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

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**CERTIFICATION**

The undersigned certify that we have reviewed the September 30, 2016 quarterly report of Farm Credit of 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.

  
Reginald T. Holt  
Chief Executive Officer

  
Anne M. Sullivan  
Chief Financial Officer

  
Keith D. Mixon  
Chairman of the Audit committee

November 8, 2016

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*Farm Credit of Central Florida, ACA*

# Report on Internal Control Over Financial Reporting

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

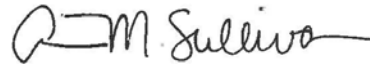
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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

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

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



Reginald T. Holt  
Chief Executive Officer



Anne M. Sullivan  
Chief Financial Officer

November 8, 2016

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*Farm Credit of Central Florida, ACA*

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

*(dollars in thousands)*

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

## **LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including horticulture, fruits/vegetables, citrus, 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.

### ***September 30, 2016 compared to December 31, 2015***

Loan volume of the Association as of September 30, 2016, was \$461,570, an increase of \$16,520 as compared to \$445,550 at December 31, 2015. Net loans outstanding at September 30, 2016, were \$455,964 as compared to \$438,747 at December 31, 2015. The Association has investment securities that are classified as held to maturity in the amount of \$20,289 at September 30, 2016, as compared to \$24,612 at December 31, 2015. Net loans and investment securities accounted for 96.74 percent of total assets at September 30, 2016, as compared to 95.75 percent of total assets at December 31, 2015.

The Association's total servicing portfolio has increased to \$915,697 as compared to \$907,378 at December 31, 2015, due in large part to new money closings exceeding run-off and liquidations. The increase in net loan volume is also due to new money closings exceeding run-off and liquidations. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between October and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result of this normal

seasonal lending activity causes net loan volume to decrease on revolving credit lines.

### ***September 30, 2016 compared to September 30, 2015***

Loan volume of the Association as of September 30, 2016, was \$461,570, an increase of \$50,294 as compared to \$411,276 at September 30, 2015. Net loans outstanding at September 30, 2016, were \$455,964 as compared to \$402,317 at September 30, 2015. The Association has investment securities that are classified as held to maturity in the amount of \$20,289 at September 30, 2016, as compared to \$26,161 at September 30, 2015. Net loans and investment securities accounted for 96.74 percent of total assets at September 30, 2016, as compared to 96.39 percent of total assets at September 30, 2015.

The Association's total servicing portfolio has increased to \$915,697 as compared to \$914,051 at September 30, 2015, due to new money closings exceeding run-off and/or liquidations over the past twelve months.

## **ASSET QUALITY AND LOAN LOSS RESERVES**

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has improved slightly as compared to year end as a result of a decrease in substandard assets. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 94.30% as of September 30, 2016, compared to 93.36% at December 31, 2015 and 92.17% at September 30, 2015. Substandard credit quality was 5.7% as of September 30, 2016, compared to 6.64% at December 31, 2015. The actual substandard asset volume has decreased by \$3,292 from year-end December 31, 2015. Nonaccrual loan volume was \$13,087 at September 30, 2016, compared to \$7,106 at December 31, 2015 and \$7,179 at September 30, 2015, increases of \$5,981 and \$5,908, respectively. The majority of the loan assets in nonaccrual are in the nursery, fruits and vegetables, blueberry and strawberry industries.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2016, was \$5,606 compared to \$6,803 at December 31, 2015, and \$8,959 at September 30, 2015, and is considered by management to be adequate to cover possible losses. The allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the possible

losses within the entire portfolio. The current allowance for loan loss at September 30, 2016, contains \$2,728 in specific reserves and \$2,878 in general reserves, of which \$2,096 is allocated to the citrus portfolio. The following outlines the allowance for loan loss activity as of September 30, 2016.

<b>Allowance for Loan Losses Activity:</b>	<b>YTD 2016</b>
Balance at beginning of period	\$ 6,803
Charge-offs	(72)
Recoveries	235
Provisions/(Reversals)-General	(727)
Provisions/(Reversals)-Specifics	(633)
Balance at end of period	<u>\$ 5,606</u>

The decrease in allowance for loan losses compared to December 2015 was a direct result of an allowance reversal during 2016 on one specific borrower within the fruit and vegetable industries well as improved asset quality since December 2015. Chargeoffs are funded through the allowance from previous and/or current increases in the provision for loan losses.

