
AgChoice Farm Credit, ACA
THIRD QUARTER 2017

TABLE OF CONTENTS

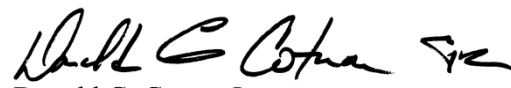
Report on Internal Control Over Financial Reporting	2
Management’s Discussion and Analysis of Financial Condition and Results of Operations	3
Consolidated Financial Statements	
Consolidated Balance Sheets	9
Consolidated Statements of Income.....	10
Consolidated Statements of Comprehensive Income	11
Consolidated Statements of Changes in Members’ Equity	12
Notes to the Consolidated Financial Statements.....	13

CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2017 quarterly report of *AgChoice* 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.


Darrell L. Curtis
Chief Executive Officer


Mark F. Kerstetter
Chief Financial Officer


Donald G. Cotner Jr.
Chairman of the Board

November 8, 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. 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, 2017. 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, 2017, 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, 2017.



Darrell L. Curtis
Chief Executive Officer



Mark F. Kerstetter
Chief Financial Officer

November 8, 2017

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 **AgChoice** Farm Credit ACA, (Association) for the period ended September 30, 2017. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2016 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities, including dairy, livestock, poultry, forest products, and various crops, and also includes part-time farm and rural home loans. 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, impacts the level of dependency on a given commodity.

Loans as of September 30, 2017 totaled \$1,831,597, an increase of \$29,306 as compared to \$1,802,291 at December 31, 2016. Net loans outstanding at September 30, 2017, were \$1,818,922 as compared to \$1,790,489 at December 31, 2016. Net loans accounted for 97.0 percent of total assets at September 30, 2017, as compared to 96.3 percent of total assets at December 31, 2016. The increase in both loans and net loans primarily resulted from increased local servicing area 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, and credit administration remains satisfactory. Nonaccrual volume decreased from \$22,687 at December 31, 2016 to \$21,040 at September 30, 2017, mainly due to several large paydowns, offset by additional transfers to nonaccrual. The Association continues efforts to work out of nonaccrual accounts or to assist such operations to return to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses was \$12,675 and \$11,802 at September 30, 2017 and December 31, 2016, respectively. As a further means to reduce credit risk, the Association had \$506 and \$461 in a reserve for unfunded loan commitments at September 30, 2017 and December 31, 2016, respectively, which is classified as a liability on the Consolidated Balance Sheets. These reserves were considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2017

Net income for the three months ended September 30, 2017, totaled \$9,435 an increase of \$1,385 compared to \$8,050 for the same period in 2016. This increase resulted primarily from higher net interest income, higher noninterest income and lower noninterest expense offset by higher provisions for income taxes.

Net interest income increased by \$751 for the three months ended September 30, 2017 compared to the same period in 2016. This increase resulted from an increase of \$2,335 in interest income on accruing loans and investment securities and an increase of \$74 in interest income on nonaccruing loans offset by an increase of \$1,658 in interest expense.

The provision for loan losses was \$172 in the third quarter of 2017 as compared to \$246 in the same period for 2016. Greater increases in volume and slight changes in credit quality resulted in a larger increase to the general allowance during the third quarter of 2017 compared to the same period in 2016, but that was offset by larger decreases in specific reserves in 2017 compared to the same period in 2016.

Noninterest income for the three months ended September 30, 2017 increased by \$575 to \$4,170, compared to \$3,595 for the same period of 2016. This increase resulted primarily from higher general patronage, higher gains on the sale of premises and equipment and gains on other transactions.

Noninterest expense for the three months ended September 30, 2017, decreased \$152, compared to the same period of 2016. This decrease is due to lower personnel, FCSIC and other

operating costs, offset by higher occupancy and equipment costs and lower gains on other property owned in 2017 compared to 2016.

The provision for income taxes was \$89 for the third quarter of 2017 compared to a benefit for income taxes of \$78 for the third quarter of 2016.

For the nine months ended September 30, 2017

Net income for the nine months ended September 30, 2017, totaled \$26,730, as compared to \$23,641 for the same period in 2016. Net interest income increased \$1,623 for the nine months ended September 30, 2017, as compared to the same period one year ago.

Interest income on accruing loans and investment securities increased \$5,408, interest income on nonaccruing loans increased by \$102 and interest expense increased \$3,887 as compared to the same period in 2016. The increase in interest income on accruing loans and interest expense is primarily related to an increase in loan volume.

Increased general reserves due to loan volume growth, offset by decreases in specific reserves during 2017 resulted in a provision for loan losses of \$897, compared to a provision for loan losses of \$1,423 in 2016.

Noninterest income for the nine months ended September 30, 2017, totaled \$11,904, as compared to \$11,313 for the same period of 2016, an increase of \$591. This increase resulted primarily from the following factors: an increase of \$363 in general patronage due to loan volume growth, an increase of \$214 in Business Management Services revenue, an increase in servicing fee income of \$133 and an increase in other gains of \$113, offset by a decrease of \$126 in patronage on participations sold due to a decline in volume sold and a decrease of \$91 in fee income on participations purchased.

