6	2016	$ 978,743	$ 196,168	$ –	$ (297,563)	$ –	$ 877,348
6	2015	$ 972,939	$ 219,243	$ –	$ 178,664	$ –	$ 1,370,846
7	2014	$ 1,086,919	$ 306,078	$ –	$ 1,039,597	$ –	$ 2,432,594

* *Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement, if the annual aggregate value of such Perquisites is more than $5,000.*

Disclosure of information on the total compensation paid during 2016 to any senior officer or to any other employee included in the aggregate group total as reported in the above is available and will be disclosed to the shareholders of the institution upon request.

In addition to base salary, all Association employees (except the Chief Audit Executive and internal audit and review staff who may earn additional compensation under the Auditor Incentive Plan) may earn additional compensation under a corporate bonus plan (Plan). The Plan is designed to encourage participants to achieve the objectives of the Association by providing incentives to those employees who attain and sustain consistently high levels of performance, which contribute to the overall success and profitability of the Association. The Plan is designed to support the ACA's organizational vision, long-range and annual strategic plans. The Plan consists of three pools; 1) General Pool; 2) Loan Officer Pool; and 3) SAM Officer Pool.

The General Pool covers all employees that are not lenders and/or lending managers. The payout of the pool is based on the Association meeting and exceeding certain objectives for Earnings and Liquidity (weighted at 50%), Asset Quality and Credit Administration (weighted at 25%), and Lending and Growth (weighted at 25%). Payments are calculated at year-end based on the weighted average performance in each category, paid 100 percent in cash. The General Pool contains four different payout levels. Level 1 contains all non-exempt employees (for wage and salary administration purposes) and the maximum award at this level shall not exceed 5% of their annual earned salary. Level 2 contains exempt employees (except CEO, Senior Officers, Chief Audit Executive, and employees identified as "lenders") and the maximum award at this level shall not exceed 12% of their annual earned salary. Level 3 contains Senior Officers (except CEO, Chief Audit Executive, and employees identified as "lenders") and the maximum award at this level shall not exceed 25% of their annual earned salary. Level 4 contains the CEO only and the maximum award at this level shall not exceed 40% of the annual earned salary. Each of the levels requires a certain minimum individual employee evaluation score. In addition, the General Pool limits the total of all payments within the pool to a maximum of 10 percent of the total net income.

The Loan Officer Pool covers lenders and the lending managers and is based upon the individual performance of each. Award percentage points are earned for Portfolio Management (weighted 65%) and Loan Administration (weighted 35%) standards based upon a points scoring matrix with performance areas weighted according to the individual's standard of performance. Deductions to earned awards shall be made for the individual's performance score in the area of Loan Administration (asset quality and delinquencies). Payments at this level are calculated at year-end based on the weighted average performance in each category and also require a certain minimum individual employee evaluation score. The maximum award at this level shall not exceed 50% of their annual earned salary for all employees who have executed a non-disclosure and non-solicitation agreement and 30% of their annual earned salary for all employees who have not executed a non-disclosure and non-solicitation agreement. All payments are paid 100% in cash.

The SAM Officer Pool covers Special Asset Management lenders and the SAM lending managers and is based upon the individual performance of each. Award percentage points are earned for Resolutions on Non-performing Assets (weighted 65%) and Loan Administration (weighted 35%) standards based upon a points scoring matrix with performance areas weighted according to the individual's standard of performance. Deductions to earned awards shall be made for the individual's performance score in the area of Loan Administration. Payments at this level are calculated at year-end based on the weighted average performance in each category and also require a certain minimum individual employee evaluation score. The maximum award at this level shall not exceed 50% of their annual earned salary for all employees who have executed a non-disclosure and non-solicitation agreement and 30% of their annual earned salary for all employees who have not executed a non-disclosure and non-solicitation agreement. All payments are paid 100% in cash.

The Chief Audit Executive and internal audit and review staff may earn additional compensation under the Auditor Incentive Plan. The purpose of the plan is to encourage participants to achieve the long-term objectives of the Association by providing incentives to eligible audit staff that attain and sustain consistently high levels of performance, which contribute to the safety and soundness of the Association. The pay-out of the plan is based on the audit employee's performance rating as determined by their respective employee evaluations. The Chief Audit Executive's evaluation is conducted by the audit committee and reviewed by the board. The audit staff's evaluation is conducted by the Chief Audit Executive and reviewed by the audit committee. While the award is based on the employee's performance the final pay-out is made at the discretion of the board of directors.

Payment of the 2016 Corporate Bonus is in the first quarter of 2017. Bonuses are shown in the year earned, which may be different than the year of payment.

In 2016, the CEO, Mr. Holt, and the Association entered into a change of control agreement. Should a change of control occur, the Association will continue to employ Mr. Holt for a minimum of three years. Should his employment be terminated during the two years prior or the three years after the change of control or should any major changes to the employment conditions occur during the same time periods, Mr. Holt will be entitled to a severance package as outlined in the agreement.

For the Retirement Plan, the present value of pension benefits is the value at a specific date of the benefit payment stream an individual is expected to receive upon retirement based on pay and service earned to date. These present values change year over year as (1) pension benefits increase due to an additional year of pay and service being earned under the benefit formula, (2) individuals are one year closer to receiving payments, and (3) the assumptions used to determine the present value change.

The present value of Retirement Plan pension benefits will naturally increase as the benefits earned under the plan increase. Since the pension benefit formula is dependent on base pay, pay increases directly impact the pension values.

The present values are calculated by discounting each expected future benefit payment back to the determination date at a specified interest (or discount) rate. When a year passes, there is one fewer year of discounting, which increases the present value.

Finally, the present value of the expected future benefit payment stream is based on actuarial assumptions, chiefly the discount rate mentioned above. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values. The discount rate is updated every year based on the interest rate environment at December 31. A decrease in the discount rate (i.e. less discounting) increases the present values and vice versa. There was a decrease in the discount rate assumption from December 31, 2015 to December 31, 2016, causing the pension values to increase.

Other actuarial assumptions are updated periodically. At December 31, 2016, the mortality improvement assumption was updated to reflect recent mortality studies indicating a lower degree of mortality improvement (and thus slightly shorter life expectancies). This change had a minor impact and resulted in a small decrease in Retirement Plan present values.

For the Cash Balance Plan, the change in pension values is primarily due to interest credits earned. The present values are equal to the lump sum benefits payable in March 2017 with no discounting applied. See *Note 9, Employee Benefit Plans*, for further information.

