River Valley AgCredit, ACA

FIRST QUARTER 2017

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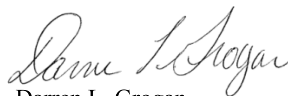
CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2017 quarterly report of River Valley AgCredit, 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.

Kyle M. Yancey
Chief Executive Officer
of River Valley AgCredit, ACA

David L. Richesin
Chairman of the Board
of River Valley AgCredit, ACA

Beth Barkley
Chief Financial Officer
of River Valley AgCredit, ACA



Darren L. Grogan
Member of the Board of Directors
Chairman of the Audit Committee
of River Valley AgCredit, ACA

May 8, 2017

River Valley AgCredit, ACA

Report on Internal Control Over Financial Reporting

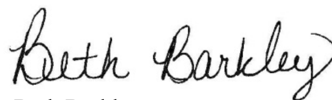
The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2017. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of March 31, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2017.

Kyle M. Yancey
Chief Executive Officer
of River Valley AgCredit, ACA



Beth Barkley
Chief Financial Officer
of River Valley AgCredit, ACA

May 8, 2017

River Valley AgCredit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of River Valley AgCredit, ACA (Association) for the period ended March 31, 2017. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, and the 2016 Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including corn, soybeans, poultry, and tobacco. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of March 31, 2017, was $475,122 as compared to $496,247 at December 31, 2016, a decrease of $21,125. Net loans outstanding at March 31, 2017, were $469,185 as compared to $490,291 at December 31, 2016. Net loans accounted for 95.22 percent of total assets at March 31, 2017, as compared to 94.32 percent of total assets at December 31, 2016. The decrease in gross and net loan volume during the reporting period is primarily attributable to the seasonal paydowns on operating loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from $5,824 at December 31, 2016, to $6,166 at March 31, 2017. This increase is primarily due to the repurchase of the Capitalized Participation Pool from AgFirst.

Other property owned (OPO) consists primarily of assets once held as loan collateral that were acquired through foreclosure or deeded to the Association (or a lender group) in satisfaction of secured loans. Traditionally, OPO is primarily in the form of real estate. However, it can also include equipment and equity interests in companies or partnerships. The Association's ownership interest in certain properties is primarily in the form of a limited liability company (LLC) equity. OPO totaled $535 at March 31, 2017, compared to $569 December 31, 2016.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2017, was $5,937 compared to $5,956 at December 31, 2016, and was considered by management to be adequate to cover probable losses. The decrease of $19 in the allowance for loan losses was primarily the result of a change in the specific reserves amount.

RESULTS OF OPERATIONS

For the three months ended March 31, 2017

Net income for the three months ended March 31, 2017, totaled $1,967 as compared to $1,081 for the same period in 2016, an increase of $886. Net interest income increased $138 for the three months ended March 31, 2017, as compared to the same period in 2016. This increase is attributed primarily to the Association's concerted effort to effectively manage interest rates.

Noninterest income for the three months ended March 31, 2017, totaled $1,344 as compared to $1,142 for the same period in 2016, an increase of $202. This is attributed to an increase of $178 in patronage refunds from other farm credit institutions, $7 in gains on sale of rural home loans, $17 in fee income and $21 in other noninterest income, offset by a decrease of $9 in financially related services and $12 in gains on sales of premises and equipment.

Noninterest expense for the three months ended March 31, 2017, totaled $2,734 as compared to $2,979 for the same period in 2016, a decrease of $245. This decrease is attributed to a decrease of $178 in salary and employee benefits, $81 in other operating expenses, $7 in insurance fund premiums and $4 in occupancy and equipment. It is offset by an increase of $25 in loss on OPO.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The

General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2017, was $385,546 compared to $411,707 at December 31, 2016.

CAPITAL RESOURCES

Total members' equity at March 31, 2017, increased to $93,420 from the December 31, 2016, total of $91,675. The increase is primarily attributed to unallocated retained earnings. Total capital stock and participation certificates were $4,416 on March 31, 2017, compared to $4,404 on December 31, 2016.

