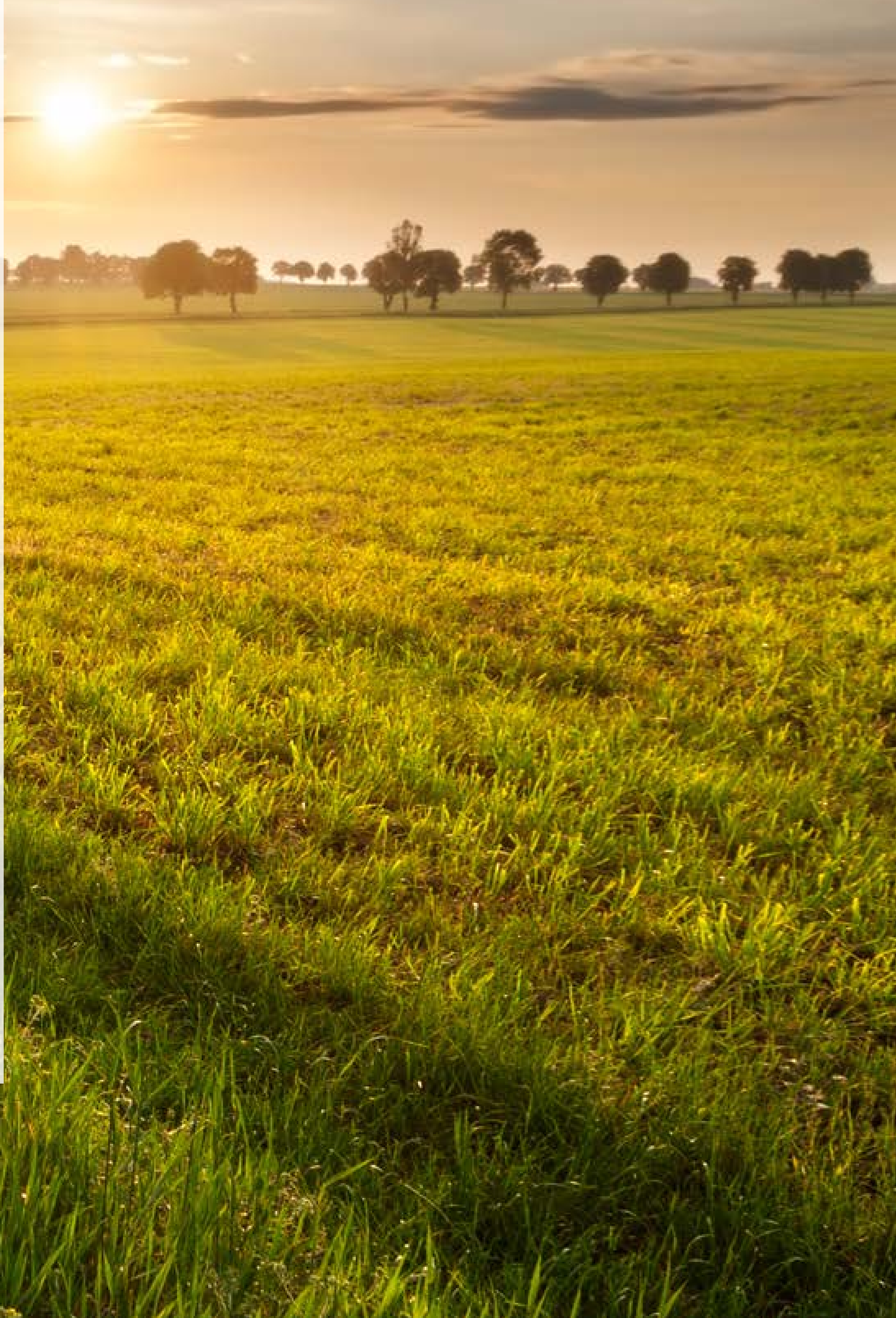





2016 ANNUAL REPORT

FARM CREDIT
OF NORTHWEST FLORIDA
Helping Rural America Grow®



FARM CREDIT OF NORTHWEST FLORIDA, ACA

2016 ANNUAL REPORT

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Ricky K. Bitner .... President & Chief Executive Officer
John P. Mottice .... Chief Financial Officer
Chuck Thiele .... Chief Credit Officer
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Dorislynn White-Padgett .... Manager of Human Capital

Board of Directors

Richard Terry .... Chairman
Cindy Eade .... Vice Chairperson
Melvin Adams .... Director
Damon Boutwell .... Director
James R. Dean .... Director
Desmond Dodd .... Director
Mark Fletcher .... Director
Radford Locklin, Jr. .... Director
Glen Strange .... Director
Michael Thompson .... Director
R. Douglas Walker .... Director

Message from the President

Dear Shareholders,

On behalf of the Board of Directors, management and staff I am pleased to present this 2016 Annual Report. In 2016, the Association met or exceeded its financial goals for the year. Asset quality improved, expenses were contained and net income for 2016 was in excess of $6.5 million. The Association ended the year with a Return on Assets of 2.33% and a Return on Equity of 7.82%, both demonstrating very favorable performance results. The Association remains exceptionally well-capitalized with a Permanent Capital Ratio of 28.21%.

Because of the strong earnings and capitalization, your Board of Directors voted in December of 2016 to return $3 million in profits from 2016 net earnings to our members. This return of profits significantly reduces your cost of borrowing beyond your already competitive interest rate. The millions of dollars returned to our members not only help you financially, but those funds also support business growth and the economies of our rural communities.

The Association received favorable internal and external audits during the prior year. As you review this report, I am confident that you will find that our financial and audit results support that your Association is being operated in a safe and sound manner.

In last year's message, I indicated that based upon projected commodity prices for the next two or three years, we anticipated it would be more difficult for farmers and ranchers to be profitable than it had been over previous years. While there was some stress evident, most of our farmers experienced better results than originally projected. Our primary reason for being is to ensure that agriculture and rural America have a dependable source of financing through good and bad times. The Association is financially strong and prepared for any stress that is likely to occur. We are ready and willing to support our borrowers through the inevitable difficult periods in agriculture and the economy in general.

Farm Credit of Northwest Florida works to promote the well-being of our rural communities and agriculture. Throughout 2016, along with generous financial sponsorships, the Association's directors and staff participated in events that educate about the importance of agriculture, represent the needs of agriculture in legislative circles, and train and encourage young, beginning, small and minority farmers and veterans. Through our Helping Rural America Grow Community Campaign, the Association and its staff donated $8,500 to local food banks and charities.

One area where the Association is working to improve our performance in 2017 is in growing the size of the Association through quality, new business. We believe that opportunity exists within our territory to introduce new borrowers to all of the benefits of cooperative borrowing and to the value that Farm Credit provides beyond the loan such as: our dedicated, knowledgeable, and caring staff; our support to advance and educate about issues that matter to you; tax exemptions that reduce your borrowing costs; and (of course) how we put money back into our members' pockets through cooperative returns. However, we recognize that technology is changing how many people choose to conduct business. In 2017, we will be renovating our website and undertaking other new initiatives to keep your Association technologically current and competitive. New members help your Association to grow stronger and more diversified. We ask you to join us in the effort by taking every opportunity to tell others about the benefits of borrowing from Farm Credit and by actively referring others to the Association.

On behalf of Farm Credit of Northwest Florida's Board of Directors and staff, thank you for your business and your loyalty. We are proud that you allow us to play a part in helping to make your farm operating, land and homeownership dreams come true.

If you have any questions or would like to discuss this report, please feel free to contact me directly at rbitner@farmcredit-fl.com or 800-527-0647.

Sincerely,

Ricky K. Bitner
Chief Executive Officer

March 13, 2017

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this Annual Report have been prepared by management of Farm Credit of Northwest 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 Northwest 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.

Richard Terry
Chairman of the Board

Ricky K. Bitner
Chief Executive Officer

John P. Mottice
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.

Ricky K. Bitner

Ricky K. Bitner
Chief Executive Officer

John P. Mottice
Chief Financial Officer

March 13, 2017

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2016	2015	2014	2013	2012
Balance Sheet Data					
Cash	**$ —**	$ —	$ —	$ —	$ 40
Loans	**277,375**	275,864	264,173	273,140	273,448
Allowance for loan losses	**(4,574)**	(4,897)	(4,662)	(5,840)	(4,549)
Net loans	**272,801**	270,967	259,511	267,300	268,899
Investments in other Farm Credit institutions	**3,336**	3,686	3,857	4,383	5,233
Other property owned	**2,940**	1,883	2,983	9,123	10,105
Other assets	**8,523**	9,132	10,211	9,973	8,006
Total assets	**$ 287,600**	$ 285,668	$ 276,562	$ 290,779	$ 292,283
Notes payable to AgFirst Farm Credit Bank*	**$ 198,227**	$ 196,766	$ 189,502	$ 205,163	$ 210,507
Accrued interest payable and other liabilities with maturities of less than one year	**6,304**	6,414	4,815	5,013	3,963
Total liabilities	**204,531**	203,180	194,317	210,176	214,470
Protected borrower stock	**—**	—	1	2	4
Capital stock and participation certificates	**884**	857	854	848	897
Retained earnings					
Allocated	**47,644**	50,667	54,225	56,243	51,622
Unallocated	**34,541**	30,964	27,165	23,510	25,290
Total members' equity	**83,069**	82,488	82,245	80,603	77,813
Total liabilities and members' equity	**$ 287,600**	$ 285,668	$ 276,562	$ 290,779	$ 292,283
Statement of Income Data					
Net interest income	**$ 8,969**	$ 9,001	$ 8,366	$ 9,109	$ 11,026
Provision for (reversal of allowance for) loan losses	**(55)**	(603)	—	105	(400)
Noninterest income (expense), net	**(2,447)**	(2,805)	(2,711)	(2,804)	(4,106)
Net income	**$ 6,577**	$ 6,799	$ 5,655	$ 6,200	$ 7,320
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.33%**	2.44%	2.03%	2.16%	2.28%
Total members' equity	**7.82%**	8.17%	6.89%	7.82%	9.84%
Net interest income as a percentage of average earning assets	**3.26%**	3.33%	3.13%	3.36%	3.68%
Net (chargeoffs) recoveries to average loans	**(0.098)%**	0.310%	(0.441)%	0.437%	(0.543)%
Total members' equity to total assets	**28.88%**	28.88%	29.74%	27.72%	26.62%
Debt to members' equity (:1)	**2.46**	2.46	2.36	2.61	2.76
Allowance for loan losses to loans	**1.65%**	1.78%	1.76%	2.14%	1.66%
Permanent capital ratio	**28.21%**	28.26%	28.77%	26.26%	22.79%
Total surplus ratio	**27.90%**	27.98%	28.46%	25.97%	22.48%
Core surplus ratio	**27.90%**	26.95%	26.26%	24.57%	21.60%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 3,000**	$ 3,000	$ 2,000	$ 2,000	$ 1,250
Nonqualified retained earnings	**—**	—	—	5,980	—

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

Copies of the Association's Annual and Quarterly Reports are also available upon request free of charge on the Association's website, ***www.farmcredit-fl.com***, or by calling 1-850-526-4910 or writing John P. Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, FL 32447. 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 Report to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report, which is available on the website within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of 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 Association's territory.

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, has experienced less favorable economic conditions driven by declining commodity and livestock prices. To date, the Association's financial results have not been materially impacted by these less 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 Consolidated 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 underlying security that, by nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

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

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

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

ECONOMIC CONDITIONS

Florida Economy

The University of Central Florida's Institute for Economic Competitiveness projects annual Florida Real Gross State Product expansion of 3.2 percent in 2016, 3.8 percent in 2017, 3.9 percent in 2018 and 3.8 percent for 2019. Average annual growth is expected be 1.2 percentage points faster than U.S. Real GDP over the same period. Florida payroll job growth is robust and continues to outpace national job growth. Year-over-year payroll growth is projected to average 3.2 percent in 2016, 2.8 percent in 2017, 2.1 percent in 2018, and 2.2 percent in 2019. Labor force growth in Florida is projected to average 1.8 percent annually for the 2016-2019 period, with the unemployment rate falling from 4.7 percent in 2016 to 4.0 percent in 2019. Average job growth is expected to be 1.1 percentage points faster than the national average.

