2017 ANNUAL REPORT

AgGeorgia Farm Credit

Helping Georgia Grow for Generations®

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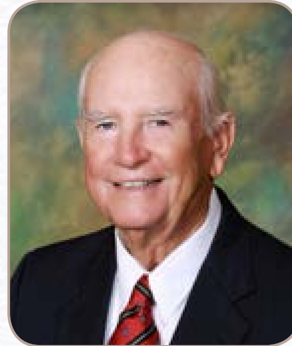
Photo courtesy of Jill Wright

AGGEORGIA BOARD OF DIRECTORS

Jack W. Bentley, Jr.
Wilkes County

W. Howard Brown
Macon County



Billy J. Clary
Crisp County

Dan N. Crumpton
Warren County

Guy A. Daughtrey
Cook County

Ronney S. Ledford
Dooly County

Joseph Marion Meeks
Washington County

Robert G. "Bobby" Miller
Hall County

Richard D. "Dave" Neff
Hall County

J. Dan Raines, Jr.
Turner County

George R. Reeves
McDuffie County

Anne G. Smith
Madison County

David H. Smith
Bartow County

Glee C. Smith
Warren County

Franklin B. Wright
Gilmer County

BOARD CHAIRMAN

Mr. Robert G. Miller*

BOARD VICE CHAIRMAN

Guy A. Daughtrey

AUDIT COMMITTEE

Chairman: Mr. Richard D. Neff
Vice Chairman: Mr. George R. Reeves
Financial Expert: Mr. Richard D. Neff
Members: Mr. Ronney S. Ledford, Mr. David H. Smith and Ms. Glee C. Smith

COMPENSATION COMMITTEE

Chairman: Mr. Billy J. Clary
Vice Chairman: Mr. J. Dan Raines, Jr.
Members: Mr. Jack W. Bentley, Jr., Mr. W. Howard Brown, Mr. Joseph Marion Meeks and Mrs. Anne G. Smith

GOVERNANCE COMMITTEE

Chairman: Mr. Guy A. Daughtrey
Vice Chairman: Mr. Jack W. Bentley, Jr.
Members: Mr. W. Howard Brown, Mr. Dan N. Crumpton** and Mr. Franklin B. Wright

CREDIT RISK COMMITTEE

Chairman: Mr. Franklin B. Wright
Vice Chairman: Mr. Billy J. Clary
Members: Mr. Guy A. Daughtrey, Mr. Ronney S. Ledford and Mr. Richard D. Neff

OUTSIDE DIRECTORS

Mr. Richard D. "Dave" Neff and Ms. Glee C. Smith

All Directors are members of the Executive Committee.

*As Board Chairman, Mr. Robert G. Miller is an ex-officio (non-voting) member of all committees.

**Mr. Dan N. Crumpton retired effective May 15, 2017

Photo courtesy of Scott Kuhn

AGGEORGIA TERRITORY AND BRANCH LOCATIONS

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Jack C. Drew, Jr.
Chief Executive Officer

As we head into 2018, I am confident with the forward direction of our Association. We have managed our resources well and positioned ourselves for continued growth, stronger financial performance and increasing long term stockholder value.

On behalf of the Board of Directors, management and staff of AgGeorgia Farm Credit, ACA, I am pleased to present the 2017 Annual Report. As you review the information contained herein, I am confident that you will find your Association achieved solid financial results for the year culminating from a progressive strategic plan, focused business development and strong customer service. As we head into 2018, I am confident with the forward direction of our Association. We have managed our resources well and positioned ourselves for continued growth, stronger financial performance and increasing long term stockholder value. We are proud of the progress made this year and hope that you will share in our opinion as you review the content of this report.

In highlighting notable accomplishments, we are pleased to report that the majority of our 2017 financial goals were met or exceeded for the year. Asset quality maintained a satisfactory rating with correlation in risk classification along with a steady reduction in nonearning assets. In addition, all internal and external audits conducted during the period yielded excellent results providing continued validation of satisfactory credit administration and risk identification within AgGeorgia. Final net income for 2017 ended above projections with your Association earning $24.7 million. This is an increase of $6.6 million in net income over 2016 and, while core earnings were consistent with last year, a special patronage received from AgFirst Farm Credit Bank and changes in accounting for pension expense significantly contributed to an acknowledged increase in net income. Our key financial ratios reflected sound footing with AgGeorgia's return on assets at 2.76% and permanent capital of 22.57% yielding members' equity at year-end of $230 million. Despite ongoing challenges within the farm economy, AgGeorgia remains strongly capitalized to support sound, managed growth as well as withstand adversity in the loan portfolio.

Building on our long history of patronage and representing our twenty-ninth consecutive year, your Association returned a portion of our net earnings to stockholders via a patronage distribution of $11.2 million in the form of cash and allocated surplus. The Board of Directors also approved a revolvement of surplus capital of $13.1 million; which when combined with the cash patronage paid, totals $16.4 million returned to stockholders in 2017. These distributions of capital reflect our ongoing commitment to return earnings to you while maintaining our strong capital position. I am pleased to report that once again the Association is positioned to declare a patronage payment to our eligible stockholders for fiscal year 2017. Since 1988, AgGeorgia has returned cash patronage and surplus revolvement in excess of $344 million to our stockholders. We are proud of this tradition and will continue to manage your cooperative in a responsible manner in order to maximize value to our members.

On behalf of AgGeorgia's Board of Directors, management and employees, I would like to express my sincere appreciation for your support and trust in your cooperative. With your continued patronage of AgGeorgia's loan products and financially related services, we will maintain our tradition of being a well-capitalized cooperative and supporter of the farmers, ranchers, agribusinesses and rural residents of Georgia.

Jack C. Drew, Jr.
Chief Executive Officer

Photo courtesy of Avery Towe

AGGEORGIA MANAGEMENT TEAM

Back row (l to r): Vikki J. Wooley, Corporate Secretary; Stephen G. Connelly, Director of Information Technology; Corey W. Cottle, Director of Marketing; Carrie B. McCall, Chief Financial Officer; Zachary T. Purvis, Chief Lending Officer; Timothy H. Dean, Chief Appraiser; Brandie L. Thompson, Risk Manager

Front row (l to r): Stephen M. Yearta, Chief Credit Officer; Jack C. Drew, Jr. Chief Executive Officer; T. Lacy Royal, Chief Credit Officer

AGGEORGIA BRANCH OFFICES

Perry Corporate Office
468 Perry Parkway
Perry, GA 31069
(478) 987-8300

Cartersville
1300 East Main St.
Cartersville, GA 30120
(770) 382-3637

Chatsworth
19 Woodlake Drive
Chatsworth, GA 30705
(706) 695-0020

Clarkesville
102 Blacksnake Road
Mt. Airy, GA 30563
(706) 754-4158

Cordele
1207 South Greer St.
Cordele, GA 31015
(229) 273-3927

Dublin
826 Bellevue Ave.
Dublin, GA 31021
(478) 272-3255

Gainesville
501 Broad St.
Gainesville, GA 30501
(770) 534-5395

LaFayette
700 East Villanow St.
LaFayette, GA 30728
(706) 638-1940

Montezuma
317 Walnut St.
Montezuma, GA 31063
(478) 472-5156

Moultrie
22 5th Ave., S.E.
Moultrie, GA 31768
(229) 985-3893

Nashville
707 North Davis St.
Nashville, GA 31639
(229) 686-5081

Ocilla
302 South Cherry St.
Ocilla, GA 31774
(229) 468-5900

Perry
468 Perry Parkway
Perry, GA 31069
(478) 987-1434

Quitman
504 East Screven St.
Quitman, GA 31643
(229) 263-7551

Rome
701 East 2nd Ave.
Rome, GA 30161
(706) 291-6340

Royston
675 Church St.
Royston, GA 30662
(706) 245-6142

Sandersville
775 Sparta Road
Sandersville, GA 31082
(478) 552-6922

Sylvester
105 Dexter Wilson Blvd.
Sylvester, GA 31791
(229) 776-5599

Tifton
1807 King Road
Tifton, GA 31793
(229) 382-4300

Washington
US 78, 311 North Bypass
Washington, GA 30673
(706) 678-7088

Waynesboro
176 Hwy. 80 West
Waynesboro, GA 30830
(706) 554-2107

Photo courtesy of Whitney Diers

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(dollars in thousands)	December 31, 2017	2016	2015	2014	2013
Balance Sheet Data					
Cash	**$ 168**	$ 1,238	$ 445	$ 80	$ 1,304
Loans	**858,632**	827,611	831,115	830,645	840,992
Allowance for loan losses	**(6,995)**	(7,168)	(5,577)	(5,999)	(10,575)
Net loans	**851,637**	820,443	825,538	824,646	830,417
Investments in other Farm Credit institutions	**10,372**	10,297	10,445	10,876	14,205
Other property owned	**1,297**	4,025	2,342	8,269	7,345
Other assets	**33,339**	34,638	36,371	40,184	43,443
Total assets	**$ 896,813**	$ 870,641	$ 875,141	$ 884,055	$ 896,714
Notes payable to AgFirst Farm Credit Bank*	**$ 647,241**	$ 621,886	$ 623,422	$ 636,993	$ 661,719
Accrued interest payable and other liabilities with maturities of less than one year	**19,513**	24,977	20,495	21,746	19,089
Total liabilities	**666,754**	646,863	643,917	658,739	680,808
Protected borrower stock	**—**	—	1	5	8
Capital stock and participation certificates	**4,017**	3,912	3,889	3,796	3,744
Retained earnings					
Allocated	**75,567**	79,099	93,387	95,454	94,741
Unallocated	**151,976**	140,914	134,084	126,220	117,487
Accumulated other comprehensive income (loss)	**(1,501)**	(147)	(137)	(159)	(74)
Total members' equity	**230,059**	223,778	231,224	225,316	215,906
Total liabilities and members' equity	**$ 896,813**	$ 870,641	$ 875,141	$ 884,055	$ 896,714
Statement of Income Data					
Net interest income	**$ 30,230**	$ 29,570	$ 29,600	$ 30,616	$ 31,467
Provision for (reversal of allowance for) loan losses	**75**	(805)	(1,243)	(103)	4,373
Noninterest income (expense), net	**(5,424)**	(12,269)	(11,143)	(8,388)	(7,897)
Net income	**$ 24,731**	$ 18,106	$ 19,700	$ 22,331	$ 19,197
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.76%**	2.08%	2.25%	2.52%	2.04%
Total members' equity	**11.02%**	7.86%	8.63%	10.11%	9.10%
Net interest income as a percentage of average earning assets	**3.50%**	3.54%	3.53%	3.63%	3.52%
Net (chargeoffs) recoveries to average loans	**(0.029)%**	0.287%	0.098%	(0.530)%	(0.534)%
Total members' equity to total assets	**25.65%**	25.70%	26.42%	25.49%	24.08%
Debt to members' equity (:1)	**2.90**	2.89	2.78	2.92	3.15
Allowance for loan losses to loans	**0.81%**	0.87%	0.67%	0.72%	1.26%
Permanent capital ratio	**22.57%**	25.56%	25.92%	25.02%	23.51%
Total surplus ratio	**	25.10%	25.46%	24.57%	23.07%
Core surplus ratio	**	20.96%	21.40%	20.92%	19.87%
Common equity tier 1 capital ratio	**22.38%**	**	**	**	**
Tier 1 capital ratio	**22.38%**	**	**	**	**
Total regulatory capital ratio	**23.23%**	**	**	**	**
Tier 1 leverage ratio	**23.38%**	**	**	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**15.64%**	**	**	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 4,089**	$ 3,355	$ 3,520	$ 4,040	$ 2,684
Qualified allocated retained earnings	**9,541**	7,829	8,213	9,428	6,264

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2018.*
*** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.*

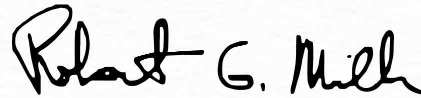
REPORT OF MANAGEMENT

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

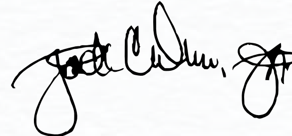
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the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

The Consolidated Financial Statements have been audited by independent auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2017 Annual Report of AgGeorgia 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.



Robert G. Miller
Chairman of the Board



Jack C. Drew, Jr.
Chief Executive Officer

Carrie B. McCall
Chief Financial Officer

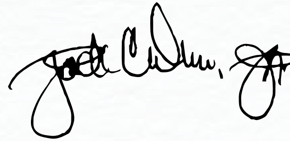
March 13, 2018

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 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 December 31, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2017.



