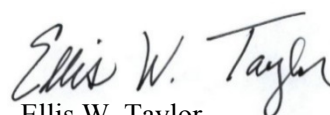

AgCarolina Farm Credit, ACA
THIRD QUARTER 2016

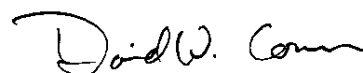
TABLE OF CONTENTS


Report on Internal Control Over Financial Reporting	2
Management's Discussion and Analysis of Financial Condition and Results of Operations	3
Consolidated Financial Statements	
Consolidated Balance Sheets	6
Consolidated Statements of Comprehensive Income	7
Consolidated Statements of Changes in Members' Equity	8
Notes to the Consolidated Financial Statements.....	9

CERTIFICATION

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


Ellis W. Taylor
Chairman of the Board


David W. Corum
President
Chief Executive Officer


Matthew J. Currin
Senior Vice President
Chief Financial Officer

November 8, 2016

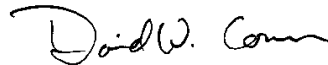
Report on Internal Control Over Financial Reporting

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

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

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

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



David W. Corum
President
Chief Executive Officer



Matthew J. Currin
Senior Vice President
Chief Financial Officer

November 8, 2016

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgCarolina Farm Credit, ACA (Association) for the nine months ended September 30, 2016. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2015 annual report of the Association.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The five predominant commodities in the portfolio are tobacco, soybeans, forestry, corn and poultry, which constitute \$637,208 or 56.80 percent, of the loan portfolio as of September 30, 2016. Other major farm commodities include swine, cotton, and sweet potatoes. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on a given commodity.

The net loan volume of the Association as of September 30, 2016, was \$1,109,290, an increase of \$100,192 or 9.93 percent as compared to \$1,009,098 at December 31, 2015. Net loans accounted for 95.35 percent of total assets at September 30, 2016 as compared to 94.52 percent of total assets at December 31, 2015. The increase in net loan volume during the reporting period is primarily attributed to seasonal lending. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and declines in the fall and winter months as farm commodities are marketed and proceeds are applied to the operating loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans increased from \$15,095 at December 31, 2015 to \$16,743 at September 30, 2016, an increase of \$1,647 or 10.91 percent. The increase is due to the transfer of two relationships into nonaccrual status, which were offset by liquidations of nonaccrual loans as well as principal reduction from payments received during 2016.

Association management maintains an allowance for loan losses at a level considered sufficient to absorb possible losses

in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2016 was \$12,360 as compared to \$11,913 at December 31, 2015, an increase of \$447. The main reasons for this increase were a provision of \$317 and net recoveries \$130. The ratio of the allowance for loan losses to total loans at September 30, 2016 was 1.10 percent, which was slightly lower than the prior year end. The allowance was considered by management to be adequate to cover possible losses.

The Association had no acquired property as of September 30, 2016, which was consistent with the balance at December 31, 2015.

RESULTS OF OPERATIONS

For the three months ended September 30, 2016

Net income for the three months ended September 30, 2016 totaled \$5,547, an increase of \$499 or 9.88 percent, as compared to the same period of 2015. The primary reason for the increase in net income as compared to the previous period is due to an increase in net interest income of \$604, which was a result of an increase in both accrual and nonaccrual interest income. Noninterest income also increased by \$482, while noninterest expense increased by \$565.

For the three months ended September 30, 2016, total interest income increased by \$1,181 compared to the same period of 2015. The increase in interest income is due to growth in loan volume as well as an increase in interest rates over the same period in 2015. Interest income from nonaccrual loans was \$319 for the three months ended September 30, 2016, an increase of \$164 from the same period of 2015. Interest expense increased \$577 for the three months ended September 30, 2016, as compared to the same period of 2015. The increase in interest expense is attributed to the increase in the direct note due to loan volume growth as well as increased interest rates.