Additional key factors for the Florida economy include:

- Sectors expected to have the strongest average job growth during 2016-2019 are Professional & Business Services, Construction, Financial, Leisure & Hospitality, Education & Health Services, and Trade, Transportation & Utilities.
- Housing starts plateaued in 2013-2014. The pace of starts will increase going forward, but not fast enough to meet near-term demand for single family housing. Total starts are forecasted at 111,700 in 2016, 128,800 in 2017, 146,400 in 2018, and 160,400 in 2019.
- Real personal income growth is expected to average 4.0 percent during 2016-2019. Florida's average growth is projected to exceed the national rate by 0.8 percent.
- Retail sales are forecasted to grow at an average pace of over 6.3 percent during 2016-2019, boosted by stronger economic growth, continued recovery in Florida's labor market, and rising home values.

The Florida housing market continues to recover. The October 2016 single-family home report released by Florida Realtors® portrays an existing housing market that remains tight, fueling continued strong price appreciation. The median sales price for single-family homes increased $23,000 in October 2016, year-over-year, and now stands at $220,000, a year-over-year price appreciation of a robust 11.7%. Inventories of single-family homes are down from a year ago and are now just 4.2 months, indicating an inventory balance that favors sellers in the single-family market. Distressed sales of single-family homes in the form of short sales are rapidly contracting year-over-year, down 39.4 percent, as are foreclosure/REO sales, down 51.3 percent. Traditional sales are up 5.1 percent year-over-year.

The fundamental underpinnings of the housing market in Florida continue to strengthen. Economic and job growth in Florida are forecasted to continue to outperform the U.S. labor market and more Baby Boomers are expected to migrate southward as they reach the end of their working lives. This bodes well for continued population growth via the in-migration of retirees and job seekers to Florida. The population of Florida is also growing naturally as birth rates exceed death rates. In addition to these sources of domestic population growth, international immigration will also feed the state's population growth.

Overall, the Florida economy has shown considerable resilience. In-migration trends continue to support economic growth, housing and employment that exceed national averages. A strengthening dollar could yet negatively impact the state's hospitality industry growth as that industry benefits greatly from flows of international tourists. Agriculture in Florida will likely see continued weakness from diminished commodity prices, specifically in the northern region that produces peanuts and cotton, but also in other parts of the state where beef cattle production is more common. The citrus industry in Florida continues to suffer from the effects of greening, with significant transition occurring into other commodities to diversify from single commodity risk.

Regional Economy

The Northwest Florida/Panhandle area has a permanent population of 1.4 million and a workforce of over 600,000. The Association's eighteen county region includes almost 25 percent of the state's counties and 20 percent of Florida's land mass. The area economy is driven by tourism, government, and both service and manufacturing industries. Three research universities – Florida State University, Florida A&M University, and the University of West Florida – provide research in a variety of disciplines. The region's military facilities provide contract opportunities for a number of local, regional and national companies, while also providing a source of skilled and dedicated workers after they separate from the military.

The regional economy has struggled to fully recover from the 2007-2008 recession. Area employment is down 3.1 percent from the pre-recession high and down 1.9 percent from December 2006. By contrast, employment in Florida is up 5.1 percent from the pre-recession high and up 5.4 percent from December 2006. Of the eighteen counties located in the Association's territory, only three have seen employment grow in comparison to pre-recessionary highs. Recent trends are more encouraging, with fifteen of the eighteen counties experiencing stable to increasing job growth over the past twelve months.

Northwest Florida's coastal communities, which suffered very little from the actual effects of the 2010 BP oil spill, saw significant declines in tourism due to the erroneous perception that the entire coast was damaged. The industry has since rebounded to near-record levels during each of the past three years. Following the oil spill, BP agreed to a large settlement fund, which will result in approximately $1.5 billion in funds available to the eight Northwest Florida coastal counties most heavily affected by the spill. These funds will be available to support economic development beginning in 2017.

The region's beaches traditionally pull visitors from within the U.S. Low energy prices should continue to bolster the prospects for domestic tourism. Tropical storms and hurricanes have moderated in recent years, while reparation monies from BP-funded aggressive marketing campaigns have helped bring visitors back to the region.

Anchored by the metro areas of Tallahassee to the east and Pensacola to the west, with local economies driven by agriculture, tourism and a strong military base presence in the center, economic growth in the Panhandle is typically less cyclical than peninsular Florida. Growth in the Tallahassee and Pensacola metro areas is forecasted during the 2016-2019 period, but at a lower rate than most other metro areas in Florida. Real Gross Metro Product in both metro areas has not yet recovered to pre-recessionary levels.

Operations at area military bases have generally been expanded over the past several years and, unless there is a significant cut in federal civilian jobs that support the bases, these facilities should continue to be positive economic growth engines for the foreseeable future. Navy Federal Credit Union, which in October 2014 announced major expansion plans for their operations center campus in Escambia County, could contribute up to 5,000 additional jobs by 2026.

The absence of a state income tax and the presence of a hospitable climate should help to attract retirees and others to the Panhandle region in the coming years. The outlook for the area nonfarm economy remains generally positive. The University of Central Florida projects that the region's population grew by 1.1 percent in 2016 and that unemployment rates will track at or below the state average during the next three years.

Agricultural Economy

The agricultural economy in Northwest Florida experienced an overall average to above average year in 2016. Row crop production yields were solid, with a few pockets receiving less than normal precipitation which negatively impacted yields. Early harvest conditions were favorable with dry conditions across the territory developing as harvest progressed.

The 2017 outlook for peanuts and cotton is for peanut prices in the $425 - $475 per ton range and cotton prices in the 66 - 71 cents per pound range. This represents an increase for peanuts of approximately $50 - $100 per ton and an equivalent price range for cotton when compared to 2016. Contracts have been offered for peanuts in the $475 to $500 per ton range. The sizeable crop and growing supply have pushed corn prices lower in 2016. Corn prices are forecasted to be similar to 2016 with a possible slight increase depending on planting acres. The majority of the corn grown in Northwest Florida is used for feed and sold locally, often receiving a positive basis resulting in a cash price higher than reported national prices. Due to the low price at the beginning of the planting season, very little corn was planted in the area.

The dairy industry experienced a second consecutive year of declining prices. The lower prices are mainly a result of decreased exports and increased milk production. Production is expected to stabilize in 2017 which could have a positive effect on price. Exports are projected to remain steady and will remain a key driver for milk prices. The corn and soybean crop surpluses have resulted in lower feed costs; however, due to the decreased milk price, margins remain compressed. The outlook for 2017 is projected to be similar to 2016 in both prices and margins. The U.S. cattle and calf inventory continues to rise. The cattle market in 2017 will likely experience lower average cattle prices due to the increase in net beef supply and competing meat production. Exposure to swine and poultry within the Association's territory is very limited. Grain crop prices are expected to be steady to slightly lower in 2017 due to continued strong supply. Due to the relatively cheap cost of production, the Association may see a slight increase in soybean acreage in 2017.

Job growth and real estate asset values continue to increase in Northwest Florida as the demand for housing and undeveloped nonfarm real estate shows signs of strengthening. Although the agricultural economy benefited from higher prices in 2012 and 2013, the lower commodity prices experienced in 2014, 2015 and 2016 are expected to continue for the majority of commodities in 2017.

LOAN PORTFOLIO

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

The gross loan volume of the Association as of December 31, 2016 was $277,375, an increase of $1,511 or .55 percent compared to $275,864 at December 31, 2015, which represented an increase of $11,691 or 4.43 percent compared to $264,173 at December 31, 2014. Net loans outstanding (gross loans net of the allowance for loan losses) at December 31, 2016 were $272,801, an increase of $1,834 or .68 percent compared to $270,967 at December 31, 2015, which represented an increase of $11,456 or 4.41 percent compared to $259,511 at December 31, 2014. Net loans accounted for 94.85 percent of total assets at December 31, 2016, compared to 94.85 percent of total assets at December 31, 2015 and 93.83 percent of total assets at December 31, 2014. The increases in gross loan volume and net loans outstanding in 2016 were due to an increase in purchased participation loans, partially offset by decreases in originated loans and nonaccrual loans.

The diversification of the Association's loan volume by FCA loan type for each of the past three years is shown in the table below.

	December 31,					
Loan Type	**2016**		**2015**		**2014**	
	(dollars in thousands)					
Real estate mortgage	$ 186,121	67.10%	$ 179,403	65.03%	$ 177,578	67.22%
Production and intermediate-term	69,267	24.97	77,637	28.14	68,840	26.06
Loans to cooperatives	1,818	.65	5	–	8	–
Processing and marketing	10,944	3.95	12,985	4.71	12,273	4.65
Farm-related business	4,088	1.47	1,851	.67	1,540	.58
Communication	1,152	.42	1,228	.45	1,324	.50
Rural residential real estate	3,040	1.10	2,755	1.00	2,610	.99
International	945	.34	–	–	–	–
Total	$ 277,375	100.00%	$ 275,864	100.00%	$ 264,173	100.00%

While loans and financially related services are provided to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio is diversified.

The geographic distribution of accruing loan volume by branch for the past three years is as follows.

Branch	12/31/16	12/31/15	12/31/14
Marianna	29.25%	30.77%	31.28%
Milton	27.49	28.30	26.26
Tallahassee	21.45	15.90	15.64
Monticello	9.47	9.49	10.60
Special Assets	1.77	6.87	8.14
Country Mortgages	1.94	1.44	1.48
Capital Markets	8.63	7.23	6.60
Total	100.00%	100.00%	100.00%

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

The major commodities in the Association's loan portfolio are shown below. The predominant commodities are forestry, row crops, livestock, peanuts and horticulture, which together constituted 77 percent of the entire portfolio at December 31, 2016.

	December 31,					
Commodity Group	**2016**		**2015**		**2014**	
	(dollars in thousands)					
Forestry	$ 115,915	42%	$ 112,904	41%	$ 109,147	41%
Row Crops	34,461	12	41,527	15	36,704	14
Livestock	30,501	11	29,138	11	29,555	11
Peanuts	19,721	7	22,044	8	17,077	7
Hunting/Trapping/Game	13,659	5	14,792	5	18,035	7
Horticulture	13,140	5	12,029	4	10,945	4
Landlords	13,520	5	12,141	4	11,205	4
Dairy	6,164	2	4,299	2	4,977	2
Rural Homes	3,028	1	2,755	1	2,612	1
Other	27,266	10	24,235	9	23,916	9
Total	$ 277,375	100%	$ 275,864	100%	$ 264,173	100%

Repayment ability is closely related to the commodities produced by borrowers and, increasingly, by borrowers' non-farm income. The Association's loan portfolio contains a large concentration in the forestry industry; however, due to the non-farm income of borrowers in this industry classification, sources of repayment are varied, reducing the overall risk exposure to this commodity.

During 2016, the Association was active in buying and selling loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, further strengthening its capital position.

Loan Participations	**2016**	**2015**	**2014**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 23,873	$ 19,790	$ 16,945
Participations Purchased – Non-FCS Institutions	2,927	3,086	3,094
Participations Sold	(54,129)	(71,690)	(82,477)
Total	$ (27,329)	$ (48,814)	$ (62,438)

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

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 reviews the credit quality of the loan portfolio on an ongoing basis. With the approval of the Board of Directors, the Association has established 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 or industry implications

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 anticipated cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by a first lien 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 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. In addition, each loan is assigned a credit risk rating based upon the Association's underwriting standards. The credit risk rating process incorporates both objective and subjective criteria to identify inherent strengths, weaknesses and risks in loan transactions.