## RESULTS OF OPERATIONS

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

Net income for the three months ended September 30, 2016, totaled \$1,990, as compared to \$1,091 for the same period in 2015. The increase of \$899 for the period is associated directly with the \$470 reversal of allowance as compared to a \$485 provision in the same period last year..

Net interest income decreased \$83 for the three months ended September 30, 2016, as compared to the same period in 2015. The primary reason for the decrease in net interest income is decreased spreads offset by increased loan volume. Net interest income for the three months ending September 30, 2016, is shown in the following table:

<b>Net Interest Income</b>	<b>For the three months ended September 30,</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ change</b>	<b>% change</b>
Investment Interest Income	\$ 120	\$ 129	\$ (9)	7.00%
Loan Interest Income	4,613	4,376	237	5.42
Total Interest Income	4,733	4,505	228	5.06
Total Interest Expense	2,067	1,756	311	17.71
Net Interest Income	<u>\$ 2,666</u>	<u>\$ 2,749</u>	<u>\$ (83)</u>	<u>(3.02)%</u>

Allowance for loan loss activity for the quarter consisted of a \$470 reversal as compared to a \$485 provision for the same period prior year. Provisions for loan losses for the three months ending September 30, 2016 are shown in the following table:

<b>Provisions/(Reversals) for Loan Losses</b>	<b>For the three months ended September 30,</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ change</b>	<b>% change</b>
General Reserves	\$ (97)	\$ 537	\$ (634)	(118.06)%
Specific Reserves	(373)	(52)	(321)	(617.31)
Total Provisions/(Reversals)	<u>\$ (470)</u>	<u>\$ 485</u>	<u>\$ (955)</u>	<u>(196.91)%</u>

Noninterest income for the three months ended September 30, 2016, totaled \$1,517, as compared to \$1,455 for the same period of 2015, an increase of \$62. The increase is the result of increased fees for financially related services generated through the crop insurance program and increased gains from the sales of rural home loans. Noninterest income for the three months ending September 30, 2016, is shown in the following table:

<b>Noninterest Income</b>	<b>For the three months ended September 30,</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ change</b>	<b>% change</b>
Loan fees	\$ 81	\$ 153	\$ (72)	(47.06)%
Fees for financially related services	121	53	68	128.30
Patronage refunds from other				
Farm Credit Institutions	1,179	1,194	(15)	(1.26)
Gains (losses) on sales of rural home loans, net	120	68	52	76.47
Gains (losses) on sales of premises and equipment, net	-	-	-	-
Gains (losses) on other transactions	15	(16)	31	193.75
Other noninterest income	1	3	(2)	(66.67)
Total noninterest income	<u>\$ 1,517</u>	<u>\$ 1,455</u>	<u>\$ 62</u>	<u>4.26%</u>

Noninterest expense for the three months ended September 30, 2016, increased \$15 compared to the same period of 2015, primarily due to an increase insurance fund premiums offset by a decrease in salaries and employee benefits. Insurance Fund Premium expenses increased due to higher loan volumes coupled with an increase in the premium rate which result in higher premium expenses. The Farm Credit System Insurance Corporation (FCSIC) has set the premium to 18 basis points (compared to 13 basis points during 2015) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. Noninterest expense for the three months ending September 30, 2016 is shown in the following table:

<b>Noninterest Expense</b>	<b>For the three months ended September 30,</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ change</b>	<b>% change</b>
Salary and employee benefits	\$ 1,824	\$ 1,853	\$ (29)	(1.57)%
Occupancy and equipment	156	163	(7)	(4.29)
Insurance Fund Premium	158	102	56	54.90
(Gains) losses on other property owned, net	(9)	-	(9)	(100.00)
Other operating expenses	534	530	4	0.76
Total noninterest expense	<u>\$ 2,663</u>	<u>\$ 2,648</u>	<u>\$ 15</u>	<u>0.57%</u>

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

Net income for the nine months ended September 30, 2016, totaled \$6,082 as compared to \$4,897 for the same period in 2015. The increase of \$1,185 for the period is associated with increased reversals of provision for loan loss as well as increased noninterest income.