Noninterest expense for the nine months ended September 30, 2017, decreased \$524, compared to the same period of 2016. This decrease was primarily due to lower personnel costs, training, data processing, FCSIC and public and member relations expenses offset by higher directors expense, cost of space and furniture and equipment expense.

The provision for income taxes was \$167 for the nine months ended September 30, 2017 as compared to a benefit for income taxes of \$8 for the same period last year.

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 Bank advances funds 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, 2017, was \$1,475,384 as compared to \$1,464,915 at December 31, 2016. This increase resulted from increased loan volume, offset by the receipt of the 2016 patronage refunds from other Farm Credit institutions and cash generated from Association 2017 earnings.

CAPITAL RESOURCES

Total members' equity at September 30, 2017 increased by \$26,662 to \$380,680 from the December 31, 2016 total of \$354,018. The increase is primarily attributed to year-to-date 2017 net income.

Total capital stock and participation certificates were \$10,997 on September 30, 2017, compared to \$11,049 on December 31, 2016.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain certain minimum regulatory capital ratios. As of September 30, 2017, the Association was well above the minimum regulatory ratios for all capital adequacy ratios. Please refer to the Regulatory Matters section for additional disclosures related to the regulatory capital ratios.

REGULATORY MATTERS

Capital

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations 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. New regulations replaced existing core surplus and total surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios. The new regulations also replaced the existing net collateral ratio with a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The current permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted

by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.

- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios, which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of September 30, 2017
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	17.30%
Tier 1 Capital	6.0%	0.625%	6.625%	17.30%
Total Capital	8.0%	0.625%	8.625%	17.96%
Permanent Capital Ratio	7.0%	0.0%	7.0%	17.57%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	18.68%
UREE Leverage Ratio	1.5%	0.0%	1.5%	18.78%

* - The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

Other Regulatory Matters

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 2018. 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

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 2016 Annual Report to Shareholders for recently issued accounting pronouncements. Additional information is provided in the table below.

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

Standard	Summary of Guidance	Effective Date and Potential Financial Statement Impact
ASU 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): <i>Premium Amortization on Purchased Callable Debt Securities</i>	<ul style="list-style-type: none"> • Requires amortization of premiums to the earliest call date on debt securities with call features that are explicit, noncontingent and callable at fixed prices and on preset dates. • Does not impact securities held at a discount; the discount continues to be amortized to the contractual maturity. • Requires adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. 	<ul style="list-style-type: none"> • The investment securities portfolio may include holdings of callable debt securities. The Association is currently evaluating the impact of the Update on the financial statements, which will be affected by any investments in callable debt securities carried at a premium at the time of adoption. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): <i>Measurement of Credit Losses on Financial Instruments</i>	<ul style="list-style-type: none"> • Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management’s estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a current expected credit loss (CECL) model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on financial assets purchased with more than insignificant credit deterioration since origination. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. 	<ul style="list-style-type: none"> • The Association has begun implementation efforts by establishing a cross-discipline governance structure. The Association is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required. • The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: <ol style="list-style-type: none"> 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association’s portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. • The Association expects to adopt the guidance in first quarter 2021 using the modified retrospective method with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption.

<p>ASU 2016-02 – Leases (Topic 842)</p>	<ul style="list-style-type: none"> • Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. • Lessor accounting activities are largely unchanged from existing lease accounting. • The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. • Expands qualitative and quantitative disclosures of leasing arrangements. • Requires adoption using a modified cumulative-effect approach wherein the guidance is applied to all periods presented. 	<ul style="list-style-type: none"> • The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. • As a lessee the Association is developing its methodology to estimate the right-of-use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. • The Association is evaluating existing disclosures and may need to provide additional information as a result of adoption of the Update. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.
<p>ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): <i>Recognition and Measurement of Financial Assets and Financial Liabilities</i></p>	<ul style="list-style-type: none"> • The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments. • Requires certain equity instruments be measured at fair value, with changes in fair value recognized in earnings. • The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. 	<ul style="list-style-type: none"> • The Association is currently evaluating any impacts to the financial statements. The Association’s implementation efforts include the identification of securities within the scope of the guidance, the evaluation of the measurement alternative available for equity securities without a readily determinable fair value, and the related impact to accounting policies, presentation, and disclosures. • Any investments in nonmarketable equity investments accounted for under the cost method of accounting (except for other Farm Credit Institution stock) will be accounted for either at fair value with unrealized gains and losses reflected in earnings or, if elected, using an alternative method. The alternative method is similar to the cost method of accounting, except that the carrying value is adjusted (through earnings) for subsequent observable transactions in the same or similar investment. The Association is evaluating which method will be applied to these nonmarketable equity investments. • Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, the Association is evaluating valuation methods to determine the necessary changes to conform to an “exit price” notion as required by the Standard. Accordingly, the fair value amounts disclosed for such loans may change upon adoption. • The Association expects to adopt the guidance in first quarter 2018 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for changes related to nonmarketable equity investments, which is applied prospectively. The Association expects the primary accounting changes will relate to equity investments.

