2017 ANNUAL REPORT

FARM CREDIT
CAROLINA

IN THIS REPORT

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(dollars in thousands)	2017	2016	December 31, 2015	2014	2013
Balance Sheet Data					
Cash	**$ 11,335**	$ 2,246	$ 7,514	$ 2,913	$ 2,348
Investment securities	**1,644**	1,746	1,852	2,099	3,502
Loans	**1,454,005**	1,412,807	1,384,220	1,371,191	1,361,835
Allowance for loan losses	**(7,837)**	(7,348)	(7,402)	(6,614)	(5,560)
Net loans	**1,446,168**	1,405,459	1,376,818	1,364,577	1,356,275
Investments in other Farm Credit institutions	**17,364**	17,051	16,974	16,658	15,223
Other property owned	**143**	5,781	6,069	2,892	3,581
Other assets	**68,481**	69,926	73,794	73,915	91,243
Total assets	**$ 1,545,135**	$ 1,502,209	$ 1,483,021	$ 1,463,054	$ 1,472,172
Notes payable to AgFirst Farm Credit Bank*	**$ 1,180,640**	$ 1,138,884	$ 1,132,911	$ 1,128,326	$ 1,158,043
Accrued interest payable and other liabilities with maturities of less than one year	**43,957**	50,527	44,552	35,499	34,064
Total liabilities	**1,224,597**	1,189,411	1,177,463	1,163,825	1,192,107
Capital stock and participation certificates	**8,819**	8,361	8,047	8,062	7,927
Retained earnings					
Allocated	**193,930**	191,073	187,593	183,568	167,311
Unallocated	**119,871**	115,256	111,139	108,928	105,259
Accumulated other comprehensive income (loss)	**(2,082)**	(1,892)	(1,221)	(1,329)	(432)
Total members' equity	**320,538**	312,798	305,558	299,229	280,065
Total liabilities and members' equity	**$ 1,545,135**	$ 1,502,209	$ 1,483,021	$ 1,463,054	$ 1,472,172
Statement of Income Data					
Net interest income	**$ 47,429**	$ 47,160	$ 47,676	$ 49,072	$ 41,890
Provision for (reversal of allowance for) loan losses	**175**	(485)	2,501	2,014	2,868
Noninterest income (expense), net	**(3,399)**	(15,873)	(15,247)	(8,417)	1,545
Net income	**$ 43,855**	$ 31,772	$ 29,928	$ 38,641	$ 40,567
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.92%**	2.18%	2.10%	2.68%	3.18%
Total members' equity	**13.60%**	10.01%	9.62%	13.16%	15.06%
Net interest income as a percentage of average earning assets	**3.31%**	3.40%	3.50%	3.57%	3.49%
Net (chargeoffs) recoveries to average loans	**0.022%**	0.031%	(0.126)%	(0.070)%	(0.513)%
Total members' equity to total assets	**20.74%**	20.82%	20.60%	20.45%	19.02%
Debt to members' equity (:1)	**3.82**	3.80	3.85	3.89	4.26
Allowance for loan losses to loans	**0.54%**	0.52%	0.53%	0.48%	0.41%
Permanent capital ratio	**20.68%**	21.88%	21.62%	20.54%	20.34%
Total surplus ratio	**	21.28%	21.03%	19.96%	19.68%
Core surplus ratio	**	18.84%	18.52%	17.36%	16.68%
Common equity tier 1 capital ratio	**17.41%**	**	**	**	**
Tier 1 capital ratio	**17.41%**	**	**	**	**
Total regulatory capital ratio	**21.15%**	**	**	**	**
Tier 1 leverage ratio	**17.06%**	**	**	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**16.68%**	**	**	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 21,502**	$ 12,603	$ 11,681	$ 5,714	$ 5,539
Qualified allocated retained earnings	—	—	—	7,349	8,747
Nonqualified allocated retained earnings	—	—	—	5,985	4,178
Nonqualified retained earnings	**17,981**	14,626	15,210	15,798	18,651

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

LETTER TO THE STOCKHOLDERS

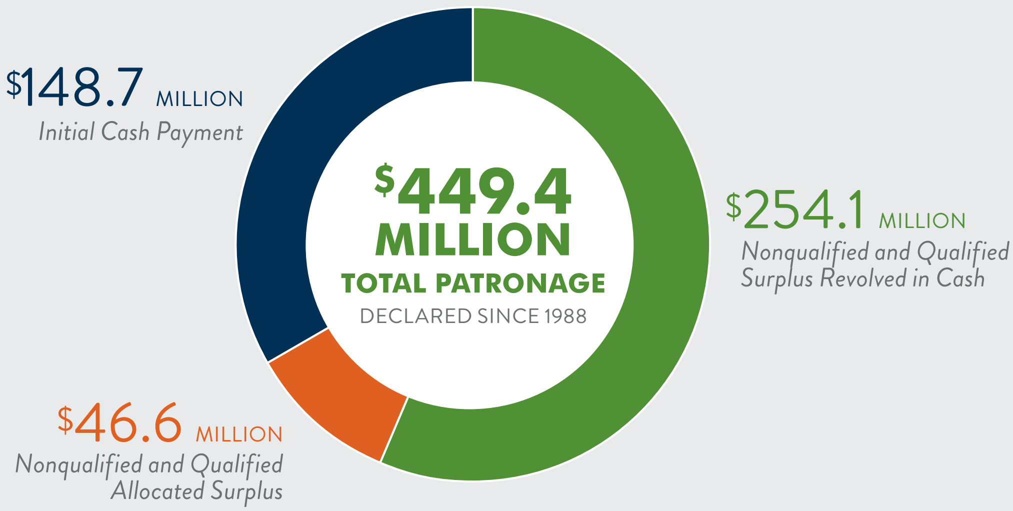
Carolina Farm Credit has been blessed with a record year. On behalf of the Board of Directors and staff, I would like to thank you for the contributions you have made to our success. I am pleased to report that our final net earnings, as of December 31, 2017, exceeded $43.8 million, a record high! These earnings generated a strong return on assets of 2.92%. Our core earnings remained strong and were boosted by a special patronage from our funding bank, AgFirst Farm Credit Bank. During the year, the Association surpassed 10,000 stockholders to end at 10,344, a record number. Our assets, which are primarily loans to our stockholders grew to $1.55 billion, another record high. During the year, our credit quality improved and we reduced our nonearning assets. Capital remains strong, which positions the Association for future growth and to be a stable source of credit for your operations in the years to come.

Operating as a cooperative allows us to share our success with you. The board of directors has approved a cash dividend based on 2017 earnings to be paid in April 2018. This will be the 30th consecutive year that we have returned interest back to our borrowers through our patronage program. This program allows our profits to be reinvested back into the farming operations and local communities where we work and live.

The cooperative business model was created to meet a common need of a particular group of people or businesses. In our case, it's providing credit to farmers and people in rural areas. That common need often leads to a sense of community. At Carolina Farm Credit, we believe that supporting agriculture and our rural areas means that we must do more than lend money. We want to be an integral part of the community. That means we must serve and give back to the communities in our footprint. Throughout this annual report, you will see examples of Farm Credit's and our employees' record giving in 2017. You will also see examples of how our employees served the communities in which they live. Whether it was coordinating a shooting event for 4-H and FFA, raising funds for hurricane relief, planting flowers in a garden at a local charity, or providing a grant to help a Farmer's Market be more successful—we were blessed to be part of the community. Our passion is to support our farmers, families and rural communities.

This annual report contains the details of our 2017 financial performance. You will note that the Association experienced strong financial performance and is well positioned to grow and meet the financing needs of the future. Thank you for your business! It is a privilege to support you and we look forward to a successful 2018.

Vance C. Dalton, Jr.
Chief Executive Officer



FARM CREDIT ASSOCIATIONS OF NORTH CAROLINA DONATE TO HURRICANE RELIEF

Ag Carolina Farm Credit, Cape Fear Farm Credit, and Carolina Farm Credit employees donated $26,000 from employees and directors for Hurricane Harvey and Hurricane Irma relief efforts. A "Jeans for a Cause" fundraiser was available to employees and directors during the fourth quarter of 2017. Participating employees paid $100 to wear jeans every Friday for the remainder of 2017, with the proceeds being donated to the hurricane relief efforts. Farm Credit matched each employee's contributions for a total of $52,000.

The funds were sent to Samaritan's Purse to be distributed as necessary. Samaritan's Purse set up five disaster relief units in Texas to equip staff and volunteers as they served residents recovering from Hurricane Harvey and its aftermath. Samaritan's Purse delivered critically needed supplies to storm survivors and affected families of Hurricane Irma.

"Samaritan's Purse is grateful for Farm Credit and their employees who've made a very generous gift in support of our work responding to the recent hurricanes that have affected Texas, Florida and the Caribbean. Our work is intense and important. Having Farm Credit come along side of us by supporting our work and the victims of these storms financially is a huge blessing to the people and communities affected. We thank the Lord for you all," said Jim Loscheider, Vice President Donor Ministries.

Hurricane Harvey and Hurricane Irma impacted many of the people, highways, homes, businesses, and farming operations throughout the southern part of the United States, especially Texas, Florida, and Puerto Rico. Farm Credit serves many of the areas affected by the disaster.

The mission of the Farm Credit System is to be there for the agricultural and rural communities through good times and bad.

$143,000 AWARDED TO LOCAL ORGANIZATIONS AND COLLEGE STUDENTS

CORPORATE MISSION FUND

FARM CREDIT CAROLINA

Alexander County High School FFA (Alexander County) – Funds will be used to build a structure to house a portable livestock handling facility in order to educate Animal Science students and local producers about Beef Quality Assurance guidelines and safe handling practices.

Agribusiness Henderson County (Henderson County) – The Corporate Mission Fund grant will be used to develop a series of short promotional videos that will promote local farmers and agribusiness operations.

Alamance Soil & Water Conservation District (Alamance County) – The Corporate Mission Fund grant was awarded to assist the Soil and Water District in purchasing a no till drill.

Back in the Woods Again (Chatham County) – Funding was requested to help provide lodging, meals, and gear to wheelchair bound individuals and children with disabilities participating in the hunting program.

Bartlett Yancey FFA/Agricultural Education (Caswell County) – Grant funds will be used to purchase building materials for the school's new animal science program. Building materials will allow for stalls and shelter to be built for animals, as well as a shelter for the outdoor classroom area for students.

Bit of Hope Ranch (Gaston County) – The Corporate Mission Fund grant will be used to improve walkways, fences, rest areas, and shade components that will enhance the therapeutic services offered to clients.

Blue Ridge Women in Agriculture (Watauga County) – Funding will be used to renovate the root crop storage facility at the High Country Food Hub. Having a usable root crop storage space will provide a cost effective way for farmers to sell more product.

Carolina Antique Power Association Inc. (Rowan County) – Grant Funds will be used to complete the interior of the Country Life Museum at Sloan Park. Funds will also be used to purchase interior and exterior signage for the museum.

Carolina Farm Stewardship Association (Cabarrus County) – The Corporate Mission Fund grant was awarded to replace/repair the irrigation system at the Lomax Incubator Farm. The new irrigation system will allow for more reliable operation.

Catawba Valley Cattlemen's Association (Iredell County) – Funding was awarded to help in the purchase of a new enclosed trailer that will be used to serve BBQ, at meetings and fund raising events.

Central Carolina Holstein Association (Orange County) – The Corporate Mission Fund grant was requested in order to make repairs to the organizations facility in Orange Grove. Repairs will include replacing the heating and air conditioning system in the meeting space, replacing fans in the show barn, and purchasing other needed items.

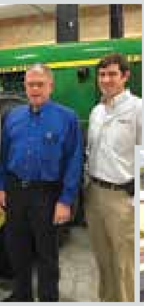
Cleveland Community College Foundation, Inc. (Cleveland County) – Funds will be used to purchase grain bin rescue materials for use in the Agricultural Machinery Rescue course being offered by the college.

Elkin High School Agriculture Program (Surry County) – Grant funds were requested to help fund the school's, Land and Stream Hands on Learning Labs Project. Students are able to hatch and grow trout to be released into the local Elk Creek, along with growing seedlings to be used in grafting projects.

Forest Equipment Operator Training School, Inc. (Rockingham County) – Funds will be used to develop a recruitment strategy that will focus on retired veterans. This program will include a state and regional effort to identify veteran agencies to partner with the school.

Haywood's Historic Farmers Market (Haywood County) – Funding was requested to purchase permanent signage, banners, and customer marketing pieces in order to increase the visibility of the market in the local community.

2017 marks the third year that Carolina Farm Credit has distributed grants from its Corporate Mission Fund. $143,000 was donated to 26 local organizations and eight college students in 2017. Since it began in 2015, the Carolina Farm Credit Corporate Mission Fund has awarded $387,000 to local organizations and college students.



Iredell-Statesville Schools Occupational Course of Study (Iredell County) – Grant funds were awarded to help purchase and construct a greenhouse that will provide students with a hands-on learning experience and life skills that will transfer into adulthood.