Net interest income increased \$1 or 0.01% for the nine months ended September 30, 2016, as compared to the same period in 2015. The primary reason for the nominal increase in net interest income is higher loan volumes over the prior year being offset by lower interest spreads. Net interest income for the nine months ending September 30, 2015 is shown in the following table:

Net Interest Income	For the nine months ended September 30,			
	2016	2015	\$ change	% change
Investment Interest Income	\$ 394	\$ 407	\$ (13)	(3.19)%
Loan Interest Income	13,963	12,931	1,032	7.98
Total Interest Income	14,357	13,338	1,019	7.64
Total Interest Expense	6,126	5,108	1,018	19.92
Net Interest Income	\$ 8,231	\$ 8,230	\$ 1	0.01%

The effects of changes in average volume and interest rates on net interest income over the past nine months are presented in the following table:

Change in Net Interest Income:	Non-accrual Amortization Total				
	Volume	Rate	Non-accrual	Amortization	Total
	<i>(dollars in thousands)</i>				
Change in NII	\$ 633	\$ (732)	(19)	\$ 119	\$ 1

Allowance for loan loss activity consisted of a \$1,360 reversal, as compared to a \$253 reversal for the same period last year. The reversal was a direct result of an allowance reversal during 2016 on one specific borrower within the fruit and vegetable industry as well as improved credit quality in the general pool. Provisions for loan losses for the nine months ending September 30, 2016 are shown in the following table:

Provisions for Loan Losses	For the nine months ended September 30,			
	2016	2015	\$ change	% change
General Reserves	\$ (727)	\$ 403	\$ (1,130)	(280.40) %
Specific Reserves	(633)	(656)	23	3.51
Total Provisions/(Reversals)	\$ (1,360)	\$ (253)	\$ (1,107)	(437.55) %

Noninterest income for the nine months ended September 30, 2016, totaled \$4,527, as compared to \$4,178 for the same period of 2015, an increase of \$349. The increase is primarily a result of increased fees for financially related services generated through the crop insurance program and gains on sales of rural home loans, as well as the gain recognized on the sale of the

Lake Wales branch location which was closed effective December 31, 2015. Noninterest income for the nine months ending September 30, 2016 is shown in the following table:

Noninterest Income	For the nine months ended September 30,			
	2016	2015	\$ change	% change
Loan fees	\$ 233	\$ 304	\$ (71)	(23.36)%
Fees for financially related services	312	174	138	79.31
Patronage refunds from other				
Farm Credit institutions	3,577	3,541	36	1.01
Gains (losses) on sales of				
rural home loans, net	254	159	95	59.75
Gains (losses) on sales of				
Premises and equipment, net	129	–	129	100.00
Gains (losses) on other				
Transactions	18	(9)	27	300.00
Other noninterest income	4	9	(5)	(55.56)
Total noninterest income	\$ 4,527	\$ 4,178	\$ 349	8.35%

Noninterest expense for the nine months ended September 30, 2016 increased \$272 compared to the same period of 2015. The increase is related to increases in salaries and employee benefits and insurance fund premiums. Salaries and employee benefits increased \$197 or 3.66% during the period due to increased employee head count coupled with standard annual promotions and merit increases. Insurance Fund Premium expenses increased due to the Farm Credit System Insurance Corporation (FCSIC) adjusting the premium to 18 basis points (compared to 13 basis points during 2015) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. Noninterest expense for the nine months ending September 30, 2016 is shown in the following table:

Noninterest Expense	For the nine months ended September 30,			
	2016	2015	\$ change	% change
Salary and employee benefits	\$ 5,583	\$ 5,386	\$ 197	3.66%
Occupancy and equipment	496	486	10	2.06
Insurance Fund Premium	432	296	136	45.95
(Gains) losses on other				
property owned, net	(8)	–	(8)	(100.00)
Other operating expenses	1,533	1,596	(63)	(3.95)
Total noninterest expense	\$ 8,036	\$ 7,764	\$ 272	3.50%

**FUNDING SOURCES**

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections.

The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2016, was \$388,825 as compared to \$379,668 at December 31, 2015. The decrease is attributable to pay downs on loans received during the normal course of business being greater than borrowings to fund new loan advances.

## CAPITAL RESOURCES

Total members' equity at September 30, 2016, increased to \$96,436 from the December 31, 2015, total of \$92,548. The increase is primarily attributed to the increase in unallocated surplus resulting from net income.

Total capital stock and participation certificates were \$862 on September 30, 2016, compared to \$858 on December 31, 2015. This increase is attributed to the issuance of stock and participation certificates on new loans in the normal course of business.