Noninterest income for the three months ended September 30, 2016 totaled \$2,795 as compared to \$2,313 for the same period of 2015, an increase of \$482. The overall increase is primarily due to the increase in patronage income from other Farm Credit Institutions, which correlates with loan and direct note growth and an increase in participation loans sold on a patronage basis as well as an increase in gain/losses on other transactions. Loan

fees and fees for financially related services also increased a combined \$50 for the period.

Noninterest expense for the three months ended September 30, 2016 was \$4,940, an increase of \$565, or 12.91 percent as compared to the same period of 2015. This increase is due to an increase in Insurance Fund Premiums in the amount of \$135, and an increase in salaries and employee benefits of \$246, and an increase in other operating expenses of \$192. These items were offset by decreases in occupancy and equipment of \$10. The increase in Insurance Fund premiums is primarily due to a significant increase in premium factors associated with the Insurance Fund. The changes in the other areas were driven by general increases or decreases in operating expenses.

For the nine months ended September 30, 2015

Net income for the nine months ended September 30, 2016 totaled \$15,110, an increase of \$1,721, or 12.85 percent, as compared to the same period of 2015. The primary reasons for the increase in net income are an increase in net interest income of \$1,604 and an increase in noninterest income of \$1,115. At September 30, 2016, total interest income increased by \$3,472 compared to the same period in 2015. The increase in interest income is due to growth in the portfolio in 2016 offset and an increase in nonaccrual interest income as a result of interest recoveries on nonaccrual loans.

Interest income from nonaccrual loans was \$839 as of September 30, 2016, an increase of \$605 from the same period of 2015. Interest expense increased \$1,869 for the first nine months in 2016, as compared to the same period of 2015. The increase in interest expense is also attributed to the increase in the direct note as a result of loan growth as well as increased interest rates.

Noninterest income for the nine months ended September 30, 2016 totaled \$8,612 as compared to \$7,497 for the same period of 2015, an increase of \$1,115. The increase is primarily due to an increase in loan fees, patronage refunds and other gains.

Noninterest expense for the nine months ended September 30, 2016 was \$15,004, an increase of \$690 as compared to the same period of 2015. Salaries and employee benefits totaled \$10,552 for the nine months ended September 30, 2016, for an increase of \$258 or 2.51 percent, as compared to the same period of 2015. The increase is primarily due to normal salary increases offset by lower employee benefit costs.

LIQUIDITY AND FUNDING SOURCES

Liquidity

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 AgFirst Farm Credit Bank (Bank) and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

Funding Sources

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2016 was \$884,313 as compared to \$798,928 at December 31, 2015. The 10.69 percent increase during the period was a result of an increase in loan volume since December 31, 2015.

The Association has no lines of credit outstanding with third parties as of September 30, 2016.

CAPITAL RESOURCES

Total members' equity at September 30, 2016, increased 9.37 percent to \$262,841 from the December 31, 2015, total of \$240,322. The increase is attributed to the increase in retained earnings related to net income as well as an increase in preferred stock. Preferred stock was \$39,720 as of September 30, 2016, as compared to \$31,853 on December 31, 2015, for an increase of 24.70 percent.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2016, the Association's total surplus ratio and core surplus ratio were both 17.91 percent, and the permanent capital ratio was 21.61 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System’s capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure

that the rules recognize the cooperative structure and the organization of the System,

- To make System regulatory capital requirements more transparent, and
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

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

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

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

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

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

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

FINANCIAL REGULATORY REFORM

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-919-250-9500, writing Linda Strickland, AgCarolina Farm Credit, ACA, P. O. Box 14789, Raleigh, NC 27620, or accessing the website, www.agcarolina.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

