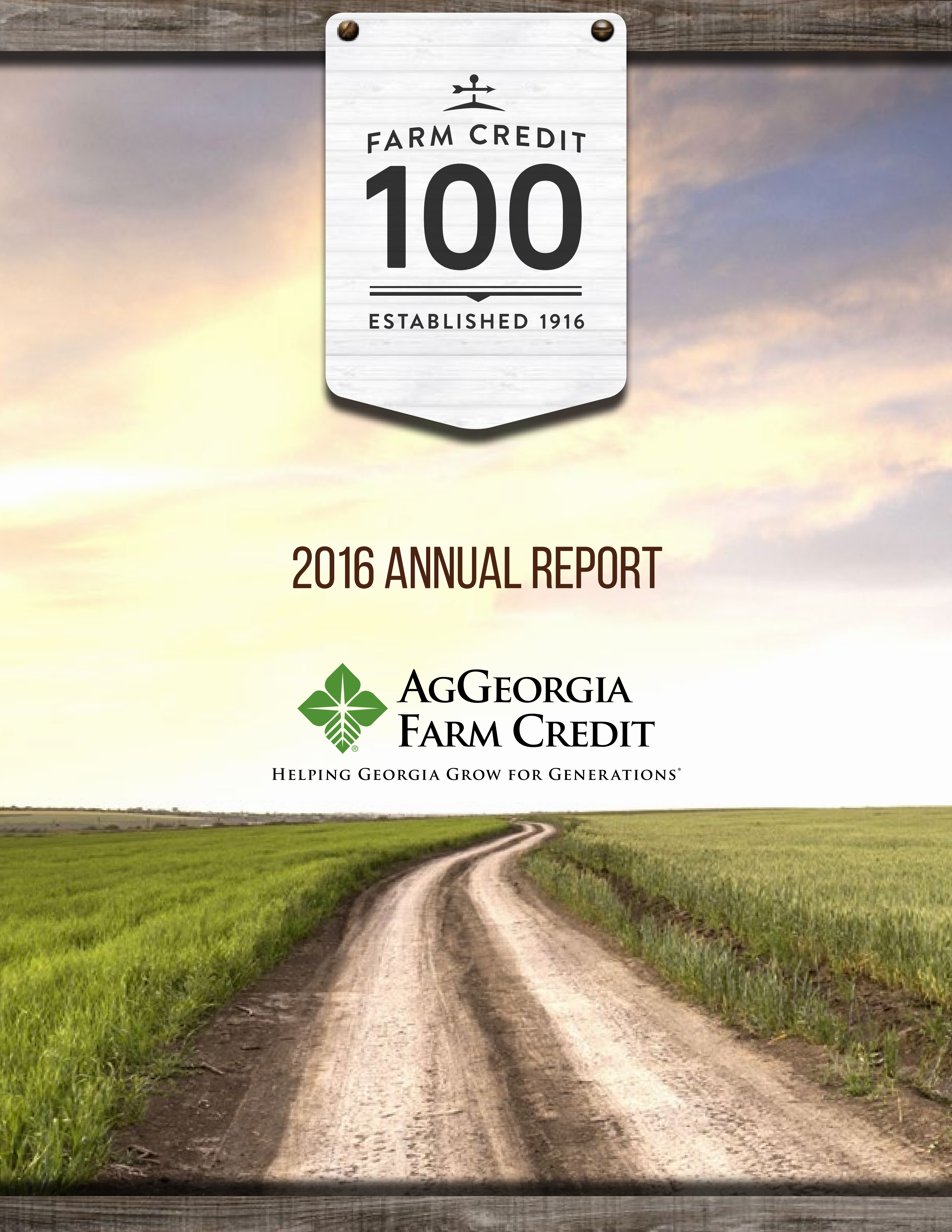

FARM CREDIT
100
ESTABLISHED 1916

2016 ANNUAL REPORT

AgGeorgia Farm Credit

Helping Georgia Grow for Generations®

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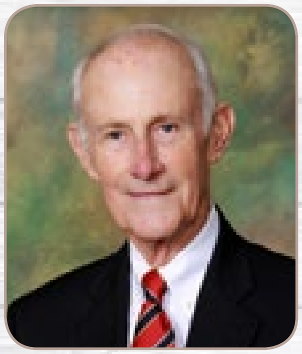
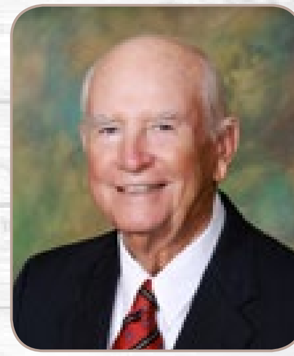
AGGEORGIA BOARD OF DIRECTORS



Edward M. Beckham, II
Houston County

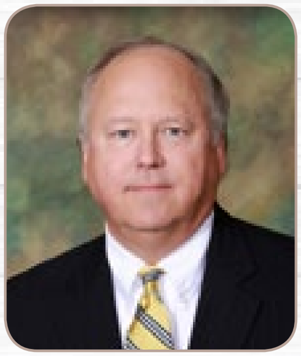
Jack W. Bentley, Jr.
Wilkes County

W. Howard Brown
Macon County



Billy J. Clary
Crisp County

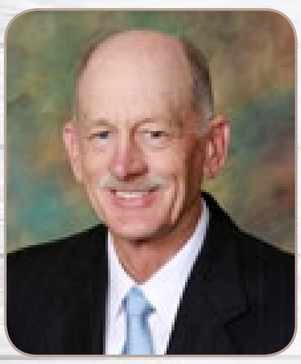
Dan N. Crumpton
Warren County



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. Edward M. Beckham, II**, 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. Edward M. Beckham, II retired effective Dec. 31, 2016

AGGEORGIA TERRITORY AND BRANCH LOCATIONS

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Jack C. Drew, Jr.
Chief Executive Officer

One of the more exciting accomplishments of 2016 was the Association's unprecedented second revolvement of surplus allocated to our stockholders. In June 2016, the Association revolved $13.4 million in surplus capital. Honoring our cooperative principle, the AgGeorgia Board of Directors approved a second revolvement of $6.9 million in November.

On behalf of the Board of Directors, management, and staff, I am pleased to present the 2016 Annual Report of AgGeorgia Farm Credit, ACA. As we celebrate the 100-year anniversary of the Farm Credit System, it is especially rewarding to you that your Association continues to be a strong, valued and dependable source of credit, an advocate for the American farmer and an unending supporter of agriculture and our rural communities. It is the very basis of our formation in 1916. The System has withstood the test of time and its challenges through the support and patronage of you, our stockholders. It has been a pleasure to serve you this year, and as we look to the next 100 years, it is our charge to manage your Association responsibly thereby ensuring a strong legacy for the next generation of farmers, ranchers and farm-related businesses.

In highlighting our accomplishments over the past year, AgGeorgia performed well given the challenges of a stagnant agricultural economy. Your Association met the majority of its financial goals with final net income of $18.1 million for 2016, which was well above projections. In addition to our core earnings, the Association once again benefited from a special patronage of $3.9 million from AgFirst Farm Credit Bank, boosting our key financial ratios to a solid return on assets of 2.08%, and return on equity of 7.86%, all resulting in a strong permanent capital level of 25.56%. Credit quality continues to improve, nonearning assets have reduced and loan growth remains stable. At our current capital level, your Association is well positioned to not only sustain quality growth, but also support our members during this time of reduced revenue and weather adversities some may be facing.

One of the more exciting accomplishments of 2016 was the Association's unprecedented second revolvement of surplus allocated to our stockholders. In June 2016, the Association revolved $13.4 million in surplus capital. Honoring our cooperative principle, the AgGeorgia Board of Directors approved a second revolvement of $6.9 million in November.

These two revolvements, totaling $20.3 million, reflect our commitment to return earnings to you while maintaining our strong capital position. When added to the cash portion of our Patronage Refund distributed in April, your Association returned a total in excess of $23.8 million in cash in 2016. Reinvestment of this capital in your operation benefits your community and also helps to keep the economy viable in those areas that are almost totally dependent upon agriculture as a livelihood. Consistent earnings have allowed AgGeorgia to pay patronage refunds every year since 1988, and we are pleased to report that the Association is poised to pay patronage for 2016 in spring of 2017. Since 1988, AgGeorgia has returned cash representing patronage and surplus revolvement totaling over $327 million to our stockholders. This is the legacy we build on for the future of Georgia agriculture and for the next 100 years.

On behalf of AgGeorgia's Board of Directors and employees, I would like to express our sincere thanks and gratitude for your continued support, patronage and trust. Past and present generations of agricultural producers have been the foundation of our organization and we look forward to many more promising years of serving as your lender of choice.

Jack C. Drew, Jr.