North Carolina Cooperative Extension, Transylvania Center (Transylvania County) – A Corporate Mission Fund grant was awarded for the purchase of a livestock scale. This scale will be made available to local producers who are currently not eligible to participate in value-added marketing programs due to the requirement that animals must be weighed.

Oak Grove High School FFA (Davidson County) – Funds were requested to help start the school's new FFA chapter. Funding will be used to help purchase FFA jackets for new members.

Pheiffer University (Stanly County) – The Corporate Mission Fund grant will be used to purchase supplies to increase productivity of the school's community garden. Supplies will include, lumber to build a deck and wheelchair ramp, gravel for walking areas, and materials for the construction of new garden boxes and cattle panels.

Piedmont Progressive Farmers Group COOP (Jackson County) – Funding is being provided to help with the purchase of a mobile walk-in refrigeration/freezer unit that will be used to transport products from local farms to processing/distribution centers.

Ridgecrest Volunteer Fire Department (Stanly County) – Funding was requested to supply the fire department with equipment and training to assist in agricultural rescue operations.

Southwestern Community College Small Business Center (Jackson County) – Funds were requested to be used for the schools, 4th annual Appalachian Farm School. AFS is an eight week training program designed for small to medium-sized farms.

The Patterson School Foundation (Caldwell County) – Funding was requested to construct a greenhouse that will be used for starting seeds and transplants. This greenhouse will allow the school to offer a fully operational farm system.

Veterans Healing Farm (Henderson County) – Grant funds were provided to purchase equipment that will support the farm's newly launched "Farmer Veteran Boot Camp" program. This program will train veterans in sustainable agriculture, holistic health, and renewable energy.

Victory Junction (Randolph County) – The grant funds will be used to expand the camp's Barn program by purchasing a warmblood size two horse trailer. The horse trailer will allow the camp to transport their large horses to integrate them into local programs and shows.

Wilkes Early College High School (Wilkes County) – The Corporate Mission Fund grant will be used to develop a bee keeping program that will focus on experiential learning and education outreach.

Recipients of the 2017-2018 N.C. A&T University-Carolina Farm Credit Scholarships:

- Carltina Johnson
- Kaitlyn Templeton
- Kaaria Walker
- Caleb Bryson

Recipients of the 2017-2018 North Carolina State University-Carolina Farm Credit Scholarships:

- Elizabeth Carrigan
- Melanie Fishel
- Rebecca Pierce
- Olin Austin

For more information about scholarship recipients, please visit carolinafarmcredit.com

"Our Corporate Mission Fund allows us an opportunity to support grass roots organizations that are making a difference in their rural communities. We are also thrilled to be able to support these college students furthering their education with the scholarships."

— Vance Dalton, CEO, Carolina Farm Credit

BRANCH COMMUNITY SERVICE INITIATIVES

The **Albemarle** Branch staff of Carolina Farm Credit spent a day working at Community Table. They were able to serve 91 people in need. The staff worked together as a team to feed local community members in need and then purchased non-perishable items to restock the food pantry.

The **Asheboro** Branch staff volunteered at Toys for Tots. The office staff purchased toys and worked at the sorting facility packaging and wrapping gifts for the families of military personnel stationed overseas.

The **Asheville** staff volunteered with the National Multiple Sclerosis Society by helping a local family with landscaping and property upkeep that could not be accomplished by the family due to physical constraints.

The staff of the **Boone** Branch volunteered at the Children's Hope Alliance in Banner Elk. Employees built and planted window boxes as well as planted flowers in existing window boxes.

The **Brown Summit** Branch staff volunteered with the Greensboro Urban Ministry helping to organize and sort nonperishable food items for their pantry. The staff also purchased food items to donate to the pantry.

Carthage Staff members volunteered at the local soup kitchen, with Backpack Pals, Thanksgiving for Thousands, and Samaritans Purse.

The **Concord** staff volunteered at the Crisis Distribution Center where they stocked shelves, sorted food, and loaded people's carts. The Center serves an average of 1,400 families per month.

The **Conover** Branch staff spent a day creating and assembling collection boxes for Pink Heals of North Carolina, Foothills Chapter. The collection boxes are used within the community to collect toys, canned goods, and other non-perishable items for families in need.

The **Ellerbe** Branch spent the day volunteering at Montgomery Community College refreshing an existing picnic area located along the hiking trail behind the college.

The staff of the **Graham** Branch purchased and built picnic tables for Alamance County 4-H. The picnic tables were purchased from Living Free Ministries, a local nonprofit organization that helps men suffering from substance abuse and other addictions.

The **Hendersonville** staff volunteered at Veterans Healing Farm, and spent the day improving the landscape by purchasing and planting assorted fruit trees and shrubs.

The staff of the **Jefferson** Branch purchased and installed planters to update the landscaping at the West Jefferson farmers' market. The branch staff created planters out of metal wash tubs and filled the planters with flowers.

The staff of the **Lenoir** Branch recently donated $500 to Bethel Colony of Mercy, Inc. located in Lenoir, NC. The funds donated will go towards upgrading the dormitories for the men. In addition to the donation, the branch staff also worked to repaint baseboards in the dormitories.

The **Lexington** staff volunteered at the Hospice House of Davidson County. The group purchased and planted trees to improve the landscape of the facility.

The staff of the **Lincolnton** Branch spent the day making improvements to the prayer garden at the office of Christian Ministries of Lincoln County. The staff purchased and planted new flowers and bushes and repainted some existing features in the garden.

"MAKING A DIFFERENCE IN OUR COMMUNITIES"

The **Monroe** staff volunteered at the Ronald McDonald House in Charlotte. The staff purchased supplies and baked cookies to deliver to the families staying in the house.

The **Murphy** Branch purchased flowers and furniture for the exterior of the Pregnancy and Parenting Center in Murphy. The flowers and furniture were potted and assembled near the front entrance of the facility.

The **Pilot Mountain** staff volunteered at the Joan and Howard Woltz Hospice Home where they purchased stone and other materials and helped to landscape around the facility's flag pole.

The **Roxboro** Branch staff recently spent an afternoon purchasing non-perishable food items and gift cards to be donated to the local Roxboro Christian Help Center. All of the donated items will be used to help those in need of food, clothing, and other needs.

The **Rural Hall** staff worked with Habitat for Humanity in Forsyth County. They split up into four teams to work on three different houses in a neighborhood made up of all habitat houses.

The **Salisbury** Branch staff spent a day working at China Grove Middle School to help enhance the outdoor areas for the children and staff. The staff were able to pull weeds and bushes, plant new bushes, and add mulch back into the courtyard.

The **Shelby** staff volunteered at the Feed the Hungry Program hosted by the Greater Cleveland County Baptist Association. The staff served lunch to over 50 members of the local community.

The **Siler City** Branch staff spent the day beautifying the outside of the music building at Chatham Charter High School. The staff purchased and planted shrubs and flowers.

The staff of the **Sparta** Branch purchased, assembled, and painted picnic tables for Crouse Park in Sparta, NC. In addition to purchasing and assembling new tables, the branch staff also worked to repaint the existing tables at the park.

The **Spindale** staff spent the day working at the New Beginnings Soup Kitchen cleaning and organizing shelves, and purchasing paper products that the kitchen uses on a regular basis.

The staff of the **Statesville** Branch spent the day volunteering with the North Iredell Middle School Ag Program by landscaping around their newly built greenhouses.

The staff of the **Taylorsville** Branch purchased and prepared meals to be given out from the Mobile Café food truck of Alexander County. The truck serves hot meals to people in need in Alexander County.

The **Waynesville** Branch volunteered with Central Haywood High School by purchasing and assembling a small greenhouse to be used by students interested in Agriculture.

The **Wilkesboro** staff helped to purchase and install a slide on the playground at Wilkes Development Day School. The slide was built to be accessed by children in wheelchairs.

Yadkinville Branch staff volunteered with Starmount Middle School and their Feed the Community Project.

The **Yanceyville** Branch staff purchased and delivered school supplies to schools in Caswell County. These school supplies will assist students and teachers throughout Caswell County.

The **Administrative Office** staff spent the day volunteering at Purple Heart Homes. Staff spent time painting and assembling picnic tables to be used on site.







$103,000 DONATED TO NORTH CAROLINA FFA AND 4-H

PULL for YOUTH
Sporting Clays
SUPPORTING N.C. FFA AND 4-H

Carolina Farm Credit was able to donate $103,000 to North Carolina 4 H and FFA in conjunction with AgCarolina Farm Credit and Cape Fear Farm Credit. A donation of $103,000 was split evenly between North Carolina 4 H and FFA from the Farm Credit Associations of North Carolina. Funds were raised through the three Pull for Youth sporting clays events held across North Carolina with over 350 shooting participants and 150 volunteers.

Over 150 businesses and organizations contributed to the pool of funds, including statewide $5,000 sponsors: American Forest Management, Hog Slat, House of Raeford and the three Farm Credit Associations of North Carolina.

"The Pull for Youth sporting clays shoots across our state have been an overwhelming success," said the three Association CEOs in a joint statement. "The response by those who participated, volunteered, and donated to the cause are a clear indicator that agriculture will remain the leading industry in our state. By providing funds to NC 4 H and FFA, the Farm Credit Associations of North Carolina and our Pull for Youth sponsors are working together to make sure tomorrow's leaders in agriculture have a bright future. We are thankful for all of those who played a part in the success of Pull for Youth and we look forward to another great year in 2018."

A full list of businesses and organizations who sponsored Pull for Youth are available via **www.farmcreditofnc.com/pullforyouth**.

EMPLOYEES REACH MILESTONES

Employees who reached five-year incremental service anniversaries in 2016-2017 were recognized at a ceremony during the annual employee appreciation day, held at Catawba Meadows Park on Sept. 22, 2017.

"Being a service organization our people are our greatest asset," said Vance Dalton, CEO, Carolina Farm Credit. "We are thankful for all of our employees and are especially grateful for the dedicated years of service provided to agriculture and rural America, by those who have achieved these career milestones." Carolina Farm Credit has 223 employees throughout its 32 branch offices and administrative offices. Employees recognized were:

Craig Pugh – Regional Loan Manager, Statesville.

Randy Rogers – Regional Loan Manager, Waynesville; **Beverly Martin** – IT Manager; **Jim Webb** – Credit Analyst, Waynesville; **Debbie Everhart** – Loan Specialist, Lexington; **Chris Goss** – Chief Appraiser, Statesville Administrative Office; **Libby Watson** – AgriConsumer Loan Officer, Salisbury; **Sherri Brandon** – Compliance Officer, Yanceyville.

Betty Wood – AgriConsumer Loan Officer, Jefferson; **Barron Maness** – Senior Loan Officer, Carthage; **Kim Siddons** – AgriConsumer Loan Officer, Lenoir; **Greg Moore** – Appraiser, Asheville; **Dale Stevens** – Commercial Ag Loan Officer, Albemarle; **Tripp Smith** – Commercial Ag Loan Officer, Siler City; **Rick Greenhill** – Principal Real Estate Appraiser, Conover.

Chad Puryear – Chief Lending Officer, Statesville Administrative Office; **Christina Craddock** – Branch Office Coordinator/ Loan Specialist, Rural Hall; **Michael Almond** – Regional Loan Manager, Monroe; **Bobbi Beard** – Executive Assistant, Statesville Administrative Office.

Rebecca Wood – Commercial Ag Loan Officer, Carthage/Siler City; **Melissa Cardwell** – Loan Assistant, Brown Summit; **Susan Skipper** – Loan Assistant, Concord; **Sheila Sane** – Branch Office Coordinator, Spindale.

These individuals represent almost 1,400 years of agricultural lending experience, and are another reason why Carolina Farm Credit is the leader in agricultural lending in Western North Carolina.

Crystal-Ward Taylor – Home Loan Specialist, Lenoir/Conover; **Terry Motsinger** – Administrative Assistant, Statesville Administrative Office; **Mitchel Pridmore** – Loan Officer, Hendersonville; **Betty Stanley** – Branch Office Coordinator/ Loan Assistant, Jefferson; **Bryan Drum** – Credit Analyst, Spindale; **Miles Hamrick** – Commercial Ag Loan Officer, Shelby/ Spindale; **Mark Robertson** – Commercial Ag Loan Officer, Lexington/Yadkinville; **Darin Young** – Credit Analyst, Sparta; **Jody Smith** – Commercial Ag Loan Officer, Monroe; **Scott Lee** – Commercial Ag Loan Officer, Statesville; **Linda Cobb** – Loan Assistant, Yanceyville.

Kate Burger – Branch Office Coordinator/ Loan Assistant, Asheville; **Donna Dent** – Loan Specialist, Graham; **Brian Hord** – AgriConsumer Loan Officer, Lincolnton; **Ron Joines** – Leasing Manager, Statesville Administrative Office; **Kim Miller** – Home Loan Specialist, Rural Hall/Pilot Mountain; **Bruce Newman** – Home Loan Specialist, Asheville; **Morgan Pearson** – Branch Office Coordinator, Yanceyville; **Jake VunCannon** – Commercial Ag Loan Officer, Ellerbe.