AgCarolina Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2016 <i>(unaudited)</i>	December 31, 2015 <i>(audited)</i>
Assets		
Cash	\$ 1,409	\$ 2,066
Loans	1,121,650	1,021,011
Allowance for loan losses	(12,360)	(11,913)
Net loans	1,109,290	1,009,098
Accrued interest receivable	17,575	13,595
Investments in other Farm Credit institutions	11,575	11,549
Premises and equipment, net	10,003	9,995
Accounts receivable	5,349	11,579
Other assets	8,115	9,748
Total assets	\$ 1,163,316	\$ 1,067,630
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 884,313	\$ 798,928
Accrued interest payable	1,737	1,586
Patronage refunds payable	42	10,708
Accounts payable	2,454	2,015
Other liabilities	11,929	14,071
Total liabilities	900,475	827,308
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	43,085	35,171
Retained earnings		
Allocated	138,569	138,340
Unallocated	81,187	66,811
Total members' equity	262,841	240,322
Total liabilities and members' equity	\$ 1,163,316	\$ 1,067,630

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

AgCarolina Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Interest Income				
Loans	\$ 13,024	\$ 11,843	\$ 36,827	\$ 33,354
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	5,302	4,725	15,011	13,141
Net interest income	7,722	7,118	21,816	20,213
Provision for loan losses	33	—	317	—
Net interest income after provision for loan losses	7,689	7,118	21,499	20,213
Noninterest Income				
Loan fees	519	429	2,453	2,115
Fees for financially related services	284	323	570	606
Patronage refunds from other Farm Credit institutions	1,884	1,695	5,325	4,809
Gains (losses) on sales of premises and equipment, net	—	19	41	98
Gains (losses) on other transactions	108	(154)	223	(132)
Total noninterest income	2,795	2,312	8,612	7,496
Noninterest Expense				
Salaries and employee benefits	3,366	3,120	10,552	10,294
Occupancy and equipment	262	271	731	768
Insurance Fund premiums	403	267	1,037	738
Other operating expenses	909	717	2,684	2,513
Total noninterest expense	4,940	4,375	15,004	14,313
Income before income taxes	5,544	5,055	15,107	13,396
Provision (benefit) for income taxes	(3)	7	(3)	7
Net income	5,547	5,048	15,110	13,389
Other comprehensive income	—	—	—	—
Comprehensive income	\$ 5,547	\$ 5,048	\$ 15,110	\$ 13,389

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

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

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	<u>Retained Earnings</u>		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2014	\$ 34,944	\$ 126,501	\$ 67,313	\$ 228,758
Comprehensive income			13,389	13,389
Capital stock/participation certificates issued/(retired), net	8,374			8,374
Dividends declared/paid	363		(363)	—
Patronage distribution adjustment		814	(1,009)	(195)
Balance at September 30, 2015	\$ 43,681	\$ 127,315	\$ 79,330	\$ 250,326
Balance at December 31, 2015	\$ 35,171	\$ 138,340	\$ 66,811	\$ 240,322
Comprehensive income			15,110	15,110
Capital stock/participation certificates issued/(retired), net	7,565			7,565
Dividends declared/paid	349		(349)	—
Patronage distribution adjustment		229	(385)	(156)
Balance at September 30, 2016	\$ 43,085	\$ 138,569	\$ 81,187	\$ 262,841

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

AgCarolina Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Updates (ASUs) Issued During the Period

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

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

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

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

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

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

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

Accounting Standards Effective During the Period

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

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

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) – The amendment was adopted prospectively. There were no changes to the Association’s statements of financial condition or results of operations as a result of this guidance. See Note 5, *Fair Value Measurement*, for the disclosures required by this guidance.
- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the Association’s statements of financial condition or results of operations as a result of this guidance.
- 2014-15 Income Statement – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern: This amendment is effective for the annual reporting period ended

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	September 30, 2016	December 31, 2015
Real estate mortgage	\$ 603,075	\$ 551,018
Production and intermediate-term	441,959	403,230
Loans to cooperatives	2,819	745
Processing and marketing	29,972	22,221
Farm-related business	5,421	2,262
Communication	1,816	–
Energy and water/waste disposal	–	72
Rural residential real estate	36,588	41,463
Total Loans	\$ 1,121,650	\$ 1,021,011