<p>ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates</p>	<ul style="list-style-type: none"> • Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service, and transfers of nonfinancial assets, in an amount equaling the consideration expected to be received. • Changes the accounting for certain contract costs, including whether they may be offset against revenue in the Statements of Income, and requires additional disclosures about revenue and contract costs. • May be adopted using a full retrospective approach or a modified, cumulative-effect approach wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date. 	<ul style="list-style-type: none"> • The Association’s revenue is the sum of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the Association’s revenues will not be affected. • The Association is performing an assessment of revenue contracts as well as working with industry participants on matters of interpretation and application. Accounting policies will not change materially since the principles of revenue recognition from the Update are largely consistent with existing guidance and current practices. The Association has not identified material changes to the timing or amount of revenue recognition. • The Association expects a minor change to the presentation of costs for certain underwriting activities which will be presented in expenses rather than the current presentation against the related revenues. The Association will provide qualitative disclosures of performance obligations related to revenue recognition and will continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance. • The Association expects to adopt the guidance in first quarter 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings.
---	--	--

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. 2764, or writing Matthew Miller, 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 1-800-349-3568 or writing AgChoice Farm Credit, ACA, 900 Bent Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website www.agchoice.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.

AgChoice Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2017 <i>(unaudited)</i>	December 31, 2016 <i>(audited)</i>
Assets		
Cash	\$ 55	\$ 43
Investment securities:		
Held to maturity (fair value of \$2,381 and \$2,336, respectively)	2,205	2,243
Loans	1,831,597	1,802,291
Allowance for loan losses	(12,675)	(11,802)
Net loans	1,818,922	1,790,489
Accrued interest receivable	8,438	6,402
Investments in other Farm Credit institutions	23,320	23,295
Premises and equipment, net	11,452	11,527
Other property owned	37	79
Accounts receivable	9,623	21,595
Other assets	1,356	2,670
Total assets	\$ 1,875,408	\$ 1,858,343
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,475,384	\$ 1,464,915
Accrued interest payable	3,351	2,935
Patronage refunds payable	374	19,663
Accounts payable	3,772	4,502
Other liabilities	11,847	12,310
Total liabilities	1,494,728	1,504,325
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	10,997	11,049
Retained earnings		
Allocated	161,489	161,489
Unallocated	208,250	181,537
Accumulated other comprehensive income (loss)	(56)	(57)
Total members' equity	380,680	354,018
Total liabilities and members' equity	\$ 1,875,408	\$ 1,858,343

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

AgChoice Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Interest Income				
Loans	\$ 22,483	\$ 20,073	\$ 65,165	\$ 59,653
Investments	34	35	104	106
Total interest income	22,517	20,108	65,269	59,759
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	10,147	8,489	28,796	24,909
Net interest income	12,370	11,619	36,473	34,850
Provision for loan losses	172	246	897	1,423
Net interest income after provision for loan losses	12,198	11,373	35,576	33,427
Noninterest Income				
Loan fees	320	281	901	859
Fees for financially related services	369	397	1,448	1,259
Patronage refunds from other Farm Credit institutions	3,152	3,013	9,293	9,056
Gains (losses) on sales of rural home loans, net	—	—	17	12
Gains (losses) on sales of premises and equipment, net	318	(4)	166	261
Gains (losses) on other transactions	4	(100)	40	(163)
Other noninterest income	7	8	39	29
Total noninterest income	4,170	3,595	11,904	11,313
Noninterest Expense				
Salaries and employee benefits	4,209	4,337	12,961	13,243
Occupancy and equipment	408	347	1,056	914
Insurance Fund premiums	549	623	1,610	1,692
(Gains) losses on other property owned, net	2	(21)	36	303
Other operating expenses	1,676	1,710	4,920	4,955
Total noninterest expense	6,844	6,996	20,583	21,107
Income before income taxes	9,524	7,972	26,897	23,633
Provision (benefit) for income taxes	89	(78)	167	(8)
Net income	\$ 9,435	\$ 8,050	\$ 26,730	\$ 23,641

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

AgChoice 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,	
	2017	2016	2017	2016
Net income	\$ 9,435	\$ 8,050	\$ 26,730	\$ 23,641
Other comprehensive income net of tax				
Employee benefit plans adjustments	—	—	1	1
Comprehensive income	\$ 9,435	\$ 8,050	\$ 26,731	\$ 23,642

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

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

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2015	\$ 11,054	\$ 161,489	\$ 159,895	\$ (52)	\$ 332,386
Comprehensive income			23,641	1	23,642
Capital stock/participation certificates issued/(retired), net	(67)				(67)
Dividends declared/paid	9		(9)		—
Patronage distribution adjustment			2		2
Balance at September 30, 2016	\$ 10,996	\$ 161,489	\$ 183,529	\$ (51)	\$ 355,963
Balance at December 31, 2016	\$ 11,049	\$ 161,489	\$ 181,537	\$ (57)	\$ 354,018
Comprehensive income			26,730	1	26,731
Capital stock/participation certificates issued/(retired), net	(75)				(75)
Dividends declared/paid	23		(23)		—
Patronage distribution adjustment			6		6
Balance at September 30, 2017	\$ 10,997	\$ 161,489	\$ 208,250	\$ (56)	\$ 380,680