REGULATORY MATTERS

Capital

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced existing core surplus and total surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios. The new regulations also replaced the existing net collateral ratio with a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The current permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

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

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

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

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of March 31, 2017
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	15.70%
Tier 1 Capital	6.0%	0.625%	6.625%	15.70%
Total Capital	8.0%	0.625%	8.625%	16.95%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.19%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	14.42%
UREE Leverage Ratio	1.5%	0.0%	1.5%	14.25%

** - The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020.*

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

Other Regulatory Matters

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *"Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements"*, in the Notes to the Financial Statements, and the 2016 Annual Report to Shareholders for recently issued accounting pronouncements.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling (270) 247-5613, writing Beth Barkley, Chief Financial Officer, River Valley AgCredit, ACA, P.O. Box 309, Mayfield, KY 42066, or accessing the website, *www.rivervalleyagcredit.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

River Valley AgCredit, ACA

Consolidated Balance Sheets

(dollars in thousands)		March 31, 2017		December 31, 2016
		(unaudited)		*(audited)*
Assets				
Cash	**$**	**771**	$	675
Investment securities:				
Held to maturity (fair value of $3 and $8 respectively)		**3**		8
Loans		**475,122**		496,247
Allowance for loan losses		**(5,937)**		(5,956)
Net loans		**469,185**		490,291
Loans held for sale		**—**		643
Accrued interest receivable		**6,327**		6,025
Investments in other Farm Credit institutions		**6,730**		6,671
Premises and equipment, net		**5,887**		5,942
Other property owned		**535**		569
Accounts receivable		**1,400**		6,991
Other assets		**1,889**		1,976
Total assets	**$**	**492,727**	$	519,791
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**385,546**	$	411,707
Accrued interest payable		**842**		836
Patronage refunds payable		**304**		3,202
Accounts payable		**495**		963
Advanced conditional payments		**4,166**		2,788
Other liabilities		**7,954**		8,620
Total liabilities		**399,307**		428,116
Commitments and contingencies (Note 7)				
Members' Equity				
Capital stock and participation certificates		**4,416**		4,404
Additional paid-in-capital		**15,817**		15,817
Retained earnings				
Allocated		**40,067**		39,816
Unallocated		**33,120**		31,638
Total members' equity		**93,420**		91,675
Total liabilities and members' equity	**$**	**492,727**	$	519,791

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

River Valley AgCredit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2017	2016
Interest Income		
Loans	**$ 5,805**	$ 5,569
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**2,455**	2,356
Other	**11**	12
Total interest expense	**2,466**	2,368
Net interest income	**3,339**	3,201
Provision for (reversal of allowance for) loan losses	**(18)**	283
Net interest income after provision for (reversal of allowance for) loan losses	**3,357**	2,918
Noninterest Income		
Loan fees	**173**	156
Fees for financially related services	**43**	52
Patronage refunds from other Farm Credit institutions	**1,030**	852
Gains (losses) on sales of rural home loans, net	**67**	60
Gains (losses) on sales of premises and equipment, net	**10**	22
Other noninterest income	**21**	—
Total noninterest income	**1,344**	1,142
Noninterest Expense		
Salaries and employee benefits	**1,881**	2,059
Occupancy and equipment	**138**	142
Insurance Fund premiums	**122**	129
(Gains) losses on other property owned, net	**52**	27
Other operating expenses	**541**	622
Total noninterest expense	**2,734**	2,979
Net income	**1,967**	1,081
Other comprehensive income	**—**	—
Comprehensive income	**$ 1,967**	$ 1,081

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

River Valley AgCredit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2015	$ 4,541	$ 15,817	$ 39,882	$ 28,974	$ 89,214
Comprehensive income				1,081	1,081
Capital stock/participation certificates issued/(retired), net	(58)				(58)
Retained earnings retired			(1)		(1)
Patronage distribution adjustment			(483)	598	115
Balance at March 31, 2016	$ 4,483	$ 15,817	$ 39,398	$ 30,653	$ 90,351
Balance at December 31, 2016	**$ 4,404**	**$ 15,817**	**$ 39,816**	**$ 31,638**	**$ 91,675**
Comprehensive income				**1,967**	**1,967**
Capital stock/participation certificates issued/(retired), net	**12**				**12**
Retained earnings retired			**(1)**		**(1)**
Patronage distribution adjustment			**252**	**(485)**	**(233)**
Balance at March 31, 2017	**$ 4,416**	**$ 15,817**	**$ 40,067**	**$ 33,120**	**$ 93,420**