Jack C. Drew, Jr.
Chief Executive Officer

AGGEORGIA MANAGEMENT TEAM

Back row: Marvin J. Moore, Jr., Chief Operating Officer; T. Lacy Royal, Chief Credit Officer; Timothy H. Dean, Chief Appraiser; Zachary T. Purvis, Chief Lending Officer; Jack C. Drew, Jr., Chief Executive Officer; Corey W. Cottle, Director of Marketing; Stephen M. Yearta, Chief Credit Officer; Stephen G. Connelly, Director of Information Technology

Front row: Carrie B. McCall, Chief Financial Officer; John P. Lowry, III, Director of Risk Management

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

FINANCIALS

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 certified public accountants, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2016 Annual Report of 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, 2017

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2016.

Jack C. Drew, Jr.
Chief Executive Officer

Carrie B. McCall
Chief Financial Officer

March 13, 2017

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(dollars in thousands)	2016	2015	December 31, 2014	2013	2012
Balance Sheet Data					
Cash	**$ 1,238**	$ 445	$ 80	$ 1,304	$ 1,371
Loans	**827,611**	831,115	830,645	840,992	924,304
Allowance for loan losses	**(7,168)**	(5,577)	(5,999)	(10,575)	(10,976)
Net loans	**820,443**	825,538	824,646	830,417	913,328
Investments in other Farm Credit institutions	**10,297**	10,445	10,876	14,205	17,265
Other property owned	**4,025**	2,342	8,269	7,345	10,672
Other assets	**34,638**	36,371	40,184	43,443	37,222
Total assets	**$ 870,641**	$ 875,141	$ 884,055	$ 896,714	$ 979,858
Notes payable to AgFirst Farm Credit Bank*	**$ 621,886**	$ 623,422	$ 636,993	$ 661,719	$ 759,981
Accrued interest payable and other liabilities with maturities of less than one year	**24,977**	20,495	21,746	19,089	18,502
Total liabilities	**646,863**	643,917	658,739	680,808	778,483
Protected borrower stock	**—**	1	5	8	33
Capital stock and participation certificates	**3,912**	3,889	3,796	3,744	3,889
Retained earnings					
Allocated	**79,099**	93,387	95,454	94,741	89,580
Unallocated	**140,914**	134,084	126,220	117,487	107,979
Accumulated other comprehensive income (loss)	**(147)**	(137)	(159)	(74)	(106)
Total members' equity	**223,778**	231,224	225,316	215,906	201,375
Total liabilities and members' equity	**$ 870,641**	$ 875,141	$ 884,055	$ 896,714	$ 979,858
Statement of Income Data					
Net interest income	**$ 29,570**	$ 29,600	$ 30,616	$ 31,467	$ 34,420
Provision for (reversal of allowance for) loan losses	**(805)**	(1,243)	(103)	4,373	8,329
Noninterest income (expense), net	**(12,269)**	(11,143)	(8,388)	(7,897)	(14,171)
Net income	**$ 18,106**	$ 19,700	$ 22,331	$ 19,197	$ 11,920
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.08%**	2.25%	2.52%	2.04%	1.11%
Total members' equity	**7.86%**	8.63%	10.11%	9.10%	6.08%
Net interest income as a percentage of average earning assets	**3.54%**	3.53%	3.63%	3.52%	3.38%
Net (chargeoffs) recoveries to average loans	**0.287%**	0.098%	(0.530)%	(0.534)%	(1.035)%
Total members' equity to total assets	**25.70%**	26.42%	25.49%	24.08%	20.55%
Debt to members' equity (:1)	**2.89**	2.78	2.92	3.15	3.87
Allowance for loan losses to loans	**0.87%**	0.67%	0.72%	1.26%	1.19%
Permanent capital ratio	**25.56%**	25.92%	25.02%	23.51%	18.20%
Total surplus ratio	**25.10%**	25.46%	24.57%	23.07%	17.80%
Core surplus ratio	**20.96%**	21.40%	20.92%	19.87%	16.48%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 3,355**	$ 3,520	$ 4,040	$ 2,684	$ 989
Qualified allocated retained earnings	**7,829**	8,213	9,428	6,264	3,131

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2017.*

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

(DOLLARS IN THOUSANDS, EXCEPT AS NOTED)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of AgGeorgia Farm Credit, ACA, (Association) for the year ended December 31, 2016 with comparisons to the years ended December 31, 2015 and December 31, 2014. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for 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 the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the AgFirst District.

The February 2017 USDA forecast estimates 2016 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $91.9 billion, down $12.8 billion from 2015 and down $11.3 billion from its 10-year average of $103.2 billion. The decline in net cash income in 2016 was primarily due to decreases in livestock receipts of $21.7 billion and cash farm-related income of $3.7 billion, partially offset by a decrease in cash expenses of $8.3 billion.

The February 2017 USDA forecast for the farm economy, as a whole, forecasts 2017 farmers' net cash income to increase to $93.5 billion, a $1.6 billion increase from 2016, but $9.7 billion below the 10-year average. The forecasted increase in farmers' net cash income for 2017 is primarily due to an expected increase in cash farm-related income of $3.7 billion, partially offset by a decrease in crop receipts of $1.0 billion and an increase in cash expenses of $700 million.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2013 to December 31, 2016:

Commodity	12/31/16	12/31/15	12/31/14	12/31/13
Hogs	$43.10	$42.80	$64.30	$61.50
Milk	$18.80	$17.30	$20.40	$22.00
Broilers	$0.48	$0.47	$0.58	$0.56
Turkeys	$0.74	$0.89	$0.73	$0.69
Corn	$3.33	$3.65	$3.79	$4.41
Soybeans	$9.64	$8.76	$10.30	$13.00
Wheat	$3.91	$4.75	$6.14	$6.73
Beef Cattle	$111.00	$122.00	$164.00	$130.00

The USDA's income outlook varies depending on farm size and commodity specialties. The USDA classifies all farms into four primary categories: small family farms (gross cash farm income (GCFI) less than $350 thousand), midsize family farms (GCFI between $350 thousand and under $1 million), large-scale family farms (GCFI of $1 million or more), and nonfamily farms (principal operator or individuals related to the operator do not own a majority of the business). Approximately 99 percent of U.S. farms are family farms and the remaining 1 percent are nonfamily farms. The family farms produce 89 percent of the value of agricultural output and the nonfamily farms produce the remaining 11 percent of agricultural output. The small family farms represent about 90 percent of all U.S. farms, hold 57 percent of farm assets and account for 24 percent of the value of production. Approximately 65 percent of production occurs on 9 percent of family farms classified as midsize or large-scale.

According to the USDA February 2017 forecast, farm sector equity (assets minus debt) is expected to decline 2.1 percent in 2017 to $2.44 trillion, the third consecutive year of declining equity after a record $2.60 trillion in 2014. Farm sector debt is expected to rise 5.2 percent to $395 billion in 2017, while a 1.1 percent decline is anticipated in the market value of farm sector assets to $2.84 trillion. Farm real estate accounts for about 84 percent of farm sector assets and the 2017 forecast anticipates a slight decline in real estate values. This reflects falling farm profit margins, increased interest rates, and more restrictive debt terms.

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. As a result of the decline in farm assets and continued increase in farm debt, these ratios are forecast to rise in 2017 to 13.9 percent and 16.2 percent from 13.1 percent and 15.1 percent in 2016. The debt-to-asset ratio has increased for the fifth straight year but is still well below the all-time highs of over 20 percent in the 1980s.

As estimated by the USDA in February 2017, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) increased to 40.6 percent at December 31, 2015 (the latest available data), as compared with 39.6 percent at December 31, 2014.

In general, agriculture, during the past several years, 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 an environment of less favorable economic conditions in agriculture, including extensive and extended drought conditions, and without sufficient government support programs, including USDA-sponsored crop insurance programs, the Association's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general economy remain more volatile given the state of the global economy. Certain agriculture sectors, as described more fully in this *Management's Discussion and Analysis*, recently have experienced significant financial stress and could experience additional financial stress in the near future, which could have a negative financial impact on the Association. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The 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.

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

ECONOMIC CONDITIONS

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

In 2016 Georgia cotton acreage was up 15 percent from 2015; however, the Georgia cotton crop was reduced 150,000 bales due to late-season drought. As of this report, December 2017 futures for cotton are in the upper 60s to near 70 cents per pound. Compared to the 2016 crop, futures prices for the 2017 crop are about 5 cents above the same time last year. Better prices for the 2017 cotton crop will depend on stability and growth in demand. Unless production declines globally, demand growth will also be key. Georgia and U.S. acreage is expected to increase from 2016.

Peanut acreage in Georgia was down 8.3 percent in 2016 with 720 thousand acres planted due to an oversupply after a record producing crop in 2015. The average yield was expected to be 4200 lbs/acre, which is lower due to drought conditions; however, the projected total will still be 22 percent higher than the ten year average. Low prices on other commodities combined with PLC payments have kept peanut acres high. The demand for peanuts remains strong in the United States; therefore, acreage is expected to remain relatively the same in 2017 though peanut acres have been avoiding rotation which will raise issues with disease, yield and cost. Contracts as of this publication are currently around $475 - $500 per ton.