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

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 AgChoice Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2016, are contained in the 2016 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 may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

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

Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans*

and Allowance for Loan Losses), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Updates (ASUs) Issued During the Period

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

- In March 2017, the FASB issued ASU 2017-08 *Receivables—Nonrefundable Fees and Other Costs* (Subtopic 310-20): *Premium Amortization on Purchased Callable Debt Securities*. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In February 2017, the FASB issued ASU 2017-05 *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets* (Subtopic 610-20): *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. 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 2017, the FASB issued ASU 2017-04 *Intangibles—Goodwill and Other* (Topic 350): *Simplifying the Test for Goodwill Impairment*. The Update simplifies the accounting for goodwill impairment for public business entities and other entities that have

goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for reporting periods beginning after December 15, 2020 for public business entities that are not SEC filers. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. 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 2017, the FASB issued ASU 2017-03 Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update). The ASU incorporates recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The Update was effective upon issuance. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

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:

- 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. In January, 2017, the FASB issued this update to provide a more robust framework to use in determining when a set of assets and activities is a business. It supports more consistency in applying the guidance, reduces the costs of application, and makes 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. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-16 Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory: In October, 2016, the FASB issued this Update that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. 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. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June, 2016, the FASB issued this Update to improve 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. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. 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. 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 is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued this Update which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. 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 this Update which is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2014-09 Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued this guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB has issued several additional Updates that generally provide clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606. The guidance and all related updates will be effective for reporting periods beginning after December 15, 2017 for public business entities. 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.

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:

- 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. In November, 2016, the FASB issued this Update to clarify 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. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.
- 2016-17 Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control: In October, 2016, the FASB issued this Update to amend

the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. 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 the guidance had no impact on the Association's financial statements.

- 2016-15 Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August, 2016, the FASB issued this Update to eliminate 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 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. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.

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, 2017	December 31, 2016
Real estate mortgage	\$ 846,492	\$ 811,807
Production and intermediate-term	629,112	647,005
Loans to cooperatives	45,467	53,928
Processing and marketing	136,877	116,574
Farm-related business	34,798	39,173
Communication	88,491	78,626
Power and water/waste disposal	17,378	22,391
Rural residential real estate	19,507	19,804
International	12,624	11,969
Lease receivables	827	936
Other (including Mission Related)	24	78
Total loans	\$ 1,831,597	\$ 1,802,291

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, 2017							
	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	\$ 9,644	\$ 28,380	\$ 6,921	\$ -	\$ -	\$ -	\$ 16,565	\$ 28,380
Production and intermediate-term	34,284	16,627	65,759	7,399	-	-	100,043	24,026
Loans to cooperatives	-	-	45,507	-	-	-	45,507	-
Processing and marketing	36,766	-	47,731	-	-	-	84,497	-
Farm-related business	-	362	-	-	-	-	-	362
Communication	8,609	-	80,114	-	-	-	88,723	-
Power and water/waste disposal	2,663	-	14,788	-	-	-	17,451	-
Rural residential real estate	-	160	-	-	-	-	-	160
International	661	-	12,000	-	-	-	12,661	-
Lease receivables	-	-	827	-	-	-	827	-
Total	\$ 92,627	\$ 45,529	\$ 273,647	\$ 7,399	\$ -	\$ -	\$ 366,274	\$ 52,928

	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	\$ 15,509	\$ 34,989	\$ 9,692	\$ -	\$ -	\$ -	\$ 25,201	\$ 34,989
Production and intermediate-term	37,016	19,438	70,814	7,990	-	-	107,830	27,428
Loans to cooperatives	-	-	53,971	-	-	-	53,971	-
Processing and marketing	24,886	324	51,640	-	-	-	76,526	324
Farm-related business	-	421	-	-	-	-	-	421
Communication	8,304	-	70,533	-	-	-	78,837	-
Power and water/waste disposal	3,693	-	18,784	-	-	-	22,477	-
Rural residential real estate	-	169	-	-	-	-	-	169
International	-	-	12,000	-	-	-	12,000	-
Lease receivables	-	-	776	-	-	-	776	-
Total	\$ 89,408	\$ 55,341	\$ 288,210	\$ 7,990	\$ -	\$ -	\$ 377,618	\$ 63,331