Farm Credit Administration regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted

asset base. As of September 30, 2016, the Association's total surplus ratio and core surplus ratio were 19.39 percent and 17.97 percent, respectively, and the permanent capital ratio was 19.57 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

## REGULATORY MATTERS

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

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

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

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

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

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

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2016. The proposed investment regulations are expected to have a minimal impact for District institutions. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,

- 
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,
  - To comply with the requirements of section 939A of the Dodd-Frank Act,
  - To modernize the investment eligibility criteria for System banks, and
  - To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

## **FINANCIAL REGULATORY REFORM**

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

## **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, or writing Anne M. Sullivan, CFO, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802, or accessing the website, [www.farmcreditfl.com](http://www.farmcreditfl.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# Farm Credit Of Central Florida, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2016 <i>(unaudited)</i>	December 31, 2015 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 45	\$ 320
Investment securities: Held to maturity (fair value of \$20,658 and \$25,076, respectively)	20,289	24,612
Loans	461,570	445,550
Allowance for loan losses	(5,606)	(6,803)
Net loans	455,964	438,747
Loans held for sale	287	102
Accrued interest receivable	1,879	1,640
Investments in other Farm Credit institutions	6,043	6,598
Premises and equipment, net	755	733
Other property owned	23	16
Accounts receivable	4,232	7,683
Other assets	2,773	3,482
Total assets	<b>\$ 492,290</b>	<b>\$ 483,933</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 388,825	\$ 379,668
Accrued interest payable	693	703
Patronage refunds payable	209	4,197
Accounts payable	1,135	1,379
Other liabilities	4,992	5,438
Total liabilities	<b>395,854</b>	<b>391,385</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	862	858
Retained earnings		
Allocated	26,270	28,505
Unallocated	69,755	63,673
Accumulated other comprehensive income (loss)	(451)	(488)
Total members' equity	<b>96,436</b>	<b>92,548</b>
Total liabilities and members' equity	<b>\$ 492,290</b>	<b>\$ 483,933</b>

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



# Farm Credit Of Central Florida, ACA

## Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
<b>Interest Income</b>				
Loans	\$ 4,613	\$ 4,376	\$ 13,963	\$ 12,931
Investments	120	129	394	407
Total interest income	<b>4,733</b>	4,505	<b>14,357</b>	13,338
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	<b>2,067</b>	1,756	<b>6,126</b>	5,108
Net interest income	<b>2,666</b>	2,749	<b>8,231</b>	8,230
Provision for (reversal of allowance for) loan losses	<b>(470)</b>	485	<b>(1,360)</b>	(253)
Net interest income after provision for (reversal of allowance for) loan losses	<b>3,136</b>	2,264	<b>9,591</b>	8,483
<b>Noninterest Income</b>				
Loan fees	81	153	233	304
Fees for financially related services	121	53	312	174
Patronage refunds from other Farm Credit institutions	1,179	1,194	3,577	3,541
Gains (losses) on sales of rural home loans, net	120	68	254	159
Gains (losses) on sales of premises and equipment, net	—	—	129	—
Gains (losses) on other transactions	15	(16)	18	(9)
Other noninterest income	1	3	4	9
Total noninterest income	<b>1,517</b>	1,455	<b>4,527</b>	4,178
<b>Noninterest Expense</b>				
Salaries and employee benefits	1,824	1,853	5,583	5,386
Occupancy and equipment	156	163	496	486
Insurance Fund premiums	158	102	432	296
(Gains) losses on other property owned, net	(9)	—	(8)	—
Other operating expenses	534	530	1,533	1,596
Total noninterest expense	<b>2,663</b>	2,648	<b>8,036</b>	7,764
Net income	<b>\$ 1,990</b>	\$ 1,071	<b>\$ 6,082</b>	\$ 4,897

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

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

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 1,990	\$ 1,071	\$ 6,082	\$ 4,897
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	<u>12</u>	<u>10</u>	<u>37</u>	<u>32</u>
Comprehensive income	<u>\$ 2,002</u>	<u>\$ 1,081</u>	<u>\$ 6,119</u>	<u>\$ 4,929</u>