In 2016, the poultry industry saw moderate production growth and some concerns for domestic demand, as well as a decline in bird weights. Continued increases in production are expected in 2017, but slower than 2016. Exports will be even more important in 2017 due to higher production, and higher domestic supplies are expected. Prices paid to producers for broilers is expected to decrease by 2 to 3 percent in 2017; however, if input costs remain low producers may see positive price-cost margins.

Beef cattle will see a return to normal supply, demand, and trade fundamentals, and will see a seasonal price pattern consistent with current prices in 2017. The likelihood of negative profits on average nationwide is high, and 2017 will see the end of herd expansion. Recovery in pasture conditions will dictate profitability in much of Georgia.

Georgia continues to be one of the strongest milk-producing states in the Southeast. State production remained strong, and despite a 3 percent price decline, expanded at a rate of approximately in 2016. Market conditions are expected to improve in 2017, and Georgia milk production is expected to continue to grow with prices expected to be around $20 to $21 per cwt in 2017.

Lumber production, especially pine grade, is expected to remain in high demand in 2017 due to an expected increase in housing starts. Demand for primary timber products is expected to increase, and timber prices have a good chance of moderate growth.

In summary, the producers of the primary commodities financed by AgGeorgia face challenges with continued depressed prices and another year of decreased net cash income. The state overall has a positive economic outlook for 2017, but the farm economy is likely to face adversity in at least some sectors.

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.

	December 31,					
Loan Type	2016		2015		2014	
	(dollars in thousands)					
Real estate mortgage	$ 451,111	54.51 %	$ 419,500	50.47 %	$ 420,411	50.61 %
Production and intermediate-term	351,330	42.45	378,123	45.50	378,664	45.59
Processing and marketing	15,238	1.84	20,870	2.51	14,102	1.70
Farm-related business	1,380	0.17	5,253	0.63	7,470	0.90
Communication	–	–	693	0.08	3,244	0.39
Rural residential real estate	6,667	0.81	6,676	0.81	6,754	0.81
International	1,885	0.23	–	–	–	–
Total	$ 827,611	100.00 %	$ 831,115	100.00 %	$ 830,645	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:

	December 31,		
Branch	2016	2015	2014
Cartersville	5.78%	5.57%	5.53%
Chatsworth	5.84	5.87	5.13
Clarkesville	3.73	3.57	3.55
Cordele	8.21	7.47	7.64
Dublin	4.96	5.80	5.17
Gainesville	4.61	4.39	4.56
Moultrie	3.74	4.42	4.65
Nashville	2.16	2.21	2.19
Ocilla	4.17	4.40	3.80
Perry	9.43	9.33	9.02
Quitman	3.78	3.39	3.62
Royston	12.67	12.43	13.19
Sandersville	5.33	5.23	5.87
Sylvester	3.22	2.95	3.30
Tifton	5.74	6.06	6.02
Washington	5.73	5.46	5.37
Waynesboro	4.59	4.30	3.78
Participations Purchased	4.33	4.15	4.13
Special Assets	1.98	3.00	3.48
	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 69 percent of the entire portfolio at December 31, 2016.

	December 31,					
Commodity Group	2016		2015		2014	
	(dollars in thousands)					
Poultry	$ 242,999	29%	$ 239,573	29%	$ 267,347	32%
Cotton	140,541	17	138,435	17	138,336	17
Forestry	101,538	12	107,493	13	110,649	13
Row Crops	93,604	11	97,193	12	92,334	11
Livestock	97,666	12	88,105	10	74,883	9
Horticulture	34,642	4	42,883	5	41,458	5
Landlords	30,499	4	27,811	3	26,992	3
Dairy	31,917	4	24,428	3	22,037	3
Peanuts	21,821	3	26,371	3	17,715	2
Rural Home	24,991	3	7,788	1	7,731	1
Other	7,393	1	31,035	4	31,163	4
Total	$ 827,611	100%	$ 831,115	100%	$ 830,645	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 slight decrease in gross loan volume for the twelve months ended December 31, 2016, is primarily attributed to a decrease in the nonaccrual loan portfolio, which is best illustrated in the loan volume by branch table above. The Special Assets branch which holds the nonaccrual loans declined by over 1 percent. The accrual loan portfolio actually experienced positive growth as a result of expansion in the poultry industry in Georgia and growth in the commercial loan portfolio.

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 2016, 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:	**2016**	**2015**	**2014**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 24,663	$ 23,758	$ 20,996
Participations Purchased – Non-FCS Institutions	332	378	421
Participations Sold	(73,713)	(79,304)	(32,995)
Total	$ (48,718)	$ (55,168)	$ (11,578)

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

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association 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	**2016**	**2015**	**2014**
Acceptable & OAEM	96.71%	95.68%	94.77%
Substandard	3.29%	4.32%	5.23%
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	December 31, 2016	2015	2014
	(dollars in thousands)		
Nonaccrual loans	$ 16,635	$ 25,191	$ 29,003
Restructured loans	24,370	14,856	12,029
Accruing loans 90 days past due	–	–	–
Total high-risk loans	41,005	40,047	41,032
Other property owned	4,025	2,342	8,269
Total high-risk assets	$ 45,030	$ 42,389	$ 49,301
Ratios			
Nonaccrual loans to total loans	2.01%	3.03%	3.49%
High-risk assets to total assets	5.17%	4.84%	5.88%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $8,556 or 34 percent in 2016. This decrease resulted from aggressive management of nonearning assets. Of the $16,635 in nonaccrual volume at December 31, 2016, $8,886 or 53 percent, compared to 74 percent and 54 percent at December 31, 2015 and 2014, 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 increased in 2016 from $2,342 to $4,025, primarily due to the transfer of one large property in 2016. The Association currently owns 3 properties foreclosed upon in 2016, 2 foreclosed upon in 2014 and 1 foreclosed upon in 2011.

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, 2016	2015	2014
	(dollars in thousands)		
Balance at beginning of year	$ 5,577	$ 5,999	$ 10,575
Charge-offs:			
Real estate mortgage	(74)	(168)	(1,981)
Production and intermediate-term	(517)	(705)	(3,584)
Agribusiness	–	–	(406)
Rural residential real estate	–	(12)	–
Total charge-offs	(591)	(885)	(5,971)
Recoveries:			
Real estate mortgage	1,071	508	545
Production and intermediate-term	1,617	1,183	953
Agribusiness	299	15	–
Total recoveries	2,987	1,706	1,498
Net (charge-offs) recoveries	2,396	821	(4,473)
Provision for (reversal of allowance for) loan losses	(805)	(1,243)	(103)
Balance at end of year	$ 7,168	$ 5,577	$ 5,999
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.287%	0.098%	(0.530)%

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, 2016	2015	2014
	(dollars in thousands)		
Real estate mortgage	$ 2,208	$ 1,493	$ 1,587
Production and intermediate-term	4,835	3,988	4,330
Agribusiness	103	74	45
Communication	–	–	4
Rural residential real estate	20	22	33
International	2	–	–
Total	$ 7,168	$ 5,577	$ 5,999

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, 2016	2015	2014
Total loans	0.87%	0.67%	0.72%
Nonperforming loans	17.48%	13.93%	12.17%
Nonaccrual loans	43.09%	22.14%	20.68%

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 million, $30 million and $31 million in 2016, 2015 and 2014, 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)		
12/31/16 – 12/31/15			
Interest income	$ 276	$ 301	$ 577
Interest expense	12	595	607
Change in net interest income	$ 264	$ (294)	$ (30)
12/31/15 – 12/31/14			
Interest income	$ 183	$ (1,224)	$ (1,041)
Interest expense	352	(326)	26
Change in net interest income	$ 535	$ (1,550)	$ (1,015)

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

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2016	2015	2014	Percentage Increase/(Decrease) 2016/2015	2015/2014
	(dollars in thousands)				
Loan fees	$ 568	$ 786	$ 847	(28.97)%	(7.20)%
Fees for financially related services	67	21	22	211.20	(4.55)
Patronage refund from other Farm Credit Institutions	9,146	9,170	13,888	(1.97)	(33.97)
Gains (losses) from sales of premises and equipment, net	127	99	75	27.81	32.00
Other noninterest income	6	160	150	(95.63)	6.67
Total noninterest income	$ 9,914	$ 10,250	$ 14,982	(3.28)%	(31.58)%

Noninterest income decreased 12 percent from 2015 to 2016 and decreased 19 percent from 2014 to 2015. 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 2016 of $4,679 compared to $4,730 in 2015. The special patronage distribution received in 2016 was $3,887 compared to $4,164 in 2015. 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, 2016	2015	2014	Percentage Increase/(Decrease) 2016/2015	2015/2014
	(dollars in thousands)				
Salaries and employee benefits	$ 15,913	$ 15,806	$ 15,677	0.68%	0.82%
Occupancy and equipment	994	1,012	1,053	(1.77)	(4.17)
Insurance Fund premiums	1,032	810	784	27.38	3.32
(Gains)/Losses on OPO, net	55	(1,010)	1,173	(105.47)	186.10
Other operating expense	4,164	4,746	4,667	(12.55)	6.25
Total noninterest expense	$ 22,158	$ 21,364	$ 23,354	3.65%	(7.74)%

Salaries and employee benefits increased in 2016, compared to 2015, as a result of increased benefit expenses. Insurance Fund premiums increased 27 percent for the twelve months ended December 31, 2016, compared to the same period of 2015. The Farm Credit System Insurance Corporation (FCSIC) changed the assessed premium rate for 2016. The premiums assessed for 2016 were 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, compared to 13 basis points in 2015, and 10 basis points on the average principal balance outstanding on nonaccrual loans, which remained unchanged in 2016 compared to 2015.