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, 2017				
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 20,331	\$ 171,058	\$ 655,103	\$ 846,492
Production and intermediate-term	127,332	336,512	165,268	629,112
Loans to cooperatives	-	33,690	11,777	45,467
Processing and marketing	3,909	91,518	41,450	136,877
Farm-related business	9,078	17,583	8,137	34,798
Communication	-	75,920	12,571	88,491
Power and water/waste disposal	-	9,143	8,235	17,378
Rural residential real estate	1,433	2,167	15,907	19,507
International	-	3,475	9,149	12,624
Lease receivables	195	92	540	827
Other (including Mission Related)	24	-	-	24
Total Loans	\$ 162,302	\$ 741,158	\$ 928,137	\$ 1,831,597
Percentage	8.86%	40.47%	50.67%	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, 2017	December 31, 2016		September 30, 2017	December 31, 2016
Real estate mortgage:			Power and water/waste disposal:		
Acceptable	95.46%	95.85%	Acceptable	87.18%	89.95%
OAEM	1.75	1.56	OAEM	-	10.05
Substandard/doubtful/loss	2.79	2.59	Substandard/doubtful/loss	12.82	-
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Rural residential real estate:		
Acceptable	93.58%	94.78%	Acceptable	92.39%	92.81%
OAEM	3.53	2.63	OAEM	2.83	2.69
Substandard/doubtful/loss	2.89	2.59	Substandard/doubtful/loss	4.78	4.50
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			International:		
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:			Lease receivables:		
Acceptable	100.00%	100.00%	Acceptable	93.07%	80.01%
OAEM	-	-	OAEM	-	11.21
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	6.93	8.78
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Other (including Mission Related)		
Acceptable	97.25%	99.60%	Acceptable	100.00%	100.00%
OAEM	2.68	0.12	OAEM	-	-
Substandard/doubtful/loss	0.07	0.28	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Communication:			Total loans:		
Acceptable	100.00%	96.28%	Acceptable	95.44%	95.87%
OAEM	-	3.72	OAEM	2.10	1.97
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	2.46	2.16
	100.00%	100.00%		100.00%	100.00%

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

September 30, 2017						
	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 and Accrued Interest	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 2,090	\$ 973	\$ 3,063	\$ 847,802	\$ 850,865	\$ -
Production and intermediate-term	2,191	4,082	6,273	625,770	632,043	-
Loans to cooperatives	-	-	-	45,562	45,562	-
Processing and marketing	-	-	-	137,372	137,372	-
Farm-related business	127	-	127	34,901	35,028	-
Communication	-	-	-	88,562	88,562	-
Power and water/waste disposal	-	-	-	17,446	17,446	-
Rural residential real estate	185	192	377	19,210	19,587	-
International	-	-	-	12,670	12,670	-
Lease receivables	-	-	-	830	830	-
Other (including Mission Related)	-	-	-	25	25	-
Total	\$ 4,593	\$ 5,247	\$ 9,840	\$ 1,830,150	\$ 1,839,990	\$ -

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 and Accrued Interest	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 3,030	\$ 1,104	\$ 4,134	\$ 810,932	\$ 815,066	\$ -
Production and intermediate-term	2,534	948	3,482	645,727	649,209	-
Loans to cooperatives	-	-	-	53,986	53,986	-
Processing and marketing	-	-	-	116,930	116,930	-
Farm-related business	474	-	474	38,966	39,440	-
Communication	-	-	-	78,654	78,654	-
Power and water/waste disposal	-	-	-	22,450	22,450	-
Rural residential real estate	258	-	258	19,619	19,877	-
International	-	-	-	12,052	12,052	-
Lease receivables	-	-	-	939	939	-
Other (including Mission Related)	-	-	-	79	79	-
Total	\$ 6,296	\$ 2,052	\$ 8,348	\$ 1,800,334	\$ 1,808,682	\$ -

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

	September 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	\$ 11,278	\$ 11,943
Production and intermediate-term	9,466	10,609
Processing and marketing	-	4
Rural residential real estate	238	49
Lease receivables	58	82
Total	\$ 21,040	\$ 22,687
Accruing restructured loans:		
Real estate mortgage	\$ 326	\$ 499
Production and intermediate-term	136	840
Farm-related business	-	381
Total	\$ 462	\$ 1,720
Accruing loans 90 days or more past due:		
Total	\$ -	\$ -
Total nonperforming loans	\$ 21,502	\$ 24,407
Other property owned	37	79
Total nonperforming assets	\$ 21,539	\$ 24,486
Nonaccrual loans as a percentage of total loans	1.15%	1.26%
Nonperforming assets as a percentage of total loans and other property owned	1.18%	1.36%
Nonperforming assets as a percentage of capital	5.66%	6.92%

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, 2017	December 31, 2016
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 15,051	\$ 19,163
Past due	5,989	3,524
Total	<u>\$ 21,040</u>	<u>\$ 22,687</u>
Impaired accrual loans:		
Restructured	\$ 462	\$ 1,720
90 days or more past due	-	-
Total	<u>\$ 462</u>	<u>\$ 1,720</u>
Total impaired loans	<u>\$ 21,502</u>	<u>\$ 24,407</u>
Additional commitments to lend	<u>\$ 280</u>	<u>\$ 353</u>