The credit quality of the loan portfolio is reviewed on an ongoing basis as part of the Association's 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	94.63%	92.85%	90.71%
Substandard	5.37	7.15	9.29
Doubtful	–	–	–
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The high-risk assets, including accrued interest, are detailed below:

	12/31/16	**12/31/15**	**12/31/14**
	(dollars in thousands)		
High-risk Assets			
Nonaccrual loans	$ 1,363	$ 2,693	$ 7,770
Accruing loans 90 days past due	–	–	–
Total high-risk loans	1,363	2,693	7,770
Other property owned	2,940	1,883	2,983
Total high-risk assets	$ 4,303	$ 4,576	$ 10,753
Ratios			
Nonaccrual loans to total loans	.49%	0.98%	2.94%
High-risk assets to total assets	1.50%	1.60%	3.89%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $1,330 or 49.39 percent in 2016. This decrease was a result of foreclosures, payoffs, and charge-offs. Of the $1,363 in nonaccrual loan volume at December 31, 2016, $(5) or (0.37) percent, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred to accrual status, compared to 4.46 percent and 5.12 percent at December 31, 2015 and 2014, respectively.

Other property owned (OPO) increased $1,057 or 56.13 percent in 2016. During 2016, seven properties with a book value of $1,218 were sold. As of December 31, 2016, OPO consisted of two properties with a book value of $2,940.

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 determined according to generally accepted accounting principles.

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

Allowance for Loan Loss Activity:	**2016**	**2015**	**2014**
		(dollars in thousands)	
Balance at beginning of year	$ 4,897	$ 4,662	$ 5,840
Charge-offs:			
Real estate mortgage	(251)	(66)	(184)
Production and intermediate term	(327)	(142)	(927)
Agribusiness	–	–	–
Rural residential real estate	(1)	–	(433)
Total charge-offs	(579)	(208)	(1,544)
Recoveries:			
Real estate mortgage	55	491	264
Production and intermediate term	38	155	26
Agribusiness	5	400	33
Rural residential real estate	213	–	43
Total recoveries	311	1,046	366
Net (charge-offs) recoveries	(268)	838	(1,178)
Provision for (reversal) of allowance for loan losses	(55)	(603)	–
Balance at end of year	$ 4,574	$ 4,897	$ 4,662
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.098)%	0.310%	(0.441)%

The allowance for loan losses by loan type for the most recent three years is presented in the following table.

	December 31,		
Allowance for Loan Losses by Type	**2016**	**2015**	**2014**
		(dollars in thousands)	
Real estate mortgage	$ 3,074	$ 3,180	$ 3,200
Production and intermediate-term	1,135	1,354	1,111
Agribusiness	280	267	250
Rural residential real estate	50	74	77
Other	35	22	24
Total loans	$ 4,574	$ 4,897	$ 4,662

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	1.65%	1.78%	1.76%
Nonperforming loans	132.81%	69.88%	38.43%
Nonaccrual loans	335.58%	181.84%	60.00%

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

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2016 totaled $6,577, a decrease of $222 or 3.27 percent compared to net income of $6,799 for 2015, which represented an increase of $1,144 or 20.23 percent compared to net income of $5,655 for 2014. The decrease in net income from 2015 to 2016 was due primarily to a lower reversal of allowance for loan losses in 2016, partially offset by higher noninterest income and lower noninterest expense. The increase in net income from 2014 to 2015 was due primarily to higher net interest income, the reversal of allowance for loan losses and reduced losses on OPO, partially offset by lower noninterest income. Major components of the changes in net income for the past two years are outlined in the following table. Further discussion of each component is provided in the sections below.

Change in Net Income:	**2016-2015**	**2015-2014**
	(dollars in thousands)	
Net income (loss) prior year	$ 6,799	$ 5,655
Increase (decrease) in net income due to:		
Interest income	267	763
Interest expense	299	128
Net interest income	(32)	635
Provision for loan losses	(548)	603
Noninterest income	216	(1,094)
Net gain or losses	(1)	1,007
Noninterest expense	143	(7)
Provision for income taxes	–	–
Total changes in income	(222)	1,144
Net income (loss)	$ 6,577	$ 6,799

Net Interest Income

Net interest income (before provision for or reversal of allowance for loan loss) for the year ended December 31, 2016 totaled $8,969, a decrease of $32 or 0.36 percent compared to net interest income of $9,001 for 2015, which represented an increase of $635 or 7.59 percent compared to net interest income of $8,366 for 2014. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt.

Net interest income is impacted by changes to interest income and interest expense. Interest income for the year ended December 31, 2016 increased due to higher average net loans outstanding and higher interest rates. Interest expense increased for 2016 due to higher average notes payable and higher interest rates on notes payable. Interest income for 2015 increased due to higher average net loans outstanding and higher interest income on nonaccrual loans. Interest expense increased for 2015 due to higher interest rates on notes payable, partially offset by a small decline in average notes payable.

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	$ 240	$ 27	$ 267
Interest expense	29	270	299
Change in net interest income	$ 211	$ (243)	$ (32)
12/31/15 - 12/31/14			
Interest income	$ 148	$ 615	$ 763
Interest expense	(18)	146	128
Change in net interest income	$ 166	$ 469	$ 635

**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	$ 79	$ 99	$ 170	(20.20)%	(41.76)%
Patronage refunds from other Farm Credit Institutions	3,511	3,282	4,340	6.98	(24.38)
Other noninterest income	222	222	130	–	70.77
Total noninterest income	$ 3,812	$ 3,603	$ 4,640	5.80%	(22.35)%

Noninterest income for the year ended December 31, 2016 totaled $3,812, an increase of $209 or 5.80% compared to $3,603 in 2015, which represented a decrease of $1,037 or 22.35% compared to noninterest income of $4,640 in 2014. The increase in 2016 is due to an increase in patronage refunds, partially offset by a decrease in loan fees. The decrease in 2015 is due to a decrease in special patronage refunds received from the Bank and a decrease in loan fees, partially offset by an increase in other noninterest income. Special patronage refunds from AgFirst totaled $1,223 in 2016, $1,279 in 2015, and $2,342 in 2014. These special patronage distributions are expected to decrease in future years.

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	$ 4,176	$ 4,260	$ 4,194	(1.97)%	1.57 %
Occupancy and equipment	273	278	266	(1.80)	4.51
Insurance Fund premiums	322	246	236	30.89	4.24
(Gains) losses on OPO	21	27	977	(22.22)	(97.24)
Other operating expenses	1,467	1,597	1,678	(8.14)	(4.83)
Total noninterest expense	$ 6,259	$ 6,408	$ 7,351	(2.33)%	(12.83)%

Salaries and employee benefits decreased by $84 or 1.97 percent in 2016 due to a decrease in employee benefit expense, partially offset by an increase in salaries. Occupancy and equipment expense decreased by $5 or 1.80 percent, reflecting lower maintenance, utilities and rental expense, partially offset by higher depreciation expense. Insurance fund premiums increased by $76 or 30.89 percent due to an increase in the base premium factor and, to a lesser extent, higher average notes payable balances. Losses on OPO decreased by $6 or 22.22 percent due to reduced write downs and expenses related to other property owned. Other operating expenses decreased by $130 or 8.14 percent due primarily to reduced legal and other expense related to the ongoing resolution of impaired assets, partially offset by increases in training, advertising, and public and member relations expenses.

Income Taxes

The Association recorded no income tax provision or benefit for the year ended December 31, 2016, compared to $0 for 2015 and $0 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 month periods ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/16	For the 12 Months Ended 12/31/15	For the 12 Months Ended 12/31/14
Return on Average Assets	2.33%	2.44%	2.03%
Return on Average Members' Equity	7.82%	8.17%	6.89%
Net Interest Income as a Percentage of Average Earning Assets	3.26%	3.33%	3.13%
Net (Charge-offs) Recoveries to Average Loans	(0.098)%	0.310%	(0.441)%

The return on average assets and return on average members' equity for the year ended December 31, 2016 decreased from 2015, due primarily to the reduced reversal of allowance for loan losses, lower net interest income, and higher average assets and equity, partially offset by higher noninterest income and lower noninterest expense. The increased returns on average assets and average members' equity for 2015 were due primarily to higher net interest income, reduced losses on other property owned, and the reversal of allowance for loan losses, partially offset by lower special patronage distributions from AgFirst. Key factors in the growth of net income for future years will be quality loan growth, adequate net interest margins, operating expense control, and improvement in noninterest income. The Association's goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve a desirable rate of return for members. To meet this goal, the Association must attract and maintain high quality loan volume priced at competitive rates and manage credit risk across the entire portfolio, while efficiently meeting the credit needs of 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 the 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."

The total notes payable to the Bank at December 31, 2016 were $198,227 compared to $196,766 at December 31, 2015 and $189,502 at December 31, 2014. The 2016 increase of $1,461 or 0.74 percent compared to December 31, 2015 was due primarily to an increase in net accruing loans and other property owned, partially offset by a decrease in nonaccrual loans. The 2015 increase of $7,264 or 3.83 percent compared to December 31, 2014 was due primarily to an increase in net accruing loans, partially offset by decreases in nonaccrual loans and other property owned.

The average volume of notes payable to the Bank was $193,367, $192,057 and $192,906 for the years ended December 31, 2016, 2015 and 2014, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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

The Association had no lines of credit outstanding with third parties as of December 31, 2016.

Funds Management

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

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

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

The Association's net interest income as a percentage of average earning assets decreased from 3.33% for the year ended December 31, 2015 to 3.26% for the year ended December 31, 2016. The decrease reflected lower income from nonaccrual loans and lower net interest rates on accruing loans in 2016 compared to 2015.

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 require additional capital contributions from 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.

The Association has an agreement with the Bank whereby the Bank may provide certain fiscal, personnel, accounting, marketing, communication, public relations, information management, computer and certain other services as requested by the Association. Specific services currently provided by the Bank to the Association, in which each service provided would constitute a material interdependent relationship, include information management, computer services/hosting, payroll processing and related payroll tax services.

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's 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 member/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.

In 2016, total members' equity increased $581 or 0.70 percent to $83,069 at December 31, 2016. In 2015, total members' equity increased $243 or 0.30 percent to $82,488 at December 31, 2015. The increases for 2016 and 2015 were due to net income retained in excess of distributions to members.

Total capital stock and participation certificates were $884 on December 31, 2016, compared to $857 on December 31, 2015 and $855 on December 31, 2014. The changes are reflective of the stock and participation certificate requirements as existing loans are repaid and new loans are made.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to 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 presented, the Association exceeded minimum regulatory standards for all capital ratios.

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

	2016	2015	2014	Regulatory Minimum
Permanent Capital	28.21%	28.26%	28.77%	7.00%
Total Surplus	27.90%	27.98%	28.46%	7.00%
Core Surplus	27.90%	26.95%	26.26%	3.50%

At December 31, 2016, the Association's permanent capital ratio, average at-risk capital divided by average risk adjusted assets calculated in accordance with FCA regulations, exceeded the regulatory minimum of 7.00 percent. The total surplus ratio exceeded the regulatory minimum requirement of 7.00 percent and the core surplus ratio exceeded the minimum requirement of 3.50 percent.

On July 28, 2016, the FCA published the Tier 1/Tier 2 Capital Framework final rule with an effective date of January 1, 2017. The final rule revises the regulatory capital requirements for Farm Credit System institutions to include Tier 1 and Tier 2 risk-based capital ratio requirements, a Tier 1 leverage requirement, a capital conservation buffer and a leverage buffer, revised risk weightings, and additional public disclosure requirements. The new regulatory capital requirements have been implemented into the Association's 2017 written capital adequacy plan.

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 consideration of these capital needs, 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 patronage distributions. The Association declared patronage distributions of $3.0 million in 2016. Patronage distributions of $3.0 million were declared in 2015 and $2.0 million in 2014.

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

The Association's mission includes providing sound and constructive credit to Young, Beginning and Small (YBS) farmers and ranchers. The Board of Directors and management are responsible to ensure that the Association is making appropriate efforts to implement an effective YBS program. The Board of Directors approves YBS policies, as well as the annual business plan, which outline strategies to accomplish the YBS mission and goals, and measure the program's performance. As part of its YBS program, the Association also seeks to provide financing to underserved commodities and local food hubs within its territory; many of which are operated by YBS farmers and ranchers.