Pension Benefits Table
As of December 31, 2016

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2016
CEO:					
Reginald T. Holt	2016	AgFirst Retirement Plan	36.67	$ 2,695,328	$ –
Reginald T. Holt	2016	Supplemental Executive Retirement Plan	36.67	1,058,000	–
				$ 3,753,328	$ –
Senior Officers and Highly Compensated Employees:					
6 Officers, excluding the CEO	2016	AgFirst Retirement Plan	17.99*	$ 932,893	$ 1,454,244
				$ 932,893	$ 1,454,244

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

The Association also sponsors a non-qualified defined benefit supplemental executive retirement plan for the Association's former 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 the former CEO, 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. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, current committee assignments, number of meetings, other activities, compensation for Board meetings and other activities and total cash compensation paid:

		Term in Office		Number of Days Served		Compensation			
Director	Position	Election Year	Current Term Expiration	Board Meetings	Other Official Activities	Regular Board Meetings	Other Activities*	Total Paid During 2016	Committee Assignments^
Robert R. Roberson	Chairman	1997	2019	11	61	$ 5,500	$ 29,600	$ 35,100	Audit, Risk Management, Governance, Legislative
W. Rex Clonts, Jr.	Vice-Chairman	1997	2018	9	24	4,500	15,500	20,000	Risk Management, Governance, Legislative
Jenny R. Black	Director	2015	2018	11	42	5,500	22,100	27,600	Risk Management, Compensation, Governance, Legislative
C. Dennis Carlton, Sr.	Director	2004	2019	11	27	5,500	17,100	22,600	Compensation, Risk Management, Legislative
Homer E. Hunnicutt, Jr.	Director	1991	2016 ***	2	9	1,000	5,400	6,400	Audit, Risk Management, Legislative
Michelle G. Hurst	Outside Director	2014 **	2016 **	2	4	1,000	2,800	3,800	Audit, Compensation, Legislative
John S. Langford	Director	2005	2018	10	17	5,000	13,700	18,700	Audit, Governance, Legislative
Randy L. Larson	Outside Director	2017	2020 ****	0	0	0	0	0	Audit, Compensation, Legislative
Dale McClellan	Director	2016	2019	8	19	4,000	11,700	15,700	Audit, Governance, Legislative
David A. Mereness	Outside Director	2016	2017	8	20	4,000	12,500	16,500	Audit, Compensation, Legislative
Keith D. Mixon	Director	2012	2017	10	32	5,000	17,500	22,500	Audit, Risk Management, Legislative
David J. Stanford	Director	1992	2016 ***	3	13	1,500	7,500	9,000	Compensation, Governance, Legislative
Randall E. Strode	Director	2016	2017	8	23	4,000	13,300	17,300	Risk Management, Compensation, Legislative
Ronald R. Wetherington	Director	1993	2017	11	34	5,500	19,300	24,800	Audit, Risk Management, Governance, Legislative
						$ 52,000	$ 188,000	$ 240,000	

** Includes board committee meetings and other board activities other than regular board meetings.*
*** Appointment date 2014; resignation date effective February 26, 2016*
**** Resignation date effective April 20, 2016*
*****Second Outside Director appointed to the Board December 14, 2016*
^ All directors are members of the Legislative committee and meetings are held as needed.

Subject to approval by the board, the Association may allow directors an annual retainer of $6,000 to be paid monthly and honoraria of $500 for attendance at meetings and committee meetings, $300 for special assignments, $400 for telephone conference calls and $200 for travel days that include an overnight stay. Total compensation paid to directors as a group was $240,000 for 2016. No director received more than $5,000 in non-cash compensation during the year.

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $91,118 for 2016, $53,918 for 2015 and $32,704 for 2014.

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

Robert R. Roberson, Chairman, is a nurseryman. His principal occupation and employment for the past 5 years was with Rob-S Holdings LLC dba FFT Nursery. In addition, he has an active real estate license with Mike Ellis Realty. Mr. Roberson also serves as the Association representative on the AgFirst District Advisory Council.

W. Rex Clonts, Jr., Vice-Chairman, is a citrus grower and serves on the board of Citizens Bank of Florida. He is also past President of Seminole County Farm Bureau 2013 - 2015. Mr. Clonts is on the board of the Florida Fruit and Vegetable Association. His principal occupation and employment for the past 5 years was with Clonts Groves, Inc.

Jenny R. Black was elected to the Board in 2015. Mrs. Black is a partner in multiple citrus growing operations and is a member of Peace River Packing, a citrus growing cooperative. Mrs. Black has 20 years experience in the Information Technology field and currently manages her own IT consulting practice serving clients in the transportation and agriculture industries. Mrs. Black also serves on the Polk County 4H Foundation Board and the Advisory Board for Volunteers in Service to the Elderly (VISTE). She also serves as the Association representative on the AgFirst Nominating Committee.

C. Dennis Carlton, Sr. is a cattleman, citrus grower and real estate broker and serves on the boards of Center State Bank and the Agricultural Economic Development Council of Hillsborough County.

Homer E. Hunnicutt, Jr. is a cattleman and serves on the board of SunTrust Bank – Nature Coast. His principal occupation and employment for the past 5 years was with Finest Farms. Mr. Hunnicutt did not seek re-election at the expiration of his term on April 20, 2016.

Michelle G. Hurst was appointed to the Board in 2014. Mrs. Hurst is a CPA and partner of the firm Bunting, Tripp & Ingley, LLP in Lake Wales, Florida. She is the appointed outside Director for the Association. Mrs. Hurst serves on the board of the local Rotary Chapter. Mrs. Hurst resigned from the board effective February 26, 2016.

John S. Langford is a citrus grower, citrus fruit dealer and real estate broker. Other Farm Credit activities include the AgFirst Farm Credit Bank Board of Directors, 2012 to present, currently serving as Chairman, and also serving as a member of the Farm Credit System Audit Committee. His principal occupation and employment for the past five years was with John Langford, Inc.

Randy L. Larson was appointed to the Board in December 2016 as the Association's second Outside Director. Mr. Larson is currently serving on the Board for the Tampa Sports Authority. He is a licensed professional engineer in six southeast states and Puerto Rico, a registered general contractor in Florida and a Certified Construction Manager.

Dale McClellan was elected to the Board in April 2016 to fill the position vacated by Homer Hunnicutt. Mr. McClellan has been a dairyman all of his life. His principal occupation and employment for the past five years was with M&B Products, Inc. and M&B of Tampa, Inc.

David A. Mereness was appointed to the Board in March 2016 as the Association's Outside Director. Mr. Mereness is the Managing Partner of Dearolf & Mereness LLP, a member of the American Institute of Certified Public Accountants, the Florida Institute of Certificated Public Accounts and on the board of the National Society of Accountants for Cooperatives.

Keith D. Mixon is a blueberry grower and past Chairman of the board of the Florida Fruit and Vegetable Association where he still serves on the board. He and his family owned and operated SunnyRidge Farms prior to being sold to Dole Food Company, he then served as President of Dole Berry Company. Mr. Mixon is the Chairman of the Association's Audit Committee and also serves as the Association's alternate representative on the AgFirst Nominating Committee.