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

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

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2014	\$ 860	\$ 30,740	\$ 57,369	\$ (465)	\$ 88,504
Comprehensive income			4,897	32	4,929
Capital stock/participation certificates issued/(retired), net	(18)				(18)
Retained earnings retired		(2,235)			(2,235)
<b>Balance at September 30, 2015</b>	<b>\$ 842</b>	<b>\$ 28,505</b>	<b>\$ 62,266</b>	<b>\$ (433)</b>	<b>\$ 91,180</b>
Balance at December 31, 2015	\$ 858	\$ 28,505	\$ 63,673	\$ (488)	\$ 92,548
<b>Comprehensive income</b>			<b>6,082</b>	<b>37</b>	<b>6,119</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>4</b>				<b>4</b>
<b>Retained earnings retired</b>		<b>(2,235)</b>			<b>(2,235)</b>
<b>Balance at September 30, 2016</b>	<b>\$ 862</b>	<b>\$ 26,270</b>	<b>\$ 69,755</b>	<b>\$ (451)</b>	<b>\$ 96,436</b>

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

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## Farm Credit of Central Florida, ACA

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

(unaudited)

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

#### Organization

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

#### Basis of Presentation

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

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

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

#### Significant Accounting Policies

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

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

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

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

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

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

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

estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Update will take effect for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other organizations, the ASU will take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

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

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

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

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

Potential effects of ASUs issued in previous periods:

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

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

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

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	September 30, 2016	December 31, 2015
Real estate mortgage	\$ 236,102	\$ 224,160
Production and intermediate-term	136,087	144,445
Loans to cooperatives	7,824	–
Processing and marketing	51,339	56,409
Farm-related business	5,970	8,614
Communication	11,593	5,188
Rural residential real estate	6,826	6,734
International	5,829	–
<b>Total Loans</b>	<b>\$ 461,570</b>	<b>\$ 445,550</b>

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

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

	September 30, 2016							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 2,573	\$ 98,317	\$ –	\$ 9,120	\$ –	\$ –	\$ 2,573	\$ 107,437
Production and intermediate-term	21,970	56,570	86	–	–	–	22,056	56,570
Loans to cooperatives	7,843	–	–	–	–	–	7,843	–
Processing and marketing	41,581	12,099	–	–	–	–	41,581	12,099
Farm-related business	–	3,362	–	–	–	–	–	3,362
Communication	11,628	–	–	–	–	–	11,628	–
International	5,841	–	–	–	–	–	5,841	–
<b>Total</b>	<b>\$ 91,436</b>	<b>\$ 170,348</b>	<b>\$ 86</b>	<b>\$ 9,120</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 91,522</b>	<b>\$ 179,468</b>

**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
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

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

	September 30, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 10,758	\$ 46,139	\$ 179,205	\$ 236,102
Production and intermediate-term	38,097	60,213	37,777	136,087
Loans to cooperatives	-	673	7,151	7,824
Processing and marketing	2,918	25,513	22,908	51,339
Farm-related business	76	1,930	3,964	5,970
Communication	-	6,828	4,765	11,593
Rural residential real estate	606	1,628	4,592	6,826
International	-	3,991	1,838	5,829
Total Loans	\$ 52,455	\$ 146,915	\$ 262,200	\$ 461,570
Percentage	11.36%	31.83%	56.81%	100.00%

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

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

	September 30, 2016	December 31, 2015		September 30, 2016	December 31, 2015
<b>Real estate mortgage:</b>			<b>Farm-related business:</b>		
Acceptable	93.27%	92.91%	Acceptable	100.00%	100.00%
OAEM	2.48	1.01	OAEM	-	-
Substandard/doubtful/loss	4.25	6.08	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Communication:</b>		
Acceptable	84.64%	87.50%	Acceptable	100.00%	100.00%
OAEM	3.97	1.89	OAEM	-	-
Substandard/doubtful/loss	11.39	10.61	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Loans to cooperatives</b>			<b>Rural residential real estate:</b>		
Acceptable	100.00%	-%	Acceptable	85.33%	82.28%
OAEM	-	-	OAEM	3.61	8.05
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	11.06	9.67
	100.00%	-%		100.00%	100.00%
<b>Processing and marketing:</b>			<b>International</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	-%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	-%
			<b>Total Loans:</b>		
			Acceptable	91.81%	92.11%
			OAEM	2.49	1.25
			Substandard/doubtful/loss	5.70	6.64
				100.00%	100.00%