After experiencing several years of significant losses on other property owned, in 2015 we began to see a stabilization of land values and due to a substantial gain on the sale of a large property, we recorded a net gain for 2015 of $1,010, and a net loss of ($55) in 2016.

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 provision of $25 for the year ended December 31, 2016, as compared to a provision of $16 for 2015 and a provision of $26 for 2014. 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	**2016**	**2015**	**2014**
Return on average assets	2.08%	2.25%	2.52%
Return on average members' equity	7.86%	8.63%	10.11%
Net interest income as a percentage of average earning assets	3.54%	3.53%	3.63%
Net (charge-offs) recoveries to average loans	0.287%	0.098%	(0.530)%

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, 2016, was $621,886 as compared to $623,422 at December 31, 2015 and $636,993 at December 31, 2014. The decrease of 0.25 percent and 2 percent compared to December 31, 2015 and December 31, 2014, respectively, directly corresponds to the level of loan volume of the Association. The average volume of outstanding notes payable to the Bank was $623,919, $647,107, and $651,625 for the years ended December 31, 2016, 2015, and 2014, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable 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, 2016.

Funds Management

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

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

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control 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, 2016, decreased 3 percent to $223,778 from the December 31, 2015 total of $231,224. This decrease is due in part to a special revolvement of excess surplus the Association distributed to its members in November 2016. This nonrecurring distribution of $7 million in excess capital brought the surplus revolvement total to $20.5 million for the year. At December 31, 2015 total members' equity increased 3 percent from the December 31, 2014 total of $225,317. This increase was primarily attributed to an increase in the amount of net income retained as unallocated surplus.

Total capital stock and participation certificates were $3,912 on December 31, 2016, compared to $3,890 on December 31, 2015 and $3,801 on December 31, 2014. These increases were attributed to a greater amount of stock issued than retired in the normal course of business.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets are the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standard for all the ratios.

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

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	25.56%	25.92%	25.02%	7.00%
Total surplus ratio	25.10%	25.46%	24.07%	7.00%
Core surplus ratio	20.96%	21.40%	20.92%	3.50%

The decrease in the Association's permanent capital, total surplus ratio, and core surplus ratio for December 31, 2016 represents a greater percentage of surplus revolved than income retained and surplus issued, which is rare and only due to the non-recurring special revolvement of surplus in November 2016. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

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 $11,184 in 2016, $11,733 in 2015, and $13,741 in 2014.

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 goals for both number and percentage of YBS loans in 2016.

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, 2016, the demographics of the Association's agricultural portfolio contained 4,193 farmers, of which by definition 736 or 18 percent were Young, 1,450 or 35 percent were Beginning and 3,169 or 76 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, 2016	
	Number of Loans	Amount of Loans
Young	1,001	$103,283
Beginning	1,863	198,900
Small	4,190	302,384

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 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

New regulatory capital requirements for System banks and associations became effective January 1, 2017 and were adopted to:

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

These new requirements replace the core surplus and total surplus requirements with Common Equity Tier 1 (CET1), Tier 1 and Total Capital risk-based capital ratio requirements. The new requirements also replace the existing net collateral ratio with a Tier 1 Leverage ratio which is applicable to all banks and associations. The Permanent Capital Ratio remains in effect.

The following sets forth the new regulatory capital ratios:

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

The new capital requirements have a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. Based on analysis, all District entities are positioned to be in compliance with the new requirements.

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

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2017. The proposed investment regulations are expected to have a minimal impact for District institutions. The stated objectives of the proposed rule are as follows:

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

FINANCIAL REGULATORY REFORM

The Dodd-Frank Act was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the statutory provisions of the Dodd-Frank Act are not applicable to the Farm Credit System.

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions require, among other things, more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges or other multilateral platforms. Margin is required for these transactions. Derivative transactions that are not subject to mandatory trading and clearing requirements may be subject to minimum margin and capital requirements. The Commodity Futures Trading Commission and other federal banking regulators have exempted System institutions from certain, but not all, of these new requirements, including, for swaps with members, mandatory clearing and minimum margin for noncleared swaps.

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

The Dodd-Frank Act also created a new federal agency called the Consumer Financial Protection Bureau (CFPB). The CFPB is responsible for regulating the offering of consumer financial products or services under federal consumer financial laws. The Farm Credit Administration retains the responsibility to oversee and enforce compliance by System institutions with relevant rules adopted by the CFPB.

In light of the foregoing, it is difficult to predict at this time the extent to which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have an impact on the System. However, it is possible they could affect funding and hedging strategies and increase funding and hedging costs.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

DISCLOSURE REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

Description of Business

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

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

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	Other Business Interests
Jack C. Drew, Jr. President & Chief Executive Officer	1/1/2010-present		Director for Georgia Poultry Federation (trade organization)
Marvin J. Moore, Jr. Executive Vice President & Chief Operating Officer	6/15/2009-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	Principal Appraiser and other positions since 1987	
John P. Lowry III Executive Vice President & Director of Risk Management & Controls	12/1/2010-12/31/2016*		
T. Lacy Royal Executive Vice President & Retail Lending Manager	4/1/2008-present		
Stephen M. Yearta Executive Vice President & Commercial Lending Manager	7/1/2009-present		

**Senior Officer retired from Association 12/31/2016*

The total amount of compensation earned by the CEO and the senior officers as a group during the years ended December 31, 2016, 2015 and 2014, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value†	Perq/ Other*	Total
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
Jack C. Drew, Jr.	2014	$ 319,012	$ 63,800	$ –	$ 442,848	$ 18,121	$ 843,781
9	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
8	2014	$ 1,070,641	$ 193,692	$ –	$ 1,523,618	$ 14,880	$ 2,802,831

* *Primarily comprised of group life insurance premiums, relocation expenses and automobile compensation.*

† *On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures." The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. System banks and associations were required to comply with the rule for compensation reported in the table for the fiscal year ending 2015, and could implement the rule retroactively for the fiscal years ended 2014 and 2013. The Association applied the rule to 2014 and retroactively to 2013, but this application had no effect on the 2013 amounts as previously reported in the 2013 Annual Report.*

The disclosure of information on the total compensation paid during 2016 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

Pension Benefits Table
As of December 31, 2016

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2016
CEO:					
Jack C. Drew, Jr.	2016	AgFirst Retirement Plan	37	$ 2,462,626	$ –
				$ 2,462,626	$ –
Senior Officers and Highly Compensated Employees:					
8 Officers, excluding the CEO	2016	AgFirst Retirement Plan	*24	$ 7,230,246	$ –
				$ 7,230,246	$ –

**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. A significant decrease in the discount rate assumption from the prior year caused the pension values to increase at December 31, 2016.

Also at December 31, 2016, the life expectancy actuarial assumption was updated to reflect recent 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.

In addition, the assumptions used for the Cash Balance Plan values were updated to reflect expected payouts in two years in conjunction with the upcoming plan termination. See Note 9, Employee Benefit Plans, for further information. The acceleration of expected payments significantly increased the pension values for those individuals in the Cash Balance Plan.

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 administrates, 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 2016 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, 2016 through December 31, 2016, 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.
- ❖ A combined payment to an individual employee under the plan shall not exceed 20% of regular pay (including any retroactive pay and overtime pay).

The profit sharing portion of the plan provides a means to allow Association employees to share in the net earnings of the Association to the extent that certain key financial and performance goals are exceeded. Individual payout under the profit sharing portion of the plan shall not exceed 10% of the regular pay for the calendar year 2016, and the amount is determined by meeting ROA, capital, nonearning asset and credit quality targets. The branch incentive portion of the plan is intended to motivate branch teams to increase the Association's profitability while maintaining high levels of credit quality and credit administration. Incentive relating to this portion of the plan is calculated separately for each branch team and distributed to all eligible employees in that branch as an equal percentage of their base salaries, and corporate employees not assigned to a branch will receive the weighted average of all the branches combined. Individual payout under the branch incentive portion of the plan shall not exceed 10% of the regular pay for the calendar year 2016.