Definitions

Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who is 35 years of age or less as of the date the loan is originally made.

Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products whose experience in farming or ranching as of the date the loan is originally made is 10 years or less.

Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products as of the date the loan is originally made.

YBS Program Strategies

The Association's YBS Farmer and Rancher Program complies with statutory and regulatory requirements which include program goals for both quantitative measurements of the number and volume of YBS loans and strategies the Association will employ to meet program objectives.

The Association's YBS Farmer and Rancher Policy provides that loans for this segment will be underwritten according to normal commodity-based standards. Since these groups may have weaker credit factors, consideration has been given in regard to certain financial benchmarks that are traditionally weaker for the YBS segment. The Association's policy provides pricing and fee concessions for production-oriented YBS borrowers. Association staff works with otherwise qualified YBS applicants to offset weaknesses through additional obligors, additional pledges of collateral, or through obtaining FSA loan guarantees. The Association is an approved FSA lender. The Association's Board of Directors and management continue to evaluate the YBS Farmer and Rancher Policy to determine if additional lending inducements can be added in a manner that still provides for safe and constructive financing.

In 2016, the Association continued to place emphasis on "hands-on" involvement in agricultural events and affiliations in our chartered territory that have a tie to young, beginning, and small farmers and ranchers. The Association actively participated in agricultural events through sponsorships and speaking engagements as exhibitors, volunteers, and through staff attendance. The Association worked both independently and in cooperation with agriculturally-focused affiliates and educational systems in the territory. Association members can expect this level of participation to continue throughout 2017.

In complementary initiatives, the YBS Advisory Committee continued to provide input to the Association's Board of Directors regarding future YBS policy development and program planning. The YBS Advisory Committee will continue meeting in 2017. The Association's Internship Program functions in cooperation with agriculturally affiliated colleges. The Internship Program was continued in 2016 and the Association anticipates carrying the program forward. Finally, an Ag-Tag Program started in 2015 to encourage the use of "Keepin' it Rural" Farm Credit tags on Association and staff vehicles is ongoing.

2017 strategies for meeting program objectives include:

- Continue to periodically evaluate the effectiveness of the YBS Policy and Program and provide consideration for YBS Advisory Committee input into the policy and program.
- Host or co-host educational seminars for YBS farmers and ranchers within the territory.
- Promote and continue YBS Volunteer Program that encourages non-lending staff to volunteer their participation in events that educate about and/or promote agriculture.
- Each Agri-Business Lender to conduct at least one educational class for a YBS event.

YBS Program Quantitative Goals

At year-end 2015, the Association anticipated heavy marketing to YBS farmers and ranchers and projected a 0.5 percent increase in loan volume classified as the Young lending category and a 1 percent increase in loan volume to the Beginning and Small lending categories. The Association anticipated growth to be impacted by the fact that newer YBS loans are smaller in size than those being liquidated. The Association did increase the number of outstanding loans to each of the three categories. Loan volume to Young farmers in 2016 also increased, but there was a small decrease in loan volume to Beginning farmers and a larger decrease in loan volume to Small farmers. For 2017, the Association anticipates a decrease in loan volume for each of the three categories. The following charts show: Specific changes in the number of loans and the volume of loans in the Young, Beginning, and Small categories during 2016; 2016 year-end number and volume of loans by Young, Beginning and Small categories; and 2017 quantitative goals for YBS.

Specific Changes in YBS Categories in 2016:

	Increase/(Decrease) # Loans	Increase/(Decrease) Loan Volume
		(dollars in thousands)
Young	9	$ 2,258
Beginning	30	$ (45)
Small	18	$ (3,065)

Association Volume and Number of YBS Loans as of December 31, 2016:

	# of YBS Loans	Volume YBS Loans
		(dollars in thousands)
Young	168	$ 20,184
Beginning	510	$ 69,213
Small	771	$ 125,546

2017 Quantitative Goals for YBS:

	# of YBS Loans	Volume YBS Loans
		(dollars in thousands)
Young	167	$ 19,649
Beginning	500	$ 65,888
Small	785	$ 119,452

For purposes of the above tables, a loan could be included in more than one of the categories depending on the characteristics of the underlying borrower.

Association Comparison to YBS Territorial Demographics

Association Market Share as of December 31, 2016:

	2012 Ag Census	Association Loans "In Territory"	Market Share Percentage
Young	256	164	64.06%
Beginning	1,837	478	26.02%
Small	7,148	731	10.23%

The 2012 USDA Ag Census data has been used as a benchmark to measure penetration of the Association's YBS program efforts. The Ag Census is taken every five years by mailing report forms to farm and ranch operators. For purposes of the census, a farm is any place from which $1,000 or more of agricultural products were produced or sold, or normally would have been sold during the census year. This is similar to how the Association defines an agricultural borrower. The Association's designation as being "in territory" is tied to the borrower having a farm operation headquartered or some agricultural involvement in one of the eighteen counties that comprises the Association's chartered territory. For purposes of the comparison above, the Ag Census data and the Association's numbers are not determined using exactly the same methodology. Market share percentages may be distorted due to a farm (that would be counted once in the census) potentially having more than one loan with the Association.

YBS Program Summary

In summary, the Association will place continued emphasis on involvement in agricultural activities occurring within its territory, in implementing an effective YBS program to help YBS farmers and ranchers receive sound and constructive credit, and in reaching out in partnership to area educational systems that have agriculturally-affiliated programs. The Association will work diligently to meet its YBS mission statement of: *"Helping Rural America Grow by supporting diversity and inclusion in agriculture".*

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, the Association is 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 on the Association.

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 on the Association. 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.

The Association wholly owns one unincorporated business entity (UBE), as follows: East Wing Ranch, LLC is a Florida limited liability company which was organized for the purpose of holding net acquired property owned by the Association.

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
5052 Hwy. 90 East Marianna	Administrative/ Branch	Owned
5336 Stewart Street, SE Milton	Branch	Owned
925 W. Washington Monticello	Branch	Owned
3323 Thomasville Road Tallahassee	Branch	Owned
3927 Highway 4, Suite 103 Jay	Branch	Leased

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 and Note 14, *Regulatory Enforcement Matters*, of the Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

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

Description of Liabilities

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

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 executive officers of the Association:

Senior Officers	Position & Other Business Interests
Ricky Bitner	*President & Chief Executive Officer* Since January 1, 2009. He serves as a director of Florida's Great Northwest, a regional economic development organization.
John P. Mottice	*Chief Financial Officer* since April 2014. *Capital Markets Officer* from April 2011 thru March 2014. He serves as President and Director of Centre Pointe Office Condominium Association, Inc., an owners' association for an office condominium project, and as President of Stark-Pike, Inc., a general partner for a family-owned limited partnership.
Chuck Thiele	*Chief Credit Officer* since March 2013. *Credit Administrator* from January 2010 thru February 2013.
DeAndrea Barber	*Chief Operations Officer* since March 2013. *Policy and Operations Manager* from January 2010 thru February 2013. *Loan Operations Manager* from December 2005 thru December 2009.
Dorislynn White-Padgett	*Manager of Human Capital* since March 2014. *Senior Human Resource Administrator* from January 2012 thru February 2014. *Regional Loan Operations Supervisor* from June 2007 thru December 2012.

The business experience for the past five years for executive officers is with the Farm Credit System.

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	Year	Annual Salary	Bonus	Deferred Comp.	Change in Pension*	Perq./ Other**	Total
Ricky Bitner	2016	$ 225,869	$ 33,880	$ –	$ 853	$ 9,233	$ 269,835
Ricky Bitner	2015	$ 218,369	$ 36,203	$ –	$ 494	$ 8,699	$ 263,765
Ricky Bitner	2014	$ 212,008	$ 29,681	$ –	$ 18,171	$ 5,590	$ 265,450
7	2016	$ 682,500	$ 107,861	$ –	$ 177,931	$ 51,652	$ 1,019,944
6	2015	$ 646,925	$ 85,113	$ –	$ 60,478	$ 24,204	$ 816,720
6	2014	$ 745,780	$ 110,113	$ –	$ 521,210	$ 47,056	$ 1,424,159

** The changes in pension values as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion under Retirement and Deferred Compensation Plans below and in Note 9, Employee Benefit Plans, of the Consolidated Financial Statements included in this Annual Report.*

*** Comprised of group life insurance premiums, automobile compensation, spousal travel, and (in 2016) accumulated annual leave in the amount of $32,691 paid to one retiring officer.*

The 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 table above is available and will be disclosed to the shareholders of the institution upon request.

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

In addition to base salary, all employees have the ability to earn additional compensation under an incentive plan. The Association incentive plan is designed to motivate employees to complete actions needed to achieve business plan goals during the fiscal year.

The incentive plan includes three components – the primary incentive plan (referred to hereafter as the "General Incentive Plan") that is available for all qualifying staff members; a component available to agribusiness and capital markets loan officers to incent business development activity (referred to hereafter as the "Agribusiness/Capital Markets Plan"); and a component available to country mortgage loan officers to incent business development activity (referred to hereafter as the "Country Mortgage Plan".

The General Incentive Plan is measured annually and is based on one performance cycle from January through December. To participate in the General Incentive Plan an employee must not have terminated employment prior to nor be on probation at the end of the performance cycle, and the employee must have satisfactory performance as measured by their most recent performance appraisal.

The General Incentive Plan is measured utilizing credit quality, delinquency rate, loan volume and return on assets. Under the plan, points are awarded for meeting various benchmarks such as the percentage of loans that carry a credit quality grade of "Acceptable", the percentage of past due loans to accruing loan volume, the amount of loan volume, and the return on assets ratio. The performance against the established benchmarks translates to a certain number of awarded points. Based upon how many points were achieved for the performance cycle, qualifying staff members are awarded a percentage of their total compensation. The percentage awarded is based upon the total points earned during the performance cycle as well as the employee's salary grade.

Under the General Incentive Plan, the percentage of compensation that could be awarded ranges from 3% to 15% of the employee's total compensation during the performance cycle. Senior officers do not specifically earn higher awards under the plan by virtue of their position; however, generally speaking, a senior officer would be expected to have a higher salary grade based upon their increased level of responsibility and accountability for Association performance. For 2016, awards under the General Incentive Plan ranged from 6 percent to 15 percent for the performance cycle (January through December). Payment to employees covered under this plan is made as soon as practicable following the performance cycle.

Under the Agribusiness/Capital Markets Plan, loan officers earn points for developing new business by originating loans to new and existing borrowers, as well as by increasing portfolio growth. There are two performance cycles, January through June and July through December, for measuring new business development. There is one performance cycle, January through December, for measuring portfolio growth. Eligible new loans must satisfy established standards, including meeting regulatory requirements for borrower eligibility, receiving a satisfactory loan review grade to show acceptable credit administration standards, and maintaining an "Acceptable" credit classification during the plan year. Loan officers are awarded points based on their performance against a pre-determined business development quota and growth benchmarks for their individual loan portfolios. Loan officers are eligible to earn an incentive award of up to 12 percent of their total compensation. For 2016, incentive awards ranged from 0 percent to 6 percent for both performance cycles. If a loan officer failed to achieve a certain percentage of their predetermined quota and failed to meet their portfolio growth benchmarks, no points were awarded and that loan officer received no incentive under the plan. The Association's senior officers were not eligible to participate in the

Agribusiness/Capital Markets Plan during 2016. Payment to employees covered under this plan is made as soon as practicable following each performance cycle.

Under the Country Mortgage Plan, country mortgage loan officers earn points for developing new business by originating loans to new and existing borrowers. The plan includes loans originated and held in the Association's portfolio and loans originated and sold on the secondary mortgage market. There are two performance cycles, January through June and July through December. Eligible new loans must satisfy established standards. Portfolio loans must meet regulatory requirements for borrower eligibility, receive a satisfactory loan review grade to show acceptable credit administration standards, and maintain an "Acceptable" credit classification during the plan year. Loan officers are awarded points based on their performance against a pre-determined business development quota and are eligible to earn an incentive award of up to 6 percent of their total compensation. For 2016, incentive awards ranged from 0 percent to 4 percent for the first performance cycle and 0 percent to 6 percent for the second performance cycle. If a loan officer failed to achieve a certain percentage of their predetermined quota, no points were awarded and that loan officer received no incentive under the plan. The Association's senior officers were not eligible to participate in the Country Mortgage Plan during 2016. Payment to employees covered under this plan is made as soon as practicable following each performance cycle.