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

September 30, 2016						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 765	\$ 537	\$ 1,302	235,902	\$ 237,204	\$ -
Production and intermediate-term	3,058	2,934	5,992	130,516	136,508	-
Loans to cooperatives	-	-	-	7,899	7,899	-
Processing and marketing	-	-	-	51,409	51,409	-
Farm-related business	-	-	-	5,987	5,987	-
Communication	-	-	-	11,594	11,594	-
Rural residential real estate	50	82	132	6,724	6,856	-
International	-	-	-	5,861	5,861	-
Total	\$ 3,873	\$ 3,553	\$ 7,426	\$ 455,892	\$ 463,318	\$ -

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	\$ -

Nonperforming assets (including the recorded investment for loans) and related credit quality statistics at period end were as follows:

	September 30, 2016	December 31, 2015
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 1,969	\$ 2,417
Production and intermediate-term	10,447	4,391
Rural residential real estate	671	298
Total	\$ 13,087	\$ 7,106
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 5,799	\$ 2,904
Production and intermediate-term	5,204	6,169
Farm-related business	745	781
Rural residential real estate	466	564
Total	\$ 12,214	\$ 10,418
<b>Accruing loans 90 days or more past due:</b>		
Total	\$ -	\$ -
Total nonperforming loans	\$ 25,301	\$ 17,524
Other property owned	23	16
Total nonperforming assets	\$ 25,324	\$ 17,540
Nonaccrual loans as a percentage of total loans	2.84%	1.59%
Nonperforming assets as a percentage of total loans and other property owned	5.49%	3.94%
Nonperforming assets as a percentage of capital	26.26%	18.95%

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

	September 30, 2016	December 31, 2015
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 6,268	\$ 4,698
Past due	6,819	2,408
Total	13,087	7,106
<b>Impaired accrual loans:</b>		
Restructured	12,214	10,418
90 days or more past due	-	-
Total	12,214	10,418
Total impaired loans	\$ 25,301	\$ 17,524
Additional commitments to lend	\$ -	\$ -



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

Impaired loans:	September 30, 2016			Quarter Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 1,318	\$ 1,352	\$ 43	\$ 1,166	\$ 12	\$ 1,073	\$ 39
Production and intermediate-term	9,699	9,869	2,620	8,586	84	7,900	284
Farm-related business	745	745	8	660	6	607	22
Rural residential real estate	597	621	57	528	5	486	17
Total	\$ 12,359	\$ 12,587	\$ 2,728	\$ 10,940	\$ 107	\$ 10,066	\$ 362
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 6,450	\$ 6,832	\$ -	\$ 5,710	\$ 55	\$ 5,254	\$ 188
Production and intermediate-term	5,952	7,551	-	5,268	52	4,847	174
Farm-related business	-	-	-	-	-	-	-
Rural residential real estate	540	732	-	478	5	440	16
Total	\$ 12,942	\$ 15,115	\$ -	\$ 11,456	\$ 112	\$ 10,541	\$ 378
<b>Total:</b>							
Real estate mortgage	\$ 7,768	\$ 8,184	\$ 43	\$ 6,876	\$ 67	\$ 6,327	\$ 227
Production and intermediate-term	15,651	17,420	2,620	13,854	136	12,747	458
Farm-related business	745	745	8	660	6	607	22
Rural residential real estate	1,137	1,353	57	1,006	10	926	33
Total	\$ 25,301	\$ 27,702	\$ 2,728	\$ 22,396	\$ 219	\$ 20,607	\$ 740

Impaired loans:	December 31, 2015			Year Ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 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
<b>With no related allowance for credit losses:</b>					
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
<b>Total:</b>					
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