All employees and senior officers are eligible for the same incentive percentage of 20% and are subject to the same criteria.

The board approved 60% of the estimated benefit to be paid out in December with the remainder paid during January 2017 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	2016*
Edward M. Beckham, II	1978	2016❖
Jack W. Bentley, Jr.	1985	2018
W. Howard Brown	2015	2017
Billy J. Clary	1986	2016*
Dan N. Crumpton	1987	2017
Ronney S. Ledford	1986	2017
Joseph M. Meeks	1989	2017
Richard D. "Dave" Neff, *Outside Director*	2002	2/2017
J. Dan Raines, Jr	1981	2016*
George R. Reeves	1982	2018
Anne G. Smith	2001	2017
David H. Smith	1991	2016**
Glee C. Smith, *Outside Director*	2013	2019
Franklin B. Wright	1991	2016*

**Director re-elected to a four (4) year term expiring 12/31/2020.*
***Director re-elected to a three (3) year term expiring 12/31/2019.*
❖Director retired from board 12/31/2016-position abolished.

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 on the boards of H. R. Miller, LLC, RGM Foothills Property, LLC, and Jebeha, LLC (commercial and residential rentals and real estate) as manager.

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

Edward M. Beckham, II, retired from the board on 12/31/2016.

Jack W. Bentley, Jr., is owner/operator of A & J Dairy. He also serves on the board of directors of the 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), Lonestar Milk Producers (milk production), and the USDA Farm Service Agency (government farm program).

W. Howard Brown is a row crop farmer growing vegetables, and manages a peach and pecan operation. He also serves as board chairman of the Macon County Zoning Commission (development, planning and zoning), and is a board member for Macon County Farm Bureau (insurance sales and ag promotion).

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

Dan N. Crumpton has a forestry operation consisting of pine and softwood timber, is a consulting forester, and is a real estate broker. He serves as a board member and district supervisor of the Warren County Soil and Water District (conservation of natural resources).

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

Joseph Marion Meeks has a cow-calf operation. He serves as a board member of Washington County Farm Bureau (insurance sales and ag promotion).

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, softwood and timber operation, and is involved in feedstuffs production. He serves as a board member of the Ashburn Housing Authority (public housing oversight), and is a former board member of Farmer Mac (rural lending partner).

George R. Reeves has a cow/calf operation and is a pine and softwood timber farmer. He serves as a board member of the McDuffie County Farm Bureau (insurance sales and ag promotion), the McDuffie County Soil and Water Conservation District (conservation of natural resources), and as chairman of the McDuffie, Warren, Columbia and Richmond FSA Committee (government farm programs).

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

David H. Smith grows row crops, 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 has a dairy cattle operation, and works in agri-tourism. He serves as a board member of the Gilmer County Farm Bureau (insurance sales and ag promotion).

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 $310,200 for 2016, compared to $358,200 for 2015. 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 2016
Robert G. Miller, ***Board Chairman***	9	29	Executive, Credit Review, Audit, Compensation, Credit Risk, Governance, Ad Hoc	$13,300	$7,750	$21,050
Guy A. Daughtrey, ***Board Vice-Chairman***	9	37	Executive, Credit Review, Credit Risk, Governance	$18,500	$7,000	$25,500
Edward M. Beckham, II	9	13	Executive, Credit Review, Compensation	$5,700	$7,000	$12,700
Jack W. Bentley, Jr.	8	21	Executive, Credit Review, Governance, Ad Hoc	$10,500	$6,000	$16,500
W. Howard Brown	7	21	Executive, Credit Review, Governance, Ad Hoc	$10,500	$6,500	$17.000
Billy J. Clary	9	22	Executive, Credit Review, Compensation, Credit Risk	$11,000	$7,000	$18,000
Dan N. Crumpton	9	27	Executive, Credit Review, Governance	$12,700	$7,000	$19,700
Ronney S. Ledford	9	23	Executive, Credit Review, Audit, Credit Risk	$12,200	$7,000	$19,200
Joseph M. Meeks	9	23	Executive, Credit Review, Compensation, Ad Hoc	$10,700	$7,000	$17,700
Richard D. "Dave" Neff *Outside Director*	8	29	Executive, Credit Review, Audit, Credit Risk	$13,700	$6,500	$20,200
J. Dan Raines, Jr.,	9	24	Executive, Credit Review, Compensation, Ad Hoc	$11,600	$7,250	$18,850
George R. Reeves	9	28	Executive, Credit Review, Audit, Ad Hoc	$12,400	$7,000	$19,400
Anne G. (Sisk) Smith	8	23	Executive, Credit Review, Compensation	$11,500	$6,000	$17,500
David H. Smith	7	13	Executive, Credit Review, Audit	$11,700	$6,500	$18,200
Glee C. Smith *Outside Director*	9	38	Executive, Credit Review, Audit	$18,700	$6,500	$25,200
Franklin B. Wright	9	33	Executive, Credit Review, Credit Risk, Governance	$16,500	$7,000	$23,500
						$310,200

**Includes board committee meetings and other board activities other than regular board meetings*

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 $175,307 for 2016, $162,341 for 2015, and $153,465 for 2014.

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 Certified Public Accountants

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

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

	2016
Independent Certified Public Accountant	
PricewaterhouseCoopers LLP	
Audit services	$ 62,040
Total	$ 62,040

Audit fees were for the annual audit of the Consolidated Financial Statements. There were no nonaudit services provided by the Association's independent certified public accountant during 2016. 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, 2017 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 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 certified public accountant for 2016, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from 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 2016. 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, 2017

Report of Independent Certified Public Accountants

To the Board of Directors and Members 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, 2016, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Certified Public Accountants' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AgGeorgia Farm Credit, ACA and its subsidiaries as of December 31, 2016, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 13, 2017

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

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	December 31, 2016	2015	2014
Assets			
Cash	**$ 1,238**	$ 445	$ 80
Loans	**827,611**	831,115	830,645
Allowance for loan losses	**(7,168)**	(5,577)	(5,999)
Net loans	**820,443**	825,538	824,646
Loans held for sale	**1,045**	517	—
Accrued interest receivable	**11,220**	11,064	11,054
Investments in other Farm Credit institutions	**10,297**	10,445	10,876
Premises and equipment, net	**7,104**	7,318	7,381
Other property owned	**4,025**	2,342	8,269
Accounts receivable	**9,130**	9,373	14,115
Other assets	**6,139**	8,099	7,634
Total assets	**$ 870,641**	$ 875,141	$ 884,055
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 621,886**	$ 623,422	$ 636,993
Accrued interest payable	**1,338**	1,310	1,267
Patronage refunds payable	**4,432**	4,232	4,474
Accounts payable	**1,545**	1,857	1,274
Other liabilities	**17,662**	13,096	14,731
Total liabilities	**646,863**	643,917	658,739
Commitments and contingencies (Note 11)			
Members' Equity			
Protected borrower stock	**—**	1	5
Capital stock and participation certificates	**3,912**	3,889	3,796
Retained earnings			
Allocated	**79,099**	93,387	95,454
Unallocated	**140,914**	134,084	126,220
Accumulated other comprehensive income (loss)	**(147)**	(137)	(159)
Total members' equity	**223,778**	231,224	225,316
Total liabilities and members' equity	**$ 870,641**	$ 875,141	$ 884,055

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

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	2016	2015	2014
	For the year ended December 31,		
Interest Income			
Loans	**$ 45,133**	$ 44,556	$ 45,597
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**15,563**	14,956	14,981
Net interest income	**29,570**	29,600	30,616
Provision for (reversal of allowance for) loan losses	**(805)**	(1,243)	(103)
Net interest income after provision for (reversal of allowance for) loan losses	**30,375**	30,843	30,719
Noninterest Income			
Loan fees	**568**	800	858
Fees for financially related services	**67**	21	22
Patronage refunds from other Farm Credit institutions	**9,146**	9,329	13,888
Gains (losses) on sales of premises and equipment, net	**127**	99	75
Gains (losses) on other transactions	**6**	(1)	15
Other noninterest income	**—**	3	145
Total noninterest income	**9,914**	10,251	15,003
Noninterest Expense			
Salaries and employee benefits	**15,913**	15,806	15,677
Occupancy and equipment	**994**	1,012	1,053
Insurance Fund premiums	**1,032**	810	784
(Gains) losses on other property owned, net	**55**	(1,010)	1,173
Other operating expenses	**4,164**	4,760	4,678
Total noninterest expense	**22,158**	21,378	23,365
Income before income taxes	**18,131**	19,716	22,357
Provision for income taxes	**25**	16	26
Net income	**$ 18,106**	$ 19,700	$ 22,331