EXECUTIVE LEADERSHIP TEAM

STANDING FROM THE LEFT:

CHAD M. PURYEAR
Chief Lending Officer

CHRISTOPHER G. GOSS
Chief Appraisal Officer

JAMES R. CRAIN
Chief Risk Officer

VANCE C. DALTON JR.
Chief Executive Officer

WALTER J. COOK JR.
Chief Credit Officer

CHRISTOPHER H. SCOTT
Chief Financial Officer

SEATED FROM THE LEFT:

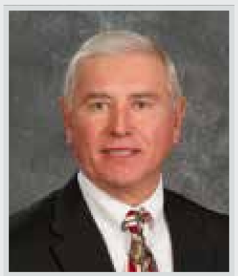
MARGARET G. HAMM
Chief Marketing Officer

SARAH J. RACHELS
Chief Human Resources Officer

BOARD OF DIRECTORS

JOHN M. BARNARD

E. BERNARD BECK



W. REX BELL

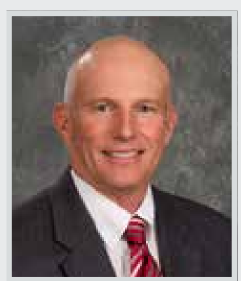
MARK A. BRAY

DAVID M. COLTRANE

SUSIE J. GAMBILL

JOSEPH A. LAIL

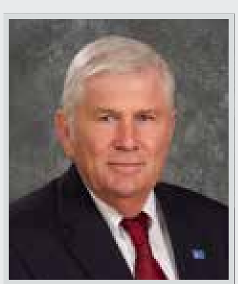
J. ERIC MCPHERSON



THOMAS E. PORTER JR.

D. KALEB RATHBONE

CLARK M. NEWLIN



LEWIS E. SMITH

VICKIE N. SMITHERMAN

L. KIM STARNES

DR. ALTON THOMPSON

IN THIS REPORT

REPORT OF MANAGEMENT

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

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

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

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

W. Rex Bell

W. Rex Bell
Chairman of the Board

Vance C Dalton Jr

Vance C. Dalton, Jr.
Chief Executive Officer

Christopher H. Scott

Christopher H. Scott, CPA
Chief Financial Officer

March 13, 2018

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Vance C Dalton Jr

Vance C. Dalton, Jr.
Chief Executive Officer
Carolina Farm Credit, ACA

Christopher H. Scott

Christopher H. Scott
Chief Financial Officer
Carolina Farm Credit, ACA

March 13, 2018

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Carolina Farm Credit, ACA, (Association) for the year ended December 31, 2017, with comparisons to the years ended December 31, 2016, and December 31, 2015. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements, and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors (Board). 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 102 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 North Carolina. 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 and other financial services 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 affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are available on the AgFirst website, ***www.agfirst.com***, or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or by 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.carolinafarmcredit.com***, or by calling 1-800-521-9952, or by writing Christopher H. Scott, CFO, Carolina Farm Credit, ACA, P.O. Box 1827, Statesville, NC 28687. The Association prepares an electronic version of the Annual Report, which is available on our 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 our website, 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 Report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

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

AGRICULTURAL OUTLOOK

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

The February 2018 USDA forecast estimates 2017 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $96.9 billion, up $2.9 billion from 2016 and down $9.0 billion from its 10-year average of $105.9 billion. The increase in net cash income in 2017 was primarily due to increases in livestock receipts of $12.5 billion and cash farm-related income of $1.8 billion, partially offset by a decrease in crop cash receipts of $4.7 billion and an increase in cash expenses of $5.1 billion.

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

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, 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 borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

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

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

ECONOMIC CONDITIONS

Overall, the economic climate in North Carolina remained positive in 2017, as labor markets continued to strengthen and household indicators remained upbeat. Moderate growth is expected during 2018, and stock market volatility may impact consumer confidence; however, macroeconomic drivers are expected to continue a positive trend. Economic conditions in the poultry and part-time farm segments are expected to remain favorable in 2018, with only moderate stress expected in a small number of portfolio sectors.

The Association's loan portfolio and overall credit quality continued to improve over the course of 2017. As of December 31, 2017, the percentage of fully acceptable loans and other assets especially mentioned increased to 97.2 percent compared to 96.1 for the prior year end. The strong credit quality can be attributed to the workout of criticized accounts.

The Association's part-time farm segment, which is heavily dependent on non-farm employment, is its largest loan portfolio concentration at 34 percent of total loans. Credit quality in this segment ended 2017 at 95.6 percent acceptable, up from 93.9 percent at December 31, 2016. North Carolina's unemployment rate was 4.3 percent as of December 31, 2017, down from 5.2 percent as of December 31, 2016. Given strong overall job growth in the Association's footprint, credit quality in the part-time farm segment is expected to remain at or near current levels with moderate portfolio growth.

Poultry constituted 26 percent of volume at year-end and is the Association's second largest portfolio segment. Credit quality in the poultry segment was 95.5 percent acceptable at year-end 2017, up from 94.3 percent at prior year end. Overall, 2017 was a good year for North Carolina poultry producers. Demand for chicken, both domestic and exported, remained strong, aided by improvements in the overall economy. A solid grain harvest led to stable feed ingredient prices, which improved overall live production cost. Expansion in most areas of the Association's footprint is expected to slow slightly in 2018, with relatively modest increases in the number of new growers and houses.

While the Association's primary portfolio segments performed well in 2017, other segments faced challenges. The dairy, grain, and livestock segments, due primarily to depressed prices, underperformed the aggregate portfolio in terms of credit quality, but stabilized mid-year and began to improve in the fourth quarter. The dairy, grain, and livestock segments represent 4, 8, and 5 percent of the Association's portfolio, respectively.

Land value trend studies completed by Association staff indicate stable to strengthening real estate values across all types of real property within the territory.

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. Loan volume grew 2.92% during 2017, primarily from poultry expansion and a renewed interest in real estate and housing markets.

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

Loan Type	December 31, 2017		2016		2015	
	(dollars in thousands)					
Real estate mortgage	$ 870,764	59.89%	$ 773,835	54.77%	$ 729,528	52.70%
Production and intermediate-term	465,985	32.05	539,842	38.21	541,076	39.09
Loans to cooperatives	6,859	0.47	6,326	0.45	142	0.02
Processing & marketing	29,288	2.01	7,452	0.53	22,404	1.62
Farm-related business	3,432	0.24	3,872	0.27	5,777	0.42
Communication	1,496	0.10	4,069	0.29	6,291	0.45
Power and water/waste disposal	2,906	0.20	1,709	0.12	1,851	0.13
Rural residential real estate	68,432	4.71	70,857	5.02	76,345	5.52
International	4,843	0.33	4,845	0.34	806	0.06
Total	$ 1,454,005	100.00%	$ 1,412,807	100.00%	$ 1,384,220	100.00%

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

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

Branch	December 31, 2017	2016	2015
Albemarle	4.72%	4.80%	3.29%
Asheboro	4.85	4.02	3.31
Asheville	1.66	1.63	1.51
Boone	0.87	1.03	0.96
Brown Summit	2.11	1.96	1.91
Burnsville	2.16	2.18	1.50
Carthage	2.80	2.55	2.89
Concord	1.67	1.66	1.50
Conover	2.84	2.71	2.81
Ellerbe	5.42	4.66	4.65
Graham	4.75	4.73	3.40
Hendersonville	1.78	1.97	1.79
Hillsborough *	–	–	1.92
Jefferson	1.85	1.89	1.83
Lenoir	1.84	1.81	1.65
Lexington	2.19	2.10	2.00
Lincolnton	2.64	2.57	2.41
Marshall *	–	–	0.81
Mocksville *	–	–	1.85
Monroe	4.87	6.03	5.73
Murphy	0.88	0.81	0.95
Pilot Mountain	3.07	3.03	3.12
Roxboro	2.42	2.37	2.02
Rural Hall	2.64	3.02	3.19
Salisbury	3.92	3.98	3.80
Shelby	2.39	2.36	2.19
Siler City	3.42	3.26	2.86
Sparta	1.79	2.13	3.21
Spindale	1.64	1.61	1.50
Statesville	8.33	8.45	7.69
Taylorsville	4.27	4.19	4.16
Wadesboro *	–	–	2.18
Waynesville	0.65	0.67	0.76
Wilkesboro	3.52	3.45	3.22
Yadkinville	5.82	5.69	4.36
Yanceyville	1.97	2.00	1.79
Participation/Commercial	3.51	3.86	4.31
Special Asset Management	0.71	0.82	0.90
	100.00%	100.00%	100.00%

** These branches were consolidated into other nearby branches in 2016.*

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based upon the customer's primary agricultural commodity.

Loan volume by commodity group is shown below. The predominant groups are part-time farmers and poultry which constitute 60 percent of the entire portfolio.

Commodity Group	December 31, 2017 Amount	Percentage	2016 Amount	Percentage	2015 Amount	Percentage
	(dollars in thousands)					
Part-time	$ 493,162	34%	$ 463,471	33%	$ 442,831	32%
Poultry	373,924	26	362,046	26	365,233	26
Row Crop	117,363	8	110,766	8	105,742	8
Forestry	88,919	6	78,873	5	96,492	7
Livestock	72,464	5	67,250	5	61,753	4
Rural Home	68,432	5	70,857	5	76,594	6
Horticulture	64,060	4	74,635	5	52,048	4
Other	62,915	4	69,260	5	68,879	5
Dairy	62,654	4	61,259	4	56,114	4
Tobacco	50,112	4	54,390	4	58,534	4
Total	$ 454,00	100%	$ 1,412,807	100%	$ 1,384,220	100%

Repayment ability is closely related to the commodities produced by borrowers and, increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a moderate concentration of part-time farmers within a wide range of commodities. However, many of these part-time operations are diversified, and typically are not highly dependent on the income from agricultural production. In periods of general economic stress, some of these borrowers could experience greater difficulty in servicing debt. Poultry loans represent a moderate concentration for the Association, and these loans have a long-term history of performance.

Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is well-diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is limited by the diversity in the Association's territory. Demand for meat products, prices of field grains, the housing industry and international trade are some of the factors affecting the prices of these commodities.

During the past year, the Association has experienced a lengthening of maturities in loan assets. Given the low level of interest rates, borrowers have locked-in fixed rates, which reduces their exposure to rising rates in the future.

During 2017, the Association continued buying and selling loan participations within the System. This provided a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which strengthened the capital position. The following table shows a decrease in purchased loan volume, and a decrease in sold loan volume.

	December 31,		
Loan Participations:	**2017**	**2016**	**2015**
	(dollars in thousands)		
Participations Purchased– FCS Institutions	$ 61,523	$ 63,599	$ 66,020
Participations Purchased– Non-FCS Institutions	–	–	–
Participations Sold	(62,513)	(112,596)	(98,288)
Total	$ (990)	$ (48,997)	$ (32,268)

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

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2017, the Association originated loans for resale totaling $223,693, which were sold into the secondary market.

MISSION RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. The FCA approved the Rural America Bonds pilot program under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the associations to make investments in Rural America Bonds. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services such as schools, hospitals, government facilities and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds are classified as Loans or Investments on the Consolidated Balance Sheets, depending on the nature of the investment. As of December 31, 2017, 2016, and 2015, the Association had $2,124, $2,473, and $2,641 respectively, in Rural America Bonds.

Effective December 31, 2016, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

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's 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 and specific loan covenants

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, overall cash flows, 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. Long-term real estate loans must be collateralized by first liens on real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Long-term real estate loans may be made only in amounts up to 85 percent of the original appraisal value of the property taken as collateral, or up to 97 percent of the appraisal value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage of 85%. 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.

Management reviews 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 System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have

additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.

- Loss – Assets are considered uncollectible.