David J. Stanford is a citrus grower and now retired citrus processor and serves on the board of South Lake Apopka Citrus Growers Association (citrus cooperative). Mr. Stanford resigned from the board effective April 20, 2016.

Randall E. Strode was elected to the Board in April 2016 to fill the position vacated by David Stanford. Mr. Strode is the President of AgriStarts, Inc. a cloning tissue culture operation in Apopka, FL. He serves on the board of First Green Bank.

Ronald R. Wetherington is a strawberry and citrus grower and serves on the boards of the Hillsborough County Farm Bureau, Florida FFA Foundation Board and Hillsborough County Law Enforcement Association. His principal occupation and employment for the past 5 years was with Wetherington Farms.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Certified Public Accountants

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

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

	2016
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP	
Audit services	$ 62,030
Total	$ 62,030

PricewaterhouseCoopers audit fees were for the annual audit of and for rendering an opinion on the Association's Consolidated Financial Statements.

Consolidated Financial Statements

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

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-800-533-2773 or writing Anne M. Sullivan, Chief Financial Officer, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802 or accessing the web site, ***www.farmcreditcfl.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 within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association 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 Central Florida, ACA 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 Central Florida, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible 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:

Keith D. Mixon
Chairman of the Audit Committee

Members of Audit Committee

David A. Mereness, Vice Chairman
John S. Langford
Randy L. Larson
Dale McClellan
Robert R. Roberson
Ronald R. Wetherington

March 13, 2017

Report of Independent Certified Public Accountants

pwc

Report of Independent Certified Public Accountants

To the Board of Directors and Members of
Farm Credit of Central Florida, ACA

We have audited the accompanying consolidated financial statements of Farm Credit of Central Florida, 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 Central Florida, ACA and its subsidiaries as of December 31, 2016, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 13, 2017

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

Consolidated Balance Sheets

(dollars in thousands)	2016	December 31, 2015	2014
Assets			
Cash	**$ 1,087**	$ 320	$ 271
Investment securities:			
Held to maturity (fair value of $19,339, $25,076, and $32,439, respectively)	**19,008**	24,612	31,756
Loans	**508,773**	445,550	399,417
Allowance for loan losses	**(4,766)**	(6,803)	(9,237)
Net loans	**504,007**	438,747	390,180
Loans held for sale	**339**	102	38
Accrued interest receivable	**1,898**	1,640	1,869
Investments in other Farm Credit institutions	**6,481**	6,598	6,931
Premises and equipment, net	**778**	733	790
Other property owned	**216**	16	—
Accounts receivable	**7,731**	7,683	10,632
Other assets	**3,129**	3,482	3,290
Total assets	**$ 544,674**	$ 483,933	$ 445,757
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 435,590**	$ 379,668	$ 344,844
Accrued interest payable	**793**	703	581
Patronage refunds payable	**4,529**	4,197	3,297
Accounts payable	**1,636**	1,379	1,409
Other liabilities	**5,329**	5,438	7,122
Total liabilities	**447,877**	391,385	357,253
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**861**	858	860
Retained earnings			
Allocated	**26,269**	28,505	30,740
Unallocated	**70,166**	63,673	57,369
Accumulated other comprehensive income (loss)	**(499)**	(488)	(465)
Total members' equity	**96,797**	92,548	88,504
Total liabilities and members' equity	**$ 544,674**	$ 483,933	$ 445,757

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	**$ 19,003**	$ 17,466	$ 17,088
Investments	**513**	537	689
Total interest income	**19,516**	18,003	17,777
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**8,387**	7,049	6,393
Net interest income	**11,129**	10,954	11,384
Provision for (reversal of allowance for) loan losses	**(2,340)**	(1,983)	1,340
Net interest income after provision for (reversal of allowance for) loan losses	**13,469**	12,937	10,044
Noninterest Income			
Loan fees	**342**	444	431
Fees for financially related services	**286**	238	131
Patronage refunds from other Farm Credit institutions	**7,287**	7,115	9,945
Gains (losses) on sales of rural home loans, net	**326**	207	123
Gains (losses) on sales of premises and equipment, net	**129**	—	—
Gains (losses) on other transactions	**15**	(2)	14
Other noninterest income	**6**	11	43
Total noninterest income	**8,391**	8,013	10,687
Noninterest Expense			
Salaries and employee benefits	**7,764**	7,452	7,378
Occupancy and equipment	**649**	648	622
Insurance Fund premiums	**606**	405	349
(Gains) losses on other property owned, net	**(5)**	5	(428)
Other operating expenses	**2,053**	2,136	2,005
Total noninterest expense	**11,067**	10,646	9,926
Income before income taxes	**10,793**	10,304	10,805
Provision for income taxes	**—**	—	3
Net income	**$ 10,793**	$ 10,304	$ 10,802

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	**$ 10,793**	$ 10,304	$ 10,802
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(11)**	(23)	(46)
Comprehensive income	**$ 10,782**	$ 10,281	$ 10,756