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	2016	2015	2014
	For the year ended December 31,		
Net income	**$ 18,106**	$ 19,700	$ 22,331
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(10)**	22	(85)
Comprehensive income	**$ 18,096**	$ 19,722	$ 22,246

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2013	$ 8	$ 3,744	$ 94,741	$ 117,487	$ (74)	$ 215,906
Comprehensive income				22,331	(85)	22,246
Protected borrower stock issued/(retired), net	(3)					(3)
Capital stock/participation certificates issued/(retired), net		52				52
Patronage distribution						
Cash				(4,040)		(4,040)
Qualified allocated retained earnings			9,428	(9,428)		—
Retained earnings retired			(8,801)			(8,801)
Patronage distribution adjustment			86	(130)		(44)
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**

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, 2016	2015	2014
Cash flows from operating activities:			
Net income	**$ 18,106**	$ 19,700	$ 22,331
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**641**	603	619
Amortization (accretion) of net deferred loan costs (fees)	**(447)**	(314)	(323)
Provision for (reversal of allowance for) loan losses	**(805)**	(1,243)	(103)
(Gains) losses on other property owned	**(191)**	(1,139)	599
(Gains) losses on sales of premises and equipment, net	**(127)**	(99)	(75)
(Gains) losses on other transactions	**(6)**	1	(15)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(8,785)**	(3,001)	—
Proceeds from sales of loans held for sale, net	**8,257**	2,484	—
(Increase) decrease in accrued interest receivable	**(156)**	(10)	(134)
(Increase) decrease in accounts receivable	**243**	4,742	1,913
(Increase) decrease in other assets	**1,960**	(465)	1,242
Increase (decrease) in accrued interest payable	**28**	43	(145)
Increase (decrease) in accounts payable	**(312)**	583	290
Increase (decrease) in other liabilities	**4,797**	(1,515)	504
Total adjustments	**5,097**	670	4,372
Net cash provided by (used in) operating activities	**23,203**	20,370	26,703
Cash flows from investing activities:			
Net (increase) decrease in loans	**3,811**	466	(1,560)
(Increase) decrease in investment in other Farm Credit institutions	**148**	431	3,329
Purchases of premises and equipment	**(434)**	(541)	(415)
Proceeds from sales of premises and equipment	**134**	100	109
Proceeds from sales of other property owned	**809**	7,166	6,619
Net cash provided by (used in) investing activities	**4,468**	7,622	8,082
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**(1,536)**	(13,571)	(24,726)
Protected borrower stock retired	**(1)**	(4)	(3)
Capital stock and participation certificates issued/(retired), net	**23**	93	52
Patronage refunds and dividends paid	**(3,189)**	(3,797)	(2,531)
Retained earnings retired	**(22,175)**	(10,348)	(8,801)
Net cash provided by (used in) financing activities	**(26,878)**	(27,627)	(36,009)
Net increase (decrease) in cash	**793**	365	(1,224)
Cash, beginning of period	**445**	80	1,304
Cash, end of period	**$ 1,238**	$ 445	$ 80
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 450**	$ 506	$ 1,491
Receipt of property in settlement of loans	**2,986**	705	9,248
Estimated cash dividends or patronage distributions declared or payable	**3,355**	3,520	4,040
Employee benefit plans adjustments (Note 9)	**10**	(22)	85
Supplemental information:			
Interest paid	**15,535**	14,913	15,126
Taxes (refunded) paid, net	**8**	7	40

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

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 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 $213, is included in Other Assets on the accompanying Consolidated Balance Sheet as of December 31, 2016.

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

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** The Association participates in District and multi-District sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan.

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

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

Multi-Employer Defined Benefit Plans
Substantially all employees hired before November 4, 2014 may participate in either the AgFirst Farm Credit Retirement Plan or the AgFirst Farm Credit Cash Balance Retirement Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer under FASB accounting guidance. The Plans are noncontributory and include eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of the Plans are allocated to each participating entity by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plan participants. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Association's Consolidated Balance Sheets.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Certain charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

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

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

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 our expected patronage program, which reduces taxable earnings.

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

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

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

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

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

The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

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

Please see further discussion in Note 8.

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

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

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

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

N. **Accounting Standards Updates (ASUs):** In January, 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also support more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. For public business entities, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In November, 2016, the FASB issued ASU 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. The Update clarifies that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted using a retrospective transition method to each period presented. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In October, 2016, the FASB issued ASU 2016-17 Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. If a reporting entity satisfies the first characteristic of a primary beneficiary of a variable interest entity (VIE), the amendments in this Update require that reporting entity, in determining whether it satisfies the second characteristic of a primary beneficiary, to include all of its direct variable interests in a VIE and, on a proportionate basis, its indirect variable interests in a VIE held through related parties, including related parties that are under common control with the reporting entity. That is, a single decision maker is not required to consider indirect interests held through related parties that are under common control with the single decision maker to be the equivalent of direct interests in their entirety. Instead, a single decision maker is required to include those interests on a proportionate basis consistent with indirect interests held through other related parties. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In October, 2016, the FASB issued ASU 2016-16 Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The Update requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this Update eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments in this Update align the recognition of income tax consequences for intra-entity transfers of assets other than inventory with International Financial Reporting Standards (IFRS). For public business entities, the amendments are effective, on a modified retrospective basis, for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In August, 2016, the FASB issued ASU 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). Stakeholders had indicated there was diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In June, 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The Update improves financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Update will take effect for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For public business entities that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other organizations, the ASU will take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association will apply the ASU guidance as a public business entity that is not a SEC filer. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In March, 2016, the FASB issued ASU 2016-07 Investments ¬ Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. To simplify the accounting for equity method investments, the amendments in the Update eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In March, 2016, the FASB issued ASU 2016-06 Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. Topic 815 requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met, including the "clearly and closely related" criterion. The amendments in this Update clarify the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The amendments are to be applied on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year for which the amendments are effective. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In February, 2016, the FASB issued ASU 2016-02 Leases (Topic 842). The Update is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, the new ASU will require both types of leases to be recognized on the balance sheet. The Update also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The accounting by organizations that own the assets leased by the lessee—also known as lessor accounting—will remain largely unchanged from current guidance. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early application will be permitted for all organizations. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In January, 2016, the FASB issued Accounting Standards Update (ASU) 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments are intended to improve the recognition and measurement of financial instruments. The Update affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities. The new guidance makes targeted improvements to existing GAAP by requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements, eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities, eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The ASU is effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In September, 2015, the FASB issued ASU 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined and to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments were effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Adoption of this guidance was applied prospectively and did not have an impact on the Association's financial condition or results of operations.

In May, 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Topic 820 permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Investments valued using the practical expedient were categorized within the fair value hierarchy on the basis of whether the investment was redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. To address diversity in practice related to how certain investments measured at net asset value with future redemption dates were categorized, the amendments in this Update removed the requirement to categorize investments for which fair values are measured using the net asset value per share practical expedient. It also limited disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. For public business entities, the guidance was effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Adoption of this guidance was applied retrospectively to all periods presented and did not have an impact on the Association's financial condition or results of operations.

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A summary of loans outstanding at period end follows:

	December 31, 2016	December 31, 2015	December 31, 2014
Real estate mortgage	$ 451,111	$ 419,500	$ 420,411
Production and intermediate-term	351,330	378,123	378,664
Processing and marketing	15,238	20,870	14,102
Farm-related business	1,380	5,253	7,470
Communication	–	693	3,244
Rural residential real estate	6,667	6,676	6,754
International	1,885	–	–
Total Loans	$ 827,611	$ 831,115	$ 830,645

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, 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

December 31, 2014	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 2,667	$ 6,861	$ –	$ –	$ –	$ –	$ 2,667	$ 6,861
Production and intermediate-term	3,502	24,367	–	–	421	–	3,923	24,367
Processing and marketing	9,367	–	–	–	–	–	9,367	–
Farm-related business	2,217	1,767	–	–	–	–	2,217	1,767
Communication	3,243	–	–	–	–	–	3,243	–
Total	$ 20,996	$ 32,995	$ –	$ –	$ 421	$ –	$ 21,417	$ 32,995