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Rural Residential Real Estate	International	Total
<b>Activity related to the allowance for credit losses:</b>							
Balance at June 30, 2016	\$ 1,877	\$ 3,854	\$ 69	\$ 25	\$ 142	\$ 3	\$ 5,970
Charge-offs	–	(7)	–	–	–	–	(7)
Recoveries	55	48	–	–	10	–	113
Provision for loan losses	(107)	(300)	4	(9)	(58)	–	(470)
Balance at September 30, 2016	\$ 1,825	\$ 3,595	\$ 73	\$ 16	\$ 94	\$ 3	\$ 5,606
Balance at December 31, 2015	\$ 2,300	\$ 4,301	\$ 48	\$ 20	\$ 134	\$ –	\$ 6,803
Charge-offs	–	(21)	–	–	(51)	–	(72)
Recoveries	156	66	–	–	13	–	235
Provision for loan losses	(631)	(751)	25	(4)	(2)	3	(1,360)
Balance at September 30, 2016	\$ 1,825	\$ 3,595	\$ 73	\$ 16	\$ 94	\$ 3	\$ 5,606
Balance at June 30, 2015	\$ 4,683	\$ 3,261	\$ 421	\$ 22	\$ 238	\$ –	\$ 8,625
Charge-offs	(152)	(44)	–	–	–	–	(196)
Recoveries	43	–	–	–	2	–	45
Provision for loan losses	(195)	1,055	(421)	(1)	47	–	485
Balance at September 30, 2015	\$ 4,379	\$ 4,272	\$ –	\$ 21	\$ 287	\$ –	\$ 8,959
Balance at December 31, 2014	\$ 4,994	\$ 3,387	\$ 443	\$ 20	\$ 393	\$ –	\$ 9,237
Charge-offs	(157)	(45)	–	–	–	–	(202)
Recoveries	171	–	–	–	6	–	177
Provision for loan losses	(629)	930	(443)	1	(112)	–	(253)
Balance at September 30, 2015	\$ 4,379	\$ 4,272	\$ –	\$ 21	\$ 287	\$ –	\$ 8,959
<b>Allowance on loans evaluated for impairment:</b>							
Individually	\$ 43	\$ 2,620	\$ 8	\$ –	\$ 57	\$ –	\$ 2,728
Collectively	1,782	975	65	16	37	3	2,878
Balance at September 30, 2016	\$ 1,825	\$ 3,595	\$ 73	\$ 16	\$ 94	\$ 3	\$ 5,606
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
<b>Recorded investment in loans evaluated for impairment:</b>							
Individually	\$ 7,789	\$ 15,674	\$ 756	\$ –	\$ 1,138	\$ –	\$ 25,357
Collectively	229,415	120,834	64,539	11,594	5,718	5,861	437,961
Balance at September 30, 2016	\$ 237,204	\$ 136,508	\$ 65,295	\$ 11,594	\$ 6,856	\$ 5,861	\$ 463,318
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

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. In the tables below, activity for the quarter and nine months ended September 30, 2015 is presented as revised for FCA loan type reclassifications discussed above.

Outstanding Recorded Investment	Three months ended September 30, 2016				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ 200	\$ –	\$ –	\$ 200	
Rural residential real estate	–	510	–	510	
Total	\$ 200	\$ 510	\$ –	\$ 710	
<b>Post-modification:</b>					
Real estate mortgage	\$ 200	\$ –	\$ –	\$ 200	\$ –
Rural residential real estate	–	514	–	514	–
Total	\$ 200	\$ 514	\$ –	\$ 714	\$ –

Nine months ended September 30, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ 200	\$ 3,497	\$ –	\$ 3,697	
Production and intermediate-term	–	429	–	429	
Rural residential real estate	–	510	–	510	
Total	\$ 200	\$ 4,436	\$ –	\$ 4,636	
<b>Post-modification:</b>					
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	\$ –

Three Months Ended September 30, 2015 (as revised)					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Production and intermediate-term	\$ 173	\$ –	\$ –	\$ 173	
Total	\$ 173	\$ –	\$ –	\$ 173	
<b>Post-modification:</b>					
Production and intermediate-term	\$ 173	\$ –	\$ –	\$ 173	\$ –
Total	\$ 173	\$ –	\$ –	\$ 173	\$ –

Nine Months Ended September 30, 2015 (as revised)					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ –	\$ 90	\$ –	\$ 90	
Production and intermediate-term	173	2,216	–	2,389	
Total	\$ 173	\$ 2,306	\$ –	\$ 2,479	
<b>Post-modification:</b>					
Real estate mortgage	\$ –	\$ 91	\$ –	\$ 91	\$ –
Production and intermediate-term	173	2,217	–	2,390	–
Total	\$ 173	\$ 2,308	\$ –	\$ 2,481	\$ –

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015 (as revised)	2016	2015 (as revised)
Production and intermediate-term	\$ 412	\$ 567	\$ 412	\$ 567
Total	\$ 412	\$ 567	\$ 412	\$ 567

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Real estate mortgage	\$ 6,198	\$ 3,858	\$ 399	\$ 954
Production and intermediate-term	7,208	7,624	2,004	1,455
Farm related business	745	781	–	–
Rural residential real estate	921	698	455	134
Total Loans	\$ 15,072	\$ 12,961	\$ 2,858	\$ 2,543
Additional commitments to lend	\$ –	\$ –		

The following table presents information as of period end:

	September 30, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ —	\$ —
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 82	\$ 337

### Note 3 — Investments

#### Investment Securities

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

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

September 30, 2016					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	\$ 20,289	\$ 391	\$ (22)	\$ 20,658	2.32%

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

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

September 30, 2016			
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 743	\$ 741	1.84%
After one year through five years	12,250	12,456	2.28
After five years through ten years	4,962	5,056	2.31
After ten years	2,334	2,405	2.69
Total	\$ 20,289	\$ 20,658	2.32%

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.