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

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

	September 30, 2016							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 3,845	\$ 39,194	\$ –	\$ 1,357	\$ –	\$ –	\$ 3,845	\$ 40,551
Production and intermediate-term	19,378	71,059	3,986	132,343	–	–	23,364	203,402
Loans to cooperatives	2,822	–	–	–	–	–	2,822	–
Processing and marketing	12,767	9,246	320	–	–	–	13,087	9,246
Farm-related business	928	–	–	–	–	–	928	–
Communication	1,823	–	–	–	–	–	1,823	–
Total	\$ 41,563	\$ 119,499	\$ 4,306	\$ 133,700	\$ –	\$ –	\$ 45,869	\$ 253,199

December 31, 2015

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 3,457	\$ 40,211	\$ -	\$ 8,851	\$ -	\$ -	\$ 3,457
Production and intermediate-term	17,234	213,731	3,685	8,417	151,635	-	172,554	222,148
Loans to cooperatives	521	-	-	-	-	-	521	-
Processing and marketing	16,894	8,657	481	-	-	-	17,375	8,657
Farm-related business	1,686	-	-	-	-	-	1,686	-
Total	\$ 39,792	\$ 262,599	\$ 4,166	\$ 17,268	\$ 151,635	\$ -	\$ 195,593	\$ 279,867

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

	September 30, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 25,925	\$ 119,878	\$ 457,272	\$ 603,075
Production and intermediate-term	229,821	152,866	59,272	441,959
Loans to cooperatives	-	2,819	-	2,819
Processing and marketing	4,195	15,034	10,743	29,972
Farm-related business	2,240	1,203	1,978	5,421
Communication	-	637	1,179	1,816
Rural residential real estate	539	3,200	32,849	36,588
Total Loans	\$ 262,720	\$ 295,637	\$ 563,293	\$ 1,121,650
Percentage	23.42%	26.36%	50.22%	100.00%

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

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

	September 30, 2016	December 31, 2015		September 30, 2016	December 31, 2015
Real estate mortgage:			Farm-related business:		
Acceptable	87.96%	89.30%	Acceptable	100.00%	100.00%
OAEM	7.59	5.70	OAEM	-	-
Substandard/doubtful/loss	4.45	5.00	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Communication:		
Acceptable	86.80%	90.83%	Acceptable	100.00%	-%
OAEM	10.52	7.13	OAEM	-	-
Substandard/doubtful/loss	2.68	2.04	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	-%
Loans to cooperatives:			Energy and water/waste disposal		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Rural residential real estate:		
Acceptable	97.26%	99.19%	Acceptable	97.91%	96.84%
OAEM	-	0.81	OAEM	0.94	1.67
Substandard/doubtful/loss	2.74	-	Substandard/doubtful/loss	1.15	1.49
	100.00%	100.00%		100.00%	100.00%
			Total Loans:		
			Acceptable	88.18%	90.12%
			OAEM	8.26	6.11
			Substandard/doubtful/loss	3.56	3.77
				100.00%	100.00%

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

September 30, 2016						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 1,353	\$ 10,550	\$ 11,903	\$ 601,673	\$ 613,576	\$ -
Production and intermediate-term	39	2,764	2,803	445,990	448,793	-
Loans to cooperatives	-	-	-	2,822	2,822	-
Processing and marketing	824	-	824	29,221	30,045	-
Farm-related business	-	-	-	5,454	5,454	-
Communication	-	-	-	1,816	1,816	-
Rural residential real estate	72	48	120	36,599	36,719	-
Total	\$ 2,288	\$ 13,362	\$ 15,650	\$ 1,123,575	\$ 1,139,225	\$ -