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

Credit Quality	2017	2016	2015
Acceptable & OAEM	97.21%	96.15%	97.08%
Substandard	2.79%	3.85%	2.92%
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:

	December 31,		
High-risk Assets	**2017**	**2016**	**2015**
	(dollars in thousands)		
Nonaccrual loans	$ 9,561	$ 10,283	$ 11,915
Restructured loans	2,796	3,587	2,907
Accruing loans 90 days past due	–	–	–
Total high-risk loans	12,357	13,870	14,822
Other property owned	143	5,781	6,069
Total high-risk assets	$ 12,500	$ 19,651	$ 20,891
Ratios			
Nonaccrual loans to total loans	0.66%	0.73%	0.86%
High-risk assets to total assets	0.86%	1.31%	1.41%

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 $722, or 7.02% in 2017. This decrease is primarily the result of repayments, transfers to accrual status and transfers to other property owned loans exceeding loans transferred into nonaccrual status. Of the $9,561 in nonaccrual volume at December 31, 2017, $1,808, or 18.91%, compared to $2,407 and $4,949 at December 31, 2016 and 2015, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring may be 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:

	Year Ended December 31,		
Allowance for Loan Losses Activity:	**2017**	**2016**	**2015**
	(dollars in thousands)		
Balance at beginning of year	$ 7,348	$ 7,402	$ 6,614
Charge-offs:			
Real estate mortgage	(18)	(36)	(142)
Production and intermediate term	(363)	(329)	(463)
Agribusiness	–	–	(1,418)
Rural residential real estate	(90)	(38)	(265)
Total charge-offs	(471)	(403)	(2,288)
Recoveries:			
Real estate mortgage	228	93	319
Production and intermediate term	362	645	250
Agribusiness	141	64	–
Rural residential real estate	54	32	6
Total recoveries	785	834	575
Net (charge-offs) recoveries	314	431	(1,713)
Provision for (reversal of allowance for) loan losses	175	(485)	2,501
Balance at end of year	$ 7,837	$ 7,348	$ 7,402
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.022%	0.031%	(0.126)%

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

	December 31,		
Allowance for Loan Losses by Type	**2017**	**2016**	**2015**
	(dollars in thousands)		
Real estate mortgage	$ 3,788	$ 3,132	$ 3,549
Production and intermediate term	3,750	3,841	3,628
Agribusiness	95	44	65
Communication	9	31	49
Power and water/waste disposal	5	4	7
Rural residential real estate	185	291	103
International	5	5	1
Total	$ 7,837	$ 7,348	$ 7,402

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

	December 31,		
Allowance for Loan Losses as a Percentage of:	**2017**	**2016**	**2015**
Total loans	0.54%	0.52%	0.53%
Nonperforming loans	63.42%	52.98%	49.94%
Nonaccrual loans	81.97%	71.46%	62.12%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, in 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 $47,429, $47,160 and $47,676 in 2017, 2016, and 2015, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past two years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Total
	(dollars in thousands)		
12/31/17 – 12/31/16			
Interest income	$ 2,410	$ 971	$ 3,381
Interest expense	(862)	(2.250)	(3,112)
Change in net interest income	$ 1,548	$ (1,279)	$ 269
12/31/16 – 12/31/15			
Interest income	$ 1,328	$ 109	$ 1,437
Interest expense	(492)	(1,461)	(1,953)
Change in net interest income	$ 836	$ (1,352)	$ (516)

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods. Variances due to rate can be caused by changes in market rates, loan rates, and/or rates paid on notes payable with AgFirst.*

The Association shows higher net interest income primarily due to loan volume growth; but partly offset by the net interest margin declining from 3.40% in 2016 to 3.31% in 2017.

Noninterest Income

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2017**	**2016**	**2015**	**2017/ 2016**	**2016/ 2015**
	(dollars in thousands)				
Loan fees	$ 3,271	$ 3,047	$ 2,795	7.35%	9.02%
Fees for financially related services	155	160	374	(3.13)	(57.22)
Patronage refund from other Farm Credit Institutions	20,151	15,819	15,973	27.38	(0.96)
Gains (losses) on sales of rural home loans, net	3,016	2,706	2,569	11.46	5.33
Gains (losses) on sales of premises and equipment, net	335	592	177	(43.41)	234.46
Gains (losses) on other transactions	708	141	(135)	402.13	204.44
Other noninterest income	223	190	128	17.37	48.44
Total noninterest income	$ 27,859	$ 22,655	$ 21,881	22.97%	3.54%

Noninterest income increased $5,204, or 22.97 percent when comparing 2017 to 2016, and increased $774 or 3.54 percent when comparing 2016 to 2015. The increase in 2017 is primarily due to increases in loan fees, patronage refunds from other Farm Credit institutions, gains/(losses) on sales of rural home loans, gains/(losses) on other transactions, and other noninterest income, offset by decreases in fees for financially related services, and gains/(losses) on sales of premises and equipment.

Noninterest Expense

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2017**	**2016**	**2015**	**2017/ 2016**	**2016/ 2015**
	(dollars in thousands)				
Salaries and employee benefits	$ 19,511	$ 18,655	$ 17,317	4.59%	7.73%
Postretirement benefits	99	8,373	8,498	(98.82)	(1.47)
Occupancy and equipment	2,286	2,577	2,570	(11.29)	0.27
Insurance Fund premiums	1,592	1,762	1,336	(9.65)	31.89
(Gains) losses on other property owned, net	1,582	393	912	302.54	(56.91)
Other operating expenses	6,185	6,774	6,488	(8.70)	4.41
Total noninterest expense	$ 31,255	$ 38,534	$ 37,121	(18.89)%	3.81%

Noninterest expense decreased $7,279 or 18.89 percent, when comparing 2017 to 2016, and increased $1,413 or 3.81 percent when comparing 2016 to 2015. The decrease in 2017 is primarily due to decreases in postretirement benefits, occupancy and equipment, Insurance Fund premiums and other operating expenses. These increases were partially offset by increases in salaries and employee benefits, and (gains)/losses on other property owned, net.

Postretirement benefits decreased by $8,274, or 98.82 percent, when comparing 2017 to 2016. During 2017, the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. This change resulted in the reduction of Other Assets by $8,975 and the reduction of Other Liabilities by $15,480 on the Association's Balance Sheets, and a corresponding reduction of postretirement benefit costs on the Association's Statements of Income of $6,505 during 2017. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

Income Taxes

The Association recorded a provision/(benefit) for income taxes of $3 for the year ended December 31, 2017, as compared to a provision/(benefit) of ($6) for 2016 and a provision/(benefit) of $7 for 2015. Please refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, in 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:

	For the 12 Months Ended		
Key Results of Operations Comparisons	**12/31/17**	**12/31/16**	**12/31/15**
Return on average assets	2.92%	2.18%	2.10%
Return on average members' equity	13.60%	10.01%	9.62%
Net interest income as a percentage of average earning assets	3.31%	3.40%	3.50%
Net (charge-offs) recoveries to average loans	0.022%	0.031%	(0.126)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. One of our goals 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 Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2017, was $1,180,640 as compared to $1,138,884 at December 31, 2016 and $1,132,911 at December 31, 2015. The increase of 3.67% percent during 2017 is primarily attributable to the Association's growth in loan volume, offset by retention of capital. The average volume of outstanding notes payable to the Bank was $1,140,545, $1,107,533, and $1,087,681 for the years ended December 31, 2017, 2016, and 2015, respectively. Please refer to Note 6, *Debt*, in 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 notes payable to the Bank. The Association's participation in secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

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

Funds Management

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

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 30-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, *Debt*, 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 6 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 Sources" section of this Management's Discussion and Analysis and in Note 6, *Debt*, included in this Annual Report.

CAPITAL RESOURCES

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

The Association's 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 2017 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2017, increased 2.47 percent to $320,538, from the December 31, 2016 total of $312,798. At December 31, 2016, total members' equity increased 2.37 percent from the December 31, 2015 total of $305,558. Both increases were primarily attributable to net income, offset by cash patronage and the revolvement of allocated retained earnings. Total capital stock and participation certificates totaled $8,819 on December 31, 2017, compared to $8,361 on December 31, 2016 and $8,047 on December 31, 2015.

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

For all periods presented, the Association exceeded minimum standards for all the regulatory capital and leverage ratios.

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2017
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	0.625%	5.125%	17.41%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	17.41%
Total Capital Ratio	8.0%	0.625%	8.625%	21.15%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.68%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	17.06%
UREE Leverage Ratio	1.5%	0.0%	1.5%	16.68%

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

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 mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation.

The Association's permanent capital ratio is the only continuing regulatory ratio for which a trend can be presented, since the total surplus and core surplus ratios were eliminated. Past trend data for these ratios, as of December 31, is shown in the following table:

	2017	2016	2015	2014	2013	2012
Permanent capital	20.68%	21.88%	21.62%	21.54%	20.34%	18.64%
Total surplus	–	21.28%	21.03%	19.96%	19.68%	17.95%
Core surplus	–	18.84%	18.52%	17.36%	16.68%	14.67%

Note: The regulatory minimums for the permanent capital, total surplus and core surplus ratios are 7.00%, 7.00%, and 3.50%, respectively.

The decrease in the Association's permanent capital ratio during 2017 was attributable to increased loan volume and modifications to the definition and calculation of risk-adjusted assets, as prescribed by FCA. 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.

Please refer to Note 7, *Members' Equity*, in the Consolidated Financial Statements, for further information concerning capital resources, and currently applicable regulatory capital and leverage ratios.

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 retaining earnings to meet minimum capital adequacy standards established by FCA Regulations, 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) participation loans purchased on a non-patronage basis, and (b) other non-patronage net earnings, remaining consolidated net earnings are eligible for allocation to borrowers. Please refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association recorded estimated patronage distributions of $39,483 in 2017, $27,229 in 2016, and $26,891 in 2015.

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

The Association's mission is to provide financial services to agriculture and the rural community, and this 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 ensure we reach the 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. As a result, goals were established in 2017 and results are shown below:

	2017 - Goal			2017 - Actual		
	Number of Loans	Percent of Total	Percent of Volume	Number of Loans	Percent of Total	Percent of Volume
New Loans and Commitments made to :						
Young Farmers	700	13%	8%	987	19.63%	17.30%
Beginning Farmers	700	15%	10%	1,470	29.24%	25.48%
Small Farmers	2,850	63%	28%	3,469	69.01%	39.88%
Total Loans in the portfolio made to:						
Young Farmers	1,500	14%	10%	2,876	18.49%	18.38%
Beginning Farmers	2,200	17%	10%	4,170	26.80%	24.81%
Small Farmers	9,000	70%	40%	11,080	71.22%	43.22%

The 2012 USDA Ag Census data (the most recent data available) 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 33,636 reported farmers. Of these reported farmers, the following were classified as YBS farmers:

- Young – 1,478 or 4.39 percent
- Beginning – 6,142 or 18.26 percent
- Small – 31,106 or 92.48 percent

While the 2012 census provides the most recent data for comparison, our customer and loan volume numbers are more current. The following table reflects the loan volume and number of YBS loans in the loan portfolio for the Association at the end of 2017:

	Number of Loans	Amount of Loans
Young	2,876	$282,485
Beginning	4,178	$381,280
Small	11,120	$664,126

Note: 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 makes a concerted and cooperative effort to meet the special credit needs of eligible YBS farmers. The Association's mission for the YBS program is:

> "To provide resources and education to assist Young, Beginning and Small farmers to be successful in agriculture, insuring an ongoing viable and stable agricultural economy in the western half of North Carolina."

In 2017, the Association, through specific marketing strategies, outreaches and financial support programs, conducted a program to help YBS farmers.

The Association currently has a high penetration in the YBS farmers' market. Education is at the heart of the Association's effort to continue to serve this segment of our market with the same enthusiasm that has led to our current high penetration levels and success. Seminars, speaking opportunities and training sessions are conducted throughout the year. These educational opportunities are both in-house, in the form of events held by the Association, and external, when the Association is a speaker or provider of educational materials for other ag-related organizations. The focal point of these educational opportunities is the Agricultural Leadership Institute, a three-day educational seminar for YBS families, conducted by the Association along with outside professional involvement.

During 2017, the Association partnered with AgCarolina Farm Credit, Cape Fear Farm Credit, Farm Credit of the Virginias and Colonial Farm Credit to conduct a multi-state project, Ag Biz Planner, which provides online financial management and business planning training to YBS producers. Each participant is paired with a Farm Credit loan officer who serves as a mentor as they work through ten online modules and create a business plan. In the fall of 2017, the Association started another group of Ag Biz participants through the online financial management program. The ninth class of Ag Biz Planner participants began the program in September and finished with a complete business plan for their farm.

The Association has worked with others across the state for the last couple of years to determine the needs of the Farmer Veteran community in the state. Many of these farmers fit the YBS profile and have needs for training and mentoring. The Association conducted the second session of a new program called Ag Biz Basics targeting Farmer Veterans. This program was conducted with AgCarolina Farm Credit and Cape Fear Farm Credit and included four online modules, a loan officer mentor and began with a day-long conference. The Farmer Veteran group and Ag Biz Planner groups came together for a two-day conference with subject matter experts and networking, finishing the program in January of 2018.

The Association began using a new YBS underwriting program called StartStrong in 2017. This program is designed with special underwriting standards to serve the YBS market.

During 2017 the Association's four summer interns' project centered on the YBS customer and outreach to this group. The team spent their time researching the needs of this group and how they receive and respond to education and information. Based on research from this project and a research project conducted by AgFirst, the Association is currently investigating some new strategies to reach and serve these groups.

Additionally, the Association conducts seminars on farm transition planning and financial management. The Association website, ***www.carolinafarmcredit.com***, includes a section of information and resources targeted to YBS visitors. During

2017 the Association used the Carolina Farm Credit Facebook page, Instagram, Twitter and a monthly email newsletter to reach into these markets by sharing important information about meetings and other educational opportunities, as well as recognizing outstanding accomplishments of members.

The Association provides sponsorship to local and statewide events such as 4-H and FFA, is an exhibitor for many industry and commodity trade shows and has established and funded scholarship programs at both of the State Land Grant Universities.

In 2017, Carolina Farm Credit awarded $143,915 in grants to 27 organizations and 8 scholarships from the Carolina Farm Credit Corporate Mission Fund. This grant program is designed to help farmer organizations and rural communities. This was the second year grants and scholarships were awarded from the fund.

Finally, the Association provides financial support, which addresses the specific credit programs and partnerships that we have developed to help YBS farmers. This segment comprises 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 the FSA.