Jack C. Drew, Jr.
Chief Executive Officer

Carrie B. McCall
Chief Financial Officer

March 13, 2018

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & RESULTS OF OPERATIONS

(DOLLARS IN THOUSANDS, EXCEPT AS NOTED)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of AgGeorgia Farm Credit, ACA, (Association) for the year ended December 31, 2017 with comparisons to the years ended December 31, 2016 and December 31, 2015. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 99 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Georgia. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, *www.aggeorgia.com*, or by calling 1-800-868-6404, or writing Carrie B. McCall, AgGeorgia Farm Credit, P.O. Box 1820, Perry, GA 31069. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

The February 2018 USDA forecast estimates 2017 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $96.9 billion, up $2.9 billion

from 2016 and down $9.0 billion from its 10-year average of $105.9 billion. The increase in net cash income in 2017 was primarily due to increases in livestock receipts of $12.5 billion and cash farm-related income of $1.8 billion, partially offset by a decrease in crop cash receipts of $4.7 billion and an increase in cash expenses of $5.1 billion.

The February 2018 USDA outlook for the farm economy, as a whole, forecasts 2018 farmers' net cash income to decrease to $91.9 billion, a $5.0 billion decrease from 2017, and $14.0 billion below the 10-year average. The forecasted decrease in farmers' net cash income for 2018 is primarily due to an expected increase in cash expenses of $3.0 billion and decrease in crop and livestock receipts of $2.0 billion.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2014 to December 31, 2017:

Commodity	12/31/17	12/31/16	12/31/15	12/31/14
Hogs	$48.60	$43.10	$42.80	$64.30
Milk	$17.20	$18.90	$17.30	$20.40
Broilers	$0.50	$0.48	$0.47	$0.58
Turkeys	$0.53	$0.74	$0.89	$0.73
Corn	$3.23	$3.32	$3.65	$3.79
Soybeans	$9.30	$9.64	$8.76	$10.30
Wheat	$4.51	$3.90	$4.75	$6.14
Beef Cattle	$118.00	$111.00	$122.00	$164.00

The USDA's income outlook varies depending on farm size and commodity specialties. The USDA classifies all farms into four primary categories: small family farms (gross cash farm income (GCFI) less than $350 thousand), midsize family farms (GCFI between $350 thousand and under $1 million), large-scale family farms (GCFI of $1 million or more), and nonfamily farms (principal operator or individuals related to the operator do not own a majority of the business). Approximately 99 percent of U.S. farms are family farms and the remaining 1 percent is nonfamily farms. The family farms produce 90 percent of the value of agricultural output and the nonfamily farms produce the remaining 10 percent of agricultural output. The small family farms represent about 90 percent of all U.S. farms, hold 51 percent of farm land operated by farms and account for 23 percent of the value of production. Approximately 68 percent of production occurs on 9 percent of family farms classified as midsize or large-scale.

According to the USDA February 2018 forecast, farm sector equity (assets minus debt) is expected to rise 1.6 percent in 2018 to nearly $2.7 trillion. Farm sector assets are expected to rise 1.6 percent to $3.1 trillion in 2018, while farm sector debt is expected to rise 1.0 percent to $388.6 billion. Farm real estate accounts for about 84 percent of farm sector assets and the 2018 forecast anticipates a 2.1 percent increase in real estate values, continuing its long-term upward trend since the late 1980s.

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. These ratios are forecast to move slightly downward in 2018 to 12.6 percent and 14.4 percent from 12.7 percent and 14.5 percent in 2017. These ratios remain well below the all-time highs of over 20 percent experienced during the 1980s.

As estimated by the USDA in February 2018, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) increased slightly to 40.9 percent at December 31, 2016 (the latest available data), as compared with 40.6 percent at December 31, 2015.

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

CRITICAL ACCOUNTING POLICIES

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

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

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments,

evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

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

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

ECONOMIC CONDITIONS

Georgia is a uniquely diversified agricultural state, with production of the following commodities in order of total Farmgate value: Broilers, Cotton, Eggs, Timber, Peanuts, Beef, Greenhouse, Dairy, Pecans, and Blueberries.

In 2017, planted crop acreage in Georgia remained stable compared to 2016 though there was some movement within the commodities planted. Cotton acreage planted increased by 120 thousand acres to a total of 1.27 million acres. Demand remains strong, and as a result prices are improved and expected to be in the 72 – 75 cents range. The cotton crop was impacted by hurricanes Harvey and Irma, yet the crop for 2017 may still be larger than expected. The worst effects of the hurricanes seem to have been isolated to small areas of the state. Looking forward to 2018, cotton acreage is not expected to change significantly.

Peanut acreage also increased in 2017 by approximately 110 thousand acres to a total planted of 840 thousand acres. This represents the highest level planted in 26 years. The USDA estimated yield for Georgia was 4,600 pounds per acre, which if that estimate comes to fruition, equates to total production of 1.9 million tons in Georgia. The hurricanes did not impact the peanut crops negatively as they did other crops in the state. The rain from the hurricanes actually came at a good time for dryland peanut crops, and as a result the dryland peanut harvest had the potential of being as good as or better than the irrigated peanut harvest. Contracted prices were in the $450 to $500 range. The expectation for 2018 is another year of more than 700 thousand acres planted, though it is expected many of those who have been planting peanuts to capitalize on the current PLC program will need to consider rotation. Other row crops decreased acreage to account for the increase in peanut and cotton acreage. Corn acreage declined by 120 thousand acres, soybean acreage declined by 105 thousand acres and wheat declined by 20 thousand acres.

In 2017, the poultry industry continued to face challenges, the biggest of which was Avian Influenza. Georgia poultry industry groups have worked diligently to educate poultry growers and workers on biosecurity measures. Avian Influenza has led to some trade restrictions from several Asian countries. Otherwise, the industry has had a strong year. Broiler prices have been strong and low feed costs have helped margins as well. In Georgia, broiler placements have increased 1-2 percent in 2017 over 2016 levels. Bird weights were increasing in the latter part of the year, which coupled with the increased placements will lead to increased production of approximately 1.8 percent. Increased supply will likely lead to a decrease in prices for 2018. The projections from USDA for 2018 are 85 – 92 cents per pound compared to the 93 cents per pound average in 2017. Overall, consumption is expected to increase, exports are expected to increase and barring no major issues the industry should be profitable in 2018.

Beef cattle saw an improvement in 2017 of steer and heifer prices in Georgia. After beginning the year in a drought with a hay supply shortage that decreased profit margins for many producers, a strong demand was a welcome improvement in conditions. The heifer slaughter was higher in every week of 2017 as compared to 2016. Beef cow slaughter was also high in 2017. Looking ahead to 2018, domestic consumption is expected to increase by 3 percent and USDA is projecting a 10 percent increase in exports of beef. Cattle prices in Georgia are expected to follow a season price pattern, and while 2018 prices are expected to be lower in 2018, profitability can be achieved if producers manage and market well.

Georgia continues to be one of the strongest milk-producing states in the Southeast, ranking second behind Florida. State production remained consistent with national production at approximately 1.5 – 2.0 percent, which is below the long-term growth average. Projections for 2018 are reflection approximately a 1.8 percent productivity increase. Georgia dairy farmers can expect to see average farm level milk prices in the $19.90 to $20.80 range for 2018.

The timber industry is fueled in large part by the housing industry. While housing starts were lower than projected nationwide in 2017, the number continues to rise and Georgia's population growth is more than double the rest of the country which will specifically impact the housing economy in the state. In 2017, pine pulpwood and woods-direct chips demand

increased by 3.7 percent and is expected to increase 4 percent in 2018.

In summary, the outlook for Georgia in 2018 is mostly positive. Georgia is one of the most successful states at landing economic projects, and we will continue to see businesses move to Georgia to cut costs. That is a positive for our overall economy as well as the timber industry as we expect more housing starts in 2018. The outlook for Georgia's largest commodities is mostly strong and if not strong, neutral. Some of Georgia's smaller agriculture industries are seeing growth, one of the largest being agritourism. Provided weather conditions are favorable and farmers capitalize on opportunities to maximize their margins, 2018 should be a fairly good year for most Georgia farmers.

LOAN PORTFOLIO

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

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	December 31, 2017		2016		2015	
	(dollars in thousands)					
Real estate mortgage	$ 517,852	60.31 %	$ 451,111	54.51 %	$ 419,500	50.47 %
Production and intermediate-term	314,981	36.68	351,330	42.45	378,123	45.50
Processing and marketing	15,185	1.77	15,238	1.84	20,870	2.51
Farm-related business	1,000	0.12	1,380	0.17	5,253	0.63
Communication	–	–	–	–	693	0.08
Power and water/waste disposal	988	0.12	–	–	–	–
Rural residential real estate	5,563	0.65	6,667	0.81	6,676	0.81
International	1,886	0.22	1,885	0.23	–	–
Other (including Mission Related)	1,177	0.14	–	–	–	–
Total	$ 858,632	100.00 %	$ 827,611	100.00 %	$ 831,115	100.00 %

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

The geographic distribution of the loan volume by branch/city for the past three years is as follows:

Branch	December 31, 2017	2016	2015
Cartersville	5.66%	5.78%	5.57%
Chatsworth	6.23	5.84	5.87
Clarkesville	3.78	3.73	3.57
Cordele	7.95	8.21	7.47
Dublin	4.57	4.96	5.80
Gainesville	4.47	4.61	4.39
Moultrie	4.00	3.74	4.42
Nashville	2.54	2.16	2.21
Ocilla	3.52	4.17	4.40
Perry	9.50	9.43	9.33
Quitman	3.39	3.78	3.39
Royston	12.87	12.67	12.43
Sandersville	4.86	5.33	5.23
Sylvester	3.72	3.22	2.95
Tifton	5.77	5.74	6.06
Washington	5.76	5.73	5.46
Waynesboro	4.07	4.59	4.30
Participations Purchased	4.89	4.33	4.15
Special Assets	2.45	1.98	3.00
	100.00%	100.00%	100.00%

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are Poultry, Forestry, Cotton, and Row Crops, which constitute approximately 70 percent of the entire portfolio at December 31, 2017.

Commodity Group	December 31, 2017		2016		2015	
	(dollars in thousands)					
Poultry	$ 243,097	29%	$ 242,999	29%	$ 239,573	29%
Cotton	139,500	16	140,541	17	138,435	17
Forestry	117,764	14	101,538	12	107,493	13
Row Crops	97.877	11	93,604	11	97,193	12
Livestock	93,596	11	97,666	12	88,105	10
Horticulture	38,372	4	34,642	4	42,883	5
Landlords	31,312	4	30,499	4	27,811	3
Dairy	18,290	2	31,917	4	24,428	3
Peanuts	34,730	4	21,821	3	26,371	3
Rural Home	6,656	1	7,393	1	7,788	1
Other	37,438	4	24,991	3	31,035	4
Total	$ 858,632	100%	$ 827,611	100%	$ 831,115	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the income of borrowers that is not associated with farming. The Association's loan portfolio contains a concentration of poultry producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations have diversified income sources that reduce overall risk exposure. Demand for poultry products, prices of feed, energy, and other inputs, as well as international trade are some of the factors affecting the income producing capacity in the poultry industry.

Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory. Commodity concentration risk is also mitigated by the use of loan guarantees and standby letters of credit.

The increase in gross loan volume for the twelve months ended December 31, 2017, is primarily attributed to an increase in demand in most all sectors of our portfolio. A change in the Association's business model and reorganization of the staff to allow for specialization of job functions in order to focus on business development is one factor in the increase in volume. Also, the row crop sector experienced an increase in demand due to adverse weather conditions in parts of the region and tight margins due to low commodity prices and high input costs, especially labor costs.

For the past few years, the Association has experienced a fairly balanced portfolio of long-term and short-term loan assets. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and rapidly declines in the fall months as commodities are marketed and proceeds are applied to repay operating type loans.

During 2017, the Association maintained activity in the buying and selling of loan participations within and outside of the System. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen capital position.