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

River Valley AgCredit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization
The accompanying financial statements include the accounts of River Valley AgCredit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2016, are contained in the 2016 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

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

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

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

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

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

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

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In January 2017, the FASB issued ASU 2017-04 Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The Update simplifies the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of

goodwill. The amendment removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for reporting periods beginning after December 15, 2020 for public business entities that are not SEC filers. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In January 2017, the FASB issued ASU 2017-03 Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update). The ASU incorporates recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The Update was effective upon issuance. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

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

Potential effects of ASUs issued in previous periods:

- 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. In January, 2017, the FASB issued this update to provide a more robust framework to use in determining when a set of assets and activities is a business. It supports more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. For public business entities, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-16 Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory: In October, 2016, the FASB issued this Update that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public business entities, the amendments are effective, on a modified retrospective basis, for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June, 2016, the FASB issued this Update to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued this Update which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued this Update which is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2014-09 Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued this guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the

consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB has issued several additional Updates that generally provide clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606. The guidance and all related updates will be effective for reporting periods beginning after December 15, 2017 for public business entities. Early application is not permitted. The amendments are to be applied retrospectively. The Association has identified ancillary revenues that will be affected by this Update. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

Accounting Standards Effective During the Period

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

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

- 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. In November, 2016, the FASB issued this Update to clarify that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.

- 2016-17 Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control: In October, 2016, the FASB issued this Update to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Application of the guidance had no impact on the Association's financial statements.

- 2016-15 Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August, 2016, the FASB issued this Update to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	March 31, 2017	December 31, 2016
Real estate mortgage	$ 229,224	$ 220,738
Production and intermediate-term	195,887	222,689
Loans to cooperatives	3,203	3,278
Processing and marketing	1,676	2,003
Farm-related business	4,927	6,538
Rural residential real estate	15,345	15,123
Other (including Mission Related)	24,860	25,878
Total Loans	$ 475,122	$ 496,247

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

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. During the first quarter of 2017, the Association canceled its participation in the Capitalized Participation Pool program with the Bank. As a result, the Association repurchased $9,301 of participations previously sold to AgFirst. The following tables present the principal balance of participation loans at periods ended:

	March 31, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ –	$ –	$ –	$ –	$ 1,093	$ –	$ 1,093
Production and intermediate-term	5,013	5,896	–	–	–	1,014	5,013	6,910
Loans to cooperatives	1,940	–	–	–	1,265	–	3,205	–
Processing and marketing	1,681	–	–	–	–	–	1,681	–
Farm-related business	343	–	–	–	–	–	343	–
Other (including Mission Related)	–	–	–	–	23,964	–	23,964	–
Total	$ 8,977	$ 5,896	$ –	$ –	$ 25,229	$ 2,107	$ 34,206	$ 8,003

	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	$ –	$ 7,022	$ –	$ –	$ –	$ 1,504	$ –	$ 8,526
Production and intermediate-term	4,959	8,924	–	–	–	729	4,959	9,653
Loans to cooperatives	1,941	–	–	–	1,341	–	3,282	–
Processing and marketing	2,010	–	–	–	–	–	2,010	–
Farm-related business	462	–	–	–	–	–	462	–
Rural residential real estate	–	204	–	–	–	–	–	204
Other (including Mission Related)	–	–	–	–	24,922	–	24,922	–
Total	$ 9,372	$ 16,150	$ –	$ –	$ 26,263	$ 2,233	$ 35,635	$ 18,383

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:

	March 31, 2017			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 2,204	$ 21,505	$ 205,515	$ 229,224
Production and intermediate-term	77,260	72,261	46,366	195,887
Loans to cooperatives	1,265	1,938	–	3,203
Processing and marketing	–	1,240	436	1,676
Farm-related business	3,203	356	1,368	4,927
Rural residential real estate	1,458	1,558	12,329	15,345
Other (including Mission Related)	107	3,708	21,045	24,860
Total Loans	$ 85,497	$ 102,566	$ 287,059	$ 475,122
Percentage	17.99%	21.59%	60.42%	100.00%