The Chief Marketing Officer, Margaret G. Hamm, coordinates and oversees the Association's YBS efforts. The Association includes YBS goals in the annual strategic plan and reports on those goals and achievements to the Board of Directors on a quarterly basis.

The Association is committed to the future success of young, beginning and small farmers.

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

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

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

REGULATORY MATTERS

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2018. The stated objectives of the proposed rule are as follows:

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

FINANCIAL REGULATORY REFORM

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a CECL model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.	• The Association has begun implementation efforts by establishing a cross-discipline governance structure. The Association is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required. • The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association's portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. • The Association expects to adopt the guidance in first quarter 2021.
ASU 2016-02 – Leases (Topic 842)	
• Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. • Lessor accounting activities are largely unchanged from existing lease accounting. • The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. • Also, expands qualitative and quantitative disclosures of leasing arrangements. • Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.	• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. • As a lessee the Association is developing its methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. • The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.
ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities	
• The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments. • Requires certain equity instruments be measured at fair value, with changes in fair value recognized in earnings. • The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. • Effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.	• The Association is currently evaluating any impacts to the financial statements. The Association's implementation efforts include the identification of securities within the scope of the guidance, the evaluation of the measurement alternative available for equity securities without a readily determinable fair value, and the related impact to accounting policies, presentation, and disclosures. • Any investments in nonmarketable equity investments accounted for under the cost method of accounting (except for other Farm Credit Institution stock) will be accounted for either at fair value with unrealized gains and losses reflected in earnings or, if elected, using an alternative method. The alternative method is similar to the cost method of accounting, except that the carrying value is adjusted (through earnings) for subsequent observable transactions in the same or similar investment. The Association is currently evaluating which method will be applied to these nonmarketable equity investments. • Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, the Association is evaluating valuation methods to determine the necessary changes to conform to an "exit price" notion as required by the Standard. Accordingly, the fair value amounts disclosed for such loans may change upon adoption. • The Association expects to adopt the guidance in first quarter 2018 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for changes related to nonmarketable equity investments, which is applied prospectively. The Association expects the primary accounting changes will relate to equity investments.

ASU 2014-09 – Revenue from Contracts With Customers (Topic 606) and subsequent related Updates	
• Requires that revenue from contracts with customers be recognized upon transfer of control of a good or service, and transfers of nonfinancial assets, in an amount equaling the consideration expected to be received. • Changes the accounting for certain contract costs, including whether they may be offset against revenue in the Consolidated Statements of Income, and requires additional disclosures about revenue and contract costs. • May be adopted using a full retrospective approach or a modified, cumulative effect approach wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date. • Effective for reporting periods beginning after December 15, 2017. Early application is not permitted.	• The Association's revenue is the sum of net interest income and noninterest income. The scope of the guidance explicitly excludes net interest income as well as many other revenues for financial assets and liabilities including loans, leases, securities, and derivatives. Accordingly, the majority of the Association's revenues will not be affected. • The Association is performing an assessment of revenue contracts as well as working with industry participants on matters of interpretation and application. Accounting policies will not change materially since the principles of revenue recognition from the Update are largely consistent with existing guidance and current business practices. The Association has not identified material changes to the timing or amount of revenue recognition. • The Association expects a minor change to the presentation of costs for certain underwriting activities which will be presented in expenses rather than the current presentation against the related revenues. The Association will provide qualitative disclosures of performance obligations related to revenue recognition and will continue to evaluate disaggregation for significant categories of revenue in the scope of the guidance. • The Association intends to adopt the guidance in first quarter 2018 using the modified retrospective method with a cumulative-effect adjustment to opening retained earnings.

DISCLOSURE REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, in 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, borrower patronage or dividends, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics and concentrations of assets, and changes in patronage policies or practices, 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 holds an investment, at December 31, 2017, in each of the following Unincorporated Business Entities (UBEs), as an equity interest holder of the limited liability company (LLC). The LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Entity Purpose
CBF Holdings, LLC	LLC	Manage Acquired Property
Ethanol Holding Company, LLC	LLC	Manage Acquired Property
Sequoyah Marina & Resort, LLC	LLC	Manage Acquired Property

Description of Property

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

Location	Description	Form of Ownership
146 Victory Lane Statesville	Corporate	Owned
620 North First Street Albemarle	Branch	Owned
251 Rock Crusher Road Asheboro	Branch	Owned
701 Brevard Road Asheville	Branch	Owned
181 Meadowview Drive Boone	Branch	Owned
4960 Oldway Rd Brown Summit	Branch	Owned
502 West Main Street Burnsville	Branch	Owned
4444 US Hwy 15-501 Carthage	Branch	Owned
371 Old Salisbury-Concord Road Concord	Branch	Owned
1109 Conover Blvd E Conover	Branch	Owned
2186 US Hwy 220 North Ellerbe	Branch	Owned
225 North Main Street Graham	Branch	Owned
2549 Chimney Rock Hwy US 64E Hendersonville	Branch	Owned
545 East Main Street Jefferson	Branch	Owned

Location	Description	Form of Ownership
332 Morganton Boulevard Lenoir	Branch	Owned
222 West Center Street Lexington	Branch	Owned
526 North Greensboro Street Liberty	Loan Processing	Owned
813 West Hwy 150 Lincolnton	Branch	Owned
2351 Concord Avenue Monroe	Branch	Owned
105 Hiwassee Street Murphy	Branch	Owned
698 South Key Street Pilot Mountain	Branch	Owned
607 Leasburg Road Roxboro	Branch	Owned
340 Bethania – Rural Hall Road Rural Hall	Branch	Owned
2810 Statesville Boulevard Salisbury	Branch	Owned
1216 Fallston Road Shelby	Branch	Owned
110 East Beaver Street Siler City	Branch	Owned
282 North Main Street Sparta	Branch	Owned
405 Oak Street Spindale	Branch	Owned
1704 Wilkesboro Road Statesville	Branch	Owned

Location	Description	Form of Ownership
1218 NC Hwy 90W Taylorsville	Branch	Owned
1510 Asheville Road Waynesville	Branch	Owned
902 Curtis Bridge Road Wilkesboro	Branch	Owned
1001 South State Street Yadkinville	Branch	Owned
1159 NC 86 North Yanceyville	Branch	Owned
1816 Pembroke Rd, Suite 8 Greensboro	Outpost	Leased*
411 East Main Street Franklin	Outpost	Leased**

* *Month-to-month lease. Payments are $328 per month.*
** *Annual lease – payments are $1,000 per month.*

Legal Proceedings

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

Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 in 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:

Senior Officer	Position
Vance C. Dalton, Jr.	***President and Chief Executive Officer since 2014.*** Since 2012, he has served as Executive Vice President and Chief Operating Officer, and Executive Vice President and Chief Lending Officer. He has been with Farm Credit since 1993. He serves on the North Carolina Foundation for Soil and Water Conservation Board, as a member of the Executive Committee and as Development Committee Chair (service org.). He also serves on the Catawba County Agricultural Foundation Board (education), Catawba Valley Community College Board (higher education), and as Vice-Chair of the NC 4-H Development Fund Board (education).
Walter J. Cook, Jr.	***Executive Vice President and Chief Credit Officer since 2015.*** Since 2012, he has served as Senior Vice President and Chief Lending Officer, and Senior Vice President and Chief Credit Officer. He had been with Farm Credit since 1976, and retired on December 31, 2017. He serves as Past President of the Graham Optimist Club (civic), Chairman of the Graham Recreation and Parks Commission (recreation and parks management), and Chairman of the Friends of Graham (non-profit org.; corporate giving management).
James R. Crain	***Senior Vice President and Chief Risk Officer since 2015.*** Since 2012, he has served as Vice President and Director of Credit Administration, and Vice President and Capital Markets Manager. He has been with Farm Credit since 2003. Mr. Crain assumed the position of Senior Vice President and Chief Credit Officer on January 1, 2018.
Christopher G. Goss	***Senior Vice President and Chief Appraisal Officer since 2017.*** Since 2012, he has served as Senior Vice President and Chief Appraiser. He has been with Farm Credit since 1987. He serves on the North Carolina Society of Farm Managers and Rural Appraisers Board (professional org.).
Margaret G. Hamm	***Senior Vice President and Chief Marketing Officer since 2004.*** She has been with Farm Credit since 1991. She serves on the NC State University College of Ag & Life Sciences (NCSU CALS) Alumni Board (alumni relations), NCSU Cooperative Extension Service Foundation Board (development), NCSU CALS Center for Environmental Farming Systems (promotion of ag research, extension, and education), NCSU CALS Ag Foundation (development/research), North Carolina Tobacco Trust Fund Commission (Ag and Rural Economic Dev.), Manager of Hollis Farm, LLC (Timber), and Treasurer of MM&C Farm and Real Estate, LLC (Timber).
Chad M. Puryear	***Senior Vice President and Chief Lending Officer since 2015.*** Since 2012, he has served as Senior Vice President and Chief Credit Officer. He has been with Farm Credit since 1996. He serves on the NC A&T State University College of Agriculture and Environmental Sciences Advisory Board (higher education).
Sarah J. Rachels	***Senior Vice President and Chief Human Resources Officer since 2016.*** Since 2012, she has served as Vice President and Human Resources Director and Human Resources Manager. She has been with Farm Credit since 1998. She serves on the NC Society for Human Resource Management Board (professional org.) as Awards and Recognition Co-Chair, Friendz of Kenz, Inc. Board as Treasurer and Co-Founder (non-profit org. for special needs children), and the Statesville Family YMCA Board as Chair (community org.).
Christopher H. Scott	***Senior Vice President and Chief Financial Officer since 2014.*** Since 2012, he has served as Senior Vice President and Chief Risk and Operations Officer. He has been with Farm Credit since 1996.

The total amount of compensation earned by the CEO and a group consisting of senior officers and other "highly compensated" employees (excluding the CEO) during the years ended December 31, 2017, 2016, and 2015, is as follows:

		Received Compensation			Perquisites and Other Compensation			
Name of Individual or Number in Group	Year	Salary	Bonus	Total Received	Change in Pension Value **	Deferred/ Perq. *	Total Perq. and Other	Total Compensation
Vance C. Dalton, Jr.	2017	$ 372,794	$ 102,514	$ 475,308	$ 371,833	$ 22,673	$ 394,506	$ 869,814
Vance C. Dalton, Jr.	2016	$ 355,034	$ 88,755	$ 443,789	$ 545,672	$ 19,465	$ 565,137	$ 1,008,926
Vance C. Dalton, Jr.	2015	$ 330,012	$ 52,472	$ 382,484	$ 264,924	$ 18,472	$ 283,396	$ 665,880
11 ***	2017	$ 1,139,581	$ 1,186,010	$ 2,325,591	$ 1,040,960	$ 91,216	$ 1,132,176	$ 3,457,767
10 ***	2016	$ 961,976	$ 1,117,880	$ 2,079,856	$ 762,395	$ 58,622	$ 821,017	$ 2,900,873
8 ***	2015	$ 813,015	$ 751,288	$ 1,564,303	$ 231,671	$ 59,426	$ 291,097	$ 1,855,400

* *The Deferred/Perquisites amount disclosed in the above chart includes automobile allowance, deferred compensation, employer-match/employer-paid 401(k) contributions, life insurance, relocation reimbursement, and other compensation.*

** *(1) 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.*

(2) This figure is a third party actuarial determination of the change in the present value of the estimated pension cash flows for employees as of December 31 for each year presented. This does not represent any actual cash compensation provided to any employee, but is simply a change in the calculation that is affected by a number of assumptions and inputs. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

*** *The 2015 figures include 5 senior officers and 3 commission-based employees meeting the definition of "highly compensated", while the 2016 figures include 6 senior officers and 4 commission-based employees. The 2017 figures include 7 senior officers and 4 commission-based employees. These commissions are included in the Bonus column, above.*

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

Pension Benefits Table
As of December 31, 2017

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2017
CEO:					
Vance C. Dalton, Jr.	2017	AgFirst Defined Benefit Retirement Plan	25.7	$ 1,934,849	$ –
Vance C. Dalton, Jr.	2017	Supplemental Executive Retirement Plan	25.7	504,718	–
			Total	$ 2,439,567	$ –
Senior Officers and Highly Compensated Employees:					
6, excluding the CEO	2017	AgFirst Defined Benefit Retirement Plan	27.8 *	$ 7,546,579	$ –
2, excluding the CEO	2017	AgFirst Cash Balance Retirement Plan	11.7 *	–	56,872
			Total	$ 7,546,579	$ 56,872

* *Represents the average years of credited service for the group. Employees not included in these plans are not included in the totals.*

In addition to base salary, all eligible employees, not including the CEO, can earn additional compensation under a Performance Bonus Plan. This plan is designed to motivate employees to exceed the business plan goals and specific performance targets as established by the Board. Criteria in the plan include profitability, credit quality, loan growth and customer service measures. Bonuses are shown in the year earned. Payment of the 2017 bonus was made in January of 2018. The percentage of bonus compensation ranged from 12.07 percent to 19.87 percent of eligible wages. The Association's commission-based mortgage loan originators do not participate in this plan. Any bonus compensation earned by the CEO is at the discretion of the Board.