	December 31,		
Loan Participations:	**2017**	**2016**	**2015**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 18,272	$ 24,663	$ 23,758
Participations Purchased – Non-FCS Institutions	–	332	378
Participations Sold	(89,520)	(73,713)	(79,304)
Total	$ (71,248)	$ (48,718)	$ (55,168)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2017.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Regulatory limits allow for real estate mortgage loans in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. Appraisals are required for loans of more than $250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2017	2016	2015
Acceptable & OAEM	97.36%	96.71%	95.68%
Substandard	2.64%	3.29%	4.32%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

High-risk Assets	2017	December 31, 2016	2015
		(dollars in thousands)	
Nonaccrual loans	$ 17,122	$ 16,635	$ 25,191
Restructured loans	30,022	24,370	14,856
Accruing loans 90 days past due	–	–	–
Total high-risk loans	47,144	41,005	40,047
Other property owned	1,297	4,025	2,342
Total high-risk assets	$ 48,441	$ 45,030	$ 42,389
Ratios			
Nonaccrual loans to total loans	1.99%	2.01%	3.03%
High-risk assets to total assets	5.55%	5.17%	4.84%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $487 or 2.93 percent in 2017. This increase is primarily the result of adversity in the row crop sector. Of the $17,122 in nonaccrual volume at December 31, 2017, $5,001 or 29 percent, compared to 53 percent and 74 percent at December 31, 2016 and 2015, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Other property owned decreased in 2017 from $4,025 to $1,297, primarily due to the sale of all properties in 2017 except those in which the Association is a participant. All other properties were sold or in the process of closing at year end. The Association currently owns or owns equity in 2 properties foreclosed upon in 2017, and 1 foreclosed upon in 2011. Two others in which the Association is an equity participant were fully written off in 2017 due to inability to sell the properties though efforts are still being made to market them.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

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

Allowance for Loan Losses Activity:	Year Ended December 31, 2017	2016	2015
		(dollars in thousands)	
Balance at beginning of year	$ 7,168	$ 5,577	$ 5,999
Charge-offs:			
Real estate mortgage	(83)	(74)	(168)
Production and intermediate-term	(498)	(517)	(705)
Agribusiness	(1)	–	–
Rural residential real estate	–	–	(12)
Total charge-offs	(582)	(591)	(885)
Recoveries:			
Real estate mortgage	56	1,071	508
Production and intermediate-term	278	1,617	1,183
Agribusiness	–	299	15
Total recoveries	334	2,987	1,706
Net (charge-offs) recoveries	(248)	2,396	821
Provision for (reversal of allowance for) loan losses	75	(805)	(1,243)
Balance at end of year	$ 6,995	$ 7,168	$ 5,577
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.029)%	0.287%	0.098%

The net loan recoveries were primarily associated with real estate and production and intermediate term loans and largely reflected full liquidations of nonaccrual loans that had balances previously charged off that were recovered in the course of liquidation.

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31, 2017	2016	2015
		(dollars in thousands)	
Real estate mortgage	$ 2,763	$ 2,208	$ 1,493
Production and intermediate-term	4,185	4,835	3,988
Agribusiness	38	103	74
Power and water/waste disposal	1	–	–
Rural residential real estate	7	20	22
International	1	2	–
Total	$ 6,995	$ 7,168	$ 5,577

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31, 2017	2016	2015
Total loans	0.81%	0.87%	0.67%
Nonperforming loans	14.84%	17.48%	13.93%
Nonaccrual loans	40.85%	43.09%	22.14%

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was approximately $30.2 million, $29.5 million and $29.6 million in 2017, 2016 and 2015, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income	Volume *	Rate	Total
	(dollars in thousands)		
12/31/17 – 12/31/16			
Interest income	$ 2,692	$ 289	$ 2,981
Interest expense	1,396	925	2,321
Change in net interest income	$ 1,296	$ (636)	$ 660
12/31/16 – 12/31/15			
Interest income	$ 276	$ 301	$ 577
Interest expense	12	595	607
Change in net interest income	$ 264	$ (294)	$ (30)

**Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2017	2016	2015	Percentage Increase/(Decrease) 2017/2016	2016/2015
	(dollars in thousands)				
Loan fees	$ 650	$ 568	$ 800	14.44%	(29.00)%
Fees for financially related services	78	67	21	16.42	219.05
Patronage refund from other Farm Credit Institutions	11,930	9,146	9,329	30.44	(1.96)
Gains (losses) from sales of premises and equipment, net	102	127	99	(19.69)	28.28
Other noninterest income	26	6	2	333.33	200.00
Total noninterest income	$ 12,786	$ 9,914	$ 10,251	28.97%	(3.29)%

Noninterest income increased 29 percent from 2016 to 2017 and decreased 3 percent from 2015 to 2016. The majority of noninterest income is related to Patronage refunds from other Farm Credit Institutions, primarily AgFirst Farm Credit Bank. The Association received general patronage in 2017 of $4,894 compared to $4,679 in 2016. The special patronage distribution received in 2017 was $6,277 compared to $3,887 in 2016. These are one time distributions of excess capital that are not considered to be recurring transactions. The amount of patronage refunds directly correlates to loan volume, as the largest patronage refund from other institutions is the patronage from AgFirst which is based on the average volume of notes payable to AgFirst. Notes payable to AgFirst directly corresponds to loan volume outstanding. Both the general patronage received each year from AgFirst and the Special Patronage received from AgFirst this year is based upon the average volume of notes payable to AgFirst.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2017	2016	2015	Percentage Increase/(Decrease) 2017/2016	2016/2015
	(dollars in thousands)				
Salaries and employee benefits	$ 10,493	$ 10,303	$ 10,047	1.84%	2.55%
Postretirement Benefits	397	5,610	5,759	(92.92)	2.59
Occupancy and equipment	953	994	1,012	(4.12)	(1.77)
Insurance Fund premiums	955	1,032	810	(7.46)	27.38
(Gains)/Losses on OPO, net	886	55	(1,010)	1,510.91	(105.47)
Other operating expense	4,540	4,164	4,746	9.03	(12.55)
Total noninterest expense	$ 18,224	$ 22,158	$ 21,364	(17.75)%	3.65%

Salaries and employee benefits increased in 2017, compared to 2016, as a result of increased benefit costs. Post retirement benefits decreased by $5,759 or 93 percent. During 2017, the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. This change resulted in the reduction of Other Assets by $5,696 and the reduction of Other Liabilities by $9,216 on the Association's Balance Sheets, and a corresponding reduction of postretirement benefit costs on the Association's Statements of Income of $3,520 during 2017. Refer to Note 9, Employee Benefit Plans, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

Insurance Fund premiums decreased 7 percent for the twelve months ended December 31, 2017, compared to the same period

of 2016. The Farm Credit System Insurance Corporation (FCSIC) changed the assessed premium rate for 2017. The premiums assessed for 2017 were 15 basis points on average outstanding debt, compared to 16 basis points on average outstanding debt for the first six months of the year and 18 basis points for the last six months of the year, 13 basis points in 2015, and 10 basis points on the average principal balance outstanding on nonaccrual loans, which remained unchanged in 2017 compared to 2016.

After experiencing several years of significant losses on other property owned, in 2015 we began to see a stabilization of land values, we recorded a net loss for 2016 of $55, and a net loss of $886 in 2017. The loss in 2017 is primarily related to one large property due to its specialized nature as well as major expenses the Assocation incurred while the property was in inventory.

Other operating expense is primarily related to advertising and marketing costs, training and travel costs, communications and data costs, and insurance costs associated with the operation of the Association such as General Liability, Fleet Auto, Blanket Bond, and Director's and Officer's Liability.

Income Taxes

The Association recorded an income tax benefit of $(14) for the year ended December 31, 2017, as compared to a provision of $25 for 2016 and a provision of $16 for 2015. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of	For the 12 Months Ended		
Operations Comparisons	2017	2016	2015
Return on average assets	2.76%	2.08%	2.25%
Return on average members' equity	11.02%	7.86%	8.63%
Net interest income as a percentage of average earning assets	3.50%	3.54%	3.53%
Net (charge-offs) recoveries to average loans	(0.029)%	0.287%	0.098%

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

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2017, was $647,241 as compared to $621,886 at December 31, 2016 and $623,422 at December 31, 2015. The increase of 4.08 percent and decrease of 0.25 percent compared to December 31, 2016 and December 31, 2015, respectively, directly corresponds to the level of loan volume of the Association. The average volume of outstanding notes payable to the Bank was $652,576, $623,919, and $630,729 for the years ended December 31, 2017, 2016, and 2015, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2017.

Funds Management

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

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

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

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this Annual Report.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2016 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2017, increased 2.8 percent to $230,059 from the December 31, 2016 total of $223,778. This increase is due to the large nonrecurring income in 2017 – special patronage from AgFirst and the change in accounting estimate for pension and other post-retirement employee benefits – and the amount retained as allocated and unallocated surplus being greater than that revolved and paid out in 2017. At December 31, 2016 total members' equity decreased 3 percent from the December 31, 2015 total of $231,224. This decrease was primarily attributed to a special and nonrecurring surplus revolvement in November 2016 of $7 million of excess capital.

Total capital stock and participation certificates were $4,017 on December 31, 2017, compared to $3,912 on December 31, 2016 and $3,890 on December 31, 2015. These increases were attributed to a greater amount of stock issued than retired in the normal course of business.

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 core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The 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 capital 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.
- The total capital ratio 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 December 31, 2017
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	0.625%	5.125%	22.38%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	22.38%
Total Capital Ratio	8.0%	0.625%	8.625%	23.23%
Permanent Capital Ratio	7.0%	0.0%	7.0%	22.57%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	23.38%
UREE Leverage Ratio	1.5%	0.0%	1.5%	15.64%

** 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.

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	25.56%	25.92%	25.02%	23.51%	18.20%
Total Surplus Ration	7.00%	25.10%	25.46%	24.57%	24.57%	17.80%
Core Surplus Ratio	3.50%	20.96%	21.40%	20.92%	19.87%	16.48%

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions (current estimates) of $13,630 in 2017, $11,184 in 2016, and $11,733 in 2015.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. The Association exceeded the 4 percent business plan goal for increase in number of YBS loans by 1.1 percent with a 5.1 percent overall increase in number of YBS loans; however, it fell short of the 4 percent goal for increase in volume with a 3.3 percent overall increase in volume of YBS loans in 2017.

The 2012 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 23,748 reported farmers of which by definition 1,045 or 4.4 percent were Young, 4,719

or 19.9 percent were Beginning, and 19,994 or 84.2 percent were Small. Comparatively, as of December 31, 2017, the demographics of the Association's agricultural portfolio contained 4,346 farmers, of which by definition 724 or 16.7 percent were Young, 1,560 or 35.9 percent were Beginning and 3,104 or 71.4 percent were Small. Thus, Young and Beginning farmers are overall much better represented in the Association's agricultural portfolio than in the chartered territory of the Association, indicative of the Association's marketing efforts towards these groups. Small farmers, however, were recognized as being represented less in the Association portfolio than in the territory.

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

	As of December 31, 2017	
	Number of Loans	Amount of Loans
Young	1,066	$108,808
Beginning	2,032	210,519
Small	4,319	305,103

For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The Association focuses on education and financial support in helping YBS farmers finance their operations. Educational programs include seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities are both in-house, in the form of events held by the Association, and external, in which case, the Association provides a speaker or provides educational materials. In particular, the Association uses its AgAware courses, started in the AgGeorgia territory in 2015, as a way to train and educate YBS farmers in areas such as financial planning, budgeting, succession planning, risk management and other pertinent topics for YBS farmers. The Association website, www.aggeorgia.com, includes an entire section of information and resources for YBS visitors to the site. Educational programs also include those activities in which the Association participates in local events as a sponsor (such as 4-H and FFA fairs) or as an exhibitor (such as industry or trade shows).

The focus on financial support addresses the specific credit programs and partnerships that the Association has developed to help small farmers, young farmers, and farmers just starting out. It includes programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a "preferred lender," the highest status designated by FSA.

A senior executive oversees the YBS program and coordinates the efforts of other staff members. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the Board of Directors on a quarterly basis.

The Association is committed to the future success of Young, Beginning and Small farmers.

* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

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.

FINANCIAL REGULATORY REFORM

Derivatives transactions are subject to myriad regulatory requirements including, among other things, clearing through a third-party central clearinghouse trading on regulated exchanges or other multilateral platforms. Margin is required for these transactions. Derivative transactions that are not subject to mandatory trading and clearing requirements may be subject to minimum margin and capital requirements.

The Commodity Futures Trading Commission and other federal banking regulators have exempted System institutions from certain, but not all, of these new requirements, including for swaps with members, mandatory clearing and minimum margin for non-cleared swaps.

Notwithstanding these exceptions, counterparties of System institutions may require margin or other forms of credit support as a condition to entering into non-cleared transactions because such transactions may subject these counterparties to more onerous capital, liquidity and other requirements absent such margin or credit support. Alternatively, these counterparties may pass on the capital and other costs associated with entering into transactions if insufficient margin or if other credit support is not provided.