During 2016, under the General Incentive Plan and related components as described above, the CEO earned $33,880 and senior officers earned $107,861. Those amounts are presented as a bonus in the table above. Bonuses are shown in the year earned, which may be different than the year of payment.

Senior officers and other Association employees 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, registration fees and other expenses associated with travel on official business. Some senior officers and other Association employees are assigned an automobile to be utilized in the performance of Association duties. Personal usage of the assigned automobile is allowed on a limited basis. Any personal usage is considered a benefit to the officer or employee and is included as income to the individual in accordance with IRS regulations. Total benefit to senior officers for the personal usage of Association automobiles during 2016 was $22,877.

A copy of the expense and incentive plan policies is available to shareholders of the Association upon request. Disclosure of information on the total compensation earned in 2016 by any senior officer, or by any individual included in the total, is available to shareholders upon request.

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:					
Ricky Bitner	2016	AgFirst Retirement Plan	9.75	$ 52,090	$ –
Ricky Bitner	2016	Supplemental Executive Retirement Plan		543	–
				$ 52,633	$ –
Senior Officers and Highly Compensated Employees:					
7 Officers, excluding the CEO	2016	AgFirst Retirement Plan	12.75*	$ 1,717,157	$ 47,810
				$ 1,717,157	$ 47,810

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

Retirement and Deferred Compensation Plans

The Association's compensation programs include retirement and deferred compensation plans designed to provide income following an employee's retirement. Although retirement benefits are paid following an employee's retirement, the benefits are earned while employed. The objective of the Association is to offer benefit plans that are market competitive and aligned with the Association's strategic objectives. The plans are designed to enable the Association to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that supports the Association's mission and that allows the Association to align the human capital needs with the Association's overall strategic plan.

Employees participate in one of two qualified defined benefit retirement plans. Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees hired on or after January 1, 2003 participate in the AgFirst Farm Credit Cash Balance Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 with a minimum of 5 years of credited service or at age 55 with a minimum of 10 years of credited service. Upon retirement, payout is determined using a percent of eligible compensation formula, subject to the Internal Revenue Code limitation on compensation, and regular interest credits. For purposes of determining the payout, "compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security. The Cash Balance Plan was terminated effective as of December 31, 2015. Beginning on January 1, 2015, for participants in the 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 present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

Employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan which has an employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to $0.50 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003 receive a maximum employer matching contribution equal to $1.00 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Beginning in 2015, contributions include additional amounts related to the discontinuation of the Cash Balance Plan as discussed above.

The CEO, Mr. Bitner, participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Association. The Association made no contributions to this plan for Mr. Bitner during 2016. No other employees participated in this plan during 2016.

Please see Note 9, *Employee Benefit Plans,* for further information on benefit plans.

Directors

The following chart details the directors serving in 2016, their current term of service and total cash compensation paid:

Name of Director	Current Term	Total Compensation
Richard Terry, *Chairman*	2014-2017	$ 14,550
Cindy Eade, *Vice Chairperson*	2014-2017	9,700
Melvin Adams	2015-2018	5,100
Damon Boutwell	2016-2019	8,450
Bob Calvert, *Outside Director*	2013-2016	1,300
James R. Dean, *Outside Director*	2014-2017	8,900
Desmond Dodd	2016-2019	8,300
D. Mark Fletcher, *Outside Director*	2014-2017	8,800
Radford Locklin, Jr.	2015-2018	9,000
Glen Strange	2014-2017	10,950
Michael Thompson	2016-2019	9,800
R. Douglas Walker	2015-2018	8,300
Total		$ 103,150

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

Richard Terry, Chairman, owns and operates a row crop farm in Madison County. This has been his principal occupation for the past five years. He serves on the board for Madison County Farm Bureau (farm and supply cooperative) and Florida and Madison County Tobacco Warehouse (tobacco warehouse). He previously served on the board of Farmers' Co-op, Inc., Live Oak (agricultural services). He currently serves as the Chairman of the Board of Farm Credit of Northwest Florida and as Chairman of the Executive Committee and the Steering Committee.

Cindy S. Eade, Vice Chairperson, has been in dairy production for over twenty years and this has been her principal occupation for the past five years. She is the co-owner and manager of Cindale Farms LLC and Southern Craft Creamery. She is past Chairperson of the Board of Directors of the Jackson County Chamber of Commerce (business and community development) and is an appointed member/secretary of the Florida Soil and Water Conservation Council.

Melvin T. Adams owns and operates a cattle operation and row crop farm in Jackson and Holmes Counties. This has been his principal occupation for the past five years. Mr. Adams is on the board of directors of SOWEGA Gin (a cotton gin).

Damon Boutwell is the General Manager of the Pace Water System, Inc. This has been his principal occupation for the past five years. He also served as Assistant Manager and previously as Utility Engineer from 2002 until 2012. Mr. Boutwell owns and manages a 225 acre farm consisting of a 50 brood cow cattle operation on 95 acres of pastureland, 90 acres of timberland and wildlife habitat, and 40 acres of hay that is leased to a hay contractor/producer. He is also the Managing Partner for some 600 acres of family trust lands. He currently serves on the advisory board of United Bank and the Executive Board of Leadership Santa Rosa Alumni.

Robert A. (Bob) Calvert, Jr. is an appointed director and a Certified Management Consultant. For over thirty years he has been the owner of Calvert Consulting, a Bank Management and Board Consulting firm that specializes in new bank charters, strategic planning, recruiting bank executive officers, director training, and performing management and director studies for financial industry regulators. This has been his principal occupation for the past five years. Mr. Calvert is a member of the Society of Financial Examiners and has been in the banking industry for over forty years. He is a former commercial bank President, CEO, and Director. Mr. Calvert's last date of service was February 26, 2016, at which time he retired from the Board of Directors upon reaching the Association's director age limit.

James R. Dean is an outside director and has over twenty years experience in the field of Economic and Community Development. He is currently the City Manager of Marianna, Florida. This has been his principal occupation for the past five years. He has served in that position since March of 2008. From July 2006 until March 2008 he was a District Director with the USDA, Rural Development. He is a former employee of Farm Credit of Northwest Florida. Mr. Dean serves as the Chairman of the Compensation Committee and represents the Board on the Association's Risk Management Committee.

Desmond Dodd is a builder of custom homes and is the owner/operator of Dodd Design & Construction, Inc. in Tallahassee, Florida. He is also the President of Dodd Carpentry Services, Inc. This has been his principal occupation for the past five years. His current farm operation consists of an 80 brood cow beef cattle herd. Mr. Dodd is on the board of the Gadsden County Cattlemen's Association.

D. Mark Fletcher, CPA, is an outside director. Mr. Fletcher has been associated with Lanigan and Associates, P.C. of Tallahassee, Florida for the past seventeen years. This has been his principal occupation for the past five years. He is presently a partner in that firm. Mr. Fletcher serves as Chairman of the Audit Committee. Mr. Fletcher is designated as the Association's financial expert.

Radford Locklin, Jr. is a retired school teacher and principal. This has been his principal occupation for the past five years. He was employed by the Santa Rosa School District for thirty-four years and served as Principal of Central High School for twenty years. Mr. Locklin owns and manages a 204 acre farm consisting of 40 acres of cropland that is leased to a local farmer, 160 acres of longleaf and loblolly pine timberland and a garden area. He currently serves on the board of Escambia River Electric Cooperative (rural electric cooperative) where he is the Secretary/Treasurer of the board of directors.

Glen Strange is the owner/operator of Panhandle Growers, Inc., a 300 acre nursery operation serving landscapers and developers in southeastern states. This has been his principal occupation for the past five years. He is also the owner of Coldwater Transport, a trucking company that delivers the landscaping materials for Panhandle Growers, Inc., and North Florida Palms, a 100 acre family operated palm tree farm. Mr. Strange is a member of the Florida Nursery, Growers and Landscape Association and the Alabama Nursery and Landscape Association.

Michael Thompson currently serves as President of Thompson Brothers Angus Farm, Inc. This has been his principal occupation for the past five years. His farm operation includes 2,000 acres where he produces registered Angus cattle breeding stock as well as 1,000 acres of hay and 900 acres of soybeans, peanuts and oats. He also provides custom farm-made feed to the livestock industry. Mr. Thompson serves as a director on the board of the Jackson County Farm Bureau.

R. Douglas Walker has been a self-employed farmer and President of Walker and Sons Farms, Inc. for over thirty years. This has been his principal occupation for the past five years. His farm operation consists of two family-owned dairy farms. The operation also produces corn, oats and rye grass for feed. He also has a pecan grove and a beef cattle cow/calf operation. Mr. Walker serves on the board of Southeast Milk, Inc. (dairy cooperative). Mr. Walker is Chairman of the Loan Committee.

Subject to approval by the board, the Association currently may allow directors $500 honoraria for attendance at meetings or special assignments with the exception of the Chairman, who is allowed $600 honoraria for board meetings. Total compensation paid to directors as a group was $103,150 for 2016. Directors are paid $100 for an Association related telephone conference. No director received more than $5,000 in non-cash compensation during the year.

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

	Regular Board Meeting	
DIRECTOR	**Days Served**	**Compensation**
Richard Terry, *Chairman*	10	$ 6,000
Cindy Eade, *Vice Chairperson*	10	5,000
Melvin Adams	9	4,500
Damon Boutwell	10	5,000
Bob Calvert, *Outside Director*	2	1,000
James R. Dean, *Outside Director*	9	4,500
Desmond Dodd	10	5,000
D. Mark Fletcher, *Outside Director*	10	5,000
Radford Locklin, Jr.	9	4,500
Glen Strange	10	5,000
Michael Thompson	10	5,000
R. Douglas Walker	10	5,000
Total		$ 55,500

	Other Official Activities	
DIRECTOR	**Days Served**	**Compensation**
Richard Terry, *Chairman*	21	$ 8,550
Cindy Eade, *Vice Chairperson*	12	4,700
Melvin Adams	–	600
Damon Boutwell	6	3,450
Bob Calvert, *Outside Director*	0	300
James R. Dean, *Outside Director*	7	4,400
Desmond Dodd	6	3,300
D. Mark Fletcher, *Outside Director*	11	3,800
Radford Locklin, Jr.	8	4,500
Glen Strange	10	5,950
Michael Thompson	9	4,800
R. Douglas Walker	6	3,300
Total		$ 47,650

The following tables report the compensation that directors received for serving on committees. These amounts are included in the table above reporting Other Official Activities.

	Loan Committee
DIRECTOR	**Compensation**
R. Douglas Walker	$ 1,800
Damon Boutwell	600
Desmond Dodd	1,800
Glen Strange	900
Richard Terry	800
Michael Thompson	1,800
Total	$ 7,700

	Compensation Committee
DIRECTOR	**Compensation**
James R. Dean	$ 1,000
Melvin Adams	600
Damon Boutwell	550
Radford Locklin, Jr.	1,000
Glen Strange	450
Total	$ 3,600

	Audit Committee
DIRECTOR	**Compensation**
D. Mark Fletcher	$ 2,000
Damon Boutwell	700
Bob Calvert	300
James R. Dean	150
Cindy Eade	2,000
Richard Terry	1,200
Total	$ 6,350

Name of Director	Committee Assignments
Richard Terry, *Chairman*	Loan, Compliance, Steering, Executive
Cindy Eade, *Vice Chairperson*	Audit, Compliance, Steering
Melvin Adams	Compensation
Damon Boutwell	Audit
Bob Calvert, *Outside Director*	Audit, Compliance, Steering
James R. Dean, *Outside Director*	Compensation, Executive, RIMCO representative
Desmond Dodd	Loan
D. Mark Fletcher, *Outside Director*	Audit, Executive, Compliance
Radford Locklin, Jr.	Compensation
Glen Strange	Compensation
Michael Thompson	Loan
R. Douglas Walker	Loan, Executive, Steering

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 expense 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 $49,569 for 2016, $58,360 for 2015, and $48,627 for 2014.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and elected 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 except as disclosed in Note 10.