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 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.

W. Rex Bell, Chairman, from Iredell County, is a grain and hay farmer.

David M. Coltrane, Vice-Chairman, from Randolph County, is a dairy farmer, and raises replacement heifers. He serves on the Southern States Cooperative Board (commodity org.), Coltrane Dairy, LLC (farming operation) as Vice-President, and Coltrane Properties, LLC (real estate) as Vice-President.

John M. Barnard, from Iredell County, serves as an Outside Director. He is the Principal Owner/President of John M. Barnard, CPA, PA. He is Co-Owner of LKE Properties, LLC (commercial real estate).

E. Bernard Beck, from Randolph County, is a beef cattle and hay farmer. He serves on the Randolph County Voluntary Agricultural District Board (service org.).

Mark A. Bray, from Stokes County, is a beef cattle, stocker/feeder calf, poultry, and dairy farmer. He also operates a receiving station for livestock markets.

Susie J. Gambill, from Alleghany County, is a beef cattle, silage, and hay farmer. She also serves as the Alleghany County Clerk of the Superior Court. She serves on the Board of L&S Land Corporation (real estate), North Carolina Cooperative Extension Advisory Council Board of Alleghany County (service org.), and Alleghany County Agricultural Advisory Board (service org.) as Secretary.

Joseph A. Lail, from Cleveland County, is a grain and beef cattle farmer. He serves on the Cleveland County Farm Bureau Board (service org.).

J. Eric McPherson, from Alamance County, is a poultry and beef cattle farmer. He is also President of Mac Tire, Inc. He serves on the Board of Alamance County Farm Bureau (service org.), Alamance County Soil and Water Conservation District (service org.), Alamance County Voluntary Agricultural District (service org.), and Snow Camp Volunteer Fire Department (fire and rescue org.).

Clark M. Newlin, from Alamance County, is a beef cattle, grain, and hay farmer. He serves as President of Newlin Dairy Farm, Inc. (farming operation).

Thomas E. Porter, Jr., from Cabarrus County, is a swine, poultry, and beef cattle farmer. He is also Manager of The Farm at Brusharbor, LLC (cattle & agritourism) and President of Porter Farms Inc. (farming operation). He serves on the North Carolina Poultry Federation Board (commodity org.), Cabarrus Soil and Water Conservation District Board (service org.), and Food Processing and Innovation Committee (service org.). He is Chairman of the North Carolina Extension Advisory Board (service org.), Chairman of the Cabarrus County Voluntary Agricultural District Board (service org.), and President of the Cabarrus County Farm Bureau Board (service org.).

Tony L. Ragan, from Lee County, is a poultry, cattle, and row crop farmer. He is Vice President of Ragan Lawn Care, Inc. (landscaping). He serves on the Lee County Soil and Water Conservation District Board (service org.). Mr. Ragan did not seek re-election to the Association Board in 2017.

D. Kaleb Rathbone, from Haywood County, is a beef cattle, hay, and corn farmer. He is also Superintendent of the Mountain Research Station and West Region Coordinator of NC Research Stations for the North Carolina Department of Agriculture. He serves on the Haywood County Cattlemen's Association Board (service org.), Haywood Economic Development Council Board (county service), and North Carolina Beef Cattle Improvement Committee (commodity org.).

Lewis E. Smith, from Lincoln County, is a feeder/stocker calf farmer.

Vickie N. Smitherman, from Yadkin County, is a dairy farmer. She serves on the Board of Shady Grove Dairy, Inc. (farming operation) as Secretary/Treasurer and the USDA Yadkin County Farm Service Agency as 1st Alternate (service org.).

L. Kim Starnes, from Rowan County, is a row crop, poultry, and beef cattle farmer, and is owner of Four S Farms, LLC (farming operation). He is President of the Rowan County Cattlemen's Association (commodity org.), Treasurer of the Miller Ferry Volunteer Fire Department Board, and serves as Chairman of the Rowan County Agricultural Advisory Board (service org.).

Dr. Alton Thompson, from Guilford County, serves as an Outside Director. He is Executive Director of the Association of 1890 Research Directors. He serves on the Boards of the North Carolina Agriculture Hall of Fame (ag-related org.), Professional Agricultural Workers Conference (ag-related org.), Food Systems Leadership Institute (ag-related org.), Foundation for Food and Agriculture Research (ag-related org.), National Association of University Forest Resources Program (ag-related org.), North Carolina Foundation for Soil and Water Conservation Board (service org.), and 1890 Universities Foundation Board (education).

Subject to approval by the Board, the Association may allow directors honoraria of $600 for attendance at meetings, committee meetings, or special assignments and $100 for telephone conference meetings. Directors are paid a quarterly retainer fee of $1,250, with the Chairman of the Board receiving $1,500 quarterly. Total compensation paid to directors as a group was $398,300 in 2017. No director received more than $5,000 in non-cash compensation during the year.

The following chart details committee assignments, the year the director began serving on the board, the current term expiration, the number of days served for Board meetings and other activities, compensation for regular Board meetings and retainer, other activities (if applicable), as well as total cash compensation paid for 2017:

		Term of Office		Number of Days Served		Compensation		
Name of Director	Committee Assignments	Original Election Year	Current Term Expiration	Board Meetings	Other Official Activities*	Compensation Regular Board Meetings and Retainer	Compensation for Other Activities	Total Compensation Paid During 2017
W. Rex Bell *Chairman*	Compensation, Executive	2007	2020	8	30	$9,800	$17,500	$27,300
David M. Coltrane *Vice-Chairman*	Compensation, Executive	2009	2022	7	26	9,200	15,100	24,300
John M. Barnard+	Audit	2004	2022	8	24	9,800	12,900	22,700
E. Bernard Beck	Audit	2004	2018	8	39	9,800	22,400	32,200
Mark A. Bray	Audit	2003	2021	8	27	9,800	15,700	25,500
Susie J. Gambill	Governance	2011	2019	7	28	9,200	15,800	25,000
Joseph A. Lail	Audit, Compensation	1997	2018	7	29	9,200	17,400	26,600
J. Eric McPherson	Compensation	2017	2019	2	2	2,450	700	3,150
Clark M. Newlin	Compensation, Governance	2002	2021	8	33	9,800	19,050	28,850
Thomas E. Porter, Jr.	Compensation, Governance	2002	2021	8	27	9,800	15,950	25,750
Tony L. Ragan++	Compensation	1987	2017	5	14	8,000	9,900	17,900
D. Kaleb Rathbone	Governance	2012	2022	8	21	9,800	11,850	21,650
Lewis E. Smith	Audit	2009	2020	8	39	9,800	22,400	32,200
Vickie N. Smitherman	Governance	2009	2022	8	28	9,800	15,800	25,600
L. Kim Starnes	Audit, Compensation	2007	2020	8	52	10,800	29,200	40,000
Dr. Alton Thompson+	Governance	2004	2020	7	19	9,200	10,400	19,600
Total						$146,250	$252,050	$398,300

\+ *Outside Director*
++ *Did not seek re-election in 2017*
* *Includes Committee meetings and 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, registration fees and other expenses associated with travel on official business. A copy of the 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 $170,241 for 2017, $231,332 for 2016, and $126,041 for 2015.

Transactions with Senior Officers and Directors

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

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2017, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2017.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

Aggregate fees paid (or accrued) by the Association for services rendered by its independent auditors for the year ended December 31, 2017, were as follows:

	2017
Independent Auditors	
PricewaterhouseCoopers LLP	
Audit services	$ 76
Total	$ 76

Audit fees were for the annual audit of the Consolidated Financial Statements.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers, LLP dated March 13, 2018, and the report of management, which appear in this Annual Report are incorporated herein by reference.

Copies of the Association's annual and quarterly reports are available upon request free of charge by calling 1-800-521-9952 or writing Christopher H. Scott, CFO, Carolina Farm Credit, ACA, P. O. Box 1827, Statesville, NC 28687-1827, or on our website, ***www.carolinafarmcredit.com***. The Annual Report is available on the website within 75 days after the end of the fiscal year, and is distributed to shareholders within 90 days after the end of the fiscal year. The Quarterly Report is available on the website 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 (System) institutions, their directors, officers and employees. These regulations provide System institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires System 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 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.

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 can also be obtained 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. The Bank prepares an electronic version of the Quarterly Report, which is available on the Bank's website 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. No director who serves on the Committee is an employee of Carolina Farm Credit (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

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

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

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

John M. Barnard, CPA
Chairman of the Audit Committee

Members of Audit Committee

E. Bernard Beck
Mark A. Bray
Joseph A. Lail
Lewis E. Smith
L. Kim Starnes

March 13, 2018

pwc

Report of Independent Auditors

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP
Certified Public Accountants
Miami, Florida

March 13, 2018

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

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	2017	December 31, 2016	2015
Assets			
Cash	**$ 11,335**	$ 2,246	$ 7,514
Investment securities:			
Held to maturity (fair value of $1,550, $1,637, and $1,747, respectively)	**1,644**	1,746	1,852
Loans	**1,454,005**	1,412,807	1,384,220
Allowance for loan losses	**(7,837)**	(7,348)	(7,402)
Net loans	**1,446,168**	1,405,459	1,376,818
Loans held for sale	**6,337**	4,862	5,865
Accrued interest receivable	**15,228**	14,179	14,690
Investments in other Farm Credit institutions	**17,364**	17,051	16,974
Premises and equipment, net	**16,142**	16,330	16,766
Other property owned	**143**	5,781	6,069
Accounts receivable	**20,178**	15,914	15,957
Other assets	**10,596**	18,641	20,516
Total assets	**$ 1,545,135**	$ 1,502,209	$ 1,483,021
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,180,640**	$ 1,138,884	$ 1,132,911
Accrued interest payable	**2,873**	2,475	2,380
Patronage refunds payable	**21,907**	13,688	12,524
Accounts payable	**2,454**	3,266	2,667
Other liabilities	**16,723**	31,098	26,981
Total liabilities	**1,224,597**	1,189,411	1,177,463
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**8,819**	8,361	8,047
Retained earnings			
Allocated	**193,930**	191,073	187,593
Unallocated	**119,871**	115,256	111,139
Accumulated other comprehensive income (loss)	**(2,082)**	(1,892)	(1,221)
Total members' equity	**320,538**	312,798	305,558
Total liabilities and members' equity	**$ 1,545,135**	$ 1,502,209	$ 1,483,021

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

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)	For the year ended December 31, 2017	2016	2015
Interest Income			
Loans	**$ 79,376**	$ 75,991	$ 74,549
Investments	**88**	92	97
Total interest income	**79,464**	76,083	74,646
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**32,035**	28,923	26,958
Other	**—**	—	12
Total interest expense	**32,035**	28,923	26,970
Net interest income	**47,429**	47,160	47,676
Provision for (reversal of allowance for) loan losses	**175**	(485)	2,501
Net interest income after provision for (reversal of allowance for) loan losses	**47,254**	47,645	45,175
Noninterest Income			
Loan fees	**3,271**	3,047	2,795
Fees for financially related services	**155**	160	374
Patronage refunds from other Farm Credit institutions	**20,151**	15,819	15,973
Gains (losses) on sales of rural home loans, net	**3,016**	2,706	2,569
Gains (losses) on sales of premises and equipment, net	**335**	592	177
Gains (losses) on other transactions	**708**	141	(135)
Other noninterest income	**223**	190	128
Total noninterest income	**27,859**	22,655	21,881
Noninterest Expense			
Salaries and employee benefits	**19,511**	18,655	17,317
Postretirement benefits (Notes 2 and 9)	**99**	8,373	8,498
Occupancy and equipment	**2,286**	2,577	2,570
Insurance Fund premiums	**1,592**	1,762	1,336
(Gains) losses on other property owned, net	**1,582**	393	912
Other operating expenses	**6,185**	6,774	6,488
Total noninterest expense	**31,255**	38,534	37,121
Income before income taxes	**43,858**	31,766	29,935
Provision for income taxes	**3**	(6)	7
Net income	**$ 43,855**	$ 31,772	$ 29,928

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)	For the year ended December 31, 2017	2016	2015
Net income	**$ 43,855**	$ 31,772	$ 29,928
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(190)**	(671)	108
Comprehensive income	**$ 43,665**	$ 31,101	$ 30,036