The Dodd-Frank Act also created a new federal agency called the Consumer Financial Protection Bureau (CFPB). The CFPB is responsible for regulating the offering of consumer financial

products or services under federal consumer financial laws. The Farm Credit Administration retains the responsibility to oversee and enforce compliance by System institutions with relevant rules adopted by the CFPB.

The regulatory requirements that apply to derivatives transactions could affect funding and hedging strategies and increase funding and hedging costs.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• 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 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 these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.	• 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: 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.
ASU 2016-02 – Leases (Topic 842)	
• 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. • Also, 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. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.	• 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 adopting the Update. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.

ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	
• 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. • Effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.	• 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 currently 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.

ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates	
• 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 Consolidated 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. • Effective for reporting periods beginning after December 15, 2017. Early application is not permitted.	• 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 business 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 intends to adopt the guidance in first quarter 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings.

DISCLOSURE REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Consolidated Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this Annual Report.

Unincorporated Business Entities

The Association has an interest in two Unincorporated Business Entities (UBEs) that were formed for the purpose of acquiring and managing collateral associated with loans in which the Association was a participant. The UBEs in which the Association has an interest in are as follows:

A-1 Ledges Wilder, LLC - A-1 Ledges Wilder, LLC is a Limited Liability Company. It was organized for the stated purpose of acquiring, holding, and preserving the former assets of J. J. Detweiler Enterprises, Inc. until such time as such assets may be sold.

A-1 Sequatchie Pointe, LLC - A-1 Sequatchie Pointe, LLC is a Limited Liability Company. It was organized for the stated purpose of acquiring, holding and preserving the former assets of J. J. Detweiler Enterprises, Inc. until such time as such assets may be sold.

Description of Property

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

Location	Description	Form of Ownership
1300 East Main Street Cartersville 30120	Branch	Owned
102 Blacksnake Road Clarkesville/Mt. Airy 30563	Branch	Owned
1207 South Greer Street Cordele 31015	Branch	Owned
19 Woodlake Drive Chatsworth 30705	Branch	Owned
826 Bellevue Avenue Dublin 31021	Branch	Owned
501 Broad Street Gainesville 30501	Branch	Owned
700 East Villanow LaFayette 30728	Outpost of Chatsworth Branch	Owned
317 Walnut Street Montezuma, GA	Outpost of Perry Branch	Leased*
22 5th Avenue, SE Moultrie 31768	Branch	Owned
707 North Davis Street Nashville 31639	Branch	Owned
302 South Cherry Street Ocilla 31774	Branch	Owned
468 Perry Parkway Perry 31069	Corporate Office & Branch	Owned
504 East Screven Street Quitman 31643	Branch	Owned
701 East Second Avenue Rome 30162	Outpost of Cartersville Branch	Leased**
675 Church Street Royston 30662	Branch	Owned
Hobbs Street Royston, GA	2.81 Acres in 1113th G.M. District, Hart Co.	Owned
775 Sparta Road Sandersville 31082	Branch	Owned
102 Dexter Wilson Blvd. Sylvester 31791	Branch	Owned
1807 King Road Tifton 31793	Branch	Owned
U.S. 78, 311 North Bypass Washington 30673	Branch	Owned
176 Highway 80 West Waynesboro 30830	Branch	Owned

**Lease for 5 years expiring in 2018 ($1,500/month); cancelable with 90 days notice.*

***Lease expires 02/28/2022 ($1,800/month); cancelable with 90 days notice.*

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

Senior Officers

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

Name and Title	Term of Office	Prior Experience
Jack C. Drew, Jr. President & Chief Executive Officer	1/1/2010-present	
Carrie B. McCall Executive Vice President/Treasurer & Chief Financial Officer	11/16/2006 - present	
Zachary T. Purvis Executive Vice President & Chief Lending Officer	2/1/2016 – present	AgFirst Farm Credit Bank VP/Executive Account Manager and other positions from October 2010 thru January 2016
Stephen G. Connelly Executive Vice President & Director of Information Technology	12/1/2010-present	
Corey W. Cottle Executive Vice President & Director of Marketing	5/1/2013 – present	Branch Manager and Loan Officer since 2005
Timothy H. Dean, Executive Vice President & Chief Appraiser	7/1/2011-present	
T. Lacy Royal Executive Vice President & Retail Lending Manager	4/1/2008-present	
Brandie L. Thompson Senior Vice President & Risk Manager	12/1/2016-present	Controller and other positions since October 2004
Stephen M. Yearta Executive Vice President & Commercial Lending Manager	7/1/2009-present	

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2017, 2016 and 2015, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Change in Pension Value†	Perq/ Other*	Total
Jack C. Drew, Jr.	2017	$ 384,189	$ 76,835	$ 1,668,669	$ 9,753	$ 2,139,446
Jack C. Drew, Jr.	2016	$ 384,189	$ 79,473	$ 220,511	$ 7,948	$ 692,121
Jack C. Drew, Jr.	2015	$ 365,894	$ 73,176	$ (742)	$ 6,269	$ 444,597
8	2017	$ 1,215,963	$ 301,326	$ 881,814	$ 27,159	$ 2,426,262
8	2016	$ 1,362,770	$ 265,102	$ 962,415	$ 39,936	$ 2,630,223
8	2015	$ 1,163,545	$ 217,608	$ 347,769	$ 11,477	$ 1,740,399

**Primarily comprised of group life insurance premiums, relocation expenses and automobile compensation.*
† The increase in 2017 for the CEO is related to the addition to the Supplemental Executive Retirement Plan (SERP), and subsequent funding of that plan.

The disclosure of information on the total compensation paid during 2017 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

Pension Benefits Table
As of December 31, 2017

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2017
CEO:					
Jack C. Drew, Jr.	2017	AgFirst Retirement Plan	37.33	$ 2,753,725	$ –
Jack C. Drew, Jr.	2017	Supplemental Executive Retirement Plan	37.33	1,597,780	–
				$ 4,351,505	$ –
Senior Officers and Highly Compensated Employees:					
8 Officers, excluding the CEO	2017	AgFirst Retirement Plan	23.51*	$ 5,180,103	$ 91,971
				$ 5,180,103	$ 91,971

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

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa. Also at December 31, 2016, the life expectancy actuarial assumption was updated to reflect mortality studies indicating longer life spans. This change further increased pension values as the benefit payments are expected to be made for a longer time span.

Section 415 of the Internal Revenue Code (Code) provides for dollar limitations on benefits and contributions under qualified retirement plans. This limitation on annual benefit restricts highly compensated employees from receiving their full pension benefit relative to others under a defined benefit plan.

In order to provide the current CEO with a pension commensurate with his years of service, performance and salary, the board of directors elected to add him to an existing Supplemental Executive Retirement Plan (SERP) to make his total pension calculation equivalent to an employee not subject to the limitation of IRS Section 415. A SERP is a deferred compensation agreement between the employer and the key executive whereby the employer agrees to provide supplemental retirement income to the executive if certain pre-agreed eligibility and vesting conditions are met by the executive. The board elected to fully fund the SERP in 2017, which resulted in a high change in pension value for in the CEO compensation table.

The amounts found in the Payments during 2017 column of the Pension Benefits Table are the result of the termination of the Cash Balance Retirement Plan and the subsequent payment to those employees who were participants of that plan. The Cash Balance Retirement Plan was terminated December 31, 2015 in favor of a 3% nonelective employer 401k contribution. Employees were given the option of rolling the funds remaining in the Cash Balance Plan over to their 401k plan, a Roth IRA, or taking a cash payment.

CEO and Senior Officer Compensation

The Association strives to award compensation in a manner that is competitive in the market place, encourages retention and rewards employees for quantitative results-based performance metrics. Each year, the Compensation Committee reviews market studies for key positions to determine if the Association's compensation packages for the CEO and Senior Officers are in line with the market for those positions. A grading system ranks positions in pay ranges where the mid-point of the range is considered to be the market salary for that position.

The CEO's compensation package consists of a base salary, benefits and incentive opportunity. Compensation increases are awarded on an annual basis, and are based upon the association's financial performance in the areas of financial and operations, credit, audit, appraisal, marketing and business development and human resources. These metrics are determined by association performance standards set each year by the Board of Directors, and actual performance is measured against those standards. Financial and operations metrics include net income performance to budget, return on assets, return on equity, capital ratios and efficiency ratios. Metrics include credit quality, nonearning assets as a percentage of total assets, credit administration, delinquency ratio, and appraisal quality. Marketing and Development metrics include loan growth and results of an annual customer satisfaction survey, which are measured against the budget and standard set for those metrics. The human resources metric is budgeted personnel costs, and actual performance is measured against that budget amount. Performance versus metrics is measured annually and discussed each February by the Board Compensation Committee. Any salary increase for the CEO is determined by the Compensation Committee at this meeting, and any increase awarded is paid retroactively to January 1st.

The CEO administers, but does not participate in the Incentive Plan in which all other employees, including the Senior Officers, participate. The CEO's incentive is determined solely at the discretion of the Board of Directors. Factors that may be considered in awarding the CEO an incentive are performance of the Association, and market studies of incentives granted by similar size associations and companies. CEO incentive is typically awarded by the Compensation Committee during the fourth quarter and paid in December. The incentive awarded the CEO in 2017 was paid in December at the same time other Association employees were paid per the stipulations in the Incentive Plan.

The Senior Officers' compensation also consists of base salary, benefits, and incentive. Senior Officer compensation is administered annually, and increases are based on meeting qualitative and quantitative performance standards set forth each year. Senior Officers are measured by essentially the same standards as the CEO. Actual performance against metrics such as return on assets, return on equity, capital ratios, credit quality, delinquency ratios, loan growth, credit administration and nonearning assets to total assets are the basis for determining pay increases for this group. Senior officer compensation is reviewed annually, and any increases are paid beginning January 31st, retroactively to January 1st. Senior Officers participate in the same incentive plan as other Association employees, as detailed below.

The Association's CEO and Senior Officers participate in various employee benefit plans that are available to all employees under the same terms and conditions. These include health insurance, life insurance, dental insurance, and pension benefits. Because the CEO and Senior Officers receive these benefits on the same basis as other employees, they are not determined separately by the Compensation Committee for the CEO and Senior Officers.

The Incentive Plan is based on a fiscal year and is designed to motivate employees to exceed performance targets established by the Board of Directors. The Incentive Plan period is January 1, 2017 through December 31, 2017, and all employees eligible for benefits were eligible under this plan except as shown below.

- ❖ The Association CEO will administer all parts of the AgGeorgia Incentive Plan and will, therefore, not be eligible for distributions under any part of the plan. CEO bonus and/or incentive payments will be recommended by the Compensation Committee and approved by the Board of Directors.
- ❖ The incentive plan is divided into three distinct plans – the Administrative Plan which includes all employees, the Individual Plan which includes primarily credit staff and the Discretionary Plan which is at the discretion of the CEO.
- ❖ A combined payment to an individual employee under the plan shall not exceed 40% of regular pay (including any retroactive pay and overtime pay).

The Administrative Plan is based on key performance indicators such as return on assets, efficiency, credit quality and nonearning assets to total assets ratio. It is a tiered plan, with higher earning opportunities for those not included in the Individual plan. The Individual Plan is based on each individual's goals and standards of performance. Once a covered individual reaches their standard, they begin earning incentive for that criteria. There are clawback features in the plan for loans that are made with poor credit administration or that move to nonaccrual status within 24 months after an employee is paid an incentive for that loan.

The board approved 50% of the estimated Administrative Plan benefit to be paid out in December with the remainder of the Administrative Plan and the entirety of the Individual Plan paid during January 2018 when final numbers are calculated.

Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Directors

The following chart details the year the director began serving on the board and the current term of expiration:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION
Robert "Bobby" G. Miller, ***Chairman***	1991	2017*
Guy A. Daughtrey, ***Vice-Chairman***	2001	2020
Jack W. Bentley, Jr.	1985	2018
W. Howard Brown	2015	2017*
Billy J. Clary	1986	2020
Dan N. Crumpton	1987	2017✝
Ronney S. Ledford	1986	2017**
Joseph M. Meeks	1989	2017❖
Richard D. "Dave" Neff, *Outside Director*	2002	2/2021
J. Dan Raines, Jr	1981	2020
George R. Reeves	1982	2018
Anne G. Smith	2001	2017*
David H. Smith	1991	2019
Glee C. Smith, *Outside Director*	2013	2/2019
Franklin B. Wright	1991	2020

**Director re-elected to a four (4) year term expiring 12/31/2021.*
***Director re-elected to a two (2) year term expiring 12/31/2019.*
❖*Director retired from board 12/31/2017-position declared open for election at regular election year cycle.*
✝*Director retired from board effective 5/15/2017-position declared open for election at regular election year cycle.*

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

Robert "Bobby" G. Miller, Chairman, has a cow-calf operation and manages rental properties and real estate. He serves as manager on the boards of H. R. Miller, LLC, RGM Foothills Properties, LLC, and Jebeha, LLC (commercial and residential rentals and real estate).