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, 2017			Quarter Ended September 30, 2017		Nine Months Ended September 30, 2017	
	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:							
Production and intermediate-term	\$ 2,527	\$ 2,753	\$ 429	\$ 2,627	\$ -	\$ 2,704	\$ -
Lease receivables	58	58	-	60	-	62	-
Total	<u>\$ 2,585</u>	<u>\$ 2,811</u>	<u>\$ 429</u>	<u>\$ 2,687</u>	<u>\$ -</u>	<u>\$ 2,766</u>	<u>\$ -</u>
With no related allowance for credit losses:							
Real estate mortgage	\$ 11,604	\$ 13,445	\$ -	\$ 12,061	\$ 87	\$ 12,417	\$ 324
Production and intermediate-term	7,075	9,140	-	7,352	91	7,571	317
Farm-related business	-	543	-	-	59	-	84
Rural residential real estate	238	344	-	247	1	255	12
Lease receivables	-	34	-	-	-	-	-
Total	<u>\$ 18,917</u>	<u>\$ 23,506</u>	<u>\$ -</u>	<u>\$ 19,660</u>	<u>\$ 238</u>	<u>\$ 20,243</u>	<u>\$ 737</u>
Total:							
Real estate mortgage	\$ 11,604	\$ 13,445	\$ -	\$ 12,061	\$ 87	\$ 12,417	\$ 324
Production and intermediate-term	9,602	11,893	429	9,979	91	10,275	317
Farm-related business	-	543	-	-	59	-	84
Rural residential real estate	238	344	-	247	1	255	12
Lease receivables	58	92	-	60	-	62	-
Total	<u>\$ 21,502</u>	<u>\$ 26,317</u>	<u>\$ 429</u>	<u>\$ 22,347</u>	<u>\$ 238</u>	<u>\$ 23,009</u>	<u>\$ 737</u>

Impaired loans:	December 31, 2016			Year Ended December 31, 2016	
	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	\$ 3,479	\$ 3,569	\$ 795	\$ 3,133	\$ -
Total	<u>\$ 3,479</u>	<u>\$ 3,569</u>	<u>\$ 795</u>	<u>\$ 3,133</u>	<u>\$ -</u>
With no related allowance for credit losses:					
Real estate mortgage	\$ 12,442	\$ 14,230	\$ -	\$ 11,206	\$ 378
Production and intermediate-term	7,970	9,952	-	7,178	455
Processing and marketing	4	1	-	4	-
Farm-related business	381	1,050	-	343	-
Rural residential real estate	49	161	-	44	-
Lease receivables	82	136	-	74	-
Total	<u>\$ 20,928</u>	<u>\$ 25,530</u>	<u>\$ -</u>	<u>\$ 18,849</u>	<u>\$ 833</u>
Total:					
Real estate mortgage	\$ 12,442	\$ 14,230	\$ -	\$ 11,206	\$ 378
Production and intermediate-term	11,449	13,521	795	10,311	455
Processing and marketing	4	1	-	4	-
Farm-related business	381	1,050	-	343	-
Rural residential real estate	49	161	-	44	-
Lease receivables	82	136	-	74	-
Total	<u>\$ 24,407</u>	<u>\$ 29,099</u>	<u>\$ 795</u>	<u>\$ 21,982</u>	<u>\$ 833</u>

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows.

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Power and water/waste disposal	Rural Residential Real Estate	International	Lease Receivables	Other (Including Mission Related)	Total
Activity related to the allowance for credit losses:										
Balance at June 30, 2017	\$ 2,626	\$ 5,144	\$ 1,889	\$ 952	\$ 1,785	\$ 93	\$ 27	\$ 24	\$ 1	\$ 12,541
Charge-offs	–	(49)	–	–	–	–	–	–	–	(49)
Recoveries	–	–	–	–	–	–	–	11	–	11
Provision for loan losses	76	256	57	(110)	(84)	3	–	(25)	(1)	172
Balance at September 30, 2017	\$ 2,702	\$ 5,351	\$ 1,946	\$ 842	\$ 1,701	\$ 96	\$ 27	\$ 10	\$ –	\$ 12,675
Balance at December 31, 2016	\$ 1,184	\$ 6,057	\$ 1,996	\$ 1,496	\$ 956	\$ 68	\$ 34	\$ 10	\$ 1	\$ 11,802
Charge-offs	–	(60)	–	–	–	–	–	–	–	(60)
Recoveries	–	14	–	–	–	–	–	22	–	36
Provision for loan losses	1,518	(660)	(50)	(654)	745	28	(7)	(22)	(1)	897
Balance at September 30, 2017	\$ 2,702	\$ 5,351	\$ 1,946	\$ 842	\$ 1,701	\$ 96	\$ 27	\$ 10	\$ –	\$ 12,675
Balance at June 30, 2016	\$ 1,041	\$ 5,501	\$ 2,231	\$ 1,861	\$ 430	\$ 58	\$ 52	\$ 14	\$ 1	\$ 11,189
Charge-offs	–	(74)	–	–	–	–	–	–	–	(74)
Recoveries	–	2	–	–	–	–	–	–	–	2
Provision for loan losses	189	(130)	29	(360)	540	(1)	(18)	(3)	–	246
Balance at September 30, 2016	\$ 1,230	\$ 5,299	\$ 2,260	\$ 1,501	\$ 970	\$ 57	\$ 34	\$ 11	\$ 1	\$ 11,363
Balance at December 31, 2015	\$ 1,753	\$ 5,447	\$ 1,341	\$ 1,080	\$ 204	\$ 147	\$ 25	\$ 29	\$ 2	\$ 10,028
Charge-offs	–	(122)	–	–	–	–	–	–	–	(122)
Recoveries	–	34	–	–	–	–	–	–	–	34
Provision for loan losses	(523)	(60)	919	421	766	(90)	9	(18)	(1)	1,423
Balance at September 30, 2016	\$ 1,230	\$ 5,299	\$ 2,260	\$ 1,501	\$ 970	\$ 57	\$ 34	\$ 11	\$ 1	\$ 11,363
Allowance on loans evaluated for impairment:										
Individually	\$ –	\$ 429	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 429
Collectively	2,702	4,922	1,946	842	1,701	96	27	10	–	12,246
Balance at September 30, 2017	\$ 2,702	\$ 5,351	\$ 1,946	\$ 842	\$ 1,701	\$ 96	\$ 27	\$ 10	\$ –	\$ 12,675
Individually	\$ –	\$ 795	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 795
Collectively	1,184	5,262	1,996	1,496	956	68	34	10	1	11,007
Balance at December 31, 2016	\$ 1,184	\$ 6,057	\$ 1,996	\$ 1,496	\$ 956	\$ 68	\$ 34	\$ 10	\$ 1	\$ 11,802
Recorded investment in loans evaluated for impairment:										
Individually	\$ 9,218	\$ 6,105	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 58	\$ –	\$ 15,381
Collectively	841,647	625,938	217,962	88,562	17,446	19,587	12,670	772	25	1,824,609
Balance at September 30, 2017	\$ 850,865	\$ 632,043	\$ 217,962	\$ 88,562	\$ 17,446	\$ 19,587	\$ 12,670	\$ 830	\$ 25	\$ 1,839,990
Individually	\$ 9,380	\$ 7,615	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 83	\$ –	\$ 17,078
Collectively	805,686	641,594	210,356	78,654	22,450	19,877	12,052	856	79	1,791,604
Balance at December 31, 2016	\$ 815,066	\$ 649,209	\$ 210,356	\$ 78,654	\$ 22,450	\$ 19,877	\$ 12,052	\$ 939	\$ 79	\$ 1,808,682