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	$ 902	$ 34,167	$ 49,767	$ (419)	$ 84,417
Comprehensive income			10,802	(46)	10,756
Capital stock/participation certificates issued/(retired), net	(42)				(42)
Patronage distribution					
Cash			(3,200)		(3,200)
Retained earnings retired		(3,427)			(3,427)
Balance at December 31, 2014	$ 860	$ 30,740	$ 57,369	$ (465)	$ 88,504
Comprehensive income			10,304	(23)	10,281
Capital stock/participation certificates issued/(retired), net	(2)				(2)
Patronage distribution					
Cash			(4,000)		(4,000)
Retained earnings retired		(2,235)			(2,235)
Balance at December 31, 2015	$ 858	$ 28,505	$ 63,673	$ (488)	$ 92,548
Comprehensive income			**10,793**	**(11)**	**10,782**
Capital stock/participation certificates issued/(retired), net	**3**				**3**
Patronage distribution					
Cash			**(4,300)**		**(4,300)**
Retained earnings retired		**(2,236)**			**(2,236)**
Balance at December 31, 2016	**$ 861**	**$ 26,269**	**$ 70,166**	**$ (499)**	**$ 96,797**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2016	2015	2014
Cash flows from operating activities:			
Net income	**$ 10,793**	$ 10,304	$ 10,802
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**150**	145	152
Amortization (accretion) of net deferred loan costs (fees)	**69**	107	115
Premium amortization (discount accretion) on investments	**312**	460	571
Provision for (reversal of allowance for) loan losses	**(2,340)**	(1,983)	1,340
(Gains) losses on other property owned	**(12)**	—	(315)
(Gains) losses on sales of premises and equipment, net	**(129)**	—	—
(Gains) losses on sales of rural home loans, net	**(326)**	(207)	(123)
(Gains) losses on other transactions	**(15)**	2	(14)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(13,765)**	(9,828)	(5,474)
Proceeds from sales of loans held for sale, net	**13,854**	9,971	5,804
(Increase) decrease in accrued interest receivable	**(258)**	229	(204)
(Increase) decrease in accounts receivable	**(48)**	2,949	749
(Increase) decrease in other assets	**353**	(192)	98
Increase (decrease) in accrued interest payable	**90**	122	7
Increase (decrease) in accounts payable	**257**	(30)	(99)
Increase (decrease) in other liabilities	**(105)**	(1,709)	1,466
Total adjustments	**(1,913)**	36	4,073
Net cash provided by (used in) operating activities	**8,880**	10,340	14,875
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investment securities, held to maturity	**5,292**	6,684	7,184
Net (increase) decrease in loans	**(63,211)**	(46,707)	(25,187)
(Increase) decrease in investment in other Farm Credit institutions	**117**	333	680
Purchases of premises and equipment	**(195)**	(88)	(195)
Proceeds from sales of premises and equipment	**129**	—	—
Proceeds from sales of other property owned	**34**	—	1,844
Net cash provided by (used in) investing activities	**(57,834)**	(39,778)	(15,674)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**55,922**	34,824	7,704
Capital stock and participation certificates issued/(retired), net	**3**	(2)	(42)
Patronage refunds and dividends paid	**(3,968)**	(3,100)	(3,442)
Retained earnings retired	**(2,236)**	(2,235)	(3,427)
Net cash provided by (used in) financing activities	**49,721**	29,487	793
Net increase (decrease) in cash	**767**	49	(6)
Cash, beginning of period	**320**	271	277
Cash, end of period	**$ 1,087**	$ 320	$ 271
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 75**	$ —	$ 70
Receipt of property in settlement of loans	**297**	16	491
Estimated cash dividends or patronage distributions declared or payable	**4,300**	4,000	3,200
Employee benefit plans adjustments (Note 9)	**11**	23	46
Supplemental information:			
Interest paid	**8,297**	6,928	6,386
Taxes (refunded) paid, net	**—**	—	5

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 Central Florida, ACA (the Association or ACA) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Brevard, Citrus, Hernando, Hillsborough, Lake, Orange, Osceola, Pasco, Pinellas, Polk, Seminole, Sumter, and Volusia in the state of Florida.

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

   - Changes in credit risk classifications
   - Changes in collateral values
   - Changes in risk concentrations

- Changes in weather related conditions
- Changes in economic conditions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the Consolidated Statements of Income and the balance of these investments, totaling $423, 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 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	$ 247,923	$ 224,160	$ 208,040
Production and intermediate-term	164,923	144,445	135,756
Loans to cooperatives	4,831	–	–
Processing and marketing	55,259	56,409	37,126
Farm-related business	6,618	8,614	5,050
Communication	15,849	5,188	3,603
Power and water/waste disposal	–	–	1,909
Rural residential real estate	7,540	6,734	7,933
International	5,830	–	–
Total Loans	$ 508,773	$ 445,550	$ 399,417

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

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

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

	December 31, 2016							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 2,917	$ 93,231	$ –	$ 10,558	$ –	$ –	$ 2,917	$ 103,789
Production and intermediate-term	24,683	81,532	–	4,521	–	–	24,683	86,053
Loans to cooperatives	4,841	–	–	–	–	–	4,841	–
Processing and marketing	45,074	9,280	–	–	–	–	45,074	9,280
Farm-related business	–	3,327	–	–	–	–	–	3,327
Communication	15,896	–	–	–	–	–	15,896	–
International	5,841	–	–	–	–	–	5,841	–
Total	$ 99,252	$ 187,370	$ –	$ 15,079	$ –	$ –	$ 99,252	$ 202,449

	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	$ 1,099	$ 121,973	$ –	$ 9,432	$ –	$ –	$ 1,099	$ 131,405
Production and intermediate-term	18,586	93,594	343	–	–	–	18,929	93,594
Loans to cooperatives	–	–	–	–	–	–	–	–
Processing and marketing	48,634	11,457	–	–	–	–	48,634	11,457
Farm-related business	2,441	3,467	–	–	–	–	2,441	3,467
Communication	5,202	–	–	–	–	–	5,202	–
Total	$ 75,962	$ 230,491	$ 343	$ 9,432	$ –	$ –	$ 76,305	$ 239,923

	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	$ 170	$ 119,642	$ –	$ 7,432	$ –	$ –	$ 170	$ 127,074
Production and intermediate-term	14,264	87,792	–	–	–	–	14,264	87,792
Loans to cooperatives	–	–	–	–	–	–	–	–
Processing and marketing	29,415	15,590	–	–	–	–	29,415	15,590
Farm-related business	–	4,292	–	–	–	–	–	4,292
Communication	3,609	–	–	–	–	–	3,609	–
Power and water/waste disposal	1,909	–	–	–	–	–	1,909	–
Total	$ 49,367	$ 227,316	$ –	$ 7,432	$ –	$ –	$ 49,367	$ 234,748

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

	December 31, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 8,375	$ 52,000	$ 187,548	$ 247,923
Production and intermediate-term	48,384	78,118	38,421	164,923
Loans to cooperatives	–	512	4,319	4,831
Processing and marketing	3,141	30,319	21,799	55,259
Farm-related business	1,089	1,620	3,909	6,618
Communication	–	10,742	5,107	15,849
Rural residential real estate	491	987	6,062	7,540
International	–	4,736	1,094	5,830
Total Loans	$ 61,480	$ 179,034	$ 268,259	$ 508,773
Percentage	12.08%	35.19%	52.73%	100.00%

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

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

	December 31, 2016	2015	2014
Real estate mortgage:			
Acceptable	94.40%	92.91%	85.83%
OAEM	0.95	1.01	6.60
Substandard/doubtful/loss	4.65	6.08	7.57
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	88.55%	87.50%	84.39%
OAEM	3.22	1.89	7.99
Substandard/doubtful/loss	8.23	10.61	7.62
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Processing and marketing:			
Acceptable	93.63%	100.00%	93.52%
OAEM	6.37	–	–
Substandard/doubtful/loss	–	–	6.48
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	92.22%
OAEM	–	–	7.78
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31, 2016	2015	2014
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	–%	–%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	–%	–%	100.00%
Rural residential real estate:			
Acceptable	89.45%	82.28%	74.12%
OAEM	3.20	8.05	7.63
Substandard/doubtful/loss	7.35	9.67	18.25
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Total Loans:			
Acceptable	92.71%	92.11%	86.10%
OAEM	2.25	1.25	6.40
Substandard/doubtful/loss	5.04	6.64	7.50
	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	$ 1,376	$ 281	$ 1,657	$ 247,414	$ 249,071	$ –
Production and intermediate-term	65	7,614	7,679	157,659	165,338	–
Loans to cooperatives	–	–	–	4,850	4,850	–
Processing and marketing	–	–	–	55,339	55,339	–
Farm-related business	–	–	–	6,639	6,639	–
Communication	–	–	–	15,852	15,852	–
Rural residential real estate	–	–	–	7,569	7,569	–
International	–	–	–	5,891	5,891	–
Total	$ 1,441	$ 7,895	$ 9,336	$ 501,213	$ 510,549	$ –