Guy A. Daughtrey, Vice Chairman, is a row crop, pine and softwood timber farmer, and has a pecan operation. He is an auditor employed by Southern Company (regional energy company), and he serves on the board of Wiregrass Georgia Technical College (post-secondary technical education).

Jack W. Bentley, Jr., is owner/operator of A & J Dairy. He also serves on the boards of AgFirst Farm Credit Bank (cooperative banking services); the American Dairy Association of Georgia (trade association and milk promotion); the Southeast United Dairy Industry Association (trade association and milk promotion), the Wilkes County Farm Bureau (insurance sales and ag promotion and development), Lonestar Milk Producers (milk production), and as board chairman of the USDA FSA (government farm program).

W. Howard Brown is a row crop farmer growing vegetables, soybeans, cotton, peanuts, corn, and silage; he has a pecan and peach operation, works in agritourism, and is owner/operator of Georgia Peas and Produce (produce market). He also serves on the boards of the Macon County Zoning Commission (development, planning and zoning), and the Macon County Farm Bureau (insurance broker, ag promotion and development).

Billy J. Clary is a row crop farmer growing cotton and peanuts.

Dan N. Crumpton was a pine and softwood timber farmer, and retired from the board on 5/15/2017. Mr. Crumpton passed away shortly after his retirement from the board.

Ronney S. Ledford is a row crop farmer growing cotton and peanuts.

Joseph Marion Meeks has a cow-calf operation, and is a wheat farmer. He retired from the board on 12/31/2017.

Richard D. "Dave" Neff, Outside Director, is a poultry industry marketing and business development executive. He is employed by International Poultry Breeders/Wincorp International, Inc. Mr. Neff is the Association's Financial Expert appointed by the board.

J. Dan Raines, Jr., has a cow-calf operation, and softwood and timber operation. He serves as a director of the Ashburn Housing Authority (public housing oversight).

George R. Reeves has a cow/calf operation. He serves on the boards of the McDuffie County Farm Bureau (insurance broker, ag promotion and development), and the McDuffie County Soil and Water Conservation District (conservation of natural resources), and on the McDuffie, Warren, Columbia and Richmond FSA Committee (government farm programs).

Anne G. Smith is a broiler chicken grower and has a cow-calf operation.

David H. Smith is row crop farmer growing cotton, and is an owner/operator of Tri County Gin, LLC (cotton ginning/processing), and Carroll Fertilizer, LLC (commercial and residential fertilizer production and sales).

Glee C. Smith, Outside Director, is a private practice attorney, and is owner/president of GCS Enterprises, Inc. (rental property).

Franklin B. Wright is a dairy farmer, and works in general dairy products and agritourism. He also serves on the boards of Wright Development, Inc. (land development), and the Gilmer County Farm Bureau (insurance broker, ag promotion and development).

Director Compensation

Subject to approval by the board, the Association may allow directors honoraria of $500 for attendance at meetings, committee meetings, or special assignments. They are also paid $100 for participating in conference calls. Directors are paid a quarterly retainer fee of $500 except for the chairman of the board who receives $750. Total compensation paid to directors as a group was $308,700 for 2017, compared to $310,200 for 2016. No director received more than $5,000 in non-cash compensation during the year.

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

	Days Served					
Name of Director	Regular Board Meetings	Other Official Activities*	Committee Assignments	Comp. Paid for other Activities*	Qtrly Retainer and Regular Meeting Compensation	Total Compensation for 2017
Robert G. Miller, ***Board Chairman***	9	44	Executive, Credit Review, Audit, Compensation, Credit Risk, Governance, Ad Hoc Budget, Ad Hoc Building	$20,800	$8,000	$28,800
Guy A. Daughtrey, ***Board Vice-Chairman***	8	41	Executive, Credit Review, Credit Risk, Governance, Ad Hoc Budget, Ad Hoc Building	$20,500	$6,500	$27,000
Jack W. Bentley, Jr.	9	19	Executive, Credit Review, Compensation, Governance, Ad Hoc Building	$9,500	$7,000	$16,500
W. Howard Brown	9	28	Executive, Credit Review, Compensation, Governance, Ad Hoc Budget	$14,000	$7,000	$21,000
Billy J. Clary	9	23	Executive, Credit Review, Compensation, Credit Risk	$11,500	$7,000	$18,500
Dan N. Crumpton†	0	0	Executive, Credit Review, Governance	$0	$1,000	$1,000
Ronney S. Ledford	9	31	Executive, Credit Review, Audit, Credit Risk	$14,300	$7,000	$21,300
Joseph M. Meeks	8	23	Executive, Credit Review, Compensation	$11,500	$6,500	$18,000
Richard D. "Dave" Neff *Outside Director*	9	30	Executive, Credit Review, Audit, Credit Risk, Ad Hoc Building	$14,200	$6,500	$20,700
J. Dan Raines, Jr.,	9	27	Executive, Credit Review, Compensation, Ad Hoc Budget	$13,500	$7,000	$20,500
George R. Reeves	9	34	Executive, Credit Review, Audit, Ad Hoc Budget	$15,800	$7,000	$22,800
Anne G. Smith	9	32	Executive, Credit Review, Compensation, Ad Hoc Building	$16,000	$7,000	$23,000
David H. Smith	7	25	Executive, Credit Review, Audit, Ad Hoc Building	$11,300	$6,000	$17,300
Glee C. Smith *Outside Director*	8	39	Executive, Credit Review, Audit	$18,300	$6,500	$24,800
Franklin B. Wright	9	41	Executive, Credit Review, Credit Risk, Governance	$20,500	$7,000	$27,500
						$308,700

**Includes board committee meetings and other board activities other than regular board meetings.*
†Dan N. Crumpton retired from the board effective 5/15/2017. Mr. Crumpton attended no regular board meetings or other activities in 2017.

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $215,680 for 2017, $175,307 for 2016, and $162,341 for 2015.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

Aggregate fees incurred by the Association for services rendered by its independent auditors for the year ended December 31, 2017 were as follows:

	2017
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	$ 66,774
Total	$ 66,774

Audit fees were for the annual audit of the Consolidated Financial Statements. There were no nonaudit services provided by the Association's independent auditors during 2017. All nonaudit service fees incurred by the Association require approval by the Audit Committee.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 13, 2018 and the report of management, which appear in this Annual Report, are incorporated herein by reference. Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 800-868-6404, Ext. 120 or writing Carrie B. McCall, Chief Financial Officer, P.O. Box 1820, Perry, GA 31069 or accessing the web site, www.aggeorgia.com. The Association prepares an electronic

version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

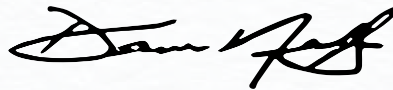
REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of AgGeorgia Farm Credit (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

PricewaterhouseCoopers LLP (PwC), the Association's Independent Auditors for 2017, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from AgGeorgia Farm Credit, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2017. The foregoing report is provided by the following independent directors, who constitute the Committee.



Dave Neff
Chairman of the Audit Committee

Members of Audit Committee

Ronney Ledford
George R. Reeves
David Smith
Glee Smith

March 13, 2018

Report of Independent Auditors

To the Board of Directors and Management of
AgGeorgia Farm Credit, ACA

We have audited the accompanying consolidated financial statements of AgGeorgia Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2017, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AgGeorgia Farm Credit, ACA and its subsidiaries as of December 31, 2017, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Certified Public Accountants
Miami, Florida

March 13, 2018

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

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	2017	December 31, 2016	2015
Assets			
Cash	**$ 168**	$ 1,238	$ 445
Loans	**858,632**	827,611	831,115
Allowance for loan losses	**(6,995)**	(7,168)	(5,577)
Net loans	**851,637**	820,443	825,538
Loans held for sale	**—**	1,045	517
Accrued interest receivable	**12,791**	11,220	11,064
Investments in other Farm Credit institutions	**10,372**	10,297	10,445
Premises and equipment, net	**6,900**	7,104	7,318
Other property owned	**1,297**	4,025	2,342
Accounts receivable	**11,883**	9,130	9,373
Other assets	**1,765**	6,139	8,099
Total assets	**$ 896,813**	$ 870,641	$ 875,141
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 647,241**	$ 621,886	$ 623,422
Accrued interest payable	**1,593**	1,338	1,310
Patronage refunds payable	**5,221**	4,432	4,232
Accounts payable	**1,209**	1,545	1,857
Other liabilities	**11,490**	17,662	13,096
Total liabilities	**666,754**	646,863	643,917
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	**—**	—	1
Capital stock and participation certificates	**4,017**	3,912	3,889
Retained earnings			
Allocated	**75,567**	79,099	93,387
Unallocated	**151,976**	140,914	134,084
Accumulated other comprehensive income (loss)	**(1,501)**	(147)	(137)
Total members' equity	**230,059**	223,778	231,224
Total liabilities and members' equity	**$ 896,813**	$ 870,641	$ 875,141

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

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	For the year ended December 31, 2017	2016	2015
Interest Income			
Loans	**$ 48,114**	$ 45,133	$ 44,556
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**17,884**	15,563	14,956
Net interest income	**30,230**	29,570	29,600
Provision for (reversal of allowance for) loan losses	**75**	(805)	(1,243)
Net interest income after provision for (reversal of allowance for) loan losses	**30,155**	30,375	30,843
Noninterest Income			
Loan fees	**650**	568	800
Fees for financially related services	**78**	67	21
Patronage refunds from other Farm Credit institutions	**11,930**	9,146	9,329
Gains (losses) on sales of premises and equipment, net	**102**	127	99
Gains (losses) on other transactions	**25**	6	(1)
Other noninterest income	**1**	—	3
Total noninterest income	**12,786**	9,914	10,251
Noninterest Expense			
Salaries and employee benefits	**10,493**	10,303	10,047
Postretirement benefits (Notes 2 and 9)	**397**	5,610	5,759
Occupancy and equipment	**953**	994	1,012
Insurance Fund premiums	**955**	1,032	810
(Gains) losses on other property owned, net	**886**	55	(1,010)
Other operating expenses	**4,540**	4,164	4,760
Total noninterest expense	**18,224**	22,158	21,378
Income before income taxes	**24,717**	18,131	19,716
Provision (benefit) for income taxes	**(14)**	25	16
Net income	**$ 24,731**	$ 18,106	$ 19,700

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	For the year ended December 31, 2017	2016	2015
Net income	**$ 24,731**	$ 18,106	$ 19,700
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(1,354)**	(10)	22
Comprehensive income	**$ 23,377**	$ 18,096	$ 19,722