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 Accountant

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

	2016
Independent Certified Public Accountant	
PricewaterhouseCoopers LLP	
Audit services	$ 64,720
Total	$ 64,720

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

Consolidated Financial Statements

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

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-850-526-4910 or writing John P. Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, P.O. Box 7000, Marianna, Florida 32447, or accessing the website, ***www.farmcredit-fl.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 days after the end of the fiscal year and distributes the Annual Report 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 shareholders.

Shareholder Investment

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank). 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 website 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 and distributes the Annual Report to shareholders within 90 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 Northwest Florida, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

PricewaterhouseCoopers LLP (PwC), the Association's independent 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 the Association. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

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

D. Mark Fletcher

D. Mark Fletcher, CPA
Chairman of the Audit Committee

Members of Audit Committee

Cindy S. Eade
Damon Boutwell

March 13, 2017

Report of Independent Certified Public Accountants

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

We have audited the accompanying consolidated financial statements of Farm Credit of Northwest 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 Northwest 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)	December 31, 2016	2015	2014
Assets			
Loans	**$ 277,375**	$ 275,864	$ 264,173
Allowance for loan losses	**(4,574)**	(4,897)	(4,662)
Net loans	**272,801**	270,967	259,511
Loans held for sale	**251**	377	312
Accrued interest receivable	**1,952**	1,867	1,985
Investments in other Farm Credit institutions	**3,336**	3,686	3,857
Premises and equipment, net	**2,010**	2,117	2,103
Other property owned	**2,940**	1,883	2,983
Accounts receivable	**3,569**	3,673	4,647
Other assets	**741**	1,098	1,164
Total assets	**$ 287,600**	$ 285,668	$ 276,562
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 198,227**	$ 196,766	$ 189,502
Accrued interest payable	**404**	387	355
Patronage refunds payable	**3,046**	3,043	2,032
Accounts payable	**408**	667	404
Other liabilities	**2,446**	2,317	2,024
Total liabilities	**204,531**	203,180	194,317
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	**—**	—	1
Capital stock and participation certificates	**884**	857	854
Retained earnings			
Allocated	**47,644**	50,667	54,225
Unallocated	**34,541**	30,964	27,165
Total members' equity	**83,069**	82,488	82,245
Total liabilities and members' equity	**$ 287,600**	$ 285,668	$ 276,562

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
Interest Income			
Loans	**$ 13,483**	$ 13,216	$ 12,453
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**4,498**	4,214	4,086
Other	**16**	1	1
Total interest expense	**4,514**	4,215	4,087
Net interest income	**8,969**	9,001	8,366
Provision for (reversal of allowance for) loan losses	**(55)**	(603)	—
Net interest income after provision for (reversal of allowance for) loan losses	**9,024**	9,604	8,366
Noninterest Income			
Loan fees	**79**	99	170
Fees for financially related services	**15**	—	—
Patronage refunds from other Farm Credit institutions	**3,511**	3,282	4,340
Gains (losses) on sales of rural home loans, net	**179**	168	97
Gains (losses) on sales of premises and equipment, net	**(2)**	3	23
Gains (losses) on other transactions	**(7)**	6	—
Other noninterest income	**37**	45	10
Total noninterest income	**3,812**	3,603	4,640
Noninterest Expense			
Salaries and employee benefits	**4,176**	4,260	4,194
Occupancy and equipment	**273**	278	266
Insurance Fund premiums	**322**	246	236
(Gains) losses on other property owned, net	**21**	27	977
Other operating expenses	**1,467**	1,597	1,678
Total noninterest expense	**6,259**	6,408	7,351
Income before income taxes	**6,577**	6,799	5,655
Provision for income taxes	**—**	—	—
Net income	**6,577**	6,799	5,655
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 6,577**	$ 6,799	$ 5,655

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2013	$ 2	$ 848	$ 56,243	$ 23,510	$ 80,603
Comprehensive income				5,655	5,655
Protected borrower stock issued/(retired), net	(1)				(1)
Capital stock/participation certificates issued/(retired), net		6			6
Patronage distribution					
Cash				(2,000)	(2,000)
Retained earnings retired			(2,018)		(2,018)
Balance at December 31, 2014	$ 1	$ 854	$ 54,225	$ 27,165	$ 82,245
Comprehensive income				6,799	6,799
Protected borrower stock issued/(retired), net	(1)				(1)
Capital stock/participation certificates issued/(retired), net		3			3
Patronage distribution					
Cash				(3,000)	(3,000)
Retained earnings retired			(3,558)		(3,558)
Balance at December 31, 2015	$ —	$ 857	$ 50,667	$ 30,964	$ 82,488
Comprehensive income				**6,577**	**6,577**
Capital stock/participation certificates issued/(retired), net		**27**			**27**
Patronage distribution					
Cash				**(3,000)**	**(3,000)**
Retained earnings retired			**(3,023)**		**(3,023)**
Balance at December 31, 2016	**$ —**	**$ 884**	**$ 47,644**	**$ 34,541**	**$ 83,069**

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

Consolidated Statements of Cash Flows

	For the year ended December 31,		
(dollars in thousands)	**2016**	**2015**	**2014**
Cash flows from operating activities:			
Net income	**$ 6,577**	$ 6,799	$ 5,655
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**194**	202	178
Amortization (accretion) of net deferred loan costs (fees)	**(87)**	(79)	(74)
Provision for (reversal of allowance for) loan losses	**(55)**	(603)	—
(Gains) losses on other property owned	**(6)**	(26)	1,000
(Gains) losses on sales of premises and equipment, net	**2**	(3)	(23)
(Gains) losses on sales of rural home loans, net	**(179)**	(168)	(97)
(Gains) losses on other transactions	**7**	(6)	—
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(6,729)**	(5,838)	(3,870)
Proceeds from sales of loans held for sale, net	**7,034**	5,941	3,655
(Increase) decrease in accrued interest receivable	**(85)**	118	(106)
(Increase) decrease in accounts receivable	**104**	974	694
(Increase) decrease in other assets	**357**	66	228
Increase (decrease) in accrued interest payable	**17**	32	(50)
Increase (decrease) in accounts payable	**(259)**	263	(243)
Increase (decrease) in other liabilities	**125**	268	88
Total adjustments	**440**	1,141	1,380
Net cash provided by (used in) operating activities	**7,017**	7,940	7,035
Cash flows from investing activities:			
Net (increase) decrease in loans	**(3,697)**	(12,249)	6,911
(Increase) decrease in investment in other Farm Credit institutions	**350**	171	526
Purchases of premises and equipment	**(89)**	(216)	(920)
Proceeds from sales of premises and equipment	**—**	3	23
Proceeds from sales of other property owned	**951**	2,632	6,090
Net cash provided by (used in) investing activities	**(2,485)**	(9,659)	12,630
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**1,461**	7,264	(15,661)
Protected borrower stock retired	**—**	(1)	(1)
Capital stock and participation certificates issued/(retired), net	**27**	3	6
Patronage refunds and dividends paid	**(2,997)**	(1,989)	(1,991)
Retained earnings retired	**(3,023)**	(3,558)	(2,018)
Net cash provided by (used in) financing activities	**(4,532)**	1,719	(19,665)
Net increase (decrease) in cash	**—**	—	—
Cash, beginning of period	**—**	—	—
Cash, end of period	**$ —**	$ —	$ —
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 270**	$ 613	$ 1,581
Receipt of property in settlement of loans	**2,275**	2,088	2,533
Estimated cash dividends or patronage distributions declared or payable	**3,000**	3,000	2,000
Supplemental information:			
Interest paid	**4,497**	4,183	4,137

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 Northwest Florida, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Bay, Calhoun, Escambia, Franklin, Gadsden, Gulf, Holmes, Jackson, Jefferson, Leon, Liberty, Madison, Okaloosa, Santa Rosa, Taylor, Wakulla, Walton, and Washington 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 and service short-, intermediate- and long-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 System wide 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 Comprehensive Income.

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

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

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

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the Consolidated Statements of Comprehensive Income and the balance of these investments, totaling $1, 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.

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 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. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In March, 2016, the FASB issued ASU 2016-06 Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. Topic 815 requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met, including the "clearly and closely related" criterion. The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments are to be applied on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Application of this guidance is not expected to have a material impact on the Association's financial condition or 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 May, 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Topic 820 permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Investments valued using the practical expedient were categorized within the fair value hierarchy on the basis of whether the investment was redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. To address diversity in practice related to how certain investments measured at net asset value with future redemption dates were categorized, the amendments in this Update removed the requirement to categorize investments for which fair values are measured using the net asset value per share practical expedient. It also limited disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. For public business entities, the guidance was effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Adoption of this guidance was applied retrospectively to all periods presented and did not have an impact on the Association’s financial condition or results of operations.

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.

- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.

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

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

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

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

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31,		
	2016	2015	2014
Real estate mortgage	$ 186,121	$ 179,403	$ 177,578
Production and intermediate-term	69,267	77,637	68,840
Loans to cooperatives	1,818	5	8
Processing and marketing	10,944	12,985	12,273
Farm-related business	4,088	1,851	1,540
Communication	1,152	1,228	1,324
Rural residential real estate	3,040	2,755	2,610
International	945	–	–
Total Loans	$ 277,375	$ 275,864	$ 264,173

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

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

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During 2016, the Association canceled its participation in the Capitalized Participation Pool program with the Bank. As a result, the Association repurchased $2,676 of participations previously sold to AgFirst. The following tables present the principal balance of participation loans at periods ended:

	December 31, 2016							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 4,540	$ 42,760	$ –	$ 743	$ 227	$ –	$ 4,767	$ 43,503
Production and intermediate-term	4,446	8,181	–	–	2,700	1,945	7,146	10,126
Loans to cooperatives	1,822	–	–	–	–	–	1,822	–
Processing and marketing	10,964	–	–	–	–	–	10,964	–
Farm-related business	–	500	–	–	–	–	–	500
Communication	1,154	–	–	–	–	–	1,154	–
International	947	–	–	–	–	–	947	–
Total	$ 23,873	$ 51,441	$ –	$ 743	$ 2,927	$ 1,945	$ 26,800	$ 54,129

	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	$ 1,150	$ 57,642	$ –	$ 1,016	$ 236	$ –	$ 1,386	$ 58,658
Production and intermediate-term	2,941	10,967	–	–	2,850	2,065	5,791	13,032
Processing and marketing	13,000	–	–	–	–	–	13,000	–
Farm-related business	1,470	–	–	–	–	–	1,470	–
Communication	1,229	–	–	–	–	–	1,229	–
Total	$ 19,790	$ 68,609	$ –	$ 1,016	$ 3,086	$ 2,065	$ 22,876	$ 71,690

	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	$ 577	$ 64,566	$ –	$ 2,434	$ 244	$ –	$ 821	$ 67,000
Production and intermediate-term	1,284	13,321	–	–	2,850	2,156	4,134	15,477
Processing and marketing	12,275	–	–	–	–	–	12,275	–
Farm-related business	1,485	–	–	–	–	–	1,485	–
Communication	1,324	–	–	–	–	–	1,324	–
Total	$ 16,945	$ 77,887	$ –	$ 2,434	$ 3,094	$ 2,156	$ 20,039	$ 82,477