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	$ 561	$ 1,270	$ 1,831	$ 223,243	$ 225,074	$ –
Production and intermediate-term	840	894	1,734	143,134	144,868	–
Processing and marketing	–	–	–	56,494	56,494	–
Farm-related business	–	–	–	8,661	8,661	–
Communication	–	–	–	5,188	5,188	–
Rural residential real estate	148	237	385	6,372	6,757	–
Total	$ 1,549	$ 2,401	$ 3,950	$ 443,092	$ 447,042	$ –

	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	$ 208	$ 2,260	$ 2,468	$ 206,638	$ 209,106	$ –
Production and intermediate-term	–	1,171	1,171	135,087	136,258	–
Processing and marketing	–	–	–	37,189	37,189	–
Farm-related business	–	–	–	5,070	5,070	–
Communication	–	–	–	3,603	3,603	–
Power and water/waste disposal	–	–	–	1,909	1,909	–
Rural residential real estate	65	150	215	7,746	7,961	–
Total	$ 273	$ 3,581	$ 3,854	$ 397,242	$ 401,096	$ –

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

	December 31, 2016	2015	2014
Nonaccrual loans:			
Real estate mortgage	$ 2,053	$ 2,417	$ 4,007
Production and intermediate-term	8,978	4,391	3,574
Rural residential real estate	470	298	305
Total	$ 11,501	$ 7,106	$ 7,886
Accruing restructured loans:			
Real estate mortgage	$ 5,907	$ 2,904	$ 6,377
Production and intermediate-term	4,954	6,169	5,481
Farm-related business	740	781	834
Rural residential real estate	458	564	689
Total	$ 12,059	$ 10,418	$ 13,381
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 23,560	$ 17,524	$ 21,267
Other property owned	216	16	–
Total nonperforming assets	$ 23,776	$ 17,540	$ 21,267
Nonaccrual loans as a percentage of total loans	2.26%	1.59%	1.97%
Nonperforming assets as a percentage of total loans and other property owned	4.67%	3.94%	5.32%
Nonperforming assets as a percentage of capital	24.56%	18.95%	24.03%

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

	December 31, 2016	2015	2014
Impaired nonaccrual loans:			
Current as to principal and interest	$ 2,764	$ 4,698	$ 4,303
Past due	8,737	2,408	3,583
Total	11,501	7,106	7,886
Impaired accrual loans:			
Restructured	12,059	10,418	13,381
90 days or more past due	–	–	–
Total	12,059	10,418	13,381
Total impaired loans	$ 23,560	$ 17,524	$ 21,267
Additional commitments to lend	$ 100	$ –	$ 50

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	$ 1,417	$ 1,412	$ 46	$ 1,318	$ 59
Production and intermediate-term	7,488	7,618	2,250	6,968	309
Farm-related business	740	737	8	689	31
Rural residential real estate	586	611	37	545	24
Total	$ 10,231	$ 10,378	$ 2,341	$ 9,520	$ 423
With no related allowance for credit losses:					
Real estate mortgage	$ 6,543	$ 6,840	$ –	$ 6,089	$ 270
Production and intermediate-term	6,444	8,180	–	5,995	266
Farm-related business	–	–	–	–	–
Rural residential real estate	342	467	–	318	14
Total	$ 13,329	$ 15,487	$ –	$ 12,402	$ 550
Total impaired loans:					
Real estate mortgage	$ 7,960	$ 8,252	$ 46	$ 7,407	$ 329
Production and intermediate-term	13,932	15,798	2,250	12,963	575
Farm-related business	740	737	8	689	31
Rural residential real estate	928	1,078	37	863	38
Total	$ 23,560	$ 25,865	$ 2,341	$ 21,922	$ 973

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	$ 2,078	$ 2,227	$ 337	$ 2,348	$ 163
Production and intermediate-term	8,205	8,270	2,761	9,267	643
Farm related business	781	781	8	882	61
Rural residential real estate	861	1,029	92	973	67
Total	$ 11,925	$ 12,307	$ 3,198	$ 13,470	$ 934
With no related allowance for credit losses:					
Real estate mortgage	$ 3,242	$ 3,614	$ –	$ 3,662	$ 254
Production and intermediate-term	2,356	3,835	–	2,662	184
Farm related business	–	–	–	–	–
Rural residential real estate	1	69	–	–	–
Total	$ 5,599	$ 7,518	$ –	$ 6,324	$ 438
Total impaired loans:					
Real estate mortgage	$ 5,320	$ 5,841	$ 337	$ 6,010	$ 417
Production and intermediate-term	10,561	12,105	2,761	11,929	827
Farm related business	781	781	8	882	61
Rural residential real estate	862	1,098	92	973	67
Total	$ 17,524	$ 19,825	$ 3,198	$ 19,794	$ 1,372

Impaired loans:	December 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2014 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 7,311	$ 7,718	$ 2,271	$ 7,754	$ 475
Production and intermediate-term	5,321	5,439	1,803	5,643	346
Farm related business	834	829	8	885	54
Rural residential real estate	912	927	308	967	59
Total	$ 14,378	$ 14,913	$ 4,390	$ 15,249	$ 934
With no related allowance for credit losses:					
Real estate mortgage	$ 3,073	$ 3,223	$ –	$ 3,259	$ 200
Production and intermediate-term	3,734	5,171	–	3,961	242
Farm related business	–	–	–	–	–
Rural residential real estate	82	163	–	87	5
Total	$ 6,889	$ 8,557	$ –	$ 7,307	$ 447
Total impaired loans:					
Real estate mortgage	$ 10,384	$ 10,941	$ 2,271	$ 11,013	$ 675
Production and intermediate-term	9,055	10,610	1,803	9,604	588
Farm related business	834	829	8	885	54
Rural residential real estate	994	1,090	308	1,054	64
Total	$ 21,267	$ 23,470	$ 4,390	$ 22,556	$ 1,381