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

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

Outstanding Recorded Investment	Three Months Ended September 30, 2017				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
Pre-modification:					
Production and intermediate-term	\$ 107	\$ –	\$ –	\$ 107	
Total	\$ 107	\$ –	\$ –	\$ 107	
Post-modification:					
Production and intermediate-term	\$ 108	\$ –	\$ –	\$ 108	\$ –
Total	\$ 108	\$ –	\$ –	\$ 108	\$ –

Nine Months Ended September 30, 2017					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ 1,207	\$ –	\$ –	\$ 1,207	
Total	\$ 1,207	\$ –	\$ –	\$ 1,207	
Post-modification:					
Production and intermediate-term	\$ 1,343	\$ –	\$ –	\$ 1,343	\$ –
Total	\$ 1,343	\$ –	\$ –	\$ 1,343	\$ –

Three Months Ended September 30, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ 228	\$ 601	\$ –	\$ 829	
Total	\$ 228	\$ 601	\$ –	\$ 829	
Post-modification:					
Production and intermediate-term	\$ 228	\$ 601	\$ –	\$ 829	\$ –
Total	\$ 228	\$ 601	\$ –	\$ 829	\$ –

Nine Months Ended September 30, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ 228	\$ 1,501	\$ –	\$ 1,729	
Total	\$ 228	\$ 1,501	\$ –	\$ 1,729	
Post-modification:					
Production and intermediate-term	\$ 228	\$ 1,501	\$ –	\$ 1,729	\$ –
Total	\$ 228	\$ 1,501	\$ –	\$ 1,729	\$ –

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Defaulted troubled debt restructurings:				
Real estate mortgage	\$ 142	\$ 194	142	194
Production and intermediate-term	–	6	–	6
Total	\$ 142	\$ 200	\$ 142	\$ 200

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, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Real estate mortgage	\$ 934	\$ 1,140	\$ 608	\$ 641
Production and intermediate-term	5,552	7,381	5,416	6,541
Farm-related business	–	381	–	–
Total Loans	\$ 6,486	\$ 8,902	\$ 6,024	\$ 7,182
Additional commitments to lend	\$ 280	\$ 302		

The following table presents information as of period end:

	<u>September 30, 2017</u>
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 26
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ —

Note 3 — Investments

Investment Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program approved by FCA. In its Conditions of Approval for the program, the FCA considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. At September 30, 2017, the Association held no RABs whose credit quality has deteriorated beyond the program limits.

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

	<u>September 30, 2017</u>				
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Yield</u>
RABs	\$ 2,205	\$ 176	\$ —	\$ 2,381	6.23%

	<u>December 31, 2016</u>				
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Yield</u>
RABs	\$ 2,243	\$ 93	\$ —	\$ 2,336	6.23%

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

	<u>September 30, 2017</u>		
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Weighted Average Yield</u>
In one year or less	\$ —	\$ —	—%
After one year through five years	—	—	—
After five years through ten years	—	—	—
After ten years	2,205	2,381	6.23
Total	<u>\$ 2,205</u>	<u>\$ 2,381</u>	<u>6.23%</u>

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

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The Association had no investments that have been in a continuous unrealized loss position for the periods presented.