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	\$ 4,178	\$ 1,697	\$ 5,875	\$ 552,659	\$ 558,534	\$ -
Production and intermediate-term	1,269	349	1,618	407,390	409,008	-
Loans to cooperatives	-	-	-	747	747	-
Processing and marketing	-	-	-	22,312	22,312	-
Farm-related business	-	-	-	2,275	2,275	-
Energy and water/waste disposal	-	-	-	72	72	-
Rural residential real estate	132	135	267	41,391	41,658	-
Total	\$ 5,579	\$ 2,181	\$ 7,760	\$ 1,026,846	\$ 1,034,606	\$ -

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

	September 30, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	\$ 12,484	\$ 13,180
Production and intermediate-term	3,212	1,425
Processing and marketing	824	-
Rural residential real estate	223	490
Total	\$ 16,743	\$ 15,095
Accruing restructured loans:		
Real estate mortgage	\$ 2,342	\$ 2,627
Production and intermediate-term	150	-
Total	\$ 2,492	\$ 2,627
Accruing loans 90 days or more past due:		
Total	\$ -	\$ -
Total nonperforming loans	\$ 19,235	\$ 17,722
Other property owned	-	-
Nonperforming assets	\$ 19,235	\$ 17,722
Nonaccrual loans as a percentage of total loans	1.49%	1.48%
Nonperforming assets as a percentage of total loans and other property owned	1.71%	1.74%
Nonperforming assets as a percentage of capital	7.32%	7.37%

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

	September 30, 2016	December 31, 2015
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 2,282	\$ 8,847
Past due	14,461	6,248
Total	16,743	15,095
Impaired accrual loans:		
Restructured	2,492	2,627
90 days or more past due	-	-
Total	2,492	2,627
Total impaired loans	\$ 19,235	\$ 17,722
	\$ -	\$ -

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

Impaired loans:	September 30, 2016			Quarter Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	\$ 4,772	\$ 6,031	\$ 1,603	\$ 4,774	\$ 87	\$ 4,511	\$ 232
Production and intermediate-term	826	1,343	618	826	15	781	40
Processing and marketing	—	—	—	—	—	—	—
Rural residential real estate	—	—	—	—	—	—	—
Total	\$ 5,598	\$ 7,374	\$ 2,221	\$ 5,600	\$ 102	\$ 5,292	\$ 272
With no related allowance for credit losses:							
Real estate mortgage	\$ 10,054	\$ 12,586	\$ —	\$ 10,057	\$ 184	\$ 9,506	\$ 489
Production and intermediate-term	2,536	3,849	—	2,537	46	2,397	123
Processing and marketing	824	824	—	824	15	779	40
Rural residential real estate	223	370	—	223	4	210	11
Total	\$ 13,637	\$ 17,629	\$ —	\$ 13,641	\$ 249	\$ 12,892	\$ 663
Total:							
Real estate mortgage	\$ 14,826	\$ 18,617	\$ 1,603	\$ 14,831	\$ 271	\$ 14,017	\$ 721
Production and intermediate-term	3,362	5,192	618	3,363	61	3,178	163
Processing and marketing	824	824	—	824	15	779	40
Rural residential real estate	223	370	—	223	4	210	11
Total	\$ 19,235	\$ 25,003	\$ 2,221	\$ 19,241	\$ 351	\$ 18,184	\$ 935

Impaired loans:	December 31, 2015			Year Ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 4,967	\$ 6,127	\$ 1,702	\$ 4,368	\$ 149
Production and intermediate-term	169	300	32	149	5
Rural residential real estate	—	—	—	—	—
Total	\$ 5,136	\$ 6,427	\$ 1,734	4,517	154
With no related allowance for credit losses:					
Real estate mortgage	\$ 10,841	\$ 13,663	\$ —	\$ 9,535	\$ 324
Production and intermediate-term	1,255	3,090	—	1,104	37
Rural residential real estate	490	809	—	431	15
Total	\$ 12,586	\$ 17,562	\$ —	11,070	376
Total:					
Real estate mortgage	\$ 15,808	\$ 19,790	\$ 1,702	\$ 13,903	\$ 473
Production and intermediate-term	1,424	3,390	32	1,253	42
Rural residential real estate	490	809	—	431	15
Total	\$ 17,722	\$ 23,989	\$ 1,734	\$ 15,587	\$ 530