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	$ 13,164	$ 57,216	$ 115,741	$ 186,121
Production and intermediate-term	12,085	42,774	14,408	69,267
Loans to cooperatives	–	1,524	294	1,818
Processing and marketing	10	8,589	2,345	10,944
Farm-related business	804	1,896	1,388	4,088
Communication	–	1,152	–	1,152
Rural residential real estate	224	379	2,437	3,040
International	–	383	562	945
Total Loans	$ 26,287	$ 113,913	$ 137,175	$ 277,375
Percentage	9.48%	41.07%	49.45%	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	91.47%	88.86%	86.35%
OAEM	3.19	5.52	6.48
Substandard/doubtful/loss	5.34	5.62	7.17
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	89.09%	83.51%	73.09%
OAEM	3.87	4.22	9.94
Substandard/doubtful/loss	7.04	12.27	16.97
	100.00%	100.00%	100.00%
Loans to Cooperatives:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	100.00	100.00
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31,		
	2016	2015	2014
Farm-related business:			
Acceptable	68.34%	100.00%	100.00%
OAEM	31.66	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	96.34%	93.79%	92.95%
OAEM	1.59	1.91	2.15
Substandard/doubtful/loss	2.07	4.30	4.90
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Total Loans:			
Acceptable	91.04%	88.05%	83.74%
OAEM	3.59	4.80	6.97
Substandard/doubtful/loss	5.37	7.15	9.29
	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	$ 927	$ –	$ 927	$ 186,436	$ 187,363	$ –
Production and intermediate-term	1,529	586	2,115	67,782	69,897	–
Loans to cooperatives	–	–	–	1,821	1,821	–
Processing and marketing	–	–	–	10,995	10,995	–
Farm-related business	–	–	–	4,100	4,100	–
Communication	–	–	–	1,153	1,153	–
Rural residential real estate	179	–	179	2,873	3,052	–
International	–	–	–	946	946	–
Total	$ 2,635	$ 586	$ 3,221	$ 276,106	$ 279,327	$ –

	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	$ 465	$ 253	$ 718	$ 179,825	$ 180,543	$ –
Production and intermediate-term	786	2,217	3,003	75,285	78,288	–
Loans to cooperatives	5	–	5	–	5	–
Processing and marketing	–	(10)	(10)	13,056	13,046	–
Farm-related business	–	–	–	1,855	1,855	–
Communication	–	–	–	1,228	1,228	–
Rural residential real estate	230	44	274	2,492	2,766	–
Total	$ 1,486	$ 2,504	$ 3,990	$ 273,741	$ 277,731	$ –

	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	$ 533	$ 808	$ 1,341	$ 177,625	$ 178,966	$ –
Production and intermediate-term	749	6,530	7,279	62,103	69,382	–
Loans to cooperatives	–	–	–	8	8	–
Processing and marketing	–	(10)	(10)	12,327	12,317	–
Farm-related business	–	–	–	1,541	1,541	–
Communication	–	–	–	1,324	1,324	–
Rural residential real estate	136	44	180	2,440	2,620	–
Total	$ 1,418	$ 7,372	$ 8,790	$ 257,368	$ 266,158	$ –

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

	December 31,		
	2016	2015	2014
Nonaccrual loans:			
Real estate mortgage	$ 41	$ 297	$ 1,147
Production and intermediate-term	1,260	2,294	6,514
Processing and marketing	–	(10)	(10)
Rural residential real estate	62	112	119
Total	$ 1,363	$ 2,693	$ 7,770
Accruing restructured loans:			
Real estate mortgage	$ 1,897	$ 2,184	$ 2,143
Production and intermediate-term	184	2,131	2,217
Total	$ 2,081	$ 4,315	$ 4,360
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 3,444	$ 7,008	$ 12,130
Other property owned	2,940	1,883	2,983
Total nonperforming assets	$ 6,384	$ 8,891	$ 15,113
Nonaccrual loans as a percentage of total loans	0.49%	0.98%	2.94%
Nonperforming assets as a percentage of total loans and other property owned	2.28%	3.20%	5.66%
Nonperforming assets as a percentage of capital	7.69%	10.78%	18.38%

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	$ (5)	$ 121	$ 397
Past due	1,368	2,572	7,373
Total	1,363	2,693	7,770
Impaired accrual loans:			
Restructured	2,081	4,315	4,360
90 days or more past due	–	–	–
Total	2,081	4,315	4,360
Total impaired loans	$ 3,444	$ 7,008	$ 12,130
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.

	December 31, 2016			Year Ended December 31, 2016	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Production and intermediate-term	$ 183	$ 183	$ 9	$ 308	$ 26
Rural residential real estate	62	77	21	103	9
Total	$ 245	$ 260	$ 30	$ 411	$ 35
With no related allowance for credit losses:					
Real estate mortgage	$ 1,938	$ 1,943	$ –	$ 3,243	$ 277
Production and intermediate-term	1,261	1,432	–	2,107	181
Total	$ 3,199	$ 3,375	$ –	$ 5,350	$ 458
Total impaired loans:					
Real estate mortgage	$ 1,938	$ 1,943	$ –	$ 3,243	$ 277
Production and intermediate-term	1,444	1,615	9	2,415	207
Rural residential real estate	62	77	21	103	9
Total	$ 3,444	$ 3,635	$ 30	$ 5,761	$ 493

	December 31, 2015			Year Ended December 31, 2015	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 126	$ 125	$ 5	$ 153	$ 15
Production and intermediate-term	840	816	37	1,021	98
Rural residential real estate	68	78	27	83	8
Total	$ 1,034	$ 1,019	$ 69	$ 1,257	$ 121
With no related allowance for credit losses:					
Real estate mortgage	$ 2,355	$ 2,547	$ –	$ 2,862	$ 275
Production and intermediate-term	3,585	3,941	–	4,358	420
Processing and marketing	(10)	828	–	(12)	(1)
Rural residential real estate	44	473	–	53	5
Total	$ 5,974	$ 7,789	$ –	$ 7,261	$ 699
Total impaired loans:					
Real estate mortgage	$ 2,481	$ 2,672	$ 5	$ 3,015	$ 290
Production and intermediate-term	4,425	4,757	37	5,379	518
Processing and marketing	(10)	828	–	(12)	(1)
Rural residential real estate	112	551	27	136	13
Total	$ 7,008	$ 8,808	$ 69	$ 8,518	$ 820

	December 31, 2014			Year Ended December 31, 2014	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 2,135	$ 2,136	$ 38	$ 2,499	$ 33
Production and intermediate-term	195	195	20	229	3
Rural residential real estate	75	79	33	87	1
Total	$ 2,405	$ 2,410	$ 91	$ 2,815	$ 37
With no related allowance for credit losses:					
Real estate mortgage	$ 1,155	$ 1,380	$ –	$ 1,352	$ 17
Production and intermediate-term	8,536	9,441	–	9,991	131
Processing and marketing	(10)	1,228	–	(12)	–
Rural residential real estate	44	474	–	52	1
Total	$ 9,725	$ 12,523	$ –	$ 11,383	$ 149
Total impaired loans:					
Real estate mortgage	$ 3,290	$ 3,516	$ 38	$ 3,851	$ 50
Production and intermediate-term	8,731	9,636	20	10,220	134
Processing and marketing	(10)	1,228	–	(12)	–
Rural residential real estate	119	553	33	139	2
Total	$ 12,130	$ 14,933	$ 91	$ 14,198	$ 186

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	$ 572	$ 1,058	$ 664
Less: interest income recognized	486	820	185
Foregone interest income	$ 86	$ 238	$ 479

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2015	$ 3,180	$ 1,354	$ 267	$ 22	$ 74	$ –	$ 4,897
Charge-offs	(251)	(327)	–	–	(1)	–	(579)
Recoveries	55	38	5	–	213	–	311
Provision for loan losses	90	70	8	(3)	(236)	16	(55)
Balance at December 31, 2016	$ 3,074	$ 1,135	$ 280	$ 19	$ 50	$ 16	$ 4,574
Balance at December 31, 2014	$ 3,200	$ 1,111	$ 250	$ 24	$ 77	$ –	$ 4,662
Charge-offs	(66)	(142)	–	–	–	–	(208)
Recoveries	491	155	400	–	–	–	1,046
Provision for loan losses	(445)	230	(383)	(2)	(3)	–	(603)
Balance at December 31, 2015	$ 3,180	$ 1,354	$ 267	$ 22	$ 74	$ –	$ 4,897
Balance at December 31, 2013	$ 3,563	$ 1,616	$ 158	$ 25	$ 478	$ –	$ 5,840
Charge-offs	(184)	(927)	–	–	(433)	–	(1,544)
Recoveries	264	26	33	–	43	–	366
Provision for loan losses	(443)	396	59	(1)	(11)	–	–
Balance at December 31, 2014	$ 3,200	$ 1,111	$ 250	$ 24	$ 77	$ –	$ 4,662
Allowance on loans evaluated for impairment:							
Individually	$ –	$ 9	$ –	$ –	$ 21	$ –	$ 30
Collectively	3,074	1,126	280	19	29	16	4,544
Balance at December 31, 2016	$ 3,074	$ 1,135	$ 280	$ 19	$ 50	$ 16	$ 4,574
Individually	$ 5	$ 37	$ –	$ –	$ 27	$ –	$ 69
Collectively	3,175	1,317	267	22	47	–	4,828
Balance at December 31, 2015	$ 3,180	$ 1,354	$ 267	$ 22	$ 74	$ –	$ 4,897
Individually	$ 38	$ 20	$ –	$ –	$ 33	$ –	$ 91
Collectively	3,162	1,091	250	24	44	–	4,571
Balance at December 31, 2014	$ 3,200	$ 1,111	$ 250	$ 24	$ 77	$ –	$ 4,662
Recorded investment in loans evaluated for impairment:							
Individually	$ 1,938	$ 1,444	$ –	$ –	$ 62	$ –	$ 3,444
Collectively	185,425	68,453	16,916	1,153	2,990	946	275,883
Balance at December 31, 2016	$ 187,363	$ 69,897	$ 16,916	$ 1,153	$ 3,052	$ 946	$ 279,327
Individually	$ 2,481	$ 4,425	$ (10)	$ –	$ 112	$ –	$ 7,008
Collectively	178,062	73,863	14,916	1,228	2,654	–	270,723
Balance at December 31, 2015	$ 180,543	$ 78,288	$ 14,906	$ 1,228	$ 2,766	$ –	$ 277,731
Individually	$ 3,290	$ 8,731	$ (10)	$ –	$ 119	$ –	$ 12,130
Collectively	175,676	60,651	13,876	1,324	2,501	–	254,028
Balance at December 31, 2014	$ 178,966	$ 69,382	$ 13,866	$ 1,324	$ 2,620	$ –	$ 266,158

**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 $6,496, $8,396, and $6,256 at December 31, 2016, 2015, and 2014, respectively. Fees paid for such guarantee commitments totaled $2, $2, and $3 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. There were no new TDRS for the year ended December 31, 2015; therefore no table is presented for that period.

	Year Ended December 31, 2016				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	$ –	$ 130	$ –	$ 130	
Total	$ –	$ 130	$ –	$ 130	
Post-modification:					
Production and intermediate-term	$ –	$ 100	$ –	$ 100	$ –
Total	$ –	$ 100	$ –	$ 100	$ –

	Year Ended December 31, 2014				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 443	$ –	$ 443	
Total	$ –	$ 443	$ –	$ 443	
Post-modification:					
Real estate mortgage	$ –	$ 129	$ –	$ 129	$ 12
Total	$ –	$ 129	$ –	$ 129	$ 12

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

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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	$ 1,897	$ 2,184	$ 2,271	$ –	$ –	$ 128
Production and intermediate-term	285	2,131	2,802	101	–	585
Rural residential real estate	–	44	44	–	44	44
Total Loans	$ 2,182	$ 4,359	$ 5,117	$ 101	$ 44	$ 757
Additional commitments to lend	$ –	$ –	$ –			

For the year ended December 31, 2016, there were no foreclosed residential real estate properties held as a result of obtaining physical possession.

For the year ended December 31, 2016, the recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in progress was $0.