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

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

	March 31, 2017	December 31, 2016
Real estate mortgage:		
Acceptable	92.07%	91.81%
OAEM	4.19	4.37
Substandard/doubtful/loss	3.74	3.82
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	87.79%	88.73%
OAEM	3.30	3.05
Substandard/doubtful/loss	8.91	8.22
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	79.36%
OAEM	–	20.64
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2017	December 31, 2016
Farm-related business:		
Acceptable	78.27%	82.41%
OAEM	–	–
Substandard/doubtful/loss	21.73	17.59
	100.00%	100.00%
Rural residential real estate:		
Acceptable	96.64%	96.65%
OAEM	0.17	0.19
Substandard/doubtful/loss	3.19	3.16
	100.00%	100.00%
Other (including Mission Related)		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	90.80%	90.88%
OAEM	3.39	3.40
Substandard/doubtful/loss	5.81	5.72
	100.00%	100.00%

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

March 31, 2017	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 591	$ 3,064	$ 3,655	$ 228,701	$ 232,356	$ –
Production and intermediate-term	1,170	997	2,167	196,591	198,758	–
Loans to cooperatives	–	–	–	3,219	3,219	–
Processing and marketing	–	–	–	1,680	1,680	–
Farm-related business	–	–	–	4,941	4,941	–
Rural residential real estate	95	196	291	15,118	15,409	110
Other (including Mission Related)	–	–	–	25,086	25,086	–
Total	$ 1,856	$ 4,257	$ 6,113	$ 475,336	$ 481,449	$ 110

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	$ 1,113	$ 853	$ 1,966	$ 221,457	$ 223,423	$ –
Production and intermediate-term	479	1,168	1,647	224,060	225,707	–
Loans to cooperatives	–	–	–	3,297	3,297	–
Processing and marketing	–	–	–	2,006	2,006	–
Farm-related business	44	–	44	6,516	6,560	–
Rural residential real estate	257	7	264	14,908	15,172	–
Other (including Mission Related)	103	–	103	26,004	26,107	–
Total	$ 1,996	$ 2,028	$ 4,024	$ 498,248	$ 502,272	$ –

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

	March 31, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	$ 3,679	$ 3,058
Production and intermediate-term	1,190	1,407
Farm-related business	1,074	1,154
Rural residential real estate	223	205
Total	$ 6,166	$ 5,824
Accruing restructured loans:		
Real estate mortgage	$ 2,321	$ 2,323
Production and intermediate-term	72	–
Rural residential real estate	22	22
Total	$ 2,415	$ 2,345
Accruing loans 90 days or more past due:		
Rural residential real estate	$ 110	$ –
Total	$ 110	$ –
Total nonperforming loans	$ 8,691	$ 8,169
Other property owned	535	569
Total nonperforming assets	$ 9,226	$ 8,738
Nonaccrual loans as a percentage of total loans	1.30%	1.17%
Nonperforming assets as a percentage of total loans and other property owned	1.94%	1.76%
Nonperforming assets as a percentage of capital	9.88%	9.53%

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

	March 31, 2017	December 31, 2016
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,874	$ 2,956
Past due	4,292	2,868
Total	$ 6,166	$ 5,824
Impaired accrual loans:		
Restructured	$ 2,415	$ 2,345
90 days or more past due	110	–
Total	$ 2,525	$ 2,345
Total impaired loans	$ 8,691	$ 8,169
Additional commitments to lend	$ 10	$ 9

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

	March 31, 2017			Quarter Ended March 31, 2017	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 26	$ 47	$ 26	$ 25	$ –
Production and intermediate-term	649	674	391	639	3
Rural residential real estate	56	92	14	55	–
Total	$ 731	$ 813	$ 431	$ 719	$ 3
With no related allowance for credit losses:					
Real estate mortgage	$ 5,974	$ 6,110	$ –	$ 5,878	$ 27
Production and intermediate-term	613	922	–	603	3
Farm-related business	1,074	1,199	–	1,057	5
Rural residential real estate	299	359	–	293	2
Total	$ 7,960	$ 8,590	$ –	$ 7,831	$ 37
Total:					
Real estate mortgage	$ 6,000	$ 6,157	$ 26	$ 5,903	$ 27
Production and intermediate-term	1,262	1,596	391	1,242	6
Farm-related business	1,074	1,199	–	1,057	5
Rural residential real estate	355	451	14	348	2
Total	$ 8,691	$ 9,403	$ 431	$ 8,550	$ 40