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at June 30, 2016	\$ 6,875	\$ 4,483	\$ 239	\$ -	\$ -	\$ 321	\$ 11,918
Charge-offs	(14)	(99)	-	-	-	-	(113)
Recoveries	513	9	-	-	-	-	522
Provision for loan losses	(302)	226	103	-	-	6	33
Balance at September 30, 2016	\$ 7,072	\$ 4,619	\$ 342	\$ -	\$ -	\$ 327	\$ 12,360
Balance at December 31, 2015	\$ 7,197	\$ 4,056	\$ 249	\$ -	\$ 1	\$ 410	\$ 11,913
Charge-offs	(49)	(522)	-	-	-	-	(571)
Recoveries	567	134	-	-	-	-	701
Provision for loan losses	(643)	951	93	-	(1)	(83)	317
Balance at September 30, 2016	\$ 7,072	\$ 4,619	\$ 342	\$ -	\$ -	\$ 327	\$ 12,360
Balance at June 30, 2015	\$ 7,501	\$ 3,548	\$ 212	\$ -	\$ 1	\$ 341	\$ 11,603
Charge-offs	-	(114)	-	-	-	-	(114)
Recoveries	-	341	-	-	-	-	341
Provision for loan losses	342	(361)	15	-	-	4	-
Balance at September 30, 2015	\$ 7,843	\$ 3,414	\$ 227	\$ -	\$ 1	\$ 345	\$ 11,830
Balance at December 31, 2014	\$ 7,981	\$ 3,027	\$ 238	\$ -	\$ 1	\$ 355	\$ 11,602
Charge-offs	(31)	(120)	-	-	-	-	(151)
Recoveries	27	352	-	-	-	-	379
Provision for loan losses	(134)	155	(11)	-	-	(10)	-
Balance at September 30, 2015	\$ 7,843	\$ 3,414	\$ 227	\$ -	\$ 1	\$ 345	\$ 11,830
Allowance on loans evaluated for impairment:							
Individually	\$ 1,603	\$ 618	\$ -	\$ -	\$ -	\$ -	\$ 2,221
Collectively	5,469	4,001	342	-	-	327	10,139
Balance at September 30, 2016	\$ 7,072	\$ 4,619	\$ 342	\$ -	\$ -	\$ 327	\$ 12,360
Individually	\$ 1,702	\$ 32	\$ -	\$ -	\$ -	\$ -	\$ 1,734
Collectively	5,495	4,024	249	-	1	410	10,179
Balance at December 31, 2015	\$ 7,197	\$ 4,056	\$ 249	\$ -	\$ 1	\$ 410	\$ 11,913
Recorded investment in loans evaluated for impairment:							
Individually	\$ 14,826	\$ 3,362	\$ 824	\$ -	\$ -	\$ 223	\$ 19,235
Collectively	598,750	445,431	37,497	1,816	-	36,496	1,119,990
Balance at September 30, 2016	\$ 613,576	\$ 448,793	\$ 38,321	\$ 1,816	\$ -	\$ 36,719	\$ 1,139,225
Individually	\$ 15,808	\$ 1,424	\$ -	\$ -	\$ -	\$ 490	\$ 17,722
Collectively	542,727	407,584	25,333	-	72	41,168	1,016,884
Balance at December 31, 2015	\$ 558,535	\$ 409,008	\$ 25,333	\$ -	\$ 72	\$ 41,658	\$ 1,034,606

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no new TDRs for the periods presented.