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

	Year Ended December 31, 2016	2015	2014
Interest income which would have been recognized under the original loan terms	$ 1,579	$ 1,705	$ 1,693
Less: interest income recognized	973	1,372	1,381
Foregone interest income	$ 606	$ 333	$ 312

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2015	$ 2,300	$ 4,301	$ 48	$ 20	$ –	$ 134	$ –	$ 6,803
Charge-offs	–	(28)	–	–	–	(51)	–	(79)
Recoveries	206	105	–	–	–	71	–	382
Provision for loan losses	(1,025)	(1,282)	42	5	–	(83)	3	(2,340)
Balance at December 31, 2016	$ 1,481	$ 3,096	$ 90	$ 25	$ –	$ 71	$ 3	$ 4,766
Balance at December 31, 2014	$ 4,994	$ 3,387	$ 443	$ 20	$ –	$ 393	$ –	$ 9,237
Charge-offs	(452)	(59)	–	–	–	(151)	–	(662)
Recoveries	204	–	–	–	–	7	–	211
Provision for loan losses	(2,446)	973	(395)	–	–	(115)	–	(1,983)
Balance at December 31, 2015	$ 2,300	$ 4,301	$ 48	$ 20	$ –	$ 134	$ –	$ 6,803
Balance at December 31, 2013	$ 4,153	$ 3,108	$ 299	$ 2	$ –	$ 533	$ –	$ 8,095
Charge-offs	(299)	(157)	–	–	–	(46)	–	(502)
Recoveries	230	71	–	–	–	3	–	304
Provision for loan losses	910	365	144	18	–	(97)	–	1,340
Balance at December 31, 2014	$ 4,994	$ 3,387	$ 443	$ 20	$ –	$ 393	$ –	$ 9,237
Allowance on loans evaluated for impairment:								
Individually	$ 46	$ 2,250	$ 8	$ –	$ –	$ 37	$ –	$ 2,341
Collectively	1,435	846	82	25	–	34	3	2,425
Balance at December 31, 2016	$ 1,481	$ 3,096	$ 90	$ 25	$ –	$ 71	$ 3	$ 4,766
Individually	$ 337	$ 2,761	$ 8	$ –	$ –	$ 92	$ –	$ 3,198
Collectively	1,963	1,540	40	20	–	42	–	3,605
Balance at December 31, 2015	$ 2,300	$ 4,301	$ 48	$ 20	$ –	$ 134	$ –	$ 6,803
Individually	$ 2,271	$ 1,803	$ 8	$ –	$ –	$ 308	$ –	$ 4,390
Collectively	2,723	1,584	435	20	–	85	–	4,847
Balance at December 31, 2014	$ 4,994	$ 3,387	$ 443	$ 20	$ –	$ 393	$ –	$ 9,237
Recorded investment in loans evaluated for impairment:								
Individually	$ 7,998	$ 14,469	$ 745	$ –	$ –	$ 1,384	$ –	$ 24,596
Collectively	241,073	150,869	66,083	15,852	–	6,185	5,891	485,953
Balance at December 31, 2016	$ 249,071	$ 165,338	$ 66,828	$ 15,852	$ –	$ 7,569	$ 5,891	$ 510,549
Individually	$ 8,482	$ 7,994	$ 781	$ –	$ –	$ 316	$ –	$ 17,573
Collectively	216,592	136,874	64,374	5,188	–	6,441	–	429,469
Balance at December 31, 2015	$ 225,074	$ 144,868	$ 65,155	$ 5,188	$ –	$ 6,757	$ –	$ 447,042
Individually	$ 10,390	$ 9,098	$ 833	$ –	$ –	$ 997	$ –	$ 21,318
Collectively	198,716	127,160	41,426	3,603	1,909	6,964	–	379,778
Balance at December 31, 2014	$ 209,106	$ 136,258	$ 42,259	$ 3,603	$ 1,909	$ 7,961	$ –	$ 401,096

** 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 $68,119, $55,321, and $33,036 at December 31, 2016, 2015, and 2014, respectively. Fees paid for such guarantee commitments totaled $166, $121, and $106 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	$ 200	$ 3,497	$ –	$ 3,697	
Production and intermediate-term	–	429	–	429	
Rural residential real Estate	–	510	–	510	
Total	$ 200	$ 4,436	$ –	$ 4,636	
Post-modification:					
Real estate mortgage	$ 200	$ 3,497	$ –	$ 3,697	$ –
Production and intermediate-term	–	429	–	429	–
Rural residential real Estate	–	514	–	514	–
Total	$ 200	$ 4,440	$ –	$ 4,640	$ –

	Year Ended December 31, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 90	$ –	$ 90	
Production and intermediate-term	173	2,216	–	2,389	
Total	$ 173	$ 2,306	$ –	$ 2,479	
Post-modification:					
Real estate mortgage	$ –	$ 91	$ –	$ 91	$ –
Production and intermediate-term	173	2,216	–	2,389	–
Total	$ 173	$ 2,307	$ –	$ 2,480	$ –

	Year Ended December 31, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 674	$ –	$ 674	
Production and intermediate-term	–	562	–	562	
Total	$ –	$ 1,236	$ –	$ 1,236	
Post-modification:					
Real estate mortgage	$ –	$ 674	$ –	$ 674	$ –
Production and intermediate-term	–	562	–	562	–
Total	$ –	$ 1,236	$ –	$ 1,236	$ –

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.

	Year Ended December 31,		
Defaulted troubled debt restructurings	**2016**	**2015**	**2014**
Production and intermediate-term	$ 412	$ 567	$ –
Total	$ 412	$ 567	$ –

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	$ 6,295	$ 3,858	$ 8,872	$ 388	$ 954	$ 2,495
Production and intermediate-term	6,721	7,624	6,539	1,767	1,455	1,058
Farm related business	740	781	834	–	–	–
Rural residential real estate	458	698	770	$ –	134	81
Total Loans	$ 14,214	$ 12,961	$ 17,015	$ 2,155	$ 2,543	$ 3,634
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	$ 136
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ –

Note 4 — Investments

Investment Securities

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

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

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 19,008	$ 353	$ (22)	$ 19,339	2.33%

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 24,612	$ 496	$ (32)	$ 25,076	1.95%

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 31,756	$ 731	$ (48)	$ 32,439	2.07%

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

December 31, 2016	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 731	$ 729	2.50%
After one year through five years	11,223	11,429	2.32
After five years through ten years	5,330	5,414	2.34
After ten years	1,724	1,767	2.31
Total	$ 19,008	$ 19,339	2.33%

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

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

December 31, 2016	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 1,229	$ (4)	$ 849	$ (18)

December 31, 2015	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 487	$ (3)	$ 1,406	$ (29)

December 31, 2014	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 1,621	$ (11)	$ 1,523	$ (37)