September 30, 2016				
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	\$ 1,277	\$ (4)	\$ 806	\$ (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)

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

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

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and

timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

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

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

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**

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 2.12 percent of the issued stock of the Bank as of September 30, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.7 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$241 million for the first nine months of 2016. In addition, the Association held investments of \$607 related to other Farm Credit institutions.

#### **Note 4 — Debt**

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

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

#### **Note 5 — Members' Equity**

##### **Accumulated Other Comprehensive Income (AOCI)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (463)	\$ (443)	\$ (488)	\$ (465)
Other comprehensive income before reclassifications	-	-	-	-
Amounts reclassified from AOCI	12	10	37	32
Net current period other comprehensive income	12	10	37	32
Balance at end of period	\$ (451)	\$ (433)	\$ (451)	\$ (433)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>		<b>Income Statement Line Item</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$ (12)	\$ (10)	\$ (37)	\$ (32)	See Note 7.
Net amounts reclassified	\$ (12)	\$ (10)	\$ (37)	\$ (32)	

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

#### **Note 6 — Fair Value Measurement**

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

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability

as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

**At or for the Nine Months Ended September 30, 2016**

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 431	\$ 431	\$ -	\$ -	\$ 431	
Recurring Assets	\$ 431	\$ 431	\$ -	\$ -	\$ 431	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 22,573	\$ -	\$ -	\$ 22,573	\$ 22,573	\$ 633
Other property owned	23	-	-	25	25	12
Nonrecurring Assets	\$ 22,596	\$ -	\$ -	\$ 22,598	\$ 22,598	\$ 645
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 45	\$ 45	\$ -	\$ -	\$ 45	
Investment securities, held-to-maturity	20,289	-	20,658	-	20,658	
Loans	433,678	-	-	431,866	431,866	
Other Financial Assets	\$ 454,012	\$ 45	\$ 20,658	\$ 431,866	\$ 452,569	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 388,825	\$ -	\$ -	\$ 390,935	\$ 390,935	
Other Financial Liabilities	\$ 388,825	\$ -	\$ -	\$ 390,935	\$ 390,935	

**At or for the Year Ended December 31, 2015**

	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Fair Value Effects On Earnings</b>
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 326	\$ 326	\$ -	\$ -	\$ 326	
Recurring Assets	\$ 326	\$ 326	\$ -	\$ -	\$ 326	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 14,326	\$ -	\$ -	\$ 14,326	\$ 14,326	\$ 740
Other property owned	16	-	-	18	18	-
Nonrecurring Assets	\$ 14,342	\$ -	\$ -	\$ 14,344	\$ 14,344	\$ 740
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
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	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 379,668	\$ -	\$ -	\$ 377,561	\$ 377,561	
Other Financial Liabilities	\$ 379,668	\$ -	\$ -	\$ 377,561	\$ 377,561	

**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**

	<b>Fair Value</b>	<b>Valuation Technique(s)</b>	<b>Unobservable Input</b>	<b>Range</b>
Impaired loans and other property owned	\$ 22,598	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

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

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

**Note 7 — Employee Benefit Plans**

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Pension	\$ 289	\$ 289	\$ 867	\$ 865
401(k)	74	64	260	239
Other postretirement benefits	61	81	182	244
Total	\$ 424	\$ 434	\$ 1,309	\$ 1,348

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

	<b>Actual YTD Through 9/30/16</b>	<b>Projected Contributions For Remainder of 2016</b>	<b>Projected Total Contributions 2016</b>
	Pension	\$ 16	\$ 572
Other postretirement benefits	106	39	145
Total	\$ 122	\$ 611	\$ 733

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

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

**Note 8 — Commitments and Contingent Liabilities**

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

material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

**Note 9 — Subsequent Events**

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

On October 17, 2016, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2017. The Association will receive approximately \$2,419 which will be recorded in October 2016 as patronage refunds from other Farm Credit institutions.