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2014	$ 8,062	$ 183,568	$ 108,928	$ (1,329)	$ 299,229
Comprehensive income			29,928	108	30,036
Capital stock/participation certificates issued/(retired), net	(15)				(15)
Patronage distribution					
Cash			(11,681)		(11,681)
Nonqualified retained earnings		15,210	(15,210)		—
Retained earnings retired		(12,187)			(12,187)
Patronage distribution adjustment		1,002	(826)		176
Balance at December 31, 2015	$ 8,047	$ 187,593	$ 111,139	$ (1,221)	$ 305,558
Comprehensive income			31,772	(671)	31,101
Capital stock/participation certificates issued/(retired), net	314				314
Patronage distribution					
Cash			(12,603)		(12,603)
Nonqualified retained earnings		14,626	(14,626)		—
Retained earnings retired		(10,845)			(10,845)
Patronage distribution adjustment		(301)	(426)		(727)
Balance at December 31, 2016	$ 8,361	$ 191,073	$ 115,256	$ (1,892)	$ 312,798
Comprehensive income			**43,855**	**(190)**	**43,665**
Capital stock/participation certificates issued/(retired), net	**458**				**458**
Patronage distribution					
Cash			**(21,502)**		**(21,502)**
Nonqualified retained earnings		**17,981**	**(17,981)**		**—**
Retained earnings retired		**(12,626)**			**(12,626)**
Patronage distribution adjustment		**(2,498)**	**243**		**(2,255)**
Balance at December 31, 2017	**$ 8,819**	**$ 193,930**	**$ 119,871**	**$ (2,082)**	**$ 320,538**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)	For the year ended December 31, 2017	2016	2015
Cash flows from operating activities:			
Net income	**$ 43,855**	$ 31,772	$ 29,928
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**1,592**	1,611	1,684
Amortization (accretion) of net deferred loan costs (fees)	**(1,289)**	(853)	(703)
Premium amortization (discount accretion) on investments	**—**	—	(1)
Provision for (reversal of allowance for) loan losses	**175**	(485)	2,501
(Gains) losses on other property owned	**1,553**	307	866
(Gains) losses on sales of premises and equipment, net	**(335)**	(592)	(177)
(Gains) losses on sales of rural home loans, net	**(3,016)**	(2,706)	(2,569)
(Gains) losses on other transactions	**(708)**	(141)	135
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(223,693)**	(199,636)	(189,470)
Proceeds from sales of loans held for sale, net	**225,234**	203,345	189,646
(Increase) decrease in accrued interest receivable	**(1,049)**	511	(567)
(Increase) decrease in accounts receivable	**(4,264)**	43	7,462
(Increase) decrease in other assets	**8,045**	1,875	(4,723)
Increase (decrease) in accrued interest payable	**398**	95	96
Increase (decrease) in accounts payable	**(812)**	599	501
Increase (decrease) in other liabilities	**(13,857)**	3,587	2,046
Total adjustments	**(12,026)**	7,560	6,727
Net cash provided by (used in) operating activities	**31,829**	39,332	36,655
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investment securities, held to maturity	**102**	106	248
Net (increase) decrease in loans	**(40,028)**	(27,970)	(20,326)
(Increase) decrease in investment in other Farm Credit institutions	**(313)**	(77)	(316)
Purchases of premises and equipment	**(1,656)**	(1,332)	(1,539)
Proceeds from sales of premises and equipment	**587**	749	373
Proceeds from sales of other property owned	**4,518**	648	2,244
Net cash provided by (used in) investing activities	**(36,790)**	(27,876)	(19,316)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**41,756**	5,973	4,585
Capital stock and participation certificates issued/(retired), net	**458**	314	(15)
Patronage refunds and dividends paid	**(15,538)**	(12,166)	(5,121)
Retained earnings retired	**(12,626)**	(10,845)	(12,187)
Net cash provided by (used in) financing activities	**14,050**	(16,724)	(12,738)
Net increase (decrease) in cash	**9,089**	(5,268)	4,601
Cash, beginning of period	**2,246**	7,514	2,913
Cash, end of period	**$ 11,335**	$ 2,246	$ 7,514
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 90**	$ 35	$ 127
Receipt of property in settlement of loans	**523**	702	6,414
Estimated cash dividends or patronage distributions declared or payable	**21,502**	12,603	11,681
Employee benefit plans adjustments (Note 9)	**190**	671	(108)
Supplemental information:			
Interest paid	**31,637**	28,828	26,874
Taxes (refunded) paid, net	**2**	2	—

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

Note 1 — Organization and Operations

A. **Organization:** Carolina Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Alamance, Alexander, Alleghany, Anson, Ashe, Avery, Buncombe, Burke, Cabarrus, Caldwell, Caswell, Catawba, Chatham, Cherokee, Clay, Cleveland, Davidson, Davie, Durham, Forsyth, Gaston, Graham, Guilford, Haywood, Henderson, Iredell, Jackson, Lee, Lincoln, McDowell, Macon, Madison, Mecklenburg, Mitchell, Montgomery, Moore, Orange, Person, Polk, Randolph, Richmond, Rockingham, Rowan, Rutherford, Stanly, Stokes, Surry, Swain, Transylvania, Union, Watauga, Wilkes, Yadkin and Yancey in the state of North Carolina.

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

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

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

Investment Securities

The Association holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Consolidated Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of Other Comprehensive Income (OCI). Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in other comprehensive income.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

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 $3,530, is included in Other Assets on the accompanying Consolidated Balance Sheet as of December 31, 2017.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing. The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

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

Please see further discussion in Note 8.

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

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

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

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

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

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

In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. The Association does not expect these amendments to have a material effect on its financial statements.

In October 2016, the FASB issued ASU 2016-16 Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This Update requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public business entities, the amendments are effective, on a modified retrospective basis, for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Association does not expect these amendments to have a material effect on its financial statements.

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

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The Update improves financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses.

Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

In January 2016, the FASB issued ASU 2016-01 Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The Update is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The Association does not expect these amendments to have a material effect on its financial statements.

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance changes the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB has issued several additional Updates that generally provide clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606. The guidance and all related updates will be effective for reporting periods beginning after December 15, 2017 for public business entities. The amendments are to be applied retrospectively. The Association has identified ancillary revenues that will be affected by this Update. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations. The Association expects to adopt the guidance in first quarter 2018 using the modified retrospective method and that adoption will result in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

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

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) and a separate scale addressing estimated loss percentage in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans

may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.

- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2017	December 31, 2016	December 31, 2015
Real estate mortgage	$ 870,764	$ 773,835	$ 729,528
Production and intermediate-term	465,985	539,842	541,076
Loans to cooperatives	6,859	6,326	142
Processing and marketing	29,288	7,452	22,404
Farm-related business	3,432	3,872	5,777
Communication	1,496	4,069	6,291
Power and water/waste disposal	2,906	1,709	1,851
Rural residential real estate	68,432	70,857	76,345
International	4,843	4,845	806
Total Loans	$ 1,454,005	$ 1,412,807	$ 1,384,220

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, income-producing property, such as crops and livestock, and 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, advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

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

	December 31, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 7,520	$ 7,208	$ –	$ –	$ –	$ –	$ 7,520	$ 7,208
Production and intermediate-term	15,123	45,292	10,207	–	–	–	25,330	45,292
Loans to cooperatives	6,862	–	8	–	–	–	6,870	–
Processing and marketing	11,985	10,013	–	–	–	–	11,985	10,013
Farm-related business	158	–	374	–	–	–	532	–
Communication	1,500	–	–	–	–	–	1,500	–
Power and water/waste disposal	2,929	–	–	–	–	–	2,929	–
International	4,857	–	–	–	–	–	4,857	–
Total	$ 50,934	$ 62,513	$ 10,589	$ –	$ –	$ –	$ 61,523	$ 62,513

	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	$ 8,556	$ 2,675	$ –	$ –	$ –	$ –	$ 8,556	$ 2,675
Production and intermediate-term	21,096	109,489	9,441	–	–	–	30,537	109,489
Loans to cooperatives	6,326	–	9	–	–	–	6,335	–
Processing and marketing	7,031	432	–	–	–	–	7,031	432
Farm-related business	44	–	423	–	–	–	467	–
Communication	4,082	–	–	–	–	–	4,082	–
Power and water/waste disposal	1,734	–	–	–	–	–	1,734	–
International	4,857	–	–	–	–	–	4,857	–
Total	$ 53,726	$ 112,596	$ 9,873	$ –	$ –	$ –	$ 63,599	$ 112,596

	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	$ 5,743	$ –	$ –	$ –	$ –	$ –	$ 5,743	$ –
Production and intermediate-term	19,299	93,638	7,699	4,000	–	–	26,998	97,638
Loans to cooperatives	–	–	11	–	–	–	11	–
Processing and marketing	21,501	650	–	–	–	–	21,501	650
Farm-related business	2,766	–	–	–	–	–	2,766	–
Communication	6,312	–	–	–	–	–	6,312	–
Power and water/waste disposal	1,880	–	–	–	–	–	1,880	–
International	809	–	–	–	–	–	809	–
Total	$ 58,310	$ 94,288	$ 7,710	$ 4,000	$ –	$ –	$ 66,020	$ 98,288

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

	December 31, 2017			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 11,423	$ 117,500	$ 741,841	$ 870,764
Production and intermediate term	126,049	226,471	113,465	465,985
Loans to cooperatives	–	5,060	1,799	6,859
Processing and marketing	2,203	9,370	17,715	29,288
Farm-related business	498	1,197	1,737	3,432
Communication	–	1,496	–	1,496
Power and water/waste disposal	–	–	2,906	2,906
Rural residential real estate	10,525	12,151	45,756	68,432
International	–	4,673	170	4,843
Total Loans	$ 150,698	$ 377,918	$ 925,389	$ 1,454,005
Percentage	10.36%	25.99%	63.65%	100.00%

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

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

	December 31,		
	2017	2016	2015
Real estate mortgage:			
Acceptable	94.19%	94.86%	92.54%
OAEM	3.64	3.00	5.81
Substandard/doubtful/loss	2.17	2.14	1.65
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	88.77%	87.61%	86.56%
OAEM	6.84	5.68	8.54
Substandard/doubtful/loss	4.39	6.71	4.90
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	99.89%	99.85%	100.00%
OAEM	0.11	0.15	–
Substandard/doubtful/loss	–	–	–
	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	87.27%	87.77%	99.84%
OAEM	12.73	12.18	–
Substandard/doubtful/loss	–	0.05	0.16
	100.00%	100.00%	100.00%

	December 31,		
	2017	2016	2015
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	96.61%	95.36%	95.22%
OAEM	1.65	2.56	2.37
Substandard/doubtful/loss	1.74	2.08	2.41
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	92.73%	92.18%	90.55%
OAEM	4.48	3.97	6.53
Substandard/doubtful/loss	2.79	3.85	2.92
	100.00%	100.00%	100.00%

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

	December 31, 2017					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 6,547	$ 1,502	$ 8,049	$ 872,625	$ 880,674	$ –
Production and intermediate-term	3,538	4,753	8,291	462,608	470,899	–
Loans to cooperatives	–	–	–	6,863	6,863	–
Processing and marketing	–	–	–	29,399	29,399	–
Farm-related business	–	–	–	3,449	3,449	–
Communication	–	–	–	1,501	1,501	–
Power and water/waste disposal	–	–	–	2,908	2,908	–
Rural residential real estate	511	113	624	68,047	68,671	–
International	–	–	–	4,862	4,862	–
Total	$ 10,596	$ 6,368	$ 16,964	$ 1,452,262	$ 1,469,226	$ –

	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	$ 2,308	$ 1,946	$ 4,254	$ 777,993	$ 782,247	$ –
Production and intermediate-term	2,170	4,399	6,569	538,641	545,210	–
Loans to cooperatives	–	–	–	6,337	6,337	–
Processing and marketing	–	–	–	7,463	7,463	–
Farm-related business	–	–	–	3,901	3,901	–
Communication	–	–	–	4,070	4,070	–
Power and water/waste disposal	–	–	–	1,713	1,713	–
Rural residential real estate	726	145	871	70,263	71,134	–
International	–	–	–	4,905	4,905	–
Total	$ 5,204	$ 6,490	$ 11,694	$ 1,415,286	$ 1,426,980	$ –

	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	$ 3,751	$ 1,662	$ 5,413	$ 732,938	$ 738,351	$ –
Production and intermediate-term	1,678	3,377	5,055	541,587	546,642	–
Loans to cooperatives	–	–	–	143	143	–
Processing and marketing	–	–	–	22,419	22,419	–
Farm-related business	–	–	–	5,808	5,808	–
Communication	–	–	–	6,291	6,291	–
Power and water/waste disposal	–	–	–	1,851	1,851	–
Rural residential real estate	355	601	956	75,638	76,594	–
International	–	–	–	806	806	–
Total	$ 5,784	$ 5,640	$ 11,424	$ 1,387,481	$ 1,398,905	$ –

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

	December 31,		
	2017	2016	2015
Nonaccrual loans:			
Real estate mortgage	$ 3,366	$ 3,856	$ 4,957
Production and intermediate-term	5,928	6,166	6,246
Farm-related business	–	–	–
Rural residential real estate	267	261	712
Total	$ 9,561	$ 10,283	$ 11,915
Accruing restructured loans:			
Real estate mortgage	$ 1,871	$ 2,620	$ 1,866
Production and intermediate-term	306	328	338
Farm-related business	439	475	521
Rural residential real estate	180	164	182
Total	$ 2,796	$ 3,587	$ 2,907
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 12,357	$ 13,870	$ 14,822
Other property owned	143	5,781	6,069
Total nonperforming assets	$ 12,500	$ 19,651	$ 20,891
Nonaccrual loans as a percentage of total loans	0.66%	0.73%	0.86%
Nonperforming assets as a percentage of total loans and other property owned	0.86%	1.39%	1.50%
Nonperforming assets as a percentage of capital	3.90%	6.28%	6.84%