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

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

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

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

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

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

Investments in Other Farm Credit Institutions
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 $5,910 for 2016, $5,979 for 2015 and $6,323 for 2014. The Association owns 2.34 percent of the issued stock of the Bank as of December 31, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled $32.1 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $342 million for 2016. In addition, the Association had an investment of $571 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	$ 208	$ 224	$ 224
Buildings and improvements	863	909	906
Furniture and equipment	1,304	1,315	1,333
	2,375	2,448	2,463
Less: accumulated depreciation	1,597	1,715	1,673
Total	$ 778	$ 733	$ 790

The Association is obligated under various noncancellable operating leases for offices. At December 31, 2016 future minimum lease payments for all noncancellable operating leases are as follows:

2017	$ 385
2018	397
2019	408
2020	420
2021	–
Subsequent years	–
Total minimum lease payments	$ 1,610

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

	December 31, 2016	2015	2014
(Gains) losses on sale, net	$ (12)	$ –	$ (458)
Carrying value unrealized (gains) losses	–	–	143
Operating (income) expense, net	7	5	(113)
(Gains) losses on other property owned, net	$ (5)	$ 5	$ (428)

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

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank
Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a GFA. The

GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2016, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 1.85 percent for LIBOR-based loans and 1.88 percent for Prime-based loans, and the weighted average remaining maturities were 5.5 years and 7.3 years, respectively, at December 31, 2016. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.70 percent, and the weighted average remaining maturity was 8.9 years at December 31, 2016. The weighted-average interest rate on all interest-bearing notes payable was 2.26 percent and the weighted-average remaining maturity was 7.2 years at December 31, 2016. Variable rate and fixed rate notes payable represent approximately 37.97 percent and 62.03 percent, respectively, of total notes payable at December 31, 2016. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1 thousand or two percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

C. **Regulatory Capitalization Requirements and Restrictions:** 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	18.95%	20.42%	21.18%	7.00%
Total surplus ratio	18.77%	20.21%	20.96%	7.00%
Core surplus ratio	17.53%	18.86%	18.24%	3.50%

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

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

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

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

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	150,658	$ 754
C Participation Certificates/Nonvoting	No	21,423	107
Total Capital Stock and Participation Certificates		172,081	$ 861

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

Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met.

At December 31, 2016, allocated members' equity consisted of $3,496 of qualified surplus, $20,621 of nonqualified allocated surplus and $2,152 of nonqualified retained surplus. Nonqualified distributions are tax deductible only when redeemed.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

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

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

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.

Transfer

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

Impairment

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

a) ***First***, Assistance Preferred Stock issued and outstanding (if any);

b) ***Second***, allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

c) ***Third***, allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

d) ***Fourth***, Class A Common and Class B Common Stock, Class C Common Stock, Class E Common Stock, Class C Participation Certificates and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;

e) ***Fifth***, Class A Preferred and Class D Preferred Stock issued and outstanding, if any.

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:

a) ***First***, to the holders of Class A Preferred and Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;

b) ***Second***, to the holders of Class A Common, Class B Common, Class C Common Stock, Class E Common Stock, and Class B Participation Certificates and Class C Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificate then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;

c) ***Third***, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

d) ***Fourth***, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

e) ***Fifth***, in so far as practicable, all unallocated surplus issued after April 15, 1999, shall be distributed to Patrons of the Association from the period beginning April 15, 1999, through the date of liquidation, on a patronage basis; and

f) ***Sixth***, any remaining assets of the Association after such distributions shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

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

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

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

	For the years ended December 31, 2016	2015	2014
Employee Benefit Plans:			
Balance at beginning of period	$ (488)	$ (465)	$ (419)
Other comprehensive income before reclassifications	(60)	(65)	(88)
Amounts reclassified from AOCI	49	42	42
Net current period OCI	(11)	(23)	(46)
Balance at end of period	$ (499)	$ (488)	$ (465)

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	$ (49)	$ (42)	$ (42)	See Note 9.
Amounts reclassified	$ (49)	$ (42)	$ (42)	

(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 a supplemental retirement plan, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

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

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

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

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

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

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

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

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	$ 423	$ 423	$ –	$ –	$ 423	
Recurring Assets	$ 423	$ 423	$ –	$ –	$ 423	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 21,219	$ –	$ –	$ 21,219	$ 21,219	$ 1,160
Other property owned	216	–	–	233	233	12
Nonrecurring Assets	$ 21,435	$ –	$ –	$ 21,452	$ 21,452	$ 1,172
Other Financial Instruments						
Assets:						
Cash	$ 1,087	$ 1,087	$ –	$ –	$ 1,087	
Investment securities, held-to-maturity	19,008	–	19,339	–	19,339	
Loans	483,127	–	–	476,617	476,617	
Other Financial Assets	$ 503,222	$ 1,087	$ 19,339	$ 476,617	$ 497,043	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 435,590	$ –	$ –	$ 432,196	$ 432,196	
Other Financial Liabilities	$ 435,590	$ –	$ –	$ 432,196	$ 432,196	

	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	$ 326	$ 326	$ –	$ –	$ 326	
Recurring Assets	$ 326	$ 326	$ –	$ –	$ 326	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 14,326	$ –	$ –	$ 14,326	$ 14,326	$ 740
Other property owned	16	–	–	18	18	–
Nonrecurring Assets	$ 14,342	$ –	$ –	$ 14,344	$ 14,344	$ 740
Other Financial Instruments						
Assets:						
Cash	$ 320	$ 320	$ –	$ –	$ 320	
Investment securities, held-to-maturity	24,612	–	25,076	–	25,076	
Loans	424,523	–	–	421,770	421,770	
Other Financial Assets	$ 449,455	$ 320	$ 25,076	$ 421,770	$ 447,166	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 379,668	$ –	$ –	$ 377,561	$ 377,561	
Other Financial Liabilities	$ 379,668	$ –	$ –	$ 377,561	$ 377,561	

	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	$ 254	$ 254	$ –	$ –	$ 254	
Recurring Assets	$ 254	$ 254	$ –	$ –	$ 254	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 16,877	$ –	$ –	$ 16,877	$ 16,877	$ (233)
Other property owned	–	–	–	–	–	315
Nonrecurring Assets	$ 16,877	$ –	$ –	$ 16,877	$ 16,877	$ 82
Other Financial Instruments						
Assets:						
Cash	$ 271	$ 271	$ –	$ –	$ 271	
Investment securities, held-to-maturity	31,756	–	32,439	–	32,439	
Loans	373,341	–	–	371,545	371,545	
Other Financial Assets	$ 405,368	$ 271	$ 32,439	$ 371,545	$ 404,255	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 344,844	$ –	$ –	$ 342,577	$ 342,577	
Other Financial Liabilities	$ 344,844	$ –	$ –	$ 342,577	$ 342,577	