Note 4 — Investments

Investments in Other Farm Credit Institutions

Investments in other Farm Credit System Institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as required 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 $2,697 for 2016, $3,052 for 2015 and $3,221 for 2014. The Association owns 1.07 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 $639 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	$ 562	$ 561	$ 544
Buildings and improvements	2,655	2,651	2,547
Furniture and equipment	1,371	1,408	1,325
	4,588	4,620	4,416
Less: accumulated depreciation	2,578	2,503	2,313
Total	$ 2,010	$ 2,117	$ 2,103

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

	December 31,		
	2016	2015	2014
(Gains) losses on sale, net	$ (11)	$ (215)	$ 424
Carrying value unrealized (gains) losses	5	189	576
Operating (income) expense, net	27	53	(23)
(Gains) losses on other property owned, net	$ 21	$ 27	$ 977

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. Deferred gains totaled $58, $61, and $30 at December 31, 2016, 2015, and 2014, respectively.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank
Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2016, the Association's notes payable were within the specified limitations.

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan, based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA, which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon 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 1.92 percent for Prime-based loans, and the weighted average remaining maturities were 3.5 years and 6.5 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 2.66 percent, and the weighted average remaining maturity was 7.9 years at December 31, 2016. The weighted-average interest rate on all interest-bearing notes payable was 2.47 percent and the weighted-average remaining maturity was 7.1 years at December 31, 2016. Variable rate and fixed rate notes payable represent approximately 0.43 percent and 99.57 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 Stock:** Protection of certain borrower stock is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates, 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 stock 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 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	28.21%	28.26%	28.77%	7.00%
Total surplus ratio	27.90%	27.98%	28.46%	7.00%
Core surplus ratio	27.90%	26.95%	26.26%	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	164,949	$ 825
C Participation Certificates/Nonvoting	No	11,875	59
Total Capital Stock and Participation Certificates		176,824	$ 884

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, however, that minimum capital standards established by the FCA and the Board are met.

At December 31, 2016, allocated members' equity consisted of $11,224 of nonqualified allocated surplus and $36,420 of nonqualified retained surplus.

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 or 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 dividend paid on Classes A, B, or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, or C Common Stock and participation certificates shall be at the same rate per share.

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

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:

1. Class C Common Stock and Class C Participation Certificates
2. Classes A and B Common Stock and Class B Participation Certificates
3. Classes A and D Preferred Stock

Liquidation

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

1. Classes A and D Preferred Stock
2. Classes A, B and C Common Stock, and Classes B and C Participation Certificates
3. Holders of allocated surplus evidenced by qualified written notices of allocation
4. Holders of allocated surplus evidenced by nonqualified written notices of allocation
5. All unallocated surplus issued after January 1, 1995, shall be distributed to past and present Patrons on a patronage basis
6. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates

Note 8 — Fair Value Measurement

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

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

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

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

Level 1
Assets held in trust funds related to deferred compensation plans are classified as Level 1. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

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

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

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

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

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

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

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

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

At or for the Year ended December 31, 2016

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ 1	$ 1	$ –	$ –	$ 1	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 3,414	$ –	$ –	$ 3,414	$ 3,414	$ (229)
Other property owned	2,940	–	–	3,167	3,167	6
Nonrecurring Assets	$ 6,354	$ –	$ –	$ 6,581	$ 6,581	$ (223)
Other Financial Instruments						
Assets:						
Cash	$ –	$ –	$ –	$ –	$ –	
Loans	269,638	–	–	266,647	266,647	
Other Financial Assets	$ 269,638	$ –	$ –	$ 266,647	$ 266,647	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 198,227	$ –	$ –	$ 196,626	$ 196,626	
Other Financial Liabilities	$ 198,227	$ –	$ –	$ 196,626	$ 196,626	

	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:						
Recurring Assets	$ 1	$ 1	$ –	$ –	$ 1	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 6,939	$ –	$ –	$ 6,939	$ 6,939	$ 860
Other property owned	1,883	–	–	2,087	2,087	26
Nonrecurring Assets	$ 8,822	$ –	$ –	$ 9,026	$ 9,026	$ 886
Other Financial Instruments						
Assets:						
Cash	$ –	$ –	$ –	$ –	$ –	
Loans	264,405	–	–	264,244	264,244	
Other Financial Assets	$ 264,405	$ –	$ –	$ 264,244	$ 264,244	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 196,766	$ –	$ –	$ 196,323	$ 196,323	
Other Financial Liabilities	$ 196,766	$ –	$ –	$ 196,323	$ 196,323	

	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:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 12,039	$ –	$ –	$ 12,039	$ 12,039	$ (229)
Other property owned	2,983	–	–	3,256	3,256	(1,000)
Nonrecurring Assets	$ 15,022	$ –	$ –	$ 15,295	$ 15,295	$ (1,229)
Other Financial Instruments						
Assets:						
Cash	$ –	$ –	$ –	$ –	$ –	
Loans	247,784	–	–	246,210	246,210	
Other Financial Assets	$ 247,784	$ –	$ –	$ 246,210	$ 246,210	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 189,502	$ –	$ –	$ 187,842	$ 187,842	
Other Financial Liabilities	$ 189,502	$ –	$ –	$ 187,842	$ 187,842	

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	$ 6,581	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment 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%	$210	$541	$380	0.74%	0.94%	1.00%
AgFirst Farm Credit Cash Balance Retirement Plan	100.21%	102.72%	100.07%	$ –	$ –	$132	0.00%	0.00%	2.66%

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%	$109	$108	$126	1.51%	1.58%	1.62%

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 $569 for 2016, $601 for 2015, and $738 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 $151 for 2016, $194 for 2015, and $110 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 $206, $194, and $134 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.

Additional financial information for the four District sponsored multi-employer plans may be found in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' 2016 Annual Report.

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2016 amounted to $5,711. During 2016, $3,338 of new loans were made and repayments totaled $3,300. In the opinion of management, none of these loans outstanding at December 31, 2016 involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2016, $30,306 of commitments to extend credit and no commercial letters of credit were outstanding with a related reserve for unfunded commitments of $28 which is included in Other Liabilities in the Consolidated Balance Sheets.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2016, standby letters of credit outstanding totaled $226 with expiration dates ranging from January 1, 2017 to May 17, 2018. The maximum potential amount of future payments that may be required under these guarantees was $226.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2016	**2015**	**2014**
Current:			
Federal	$ –	$ –	$ –
State	–	–	–
	–	–	–
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for 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	$ 2,302	$ 2,380	$ 1,979
State tax, net	–	–	–
Patronage distributions	(1,050)	(1,050)	(700)
Tax-exempt FLCA earnings	(1,178)	(606)	(1,048)
Change in valuation allowance	(81)	(681)	(161)
Other	7	(43)	(70)
Provision (benefit) for income taxes	$ –	$ –	$ –

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

	December 31,		
	2016	**2015**	**2014**
Deferred income tax assets:			
Allowance for loan losses	$ 774	$ 815	$ 1,540
Net operating loss – carryforward	1,305	1,041	485
Loan origination fees	–	–	–
Nonaccrual loan interest	182	440	595
Valuation allowance on other property owned	32	63	418
Gross deferred tax assets	2,293	2,359	3,038
Less: valuation allowance	(2,270)	(2,351)	(3,032)
Gross deferred tax assets, net of valuation allowance	23	8	6
Deferred income tax liabilities:	(23)	(8)	(6)
Gross deferred tax liability	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2016, deferred income taxes have not been provided by the Association on approximately $56 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 $2,270, $2,351 and $3,032 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	$ 2,307	$ 2,112	$ 2,229	$ 2,321	$ 8,969
Provision for (reversal of allowance for) loan losses	(14)	–	–	(41)	(55)
Noninterest income (expense), net	(1,105)	(912)	(953)	523	(2,447)
Net income	$ 1,216	$ 1,200	$ 1,276	$ 2,885	$ 6,577

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,042	$ 2,254	$ 2,411	$ 2,294	$ 9,001
Provision for (reversal of allowance for) loan losses	–	–	(94)	(509)	(603)
Noninterest income (expense), net	(1,037)	(1,053)	(902)	187	(2,805)
Net income	$ 1,005	$ 1,201	$ 1,603	$ 2,990	$ 6,799

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,145	$ 2,045	$ 2,095	$ 2,081	$ 8,366
Provision for (reversal of allowance for) loan losses	–	–	–	–	–
Noninterest income (expense), net	(1,141)	(1,184)	(1,169)	783	(2,711)
Net income	$ 1,004	$ 861	$ 926	$ 2,864	$ 5,655

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.

FARM CREDIT
OF NORTHWEST FLORIDA

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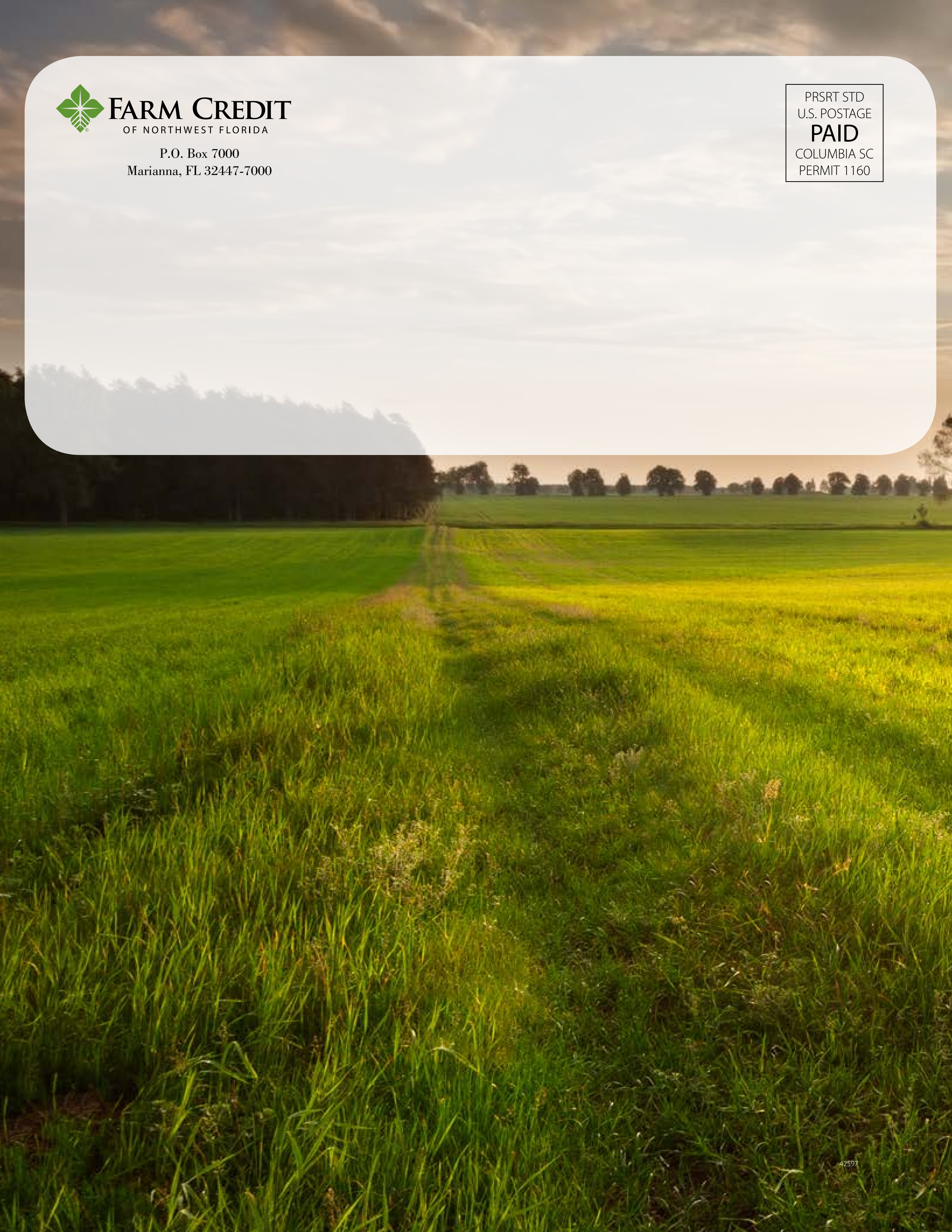

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