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2014	$ 5	$ 3,796	$ 95,454	$ 126,220	$ (159)	$ 225,316
Comprehensive income				19,700	22	19,722
Protected borrower stock issued/(retired), net	(4)					(4)
Capital stock/participation certificates issued/(retired), net		93				93
Patronage distribution						
Cash				(3,520)		(3,520)
Qualified allocated retained earnings			8,213	(8,213)		—
Retained earnings retired			(10,348)			(10,348)
Patronage distribution adjustment			68	(103)		(35)
Balance at December 31, 2015	$ 1	$ 3,889	$ 93,387	$ 134,084	$ (137)	$ 231,224
Comprehensive income				18,106	(10)	18,096
Protected borrower stock issued/(retired), net	(1)					(1)
Capital stock/participation certificates issued/(retired), net		23				23
Patronage distribution						
Cash				(3,355)		(3,355)
Qualified allocated retained earnings			7,829	(7,829)		—
Retained earnings retired			(22,175)			(22,175)
Patronage distribution adjustment			58	(92)		(34)
Balance at December 31, 2016	$ —	$ 3,912	$ 79,099	$ 140,914	$ (147)	$ 223,778
Comprehensive income				**24,731**	**(1,354)**	**23,377**
Capital stock/participation certificates issued/(retired), net		**105**				**105**
Patronage distribution						
Cash				**(4,089)**		**(4,089)**
Qualified allocated retained earnings			**9,541**	**(9,541)**		**—**
Retained earnings retired			**(13,099)**			**(13,099)**
Patronage distribution adjustment			**26**	**(39)**		**(13)**
Balance at December 31, 2017	**$ —**	**$ 4,017**	**$ 75,567**	**$ 151,976**	**$ (1,501)**	**$ 230,059**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)	For the year ended December 31, 2017	2016	2015
Cash flows from operating activities:			
Net income	**$ 24,731**	$ 18,106	$ 19,700
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**666**	641	603
Amortization (accretion) of net deferred loan costs (fees)	**(398)**	(447)	(314)
Provision for (reversal of allowance for) loan losses	**75**	(805)	(1,243)
(Gains) losses on other property owned	**634**	(191)	(1,139)
(Gains) losses on sales of premises and equipment, net	**(102)**	(127)	(99)
(Gains) losses on other transactions	**(25)**	(6)	1
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(6,524)**	(8,785)	(3,001)
Proceeds from sales of loans held for sale, net	**7,569**	8,257	2,484
(Increase) decrease in accrued interest receivable	**(1,571)**	(156)	(10)
(Increase) decrease in accounts receivable	**(2,753)**	243	4,742
(Increase) decrease in other assets	**4,374**	1,960	(465)
Increase (decrease) in accrued interest payable	**255**	28	43
Increase (decrease) in accounts payable	**(336)**	(312)	583
Increase (decrease) in other liabilities	**(7,422)**	4,797	(1,515)
Total adjustments	**(5,558)**	5,097	670
Net cash provided by (used in) operating activities	**19,173**	23,203	20,370
Cash flows from investing activities:			
Net (increase) decrease in loans	**(29,986)**	3,811	466
(Increase) decrease in investment in other Farm Credit institutions	**(75)**	148	431
Purchases of premises and equipment	**(464)**	(434)	(541)
Proceeds from sales of premises and equipment	**104**	134	100
Proceeds from sales of other property owned	**1,130**	809	7,166
Net cash provided by (used in) investing activities	**(29,291)**	4,468	7,622
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**25,355**	(1,536)	(13,571)
Protected borrower stock retired	**—**	(1)	(4)
Capital stock and participation certificates issued/(retired), net	**105**	23	93
Patronage refunds and dividends paid	**(3,313)**	(3,189)	(3,797)
Retained earnings retired	**(13,099)**	(22,175)	(10,348)
Net cash provided by (used in) financing activities	**9,048**	(26,878)	(27,627)
Net increase (decrease) in cash	**(1,070)**	793	365
Cash, beginning of period	**1,238**	445	80
Cash, end of period	**$ 168**	$ 1,238	$ 445
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 1,200**	$ 450	$ 506
Receipt of property in settlement of loans	**315**	2,986	705
Estimated cash dividends or patronage distributions declared or payable	**4,089**	3,355	3,520
Employee benefit plans adjustments (Note 9)	**1,354**	10	(22)
Supplemental information:			
Interest paid	**17,629**	15,535	14,913
Taxes (refunded) paid, net	**—**	8	7

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, EXCEPT AS NOTED)

Note 1 — Organization and Operations

A. **Organization**: AgGeorgia Farm Credit, ACA (Association or *Ag*Georgia) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Baldwin, Banks, Barrow, Bartow, Ben Hill, Berrien, Bibb, Bleckley, Brooks, Burke, Catoosa, Chattooga, Cherokee, Clarke, Cobb, Colquitt, Columbia, Cook, Crawford, Crisp, Dade, Dawson, Dodge, Dooly, Echols, Elbert, Fannin, Floyd, Forsyth, Franklin, Gilmer, Glascock, Gordon, Habersham, Hall, Hancock, Hart, Houston, Irwin, Jackson, Jefferson, Johnson, Jones, Lanier, Laurens, Lincoln, Lowndes, Lumpkin, Macon, Madison, McDuffie, Murray, Oglethorpe, Paulding, Peach, Pickens, Polk, Pulaski, Rabun, Richmond, Stephens, Taliaferro, Taylor, Telfair, Tift, Towns, Treutlen, Turner, Twiggs, Union, Walker, Warren, Washington, White, Whitfield, Wilcox, Wilkes, Wilkinson and Worth in the state of Georgia.

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

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

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

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

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

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

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

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

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information

systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

judgment about when a loss has been incurred and the amount of that loss.

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

- Changes in credit risk classifications
- Changes in collateral values
- Changes in risk concentrations
- Changes in weather-related conditions
- Changes in economic conditions

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

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

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

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

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

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

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

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

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

   Other Investments
   As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the Consolidated Statements of Income and the balance of these investments, totaling $1,592, is included in Other Assets on the accompanying Consolidated Balance Sheets as of December 31, 2017.

   Investment in Other Farm Credit Institutions
   The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock, as presented on the Consolidated Balance Sheets as Investments in Other Farm Credit Institutions. Accounting for this investment is on the cost plus allocated equities basis.

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the

related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** The Association participates in District and multi-District sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

Defined Contribution Plans
Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

Additional information for the above may be found in Note 9 and the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

Multi-Employer Defined Benefit Plans
Substantially all employees hired before January 1, 2003 may participate in the AgFirst Farm Credit Retirement Plan (Plan), which is a defined benefit plan and considered multi-employer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits.

Since the foregoing plans are multi-employer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations for the pension plan and in the Annual Information Statement of the Farm Credit System for the other postretirement benefits plan.

Additional information for the above may be found in Note 9 and in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report and the Notes to the Annual Information Statement of the Farm Credit System.

Single Employer Defined Benefit Plans
The Association also sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the expected patronage program, which reduces taxable earnings.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

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

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

The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist. A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Please see further discussion in Note 8.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

M. **Revenue Recognition:** The largest source of revenue for the Association is interest income. Interest income is recognized on an accrual basis driven by nondiscretionary formulas based on written contracts, such as loan agreements or securities contracts. Credit-related fees, including letter of credit fees, finance charges and other fees are recognized in non-interest income when earned. Other types of non-interest revenues, such as service charges, professional services and broker fees, are accrued and recognized into income as services are provided and the amount of fees earned is reasonably determinable.

N. **Accounting Standards Updates (ASUs):** In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted.

In March 2017, the FASB issued ASU 2017-07 Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments will be effective for the Association for interim and annual periods beginning after December 15, 2017 for public business entities. Early adoption is permitted. The Association does not expect these amendments to have a material effect on its financial statements.

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 standard. The

amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. The Association does not expect these amendments to have a material effect on its financial statements.

In October 2016, the FASB issued ASU 2016-16 Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This Update requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. 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 does not expect these amendments to have a material effect on its financial statements.

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). This Update eliminates 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.

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. 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.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update 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.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update 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 does not expect these amendments to have a material effect on its financial statements.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance changes 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. 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. The Association expects to adopt the guidance in first quarter 2018 using the modified retrospective method and that adoption will result in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2017	2016	2015
Real estate mortgage	$ 517,852	$ 451,111	$ 419,500
Production and intermediate-term	314,981	351,330	378,123
Processing and marketing	15,185	15,238	20,870
Farm-related business	1,000	1,380	5,253
Communication	–	–	693
Power and water/waste disposal	988	–	–
Rural residential real estate	5,563	6,667	6,676
International	1,886	1,885	–
Other (including Mission Related)	1,177	–	–
Total Loans	$ 858,632	$ 827,611	$ 831,115

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

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

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

	December 31, 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	$ 3,669	$ 8,373	$ –	$ –	$ –	$ –	$ 3,669	$ 8,373
Production and intermediate-term	5,781	12,893	188	–	–	–	5,969	12,893
Processing and marketing	5,746	68,254	–	–	–	–	5,746	68,254
Power and water/waste disposal	994	–	–	–	–	–	994	–
International	1,894	–	–	–	–	–	1,894	–
Total	$ 18,084	$ 89,520	$ 188	$ –	$ –	$ –	$ 18,272	$ 89,520

	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	$ 7,839	$ –	$ –	$ –	$ –	$ –	$ 7,839	$ –
Production and intermediate-term	4,946	22,254	2,361	–	332	–	7,639	22,254
Processing and marketing	7,623	51,459	–	–	–	–	7,623	51,459
International	1,894	–	–	–	–	–	1,894	–
Total	$ 22,302	$ 73,713	$ 2,361	$ –	$ 332	$ –	$ 24,995	$ 73,713

	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	$ 3,055	$ –	$ 1,259	$ –	$ –	$ –	$ 4,314	$ –
Production and intermediate-term	4,864	31,331	–	–	378	–	5,242	31,331
Processing and marketing	11,780	47,338	–	–	–	–	11,780	47,338
Farm-related business	2,107	635	–	–	–	–	2,107	635
Communication	693	–	–	–	–	–	693	–
Total	$ 22,499	$ 79,304	$ 1,259	$ –	$ 378	$ –	$ 24,136	$ 79,304

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

	December 31, 2017			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 5,503	$ 83,662	$ 428,687	$ 517,852
Production and intermediate term	93,338	136,680	84,963	314,981
Processing and marketing	2,216	8,767	4,202	15,185
Farm-related business	31	969	–	1,000
Power and water/waste disposal	–	–	988	988
Rural residential real estate	141	956	4,466	5,563
International	–	1,512	374	1,886
Other (including Mission Related)	1,177	–	–	1,177
Total Loans	$ 102,406	$ 232,546	$ 523,680	$ 858,632
Percentage	11.93%	27.08%	60.99%	100.00%

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

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

	December 31,		
	2017	2016	2015
Real estate mortgage:			
Acceptable	93.80%	93.89%	92.49%
OAEM	5.09	3.74	5.19
Substandard/doubtful/loss	1.11	2.37	2.32
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	89.17%	88.85%	87.20%
OAEM	5.48	6.45	5.91
Substandard/doubtful/loss	5.35	4.70	6.89
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	95.35%	93.16%	100.00%
OAEM	–	6.84	–
Substandard/doubtful/loss	4.65	–	–
	100.00%	100.00%	100.00%

	December 31,		
		2016	2015
Communication:			
Acceptable	–%	–%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	–%	–%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Rural residential real estate:			
Acceptable	99.20%	99.08%	98.73%
OAEM	0.67	0.81	0.46
Substandard/doubtful/loss	0.13	0.11	0.81
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Other (including Mission Related):			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Total loans:			
Acceptable	92.28%	91.91%	90.37%
OAEM	5.08	4.80	5.31
Substandard/doubtful/loss	2.64	3.29	4.32
	100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest as of:

	December 31, 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	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 2,761	$ 1,307	$ 4,068	$ 521,730	$ 525,798	$ –
Production and intermediate-term	1,621	9,217	10,838	308,839	319,677	–
Processing and marketing	–	–	–	15,266	15,266	–
Farm-related business	–	–	–	1,014	1,014	–
Power and water/waste disposal	–	–	–	989	989	–
Rural residential real estate	82	–	82	5,508	5,590	–
International	–	–	–	1,889	1,889	–
Other (including Mission Related)	–	–	–	1,200	1,200	–
Total	$ 4,464	$ 10,524	$ 14,988	$ 856,435	$ 871,423	$ –

	December 31, 2016					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,665	$ 1,204	$ 2,869	$ 454,408	$ 457,277	$ –
Production and intermediate-term	1,463	5,434	6,897	349,366	356,263	–
Processing and marketing	74	–	74	15,249	15,323	–
Farm-related business	–	–	–	1,390	1,390	–
Rural residential real estate	91	–	91	6,600	6,691	–
International	–	–	–	1,887	1,887	–
Total	$ 3,293	$ 6,638	$ 9,931	$ 828,900	$ 838,831	$ –

	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	$ 958	$ 1,391	$ 2,349	$ 423,030	$ 425,379	$ –
Production and intermediate-term	818	4,304	5,122	378,015	383,137	–
Processing and marketing	–	–	–	20,983	20,983	–
Farm-related business	–	–	–	5,287	5,287	–
Communication	–	–	–	693	693	–
Rural residential real estate	113	–	113	6,587	6,700	–
Total	$ 1,889	$ 5,695	$ 7,584	$ 834,595	$ 842,179	$ –