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

	December 31, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 10,472	$ 84,178	$ 356,461	$ 451,111
Production and intermediate term	114,755	151,882	84,693	351,330
Processing and marketing	502	7,733	7,003	15,238
Farm-related business	2	845	533	1,380
Rural residential real estate	267	1,082	5,318	6,667
International	–	763	1,122	1,885
Total Loans	$ 125,998	$ 246,483	$ 455,130	$ 827,611
Percentage	15.23%	29.78%	54.99%	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,		
	2016	2015	2014
Real estate mortgage:			
Acceptable	93.89%	92.49%	91.74%
OAEM	3.74	5.19	4.69
Substandard/doubtful/loss	2.37	2.32	3.57
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	88.85%	87.20%	84.88%
OAEM	6.45	5.91	7.65
Substandard/doubtful/loss	4.70	6.89	7.47
	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	93.16%	100.00%	100.00%
OAEM	6.84	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31,		
	2016	2015	2014
Communication:			
Acceptable	–%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	–%	100.00%	100.00%
Rural residential real estate:			
Acceptable	99.08%	98.73%	94.88%
OAEM	0.81	0.46	3.00
Substandard/doubtful/loss	0.11	0.81	2.12
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Total Loans:			
Acceptable	91.91%	90.37%	88.89%
OAEM	4.80	5.31	5.88
Substandard/doubtful/loss	3.29	4.32	5.23
	100.00%	100.00%	100.00%

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

	December 31, 2016					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 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	$ –

	December 31, 2014					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 3,235	$ 2,370	$ 5,605	$ 420,901	$ 426,506	$ –
Production and intermediate-term	870	8,554	9,424	374,018	383,442	–
Processing and marketing	–	–	–	14,219	14,219	–
Farm-related business	–	–	–	7,507	7,507	–
Communication	–	–	–	3,247	3,247	–
Rural residential real estate	76	49	125	6,653	6,778	–
Total	$ 4,181	$ 10,973	$ 15,154	$ 826,545	$ 841,699	$ –

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

	December 31,		
	2016	2015	2014
Nonaccrual loans:			
Real estate mortgage	$ 4,467	$ 8,769	$ 10,708
Production and intermediate-term	12,160	16,395	18,204
Processing and marketing	–	1	–
Rural residential real estate	8	26	91
Total	$ 16,635	$ 25,191	$ 29,003
Accruing restructured loans:			
Real estate mortgage	$ 10,242	$ 6,169	$ 2,079
Production and intermediate-term	14,128	8,687	9,950
Total	$ 24,370	$ 14,856	$ 12,029
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 41,005	$ 40,047	$ 41,032
Other property owned	4,025	2,342	8,269
Total nonperforming assets	$ 45,030	$ 42,389	$ 49,301
Nonaccrual loans as a percentage of total loans	2.01%	3.03%	3.49%
Nonperforming assets as a percentage of total loans and other property owned	5.41%	5.09%	5.88%
Nonperforming assets as a percentage of capital	20.12%	18.33%	21.88%

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

	December 31,		
	2016	2015	2014
Impaired nonaccrual loans:			
Current as to principal and interest	$ 8,886	$ 18,740	$ 15,705
Past due	7,749	6,451	13,298
Total	16,635	25,191	29,003
Impaired accrual loans:			
Restructured	24,370	14,856	12,029
Total	24,370	14,856	12,029
Total impaired loans	$ 41,005	$ 40,047	$ 41,032
Additional commitments to lend	$ –	$ –	$ –

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

	December 31, 2016			Year Ended December 31, 2016	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 932	$ 967	$ 175	$ 926	$ 44
Production and intermediate-term	7,123	8,089	1,470	7,081	340
ural 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

Impaired Loans	December 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2014 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 2,962	$ 3,571	$ 356	$ 3,441	$ 109
Production and intermediate-term	7,826	10,401	1,307	9,091	289
Farm-related business	–	–	–	–	–
Rural residential real estate	49	60	2	57	2
Total	$ 10,837	$ 14,032	$ 1,665	$ 12,589	$ 400
With no related allowance for credit losses:					
Real estate mortgage	$ 9,825	$ 12,396	$ –	$ 11,413	$ 362
Production and intermediate-term	20,328	25,710	–	23,615	750
Farm-related business	–	394	–	–	–
Rural residential real estate	42	60	–	49	1
Total	$ 30,195	$ 38,560	$ –	$ 35,077	$ 1,113
Total:					
Real estate mortgage	$ 12,787	$ 15,967	$ 356	$ 14,854	$ 471
Production and intermediate-term	28,154	36,111	1,307	32,706	1,039
Farm-related business	–	394	–	–	–
Rural residential real estate	91	120	2	106	3
Total	$ 41,032	$ 52,592	$ 1,665	$ 47,666	$ 1,513

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

	Year Ended December 31, 2016	2015	2014
Interest income which would have been recognized under the original loan terms	$ 2,954	$ 3,119	$ 3,471
Less: interest income recognized	1,954	1,501	1,511
Foregone interest income	$ 1,000	$ 1,618	$ 1,960

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2015	$ 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
Balance at December 31, 2013	$ 3,201	$ 7,241	$ 101	$ 4	$ 28	$ –	$ 10,575
Charge-offs	(1,981)	(3,583)	(407)	–	–	–	(5,971)
Recoveries	545	953	–	–	–	–	1,498
Provision for loan losses	(178)	(280)	350	–	5	–	(103)
Balance at December 31, 2014	$ 1,587	$ 4,331	$ 44	$ 4	$ 33	$ –	$ 5,999
Allowance on loans evaluated for impairment:							
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
Individually	$ 355	$ 1,308	$ –	$ –	$ 2	$ –	$ 1,665
Collectively	1,232	3,023	44	4	31	–	4,334
Balance at December 31, 2014	$ 1,587	$ 4,331	$ 44	$ 4	$ 33	$ –	$ 5,999
Recorded investment in loans evaluated for impairment:							
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
Individually	$ 12,823	$ 28,733	$ –	$ –	$ 91	$ –	$ 41,647
Collectively	413,683	354,708	21,727	3,247	6,687	–	800,052
Balance at December 31, 2014	$ 426,506	$ 383,441	$ 21,727	$ 3,247	$ 6,778	$ –	$ 841,699

**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, 2016				
Outstanding Recorded Investment	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)

Outstanding Recorded Investment	Year Ended December 31, 2014 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 4,603	$ –	$ 4,603	
Production and intermediate-term	–	13,425	–	13,425	
Total	$ –	$ 18,028	$ –	$ 18,028	
Post-modification:					
Real estate mortgage	$ –	$ 3,360	$ –	$ 3,360	$ (3)
Production and intermediate-term	–	12,121	–	12,121	(1)
Total	$ –	$ 15,481	$ –	$ 15,481	$ (4)

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, 2016	2015	2014
Real estate mortgage	$ 368	$ –	$ 23
Production and intermediate-term	–	104	287
Total	$ 368	$ 104	$ 310

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2016	2015	2014	2016	2015	2014
Real estate mortgage	$ 12,173	$ 11,272	$ 9,247	$ 1,931	$ 5,103	$ 7,168
Production and intermediate-term	19,520	22,045	20,505	5,392	13,358	10,556
Processing and marketing	–	1	–	–	1	–
Rural residential real estate	8	16	27	8	16	27
Total Loans	$ 31,701	$ 33,334	$ 29,779	$ 7,331	$ 18,478	$ 17,751
Additional commitments to lend	$ –	$ –	$ –			

The following table presents information as of period end:

	December 31, 2016
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 $8,770 for 2016, $8,909 for 2015 and $9,299 for 2014. The Association owns 3.47 percent of the issued stock of the Bank as of December 31, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled $32.1 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $342 million for 2016. In addition, the Association had an investment of $1,527 related to other Farm Credit institutions at December 31, 2016.

Note 5 — Real Estate and Other Property

Premises and Equipment
Premises and equipment consists of the following:

	December 31, 2016	2015	2014
Land	$ 2,129	$ 2,122	$ 2,102
Buildings and improvements	7,883	7,881	7,825
Furniture and equipment	4,114	4,027	3,896
	14,126	14,030	13,823
Less: accumulated depreciation	7,022	6,712	6,442
Total	$ 7,104	$ 7,318	$ 7,381

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

	December 31, 2016	2015	2014
(Gains) losses on sale, net	$ (195)	$ (1,113)	$ (326)
Carrying value unrealized (gains) losses	4	(26)	925
Operating (income) expense, net	246	129	574
(Gains) losses on other property owned, net	$ 55	$ (1,010)	$ 1,173

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 $95, $330, and $429 at December 31, 2016, 2015, and 2014, respectively.

Note 6 — Debt

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

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA 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 1.84 percent for LIBOR-based loans and 1.98 percent for Prime-based loans, and the weighted average remaining maturities were 4.1 years and 1.1 years, respectively, at December 31, 2016. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.67 percent, and the weighted average remaining maturity was 8.6 years at December 31, 2016. The weighted-average interest rate on all interest-bearing notes payable was 2.55 percent and the weighted-average remaining maturity was 7.5 years at December 31, 2016. Gross notes payable consist of approximately -14.19 percent variable rate and 114.19 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2016. 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:** FCA regulations require that certain minimum standards for capital be achieved and maintained. These standards are measured based on capital as a percentage of risk-adjusted assets and off-balance-sheet commitments and surplus levels as a percentage of risk-adjusted assets.