Impaired loans:	December 31, 2016 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2016 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 28	$ 49	$ 29	$ 31	$ –
Production and intermediate-term	787	806	407	878	3
Rural residential real estate	56	93	14	63	–
Total	$ 871	$ 948	$ 450	$ 972	$ 3
With no related allowance for credit losses:					
Real estate mortgage	$ 5,353	$ 5,553	$ –	$ 5,971	$ 21
Production and intermediate-term	620	718	–	691	2
Farm-related business	1,154	1,252	–	1,287	4
Rural residential real estate	171	214	–	191	1
Total	$ 7,298	$ 7,737	$ –	$ 8,140	$ 28
Total:					
Real estate mortgage	$ 5,381	$ 5,602	$ 29	$ 6,002	$ 21
Production and intermediate-term	1,407	1,524	407	1,569	5
Farm-related business	1,154	1,252	–	1,287	4
Rural residential real estate	227	307	14	254	1
Total	$ 8,169	$ 8,685	$ 450	$ 9,112	$ 31

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2016	$ 2,175	$ 3,581	$ 90	$ 110	$ –	$ 5,956
Charge-offs	(1)	(2)	–	–	–	(3)
Recoveries	–	2	–	–	–	2
Provision for loan losses	(2)	(16)	–	–	–	(18)
Balance at March 31, 2017	$ 2,172	$ 3,565	$ 90	$ 110	$ –	$ 5,937
Balance at December 31, 2015	$ 2,400	$ 3,394	$ 76	$ 186	$ –	$ 6,056
Charge-offs	(142)	(77)	–	(62)	–	(281)
Recoveries	–	1	–	–	–	1
Provision for loan losses	141	92	–	50	–	283
Balance at March 31, 2016	$ 2,399	$ 3,410	$ 76	$ 174	$ –	$ 6,059
Allowance on loans evaluated for impairment:						
Individually	$ 26	$ 391	$ –	$ 14	$ –	$ 431
Collectively	2,146	3,174	90	96	–	5,506
PCI**	–	–	–	–	–	–
Balance at March 31, 2017	$ 2,172	$ 3,565	$ 90	$ 110	$ –	$ 5,937
Individually	$ 29	$ 407	$ –	$ 14	$ –	$ 450
Collectively	2,146	3,174	90	96	–	5,506
PCI**	–	–	–	–	–	–
Balance at December 31, 2016	$ 2,175	$ 3,581	$ 90	$ 110	$ –	$ 5,956
Recorded investment in loans evaluated for impairment:						
Individually	$ 5,850	$ 1,263	$ 1,074	$ 322	$ –	$ 8,509
Collectively	226,221	197,495	8,766	15,048	25,086	472,616
PCI**	285	–	–	39	–	324
Balance at March 31, 2017	$ 232,356	$ 198,758	$ 9,840	$ 15,409	$ 25,086	$ 481,449
Individually	$ 5,228	$ 1,407	$ 1,154	$ 195	$ –	$ 7,984
Collectively	217,908	224,300	10,709	14,936	26,107	493,960
PCI**	287	–	–	41	–	328
Balance at December 31, 2016	$ 223,423	$ 225,707	$ 11,863	$ 15,172	$ 26,107	$ 502,272

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during the three months ended March 31, 2016.

	Three months ended March 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 72	$ –	$ 72	
Total	$ –	$ 72	$ –	$ 72	
Post-modification:					
Production and intermediate-term	$ –	$ 72	$ –	$ 72	$ –
Total	$ –	$ 72	$ –	$ 72	$ –

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

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

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2017	**December 31, 2016**	**March 31, 2017**	**December 31, 2016**
Real estate mortgage	$ 3,613	$ 3,634	$ 1,292	$ 1,311
Production and intermediate-term	95	27	23	27
Rural residential real estate	53	55	31	33
Total Loans	$ 3,761	$ 3,716	$ 1,346	$ 1,371
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

	March 31, 2017
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 295
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ –

Purchased Credit Impaired (PCI) Loans

For further discussion of the Association's accounting for PCI loans, see Note 2, *Summary of Significant Accounting Policies*, from the Association's most recent Annual Report.