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

	December 31,		
	2017	2016	2015
Nonaccrual loans:			
Real estate mortgage	$ 2,767	$ 4,467	$ 8,769
Production and intermediate-term	14,301	12,160	16,395
Processing and marketing	–	–	1
Farm-related business	47	–	–
Rural residential real estate	7	8	26
Total	$ 17,122	$ 16,635	$ 25,191
Accruing restructured loans:			
Real estate mortgage	$ 15,165	$ 10,242	$ 6,169
Production and intermediate-term	14,834	14,128	8,687
Rural residential real estate	23	–	–
Total	$ 30,022	$ 24,370	$ 14,856
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 47,144	$ 41,005	$ 40,047
Other property owned	1,297	4,025	2,342
Total nonperforming assets	$ 48,441	$ 45,030	$ 42,389
Nonaccrual loans as a percentage of total loans	1.99%	2.01%	3.03%
Nonperforming assets as a percentage of total loans and other property owned	5.55%	5.41%	5.09%
Nonperforming assets as a percentage of capital	21.06%	20.12%	18.33%

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

	December 31,		
	2017	2016	2015
Impaired nonaccrual loans:			
Current as to principal and interest	$ 4,998	$ 8,886	$ 18,740
Past due	12,124	7,749	6,451
Total	17,122	16,635	25,191
Impaired accrual loans:			
Restructured	30,022	24,370	14,856
Total	30,022	24,370	14,856
Total impaired loans	$ 47,144	$ 41,005	$ 40,047
Additional commitments to lend	$ –	$ –	$ –

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

	December 31, 2017			Year Ended December 31, 2017	
Impaired Loans	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 444	$ 458	$ 30	$ 472	$ 24
Production and intermediate-term	7,210	7,649	1,155	7,677	391
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 7,654	$ 8,107	$ 1,185	$ 8,149	$ 415
With no related allowance for credit losses:					
Real estate mortgage	$ 17,489	$ 17,932	$ –	$ 16,013	$ 701
Production and intermediate-term	21,924	24,795	–	22,734	1,016
Farm-related business	47	51	–	50	3
Rural residential real estate	30	30	–	32	2
Total	$ 39,490	$ 42,808	$ –	$ 38,829	$ 1,722
Total:					
Real estate mortgage	$ 17,933	$ 18,390	$ 30	$ 16,485	$ 725
Production and intermediate-term	29,134	32,444	1,155	30.411	1,407
Farm-related business	47	51	–	50	3
Rural residential real estate	30	30	–	32	2
Total	$ 47,144	$ 50,915	$ 1,185	$ 46,978	$ 2,137

	December 31, 2016			Year Ended December 31, 2016	
Impaired Loans	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 932	$ 967	$ 175	$ 926	$ 44
Production and intermediate-term	7,123	8,089	1,470	7,081	340
Rural residential real estate	–	–	–	–	–
Total	$ 8,055	$ 9,056	$ 1,645	$ 8,007	$ 384
With no related allowance for credit losses:					
Real estate mortgage	$ 13,777	$ 14,843	$ –	$ 13,695	$ 657
Production and intermediate-term	19,165	22,230	–	19,050	913
Rural residential real estate	8	26	–	8	–
Total	$ 32,950	$ 37,099	$ –	$ 32,753	$ 1,570
Total:					
Real estate mortgage	$ 14,709	$ 15,810	$ 175	$ 14,621	$ 701
Production and intermediate-term	26,288	30,319	1,470	26,131	1,253
Rural residential real estate	8	26	–	8	–
Total	$ 41,005	$ 46,155	$ 1,645	$ 40,760	$ 1,954

	December 31, 2015			Year Ended December 31, 2015	
Impaired Loans	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 1,644	$ 1,999	$ 241	$ 1,701	$ 62
Production and intermediate-term	4,242	5,134	778	4,389	159
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 5,886	$ 7,133	$ 1,019	$ 6,090	$ 221
With no related allowance for credit losses:					
Real estate mortgage	$ 13,294	$ 14,807	$ –	$ 13,754	$ 498
Production and intermediate-term	20,840	27,385	–	21,562	782
Processing and marketing	1	482	–	1	–
Farm-related business	–	–	–	–	–
Rural residential real estate	26	48	–	27	1
Total	$ 34,161	$ 42,722	$ –	$ 35,344	$ 1,281
Total:					
Real estate mortgage	$ 14,938	$ 16,806	$ 241	$ 15,455	$ 560
Production and intermediate-term	25,082	32,519	778	25,951	941
Processing and marketing	1	482	–	1	–
Farm-related business	–	–	–	–	–
Rural residential real estate	26	48	–	27	1
Total	$ 40,047	$ 49,855	$ 1,019	$ 41,434	$ 1,502

Interest income recognized on nonaccrual and accruing restructured loans was $2,137, $1,954, and $1,501 in 2017, 2016, and 2015, respectively.

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and water/waste disposal	Rural Residential Real Estate	International	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:									
Balance at December 31, 2016	$ 2,208	$ 4,835	$ 103	$ –	$ –	$ 20	$ 2	$ –	$ 7,168
Charge-offs	(83)	(498)	(1)	–	–	–	–	–	(582)
Recoveries	56	278	–	–	–	–	–	–	334
Provision for loan losses	582	(430)	(64)	–	1	(13)	(1)	–	75
Balance at December 31, 2017	$ 2,763	$ 4,185	$ 38	$ –	$ 1	$ 7	$ 1	$ –	$ 6,995
Balance at December 31, 2015	$ 1,493	$ 3,988	$ 74	$ –	$ –	$ 22	$ –	$ –	$ 5,577
Charge-offs	(74)	(517)	–	–	–	–	–		(591)
Recoveries	1,071	1,617	299	–	–	–	–		2,987
Provision for loan losses	(282)	(253)	(270)		–	(2)	2	–	(805)
Balance at December 31, 2016	$ 2,208	$ 4,835	$ 103	$ –	$ –	$ 20	$ 2	$ –	$ 7,168
Balance at December 31, 2014	$ 1,587	$ 4,331	$ 44	$ 4	$ –	$ 33	$ –	$ –	$ 5,999
Charge-offs	(168)	(705)	–	–	–	(12)	–		(885)
Recoveries	508	1,182	16	–	–	–	–		1,706
Provision for loan losses	(456)	(798)	14	(4)	–	1	–		(1,243)
Loan type reclassification	22	(22)	–	–	–	–	–		
Balance at December 31, 2015	$ 1,493	$ 3,988	$ 74	$ –	$ –	$ 22	$ –	$ –	$ 5,577
Allowance on loans evaluated for impairment:									
Individually	$ 30	$ 1,155	$ –	$ –	$ –	$ –	$ –	$ –	$ 1,185
Collectively	2,733	3,030	38	–	1	7	1	–	5,810
Balance at December 31, 2017	$ 2,763	$ 4,185	$ 38	$ –	$ 1	$ 7	$ 1	$ –	$ 6,995
Individually	$ 175	$ 1,470	$ –	$ –	$ –	$ –	$ –	$ –	$ 1,645
Collectively	2,033	3,365	103	–	–	20	2	–	5,523
Balance at December 31, 2016	$ 2,208	$ 4,835	$ 103	$ –	$ –	$ 20	$ 2	$ –	$ 7,168
Individually	$ 241	$ 778	$ –	$ –	$ –	$ –	$ –	$ –	$ 1,019
Collectively	1,252	3,210	74	–	–	22	–	–	4,558
Balance at December 31, 2015	$ 1,493	$ 3,988	$ 74	$ –	$ –	$ 22	$ –	$ –	$ 5,577
Recorded investment in loans evaluated for impairment:									
Individually	$ 17,830	$ 29,237	$ 47	$ –	$ –	$ 30	$ –	$ –	$ 47,144
Collectively	507,968	290,440	16,233	–	989	5,560	1,889	1,200	824,279
Balance at December 31, 2017	$ 525,798	$ 319,677	$ 16,280	$ –	$ 989	$ 5,590	$ 1,889	$ 1,200	$ 871,423
Individually	$ 14,709	$ 26,288	$ –	$ –	$ –	$ 8	$ –	$ –	$ 41,005
Collectively	442,568	329,975	16,713	–	–	6,683	1,887	–	797,826
Balance at December 31, 2016	$ 457,277	$ 356,263	$ 16,713	$ –	$ –	$ 6,691	$ 1,887	$ –	$ 838,831
Individually	$ 16,103	$ 25,082	$ 1	$ –	$ –	$ 26	$ –	$ –	$ 41,212
Collectively	409,276	358,055	26,269	693	–	6,674	–	–	800,967
Balance at December 31, 2015	$ 425,379	$ 383,137	$ 26,270	$ 693	$ –	$ 6,700	$ –	$ –	$ 842,179

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.

	Year Ended December 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 4,030	$ –	$ 4,030	
Production and intermediate-term	296	9,896	–	10,192	
Total	$ 296	$ 13,926	$ –	$ 14,222	
Post-modification:					
Real estate mortgage	$ –	$ 4,268	$ –	$ 4,268	$ –
Production and intermediate-term	296	10,005	–	10,301	(17)
Total	$ 296	$ 14,273	$ –	$ 14,569	$ (17)

Outstanding Recorded Investment	Year Ended December 31, 2016 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 3,839	$ –	$ 3,839	
Production and intermediate-term	–	3,456	–	3,456	
Total	$ –	$ 7,295	$ –	$ 7,295	
Post-modification:					
Real estate mortgage	$ –	$ 3,703	$ –	$ 3,703	$ –
Production and intermediate-term	–	3,451	–	3,451	(1)
Total	$ –	$ 7,154	$ –	$ 7,154	$ (1)

Outstanding Recorded Investment	Year Ended December 31, 2015 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 3,985	$ –	$ 3,985	
Production and intermediate-term	–	12,197	–	12,197	
Processing and marketing	–	489	–	489	
Total	$ –	$ 16,671	$ –	$ 16,671	
Post-modification:					
Real estate mortgage	$ –	$ 4,038	$ –	$ 4,038	$ –
Production and intermediate-term	–	11,859	–	11,859	(2)
Processing and marketing	–	489	–	489	–
Total	$ –	$ 16,386	$ –	$ 16,386	$ (2)

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 majority of AgGeorgia's principal concessions are principal deferments. The post-modification balances for principal deferments may include fees that have been financed, which causes the post-modification balances to be higher than the pre-modification balances.

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.

Defaulted troubled debt restructurings	Year Ended December 31, 2017	2016	2015
Real estate mortgage	$ –	$ 368	$ –
Production and intermediate-term	497	–	104
Total	$ 497	$ 368	$ 104

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

	Total TDRs December 31, 2017	2016	2015	Nonaccrual TDRs December 31, 2017	2016	2015
Real estate mortgage	$ 11,562	$ 12,173	$ 11,272	$ 933	$ 1,931	$ 5,103
Production and intermediate-term	17,134	19,520	22,045	5,447	5,392	13,358
Processing and marketing	–	–	1	–	–	1
Rural residential real estate	23	8	16	–	8	16
Total Loans	$ 28,719	$ 31,701	$ 33,334	$ 6,380	$ 7,331	$ 18,478
Additional commitments to lend	$ –	$ –	$ –			

The following table presents information as of period end:

	December 31, 2017
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 4 — Investments

Investments in Other Farm Credit Institutions
Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. Accounting for this investment is on the cost plus allocated equities basis.

The Association's investment in the Bank totaled $8,943 for 2017, $8,770 for 2016 and $8,909 for 2015. The Association owns 3.34 percent of the issued stock of the Bank as of December 31, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled $32.5 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $345 million for 2017. In addition, the Association had an investment of $1,429 related to other Farm Credit institutions at December 31, 2017.

Note 5 — Real Estate and Other Property

Premises and Equipment
Premises and equipment consists of the following:

	December 31,		
	2017	2016	2015
Land	$ 2,129	$ 2,129	$ 2,122
Buildings and improvements	7,942	7,883	7,881
Furniture and equipment	4,130	4,114	4,027
	14,201	14,126	14,030
Less: accumulated depreciation	7,301	7,022	6,712
Total	$ 6,900	$ 7,104	$ 7,318

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

	December 31,		
	2017	2016	2015
(Gains) losses on sale, net	$ (25)	$ (195)	$ (1,113)
Carrying value unrealized (gains) losses	659	4	(26)
Operating (income) expense, net	252	246	129
(Gains) losses on other property owned, net	$ 886	$ 55	$ (1,010)

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. Deferred gains totaled $16, $95, and $330 at December 31, 2017, 2016, and 2015, respectively.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank
Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2017, the Association's notes payable were within the specified limitations.