Failure to meet the capital requirements can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met.

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

	2016	2015	2014	Regulatory Minimum
Permanent capital ratio	25.56%	25.92%	25.02%	7.00%
Total surplus ratio	25.10%	25.46%	24.57%	7.00%
Core surplus ratio	20.96%	21.40%	20.92%	3.50%

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

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

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

The Association had the following shares outstanding at December 31, 2016:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	753,603	$ 3,768
C Participation Certificates/Nonvoting	No	28,864	144
Total Capital Stock and Participation Certificates		782,467	$ 3,912

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, 2016, allocated members' equity consisted of $74,276 of qualified and $4,823 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.

Changes in Accumulated Other Comprehensive income by Component *(a)*						
	For the years ended December 31,					
	2016		2015		2014	
Employee Benefit Plans:						
Balance at beginning of period	$	(137)	$	(159)	$	(74)
Other comprehensive income before reclassifications		(15)		16		(86)
Amounts reclassified from AOCI		5		6		1
Net current period OCI		(10)		22		(85)
Balance at end of period	$	(147)	$	(137)	$	(159)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*							
	Year to Date						
	2016		2015		2014		Income Statement Line Item
Defined Benefit Pension Plans:							
Periodic pension costs	$	(5)	$	(6)	$	(1)	See Note 9.
Amounts reclassified	$	(5)	$	(6)	$	(1)	

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

	At or for the Year ended December 31, 2016					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 213	$ 213	$ –	$ –	$ 213	
Recurring Assets	$ 213	$ 213	$ –	$ –	$ 213	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 39,360	$ –	$ –	$ 39,360	$ 39,360	$ 1,769
Other property owned	4,025	–	–	4,602	4,602	191
Nonrecurring Assets	$ 43,385	$ –	$ –	$ 43,962	$ 43,962	$ 1,960
Other Financial Instruments						
Assets:						
Cash	$ 1,238	$ 1,238	$ –	$ –	$ 1,238	
Loans	782,128	–	–	779,294	779,294	
Other Financial Assets	$ 783,366	$ 1,238	$ –	$ 779,294	$ 780,532	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 621,886	$ –	$ –	$ 613,916	$ 613,916	
Other Financial Liabilities	$ 621,886	$ –	$ –	$ 613.916	$ 613,916	

	At or for the Year ended December 31, 2015					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 218	$ 218	$ –	$ –	$ 218	
Recurring Assets	$ 218	$ 218	$ –	$ –	$ 218	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 39,028	$ –	$ –	$ 39,028	$ 39,028	$ 1,467
Other property owned	2,342	–	–	2,541	2,541	1,139
Nonrecurring Assets	$ 41,370	$ –	$ –	$ 41,569	$ 41,569	$ 2,606
Other Financial Instruments						
Assets:						
Cash	$ 445	$ 445	$ –	$ –	$ 445	
Loans	787,027	–	–	800,239	800,239	
Other Financial Assets	$ 787,472	$ 445	$ –	$ 800,239	$ 800,684	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 623,422	$ –	$ –	$ 625,777	$ 625,777	
Other Financial Liabilities	$ 623,422	$ –	$ –	$ 625,777	$ 625,777	

	At or for the Year ended December 31, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 231	$ 231	$ –	$ –	$ 231	
Recurring Assets	$ 231	$ 231	$ –	$ –	$ 231	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 39,367	$ –	$ –	$ 39,367	$ 39,367	$ (870)
Other property owned	8,269	–	–	9,205	9,205	(599)
Nonrecurring Assets	$ 47,636	$ –	$ –	$ 48,572	$ 48,572	$ (1,469)
Other Financial Instruments						
Assets:						
Cash	$ 80	$ 80	$ –	$ –	$ 80	
Loans	785,279	–	–	786,950	786,950	
Other Financial Assets	$ 785,359	$ 80	$ –	$ 786,950	$ 787,030	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 636,993	$ –	$ –	$ 632,735	$ 632,735	
Other Financial Liabilities	$ 636,993	$ –	$ –	$ 632,735	$ 632,735	

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	$ 43,962	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 9 — Employee Benefit Plans

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

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

In November 2014, the AgFirst Plan Sponsor Committee approved and executed amendments to the CB Plan that included the following changes:

1. The CB Plan was closed to new participants effective as of December 31, 2014. Based on the plan's eligibility provisions, this change affected employees hired on or after November 4, 2014.

2. Employer contributions were discontinued effective as of January 1, 2015.

3. All participants who were not already fully vested in the CB Plan became fully vested as of December 31, 2014.

4. The CB Plan was terminated effective as of December 31, 2015.

A favorable determination letter was received from the Internal Revenue Service, and as a result of the termination of the CB Plan, vested benefits will be distributed to participants in 2017. Participants will continue to receive interest credits to their hypothetical cash balance accounts following the termination of the plan through the month immediately preceding the month in which the vested benefits are distributed from the plan.

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

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

The Association's participation in the multiemployer defined benefit plans for the annual periods ended December 31, is outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Association's respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
AgFirst Farm Credit Retirement Plan	86.96%	85.73%	84.56%	$2,103	$4,608	$3,015	7.37%	7.98%	7.94%
AgFirst Farm Credit Cash Balance Retirement Plan	100.21%	102.72%	100.07%	$–	$–	$220	0.00%	0.00%	4.43%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$569	$572	$636	7.91%	8.41%	8.23%

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

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number

2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association hired before November 4, 2014 are eligible to participate in either the FAP Plan or the CB Plan. These two plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003 through November 3, 2014, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. Prior to January 1, 2015, when employer contributions were discontinued as discussed above, the employer contribution into the CB Plan was based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $4,146 for 2016, $4,103 for 2015, and $4,465 for 2014. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $898 for 2016, $1,140 for 2015, and $667 for 2014. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $534, $484, and $344 for the years ended December 31, 2016, 2015, and 2014, respectively. Beginning in 2015, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

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 2016, 2015, and 2014, $(10), $22 and $(85) has been recognized as a net debit, net credit and net debit, 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 $556 and a net under-funded status of $556 at December 31, 2016. Assumptions used to determine the projected benefit obligation as of December 31, 2016 included a discount rate of 4.35 percent. The expenses of these nonqualified plans included in employee benefit costs were $32, $32, and $27 for 2016, 2015, and 2014, respectively.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2016 amounted to $10,930. During 2016, $4,681 of new loans were made and repayments totaled $6,688. In the opinion of management, none of these loans outstanding at December 31, 2016 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, 2016, $99,333 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, 2016, standby letters of credit outstanding totaled $3,168 with expiration dates ranging from January 6, 2017 to August 14, 2020. The maximum potential amount of future payments that may be required under these guarantees was $3,168.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2016	2015	2014
Current:			
Federal	$ 7	$ 8	$ 22
State	18	8	4
	$ 25	$ 16	$ 26
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 25	$ 16	$ 26

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

	December 31,		
	2016	2015	2014
Federal tax at statutory rate	$ 6,346	$ 6,901	$ 7,825
State tax, net	–	1	2
Effect of non-taxable FLCA subsidiary	(2,997)	(2,475)	(2,026)
Patronage distributions	(3,914)	(4,107)	(4,714)
Change in valuation allowance	617	(385)	(1,194)
Other	(27)	81	133
Provision (benefit) for income taxes	$ 25	$ 16	$ 26

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

	December 31,		
	2016	2015	2014
Deferred income tax assets:			
Allowance for loan losses	$ 1,716	$ 1,399	$ 1,615
Other property owned writedown	–	35	202
Annual leave	394	405	405
Nonaccrual loan interest	1,070	1,688	1,645
Pensions and other postretirement benefits	3,597	3,465	3,240
Depreciation	–	–	88
Gross deferred tax assets	6,777	6,992	7,195
Less: valuation allowance	(4,613)	(3,996)	(4,381)
Gross deferred tax assets, net of valuation allowance	2,164	2,996	2,814
Deferred income tax liabilities:			
Pensions and other postretirement benefits	(2,216)	(3,056)	(2,814)
Depreciation	87	60	–
Loan origination fees	(35)	–	–
Gross deferred tax liability	(2,164)	(2,996)	(2,814)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2016, 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 $4,613, $3,996 and $4,381 as of December 31, 2016, 2015 and 2014, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2016 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2013 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2016				
	First	Second	Third	Fourth	Total
Net interest income	$ 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

	2015				
	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

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 7,481	$ 7,542	$ 7,728	$ 7,865	$ 30,616
Provision for (reversal of allowance for) loan losses	(477)	1,102	(561)	(167)	(103)
Noninterest income (expense), net	(3,566)	(3,212)	(3,792)	2,182	(8,388)
Net income	$ 4,392	$ 3,228	$ 4,497	$ 10,214	$ 22,331

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 13, 2017, which was the date the financial statements were issued.

AgGeorgia Farm Credit

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