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	$ 21,452	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 9 — Employee Benefit Plans

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

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

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

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

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

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

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

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

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

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

The Association's participation in the multiemployer defined benefit plans for the annual periods 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%	$618	$1,159	$871	2.17%	2.01%	2.29%
AgFirst Farm Credit Cash Balance Retirement Plan	100.21%	102.72%	100.07%	$–	$–	$172	0.00%	0.00%	3.46%

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%	$146	$158	$179	2.03%	2.32%	2.31%

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

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

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 $1,047 for 2016, $1,061 for 2015, and $1,227 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 $243 for 2016, $325 for 2015, and $199 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 $335, $307, and $204 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, $11, $23 and $46 has been recognized as net debits 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 $998 and a net under-funded status of $998 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 and a rate of compensation increase of 2.00 percent. The expenses of these nonqualified plans included in employee benefit costs were $111, $93, and $90 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 gross loans to such persons at December 31, 2016 amounted to $20,665. During 2016, $20,324 of new loans were made and repayments totaled $16,004. In the opinion of management, none of these loans outstanding at December, 31, 2015 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, $112,808 of commitments to extend credit and no commercial letters of credit were outstanding. There was no reserve for unfunded commitments included in Other Liabilities in the Consolidated Balance Sheets at December 31, 2016.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2016, standby letters of credit outstanding totaled $1,647 with expiration dates ranging from January 1, 2017 to August 1, 2020. The maximum potential amount of future payments that may be required under these guarantees was $1,647.

Note 12 — Income Taxes

At December 31, 2016, 2015 and 2014, the Association recorded $0, $0, and $3, respectively for provision or benefit for federal or state income taxes.

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	$ 3,777	$ 3,606	$ 3,782
Effect of non-taxable FLCA subsidiary	(2,234)	(3,088)	(3,326)
Patronage distributions	(1,505)	(1,400)	(1,120)
Change in valuation allowance	(60)	952	719
Other	22	(70)	(52)
Provision (benefit) for income taxes	$ --	$ –	$ 3

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

	December 31, 2016	2015	2014
Deferred income tax assets:			
Allowance for loan losses	$ 1,208	$ 1,592	$ 1,455
Net operating loss – carryforward	8,145	8,201	7,339
Nonaccrual loan interest	412	45	82
Gross deferred tax assets	9,765	9,838	8,876
Less: valuation allowance	(9,705)	(9,765)	(8,813)
Gross deferred tax assets, net of valuation allowance	60	73	63
Deferred income tax liabilities:			
Loan origination fees	(60)	(73)	(63)
Gross deferred tax liability	(60)	(73)	(63)
Net deferred tax asset (liability)	$ --	$ –	$ –

At December 31, 2016, deferred income taxes have not been provided by the Association on approximately $1.2 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 $9,705, $9,765 and $8,813 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	$ 2,828	$ 2,737	$ 2,666	$ 2,898	$ 11,129
Provision for (reversal of allowance for) loan losses	(890)	–	(470)	(980)	(2,340)
Noninterest income (expense), net	(977)	(1,386)	(1,146)	833	(2,676)
Net income	$ 2,741	$ 1,351	$ 1,990	$ 4,711	$ 10,793

2015	First	Second	Third	Fourth	Total
Net interest income	$ 2,737	$ 2,744	$ 2,749	$ 2,724	$ 10,954
Provision for (reversal of allowance for) loan losses	(345)	(393)	485	(1,730)	(1,983)
Noninterest income (expense), net	(1,135)	(1,258)	(1,193)	953	(2,633)
Net income	$ 1,947	$ 1,879	$ 1,071	$ 5,407	$ 10,304

2014	First	Second	Third	Fourth	Total
Net interest income	$ 2,794	$ 2,769	$ 2,679	$ 3,142	$ 11,384
Provision for (reversal of allowance for) loan losses	–	(460)	–	1,800	1,340
Noninterest income (expense), net	(938)	(955)	(1,026)	3,677	758
Net income	$ 1,856	$ 2,274	$ 1,653	$ 5,019	$ 10,802

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.

Our Locations

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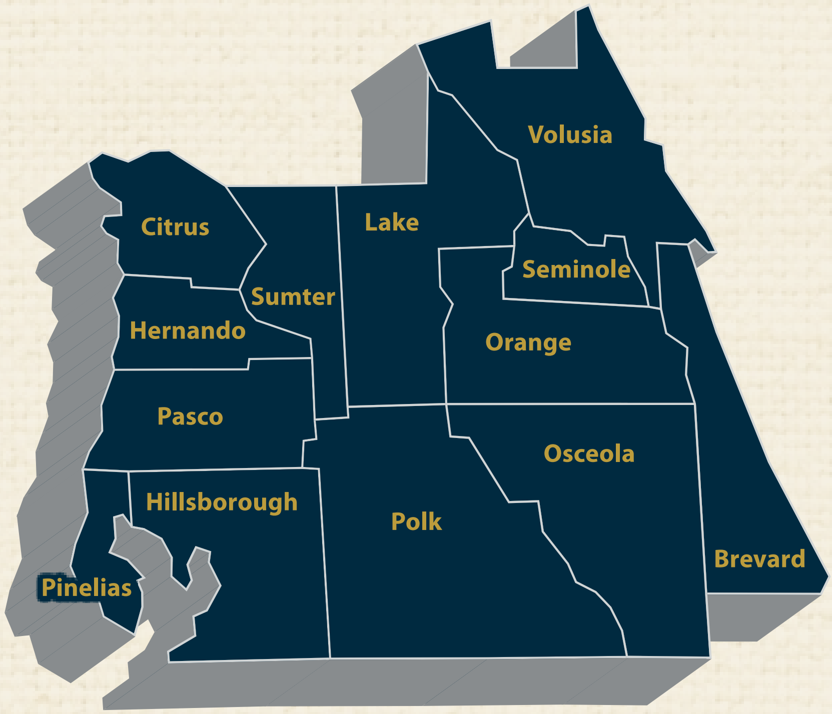
Apopka Service Center
57 E. Third Street
Apopka, FL 32703
407.880.7883

Brooksville Service Center
31081 Cortez Blvd.
Brooksville, FL 34602
352.544.5553

Plant City Service Center
2301 Thonotosassa Road
Plant City, FL 33563
813.719.7341

Lakeland Service Center
115 S. Missouri Ave
Suite 400
Lakeland, FL 33815
863.682.4117

AgriBusiness Lending Group
115 S. Missouri Ave
Suite 400
Lakeland, FL 33815
863.682.4117



FARM CREDIT
OF CENTRAL FLORIDA

Farm Credit
OF CENTRAL FLORIDA
115 S Missouri Ave.
Suite 400
Lakeland, FL 33815