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

The weighted average interest rates on the variable rate advances were 2.52 percent for LIBOR-based loans and 2.76 percent for Prime-based loans, and the weighted average remaining maturities were 3.7 years and 1.0 years, respectively, at December 31, 2017. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.91 percent, and the weighted average remaining maturity was 9.4 years at December 31, 2017. The weighted-average interest rate on all interest-bearing notes payable was 2.89 percent and the weighted-average remaining maturity was 8.4 years at December 31, 2017. Gross notes payable consist of approximately 12.76 percent variable rate and 87.24 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2017. Notes Payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also include a credit which reduces the notes payable balance and corresponding interest expense. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Protected Borrower Stock:** Protection of certain borrower stock is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates, which were outstanding as of

January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2.0 percent or $1 thousand, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

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

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

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 core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

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

- The CET1 capital 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.
- The total capital ratio 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 December 31, 2017
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	0.625%	5.125%	22.38%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	22.38%
Total Capital Ratio	8.0%	0.625%	8.625%	23.23%
Permanent Capital Ratio	7.0%	0.0%	7.0%	22.57%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	23.38%
UREE Leverage Ratio	1.5%	0.0%	1.5%	15.64%

* *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.

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

The Association had the following shares outstanding at December 31, 2017:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	776,899	$ 3,884
C Participation Certificates/Nonvoting	No	26,552	133
Total Capital Stock and Participation Certificates		803,451	$ 4,017

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

Retained Earnings

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

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

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

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

At December 31, 2017, allocated members' equity consisted of $73,692 of qualified and $1,875 of nonqualified distributions. Nonqualified distributions are tax deductible only when redeemed.

Dividends

The Association may declare non-cumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 8 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

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

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

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

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

Impairment

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

a) ***First,*** Assistance Preferred Stock issued and outstanding;
b) ***Second,*** allocated surplus in its entirety, with application to most recent allocation first and then in reverse order until all allocated surplus has been exhausted;
c) ***Third,*** Class C Common Stock and Class C Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;
d) ***Fourth,*** Class A Common and Class B Common Stock and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired; and
e) ***Fifth,*** Class A Preferred and Class D Preferred Stock issued and outstanding, if any.

Impairments shall be considered as being applied pro rata to each share and/or unit outstanding in the class.

Liquidation

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

a) ***First,*** to the holders of Class A Preferred and Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;
b) ***Second,*** to the holders of Class A Common, Class B Common and Class B Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
c) ***Third,*** pro rata to the holders of Class C Common Stock and Class C Participation Certificates, until an amount equal to the aggregate par value or face amount of all such shares or units then issued and outstanding has been distributed to such holders;
d) ***Fourth,*** to the holders of allocated surplus pro rata, on the basis of oldest allocations first, until an amount equal to the total account has been distributed to the holders;
e) ***Fifth,*** all unallocated surplus issued after May 4, 1995 (the effective date of this bylaw amendment) shall be distributed to the holders of Class C Stock and Class C Participation Certificates on a patronage basis; and
f) ***Sixth,*** any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates.

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

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

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

	For the years ended December 31,		
	2017	**2016**	**2015**
Employee Benefit Plans:			
Balance at beginning of period	$ (147)	$ (137)	$ (159)
Other comprehensive income before reclassifications	(1,360)	(15)	16
Amounts reclassified from AOCI	6	5	6
Net current period OCI	(1,354)	(10)	22
Balance at end of period	$ (1,501)	$ (147)	$ (137)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Year to Date			
	2017	**2016**	**2015**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ (6)	$ (5)	$ (6)	See Note 9.
Amounts reclassified	$ (6)	$ (5)	$ (6)	

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

Note 8 — Fair Value Measurement

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

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

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

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

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

Level 1
Assets held in trust funds, related to deferred compensation plans, and assets held in mutual funds, related to the Association's Corporate Giving Fund, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

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

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

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

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

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

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

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

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

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. 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.

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 1,592	$ 1,592	$ –	$ –	$ 1,592
Recurring Assets	$ 1,592	$ 1,592	$ –	$ –	$ 1,592
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
	–	–	–	–	–
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 6,469	$ –	$ –	$ 6,469	$ 6,469
Other property owned	1,297	–	–	1,439	1,439
Nonrecurring Assets	$ 7,766	$ –	$ –	$ 7,908	$ 7,908
Other Financial Instruments					
Assets:					
Cash	$ 168	$ 168	$ –	$ –	$ 168
Loans	845,168	–	–	841,980	841,980
Other Financial Assets	$ 845,336	$ 168	$ –	$ 841,980	$ 842,148
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 647,241	$ –	$ –	$ 638,306	$ 638,306
Other Financial Liabilities	$ 647,241	$ –	$ –	$ 638,306	$ 638,306

	December 31, 2016				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 213	$ 213	$ –	$ –	$ 213
Recurring Assets	$ 213	$ 213	$ –	$ –	$ 213
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 6,410	$ –	$ –	$ 6,410	$ 6,410
Other property owned	4,025	–	–	4,602	4,602
Nonrecurring Assets	$ 10,435	$ –	$ –	$ 11,012	$ 11,012
Other Financial Instruments					
Assets:					
Cash	$ 1,238	$ 1,238	$ –	$ –	$ 1,238
Loans	815,078	–	–	812,244	812,244
Other Financial Assets	$ 816,316	$ 1,238	$ –	$ 812,244	$ 813,482
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 621,886	$ –	$ –	$ 613,916	$ 613,916
Other Financial Liabilities	$ 621,886	$ –	$ –	$ 613.916	$ 613,916

	December 31, 2015				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 218	$ 218	$ –	$ –	$ 218
Recurring Assets	$ 218	$ 218	$ –	$ –	$ 218
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 4,867	$ –	$ –	$ 4,867	$ 4,867
Other property owned	2,342	–	–	2,541	2,541
Nonrecurring Assets	$ 7,209	$ –	$ –	$ 7,408	$ 7,408
Other Financial Instruments					
Assets:					
Cash	$ 445	$ 445	$ –	$ –	$ 445
Loans	821,188	–	–	834,400	834,400
Other Financial Assets	$ 821,633	$ 445	$ –	$ 834,400	$ 834,845
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 623,422	$ –	$ –	$ 625,777	$ 625,777
Other Financial Liabilities	$ 623,422	$ –	$ –	$ 625,777	$ 625,777

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	$ 7,908	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 9 — Employee Benefit Plans

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

1. Assets contributed to multi-employer plans by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multi-employer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The Association previously participated in a separate multi-employer plan, the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB Plan). In November 2014, the AgFirst Plan Sponsor Committee approved and executed amendments to the CB Plan that included the following changes:

1. The CB Plan was closed to new participants effective as of December 31, 2014. Based on the plan's eligibility provisions, this change affected employees hired on or after November 4, 2014.
2. Employer contributions were discontinued effective as of January 1, 2015.
3. All participants who were not already fully vested in the CB Plan became fully vested as of December 31, 2014.
4. The CB Plan was terminated effective as of December 31, 2015.

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

A favorable determination letter was received from the Internal Revenue Service, and as a result of the termination of the CB Plan, vested benefits were distributed to participants in 2017.

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

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

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

During 2017, the method of recording expenses at participating District entities for the FAP and OPEB Plans was modified. Prior to 2017, expense was recorded based on allocations of actuarially-determined costs and any differences between recorded expense and actual contributions were recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets. For 2017 and future years, participating entities will record employee benefit costs based on the actual contributions to the Plans. This change caused the Association to modify its accounting estimates recorded in Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the Plans. The change in estimate resulted in the reduction of Other Assets by $5,696 and the reduction of Other Liabilities by $9,216 on the Association's Balance Sheets, and a total reduction of employee benefit costs on the Association's Statements of Income of $3,520 during 2017.

The FAP Plan includes other District employees that are not employees of the Association and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were $2,724 for 2017, $4,146 for 2016, and $4,103 for 2015. At December 31, 2017, 2016, and 2015, the total liability balance for the FAP Plan presented in the District Combined Balance Sheets is $139,104, $119,000, and $123,902, respectively. The FAP Plan is 86.41%, 86.96%, and 85.73% percent funded to the projected benefit obligation as of December 31, 2017, 2016, and 2015, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in

employee benefit costs on the Association's Statements of Income were $589 for 2017, $898 for 2016, and $1,140 for 2015. At December 31, 2017, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition is $216,259.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $573, $534, and $484 for the years ended December 31, 2017, 2016, and 2015, respectively. Beginning in 2015, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2017, 2016, and 2015, $(1,354), $(10) and $22 has been recognized as net debits, and a net credit, respectively, to AOCI to reflect these elements.

In addition to the multi-employer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $1,891 and a net under-funded status of $1,891 at December 31, 2017. Assumptions used to determine the projected benefit obligation as of December 31, 2017 included a discount rate of 3.75 percent and a rate of compensation increase of 3.00 percent. The expenses of these nonqualified plans included in employee benefit costs were $31, $32, and $32 for 2017, 2016, and 2015, respectively. Additional information for the above may be found in Note 9 in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report and the Notes to the Annual Information Statement of the Farm Credit System.

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2017 amounted to $10,607. During 2017, $5,512 of new loans were made and repayments totaled $5,804. In the opinion of management, none of these loans outstanding at December 31, 2017 to senior officers or directors as defined in FCA regulations involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2017, $98,019 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2017, standby letters of credit outstanding totaled $3,119 with expiration dates

ranging from January 6, 2018 to August 14, 2020. The maximum potential amount of future payments that may be required under these guarantees was $3,119.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2017	2016	2015
Current:			
Federal	$ (4)	$ 7	$ 8
State	(10)	18	8
	$ (14)	$ 25	$ 16
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ (14)	$ 25	$ 16

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2017	2016	2015
Federal tax at statutory rate	$ 8,651	$ 6,346	$ 6,901
State tax, net	1	–	1
Effect of non-taxable FLCA subsidiary	(2,356)	(2,997)	(2,475)
Patronage distributions	(4,770)	(3,914)	(4,107)
Change in valuation allowance	(2,679)	617	(385)
Deferred tax rate change	989	–	–
Other	150	(27)	81
Provision (benefit) for income taxes	$ (14)	$ 25	$ 16

In late December 2017, federal tax legislation was enacted which, among other things, lowered the federal corporate tax rate from 35% to 21% beginning on January 1, 2018. The change to the lower corporate tax rate led to an insignificant remeasurement of the deferred tax liabilities and deferred tax assets in 2017, the period of enactment. Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2017	2016	2015
Deferred income tax assets:			
Allowance for loan losses	$ 909	$ 1,716	$ 1,399
Other property owned writedown	–	–	35
Annual leave	270	394	405
Nonaccrual loan interest	724	1,070	1,688
Pensions and other postretirement benefits	12	3,597	3,465
Depreciation	81	–	–
Gross deferred tax assets	1,996	6,777	6,992
Less: valuation allowance	(1,934)	(4,613)	(3,996)
Gross deferred tax assets, net of valuation allowance	62	2,164	2,996
Deferred income tax liabilities:			
Pensions and other postretirement benefits	–	(2,216)	(3,056)
Depreciation	–	87	60
Loan origination fees	(62)	(35)	–
Gross deferred tax liability	(62)	(2,164)	(2,996)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2017, deferred income taxes have not been provided by the Association on approximately $5.9 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $1,934, $4,613 and $3,996 as of December 31, 2017, 2016 and 2015, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2017 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2014 and forward.

2016

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

2015

	First	Second	Third	Fourth	Total
Net interest income	$ 7,172	$ 7,291	$ 8,205	$ 7,562	$ 30,230
Provision for (reversal of allowance for) loan losses	728	501	(51)	(1,103)	75
Noninterest income (expense), net	(3,351)	(3,761)	(3,510)	5,198	(5,424)
Net income	$ 3,093	$ 3,029	$ 4,746	$ 13,863	$ 24,731

	First	Second	Third	Fourth	Total
Net interest income	$ 7,134	$ 7,429	$ 7,448	$ 7,559	$ 29,570
Provision for (reversal of allowance for) loan losses	55	(714)	603	(749)	(805)
Noninterest income (expense), net	(3,820)	(3,861)	(3,761)	(827)	(12,269)
Net income	$ 3,259	$ 4,282	$ 3,084	$ 7,481	$ 18,106

	First	Second	Third	Fourth	Total
Net interest income	$ 7,188	$ 7,299	$ 7,677	$ 7,436	$ 29,600
Provision for (reversal of allowance for) loan losses	241	608	(851)	(1,241)	(1,243)
Noninterest income (expense), net	(3,949)	(2,764)	(4,160)	(270)	(11,143)
Net income	$ 2,998	$ 3,927	$ 4,368	$ 8,407	$ 19,700

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 13, 2018, which was the date the financial statements were issued.

AgGeorgia Farm Credit

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