The carrying amounts of loans acquired in a 2012 business combination included in the balance sheet amounts of loans receivable at period end were as follows:

	March 31, 2017	December 31, 2016
Real estate mortgage	$ 285	$ 287
Rural residential real estate	39	41
Total Loans	$ 324	$ 328

There was no allowance for loan losses related to these loans at either March 31, 2017 or December 31, 2016. For the three months ended March 31, 2017, provision for loan losses on these loans was an expense reversal of $1 compared to no provision expense for the three months ended March 31, 2016. See above for a summary of changes in the total allowance for loan losses for the period ended March 31, 2017. There were no other loans acquired during 2017 or 2016 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain of the loans acquired by the Association in the business combination that were within the scope of PCI loan guidance are accounted for using a cash basis method of income recognition because the Association cannot reasonably estimate cash flows expected to be collected. Substantially all of the

loans acquired were real estate collateral dependent loans. The real estate market is unpredictable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the Association does not have the information necessary to reasonably estimate cash flows expected to be collected to compute its yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance.

Note 3 — Investments

Investment Securities

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

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

	March 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 3	$ –	$ –	$ 3	1.28%

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 8	$ –	$ –	$ 8	1.49%

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

	March 31, 2017		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 3	$ 3	1.28%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	–	–	–
Total	$ 3	$ 3	1.28%

Expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. There were no securities in a continuous unrealized loss position at March 31, 2017 or December 31, 2016.

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

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

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

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

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity,

and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

A substantial portion of these investments was in U.S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

Investments in other Farm Credit Institutions
The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 2.46 percent of the issued stock of the Bank as of March 31, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled $31.0 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $83 million for the first three months of 2017. In addition, the Association held investments of $473 related to other Farm Credit institutions.

Note 4 — Debt

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

Note 5 — Fair Value Measurement

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

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

The classifications of the Association's financial instruments within the fair value hierarchy are as follows:

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

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

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

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

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

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

	At or for the Three months Ended March 31, 2017					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 8,260	$ –	$ –	$ 8,260	$ 8,260	$ 18
Other property owned	535	–	–	601	601	(31)
Nonrecurring Assets	$ 8,795	$ –	$ –	$ 8,861	$ 8,861	$ (13)
Other Financial Instruments						
Assets:						
Cash	$ 771	$ 771	$ –	$ –	$ 771	
Investment securities, held-to-maturity	3	–	–	3	3	
Loans	460,925	–	–	453,550	453,550	
Other Financial Assets	$ 461,699	$ 771	$ –	$ 453,553	$ 454,324	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 385,546	$ –	$ –	$ 378,887	$ 378,887	
Other Financial Liabilities	$ 385,546	$ –	$ –	$ 378,887	$ 378,887	

	At or for the Year Ended December 31, 2016					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 7,719	$ –	$ –	$ 7,719	$ 7,719	$ (319)
Other property owned	569	–	–	639	639	(7)
Nonrecurring Assets	$ 8,288	$ –	$ –	$ 8,358	$ 8,358	$ (326)
Other Financial Instruments						
Assets:						
Cash	$ 675	$ 675	$ –	$ –	$ 675	
Investment securities, held-to-maturity	8	–	–	8	8	
Loans	483,215	–	–	475,075	475,075	
Accrued Interest Receivable	6,025	–	6,025	–	6,025	
Other Financial Assets	$ 489,923	$ 675	$ 6,025	$ 475,083	$ 481,783	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 411,707	$ –	$ –	$ 404,539	$ 404,539	
Accrued Interest Payable	836	–	836	-	836	
Other Financial Liabilities	$ 412,543	$ –	$ 836	$ 404,539	$ 405,375	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a

change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities. These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

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

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 8,861	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
Investment securities, held-to-maturity	Vendor priced	**
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

*** The significant unobservable inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

Note 6 — Employee Benefit Plans

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

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Pension	$ 316	$ 313
401(k)	85	75
Other postretirement benefits	107	103
Total	$ 508	$ 491

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

	Actual YTD Through 3/31/17	Projected Contributions For Remainder of 2017	Projected Total Contributions 2017
Pension	$ –	$ 863	$ 863
Other postretirement benefits	33	94	127
Total	$ 33	$ 957	$ 990

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2017.

Further details regarding employee benefit plans are contained in the 2016 Annual Report to Shareholders. As of March 31, 2017, the AgFirst Farm Credit Cash Balance Retirement Plan has been terminated and all vested benefits have been distributed to participants.

Note 7 — Commitments and Contingent Liabilities

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

Note 8 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 8, 2017, which was the date the financial statements were issued.