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Real estate mortgage	\$ 9,715	\$ 10,230	\$ 7,373	\$ 7,603
Production and intermediate-term	91	136	(59)	136
Total Loans	\$ 9,806	\$ 10,366	\$ 7,314	\$ 7,739
Additional commitments to lend	\$ -	\$ -		

The following table presents information as of period end:

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

Note 3 — Investments

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 4.25 percent of the issued stock of the Bank as of September 30, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.7 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$241 million for the first nine months of 2016. In addition, the Association held investments of \$660 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Fair Value Measurement

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

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Nine Months Ended September 30, 2016						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Mutual funds	\$ 2,244	\$ 2,244	\$ -	\$ -	\$ 2,244	
Recurring Assets	\$ 2,244	\$ 2,244	\$ -	\$ -	\$ 2,244	
Liabilities:						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonrecurring Measurements						
Assets:						
Impaired loans*	\$ 4,299	\$ -	\$ -	\$ 4,299	\$ 4,299	\$ (357)
Nonrecurring Assets	\$ 4,299	\$ -	\$ -	\$ 4,299	\$ 4,299	\$ (357)
Other Financial Instruments						
Assets:						
Cash	\$ 1,409	\$ 1,409	\$ -	\$ -	\$ 1,409	
Loans	1,104,991	-	-	1,098,299	1,098,299	
Other Financial Assets	\$ 1,106,400	\$ 1,409	\$ -	\$ 1,098,299	\$ 1,099,708	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 884,313	\$ -	\$ -	\$ 885,677	\$ 885,677	
Other Financial Liabilities	\$ 884,313	\$ -	\$ -	\$ 885,677	\$ 885,677	

At or for the Year Ended December 31, 2015						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Mutual funds	\$ 2,018	\$ 2,018	\$ -	\$ -	\$ 2,018	
Recurring Assets	\$ 2,018	\$ 2,018	\$ -	\$ -	\$ 2,018	
Liabilities:						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonrecurring Measurements						
Assets:						
Impaired loans**	\$ 3,962	\$ -	\$ -	\$ 3,962	\$ 3,962	\$ 1,742
Nonrecurring Assets	\$ 3,962	\$ -	\$ -	\$ 3,962	\$ 3,962	\$ 1,742
Other Financial Instruments						
Assets:						
Cash	\$ 2,066	\$ 2,066	\$ -	\$ -	\$ 2,066	
Loans	1,005,136	-	-	1,000,218	1,000,218	
Accounts receivable	11,579	11,579	-	-	11,579	
Other Financial Assets	\$ 1,018,781	\$ 13,645	\$ -	\$ 1,000,218	\$ 1,013,863	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 798,928	\$ -	\$ -	\$ 798,115	\$ 798,115	
Other Financial Liabilities	\$ 798,928	\$ -	\$ -	\$ 798,115	\$ 798,115	

*Carrying value of impaired loans is the balance of loans with a related specific reserve (\$5,598) less related specific reserves (\$2,221) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off (\$922).

**Carrying value of impaired loans is the balance of loans with a related specific reserve (\$5,136) less related specific reserves (\$1,734) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off (\$560).

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	\$ 4,299	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 6 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Pension	\$ 643	\$ 650	\$ 1,928	\$ 1,950
401(k)	136	125	455	440
Other postretirement benefits	135	188	404	565
Total	\$ 914	\$ 963	\$ 2,787	\$ 2,955

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

	Actual YTD Through 9/30/16	Projected Contributions For Remainder of 2016	Projected Total Contributions 2016
Pension	\$ —	\$ 1,391	\$ 1,391
Other postretirement benefits	272	104	376
Total	\$ 272	\$ 1,495	\$ 1,767

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

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

Note 7 — Commitments and Contingent Liabilities

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

Note 8 — Subsequent Events

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

On October 17, 2016, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2017. The Association will receive approximately \$5,192 which will be recorded in October 2016 as patronage refunds from other Farm Credit institutions.