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

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

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

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

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

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 8.76 percent of the issued stock of the Bank as of September 30, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled \$32.1 billion and shareholders' equity totaled \$2.5 billion. The Bank's earnings were \$247 million for the first nine months of 2017. In addition, the Association held investments of \$1,062 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Employee Benefit Plans:				
Balance at beginning of period	\$ (56)	\$ (51)	\$ (57)	\$ (52)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	—	—	1	1
Net current period other comprehensive income	—	—	1	1
Balance at end of period	\$ (56)	\$ (51)	\$ (56)	\$ (51)

	Three Months Ended		Nine Months Ended		Income Statement Line Item
	September 30,		September 30,		
	2017	2016	2017	2016	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ —	\$ —	\$ (1)	\$ (1)	See Note 7.
Net amounts reclassified	\$ —	\$ —	\$ (1)	\$ (1)	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 6 — Fair Value Measurement

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

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

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

The classifications within the fair value hierarchy are as follows:

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

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

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and

could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

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

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

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

At or for the Nine Months Ended September 30, 2017						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	\$ 680	\$ 680	\$ -	\$ -	\$ 680	
Recurring Assets	\$ 680	\$ 680	\$ -	\$ -	\$ 680	
Liabilities:						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 2,156	\$ -	\$ -	\$ 2,156	\$ 2,156	\$ 341
Other property owned	37	-	-	48	48	(30)
Nonrecurring Assets	\$ 2,193	\$ -	\$ -	\$ 2,204	\$ 2,204	\$ 311
Other Financial Instruments						
Assets:						
Cash	\$ 55	\$ 55	\$ -	\$ -	\$ 55	
Investment securities, held-to-maturity	2,205	-	-	2,381	2,381	
Loans	1,816,766	-	-	1,811,850	1,811,850	
Other Financial Assets	\$ 1,819,026	\$ 55	\$ -	\$ 1,814,231	\$ 1,814,286	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,475,384	\$ -	\$ -	\$ 1,470,354	\$ 1,470,354	
Other Financial Liabilities	\$ 1,475,384	\$ -	\$ -	\$ 1,470,354	\$ 1,470,354	

At or for the Year Ended December 31, 2016

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	\$ 577	\$ 577	\$ -	\$ -	\$ 577	
Recurring Assets	\$ 577	\$ 577	\$ -	\$ -	\$ 577	
Liabilities:						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonrecurring Measurements						
Assets:						
Impaired loans*	\$ 2,684	\$ -	\$ -	\$ 2,684	\$ 2,684	\$ (644)
Other property owned	79	-	-	92	92	(244)
Nonrecurring Assets	\$ 2,763	\$ -	\$ -	\$ 2,776	\$ 2,776	\$ (888)
Other Financial Instruments						
Assets:						
Cash	\$ 43	\$ 43	\$ -	\$ -	\$ 43	
Investment securities, held-to-maturity	2,243	-	-	2,336	2,336	
Loans*	1,787,805	-	-	1,776,093	1,776,093	
Other Financial Assets	\$ 1,790,091	\$ 43	\$ -	\$ 1,778,429	\$ 1,778,472	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,464,915	\$ -	\$ -	\$ 1,454,327	\$ 1,454,327	
Other Financial Liabilities	\$ 1,464,915	\$ -	\$ -	\$ 1,454,327	\$ 1,454,327	

*Subsequent to the issuance of the 2016 Annual Report, management identified errors in the reporting of certain loans measured at fair value on a non-recurring basis using Level 3. Management has evaluated the impact of the errors on the disclosure in this note and concluded that individually and in the aggregate, the errors do not result in a material misstatement of the previously issued financial statements. The Level 3 fair values of impaired loans and loans reported for December 31, 2016 have been revised from the previously reported amounts of \$23,612 and \$1,755,165 to \$2,684 and \$1,776,093, respectively.

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.

Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain

significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities. These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

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	\$ 2,204	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

The following table summarizes retirement and other postretirement benefit expenses for the Association:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Pension	\$ 495	\$ 765	\$ 1,484	\$ 2,296
401(k)	224	205	658	605
Other postretirement benefits	80	162	275	486
Total	\$ 799	\$ 1,132	\$ 2,417	\$ 3,387

The following table summarizes retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 9/30/17	Projected Contributions For Remainder of 2017	Projected Total Contributions 2017
	Pension	\$ 15	\$ 1,742
Other postretirement benefits	275	108	383
Total	\$ 290	\$ 1,850	\$ 2,140

Contributions in the table above 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, 2017.

Further details regarding employee benefit plans are contained in the 2016 Annual Report to Shareholders. As of March 31, 2017, the AgFirst Farm Credit Cash Balance Retirement Plan

had been terminated and all vested benefits had been distributed to participants.

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 8, 2017, which was the date the financial statements were issued.

On October 16, 2017, AgFirst's Board of Directors indicated an intention to declare, in December 2017, a special patronage distribution. Upon declaration, the Association will receive between \$11,362 and \$13,634 which will be recorded as patronage refunds from other Farm Credit institutions.