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

	December 31,		
	2017	2016	2015
Impaired nonaccrual loans:			
Current as to principal and interest	$ 1,808	$ 2,407	$ 4,949
Past due	7,753	7,876	6,966
Total	9,561	10,283	11,915
Impaired accrual loans:			
Restructured	2,796	3,587	2,907
90 days or more past due	–	–	–
Total	2,796	3,587	2,907
Total impaired loans	$ 12,357	$ 13,870	$ 14,822
Additional commitments to lend	$ –	$ –	$ 21

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

Impaired loans:	December 31, 2017 Recorded Investment	December 31, 2017 Unpaid Principal Balance	December 31, 2017 Related Allowance	Year Ended December 31, 2017 Average Impaired Loans	Year Ended December 31, 2017 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 525	$ 543	$ 228	$ 588	$ 25
Production and intermediate-term	1,147	1,188	261	1,286	56
Farm-related business	–	–	–	–	–
Rural residential real estate	36	36	19	41	2
Total	$ 1,708	$ 1,767	$ 508	$ 1,915	$ 83
With no related allowance for credit losses:					
Real estate mortgage	$ 4,712	$ 5,529	$ –	$ 5,285	$ 229
Production and intermediate-term	5,087	5,807	–	5,705	246
Farm-related business	439	436	–	492	21
Rural residential real estate	411	449	–	461	20
Total	$ 10,649	$ 12,221	$ –	$ 11,943	$ 516
Total:					
Real estate mortgage	$ 5,237	$ 6,072	$ 228	$ 5,873	$ 254
Production and intermediate-term	6,234	6,995	261	6,991	302
Farm-related business	439	436	–	492	21
Rural residential real estate	447	485	19	502	22
Total	$ 12,357	$ 13,988	$ 508	$ 13,858	$ 599

Impaired loans:	December 31, 2016 Recorded Investment	December 31, 2016 Unpaid Principal Balance	December 31, 2016 Related Allowance	Year Ended December 31, 2016 Average Impaired Loans	Year Ended December 31, 2016 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 211	$ 235	$ 50	$ 224	$ 19
Production and intermediate-term	217	220	201	230	19
Farm-related business	–	–	–	–	–
Rural residential real estate	109	119	89	116	10
Total	$ 537	$ 574	$ 340	$ 570	$ 48
With no related allowance for credit losses:					
Real estate mortgage	$ 6,265	$ 6,920	$ –	$ 6,652	$ 562
Production and intermediate-term	6,277	6,815	–	6,666	564
Farm-related business	475	473	–	504	43
Rural residential real estate	316	369	–	335	28
Total	$ 13,333	$ 14,577	$ –	$ 14,157	$ 1,197
Total:					
Real estate mortgage	$ 6,476	$ 7,155	$ 50	$ 6,876	$ 581
Production and intermediate-term	6,494	7,035	201	6,896	583
Farm-related business	475	473	–	504	43
Rural residential real estate	425	488	89	451	38
Total	$ 13,870	$ 15,151	$ 340	$ 14,727	$ 1,245

Impaired loans:	December 31, 2015 Recorded Investment	December 31, 2015 Unpaid Principal Balance	December 31, 2015 Related Allowance	Year Ended December 31, 2015 Average Impaired Loans	Year Ended December 31, 2015 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 68	$ 81	$ 42	$ 99	$ 5
Production and intermediate-term	346	562	98	504	27
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 414	$ 643	$ 140	603	$ 32
With no related allowance for credit losses:					
Real estate mortgage	$ 6,755	$ 7,626	$ –	$ 9,819	$ 526
Production and intermediate-term	6,238	7,524	–	9,068	486
Farm-related business	521	520	–	758	41
Rural residential real estate	894	1,126	–	1,300	70
Total	$ 14,408	$ 16,796	$ –	$ 20,945	$ 1,123
Total:					
Real estate mortgage	$ 6,823	$ 7,707	$ 42	$ 9,918	$ 531
Production and intermediate-term	6,584	8,086	98	9,572	513
Farm-related business	521	520	–	758	41
Rural residential real estate	894	1,126	–	1,300	70
Total	$ 14,822	$ 17,439	$ 140	$ 21,548	$ 1,155

Interest income recognized on nonaccrual and accruing restructured loans, that would have been recognized under the original terms of the loans, was $599, $1,245, $1,155 in 2017, 2016, and 2015, respectively.

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and water/waste disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2016	$ 3,132	$ 3,841	$ 44	$ 31	$ 4	$ 291	$ 5	$ 7,348
Charge-offs	(18)	(363)	–	–	–	(90)	–	(471)
Recoveries	228	362	141	–	–	54	–	785
Provision for loan losses	446	(90)	(90)	(22)	1	(70)	–	175
Balance at December 31, 2017	$ 3,788	$ 3,750	$ 95	$ 9	$ 5	$ 185	$ 5	$ 7,837
Balance at December 31, 2015	$ 3,549	$ 3,628	$ 65	$ 49	$ 7	$ 103	$ 1	$ 7,402
Charge-offs	(36)	(329)	–	–	–	(38)	–	(403)
Recoveries	93	645	64	–	–	32	–	834
Provision for loan losses	(474)	(103)	(85)	(18)	(3)	194	4	(485)
Balance at December 31, 2016	$ 3,132	$ 3,841	$ 44	$ 31	$ 4	$ 291	$ 5	$ 7,348
Balance at December 31, 2014	$ 2,539	$ 3,693	$ 86	$ 59	$ 9	$ 228	$ –	$ 6,614
Charge-offs	(168)	(437)	(1,418)	–	–	(265)	–	(2,288)
Recoveries	66	502	–	–	–	7	–	575
Provision for loan losses	1,112	$ (130)	1,397	(10)	(2)	133	1	2,501
Balance at December 31, 2015	$ 3,549	$ 3,628	$ 65	$ 49	$ 7	$ 103	$ 1	$ 7,402
Allowance on loans evaluated for impairment:								
Individually	$ 228	$ 261	$ –	$ –	$ –	$ 19	$ –	$ 508
Collectively	3,560	3,489	95	9	5	166	5	7,329
Balance at December 31, 2017	$ 3,788	$ 3,750	$ 95	$ 9	$ 5	$ 185	$ 5	$ 7,837
Individually	$ 50	$ 201	$ –	$ –	$ –	$ 89	$ –	$ 340
Collectively	3,082	3,640	44	31	4	202	5	7,008
Balance at December 31, 2016	$ 3,132	$ 3,841	$ 44	$ 31	$ 4	$ 291	$ 5	$ 7,348
Individually	$ 42	$ 98	$ –	$ –	$ –	$ –	$ –	$ 140
Collectively	3,507	3,530	65	49	7	103	1	7,262
Balance at December 31, 2015	$ 3,549	$ 3,628	$ 65	$ 49	$ 7	$ 103	$ 1	$ 7,402
Recorded investment in loans evaluated for impairment:								
Individually	$ 3,366	$ 5,928	$ –	$ –	$ –	$ 267	$ –	$ 9,561
Collectively	877,308	464,971	39,711	1,501	2,908	68,404	4,862	1,459,665
Balance at December 31, 2017	$ 880,674	$ 470,899	$ 39,711	$ 1,501	$ 2,908	$ 68,671	$ 4,862	$ 1,469,226
Individually	$ 3,856	$ 6,166	$ –	$ –	$ –	$ 261	$ –	$ 10,283
Collectively	778,391	539,044	17,701	4,070	1,713	70,873	4,905	1,416,697
Balance at December 31, 2016	$ 782,247	$ 545,210	$ 17,701	$ 4,070	$ 1,713	$ 71,134	$ 4,905	$ 1,426,980
Individually	$ 6,823	$ 6,584	$ 521	$ –	$ –	$ 894	$ –	$ 14,822
Collectively	731,528	540,058	27,849	6,291	1,851	75,700	806	1,384,083
Balance at December 31, 2015	$ 738,351	$ 546,642	$ 28,370	$ 6,291	$ 1,851	$ 76,594	$ 806	$ 1,398,905

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

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

	Year Ended December 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 86	$ –	$ 86	
Rural residential real estate	–	92	–	92	
Total	$ –	$ 178	$ –	$ 178	
Post-modification:					
Production and intermediate-term	$ –	$ 86	$ –	$ 86	$ –
Rural residential real estate	–	93	–	93	–
Total	$ –	$ 179	$ –	$ 179	$ –

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
	Year Ended December 31, 2016				
Pre-modification:					
Production and intermediate-term	$ –	$ 60	$ –	$ 60	
Rural residential real estate	–	24	29	53	
Total	$ –	$ 84	$ 29	$ 113	
Post-modification:					
Production and intermediate-term	$ –	$ 60	$ –	$ 60	$ –
Rural residential real estate	–	25	31	56	–
Total	$ –	$ 85	$ 31	$ 116	$ –

Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
	Year Ended December 31, 2015				
Pre-modification:					
Production and intermediate-term	$ –	$ 447	$ –	$ 447	
Total	$ –	$ 447	$ –	$ 447	
Post-modification:					
Production and intermediate-term	$ –	$ 360	$ –	$ 360	$ –
Total	$ –	$ 360	$ –	$ 360	$ –

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

The following table presents outstanding recorded investment for TDRs that occurred during the calendar year shown, 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.

	Year Ended December 31,		
Defaulted troubled debt restructurings	**2017**	**2016**	**2015**
Production and intermediate-term	$ –	$ 57	$ –
Total	$ –	$ 57	$ –

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		
	December 31,			December 31,		
	2017	**2016**	**2015**	**2017**	**2016**	**2015**
Real estate mortgage	$ 2,074	$ 2,868	$ 2,905	$ 203	$ 248	$ 1,039
Production and intermediate-term	394	485	607	88	157	269
Farm-related business	439	475	521	–	–	–
Rural residential real estate	180	216	182	–	52	–
Total Loans	$ 3,087	$ 4,044	$ 4,215	$ 291	$ 457	$ 1,308
Additional commitments to lend	$ –	$ –	$ –			

The following table presents information as of period end:

	December 31, 2017
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 9
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 21

Note 4 — Investments

Investment Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9, and requires System institutions to provide notification to FCA when a security becomes ineligible. As of December 31, 2017, the Association held no RABs whose credit quality has deteriorated beyond the program limits.

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

	December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,644	$ –	$ (94)	$ 1,550	5.07%

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,746	$ –	$ (109)	$ 1,637	5.04%

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 1,852	$ –	$ (105)	$ 1,747	5.01%

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

	December 31, 2017		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	545	499	4.25
After ten years	1,099	1,051	5.47
Total	$ 1,644	1,550	5.07%

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

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date when the impairment was first identified.

	December 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 1,550	$ (94)

	December 31, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 1,637	$ (109)

	December 31, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ –	$ –	$ 1,747	$ (105)

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

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

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

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

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

Investments in Other Farm Credit Institutions

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 $15,748 for 2017, $15,458 for 2016 and $15,395 for 2015. The Association owns 5.88 percent of the issued stock of the Bank as of December 31, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled $32.5 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $345 million for 2017. In addition, the Association had an investment of $1,616 related to other Farm Credit institutions at December 31, 2017.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2017	2016	2015
Land	$ 4,424	$ 4,495	$ 4,546
Buildings and improvements	17,675	17,219	17,017
Furniture and equipment	7,915	7,947	7,872
	30,014	29,661	29,435
Less: accumulated depreciation	13,872	13,331	12,669
Total	$ 16,142	$ 16,330	$ 16,766

Depreciation expense for the years 2017, 2016, and 2015 was $1,592, $1,611 and $1,684, respectively.

Other Property Owned

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

	December 31,		
	2017	2016	2015
(Gains) losses on sale, net	$ 1,628	$ 41	$ 25
Carrying value unrealized (gains) losses	(75)	266	841
Operating (income) expense, net	29	86	46
(Gains) losses on other property owned, net	$ 1,582	$ 393	$ 912

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. There were no deferred gains at December 31, 2017, 2016, and 2015.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

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

The weighted average interest rates on the variable rate advances were 2.58 percent for LIBOR-based loans and 2.71 percent for Prime-based loans, and the weighted average remaining maturities were 4.0 years and 2.9 years, respectively, at December 31, 2017. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.99 percent, and the weighted average remaining maturity was 9.9 years at December 31, 2017. The weighted-average interest rate on all interest-bearing notes payable was 2.94 percent and the weighted-average remaining maturity was 9.1 years at December 31, 2017. Gross notes payable consist of approximately 13.74 percent variable rate and 86.26 percent fixed rate portions, representing a match-funding of the Association's loan volume at December 31, 2017. Notes Payable to AgFirst Farm Credit Bank, as reflected on the Consolidated Balance Sheets, also includes a credit which reduces the notes payable balance and corresponding interest expense. 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 follow:

A. **Protected Borrower Equity:** The Association had no protected borrower equity outstanding as of December 31, 2017.

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 the lesser of $1 thousand or 2.0 percent of the amount of the loan. The Board 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: Capital:** An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

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

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

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

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2017
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	0.625%	5.125%	17.41%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	17.41%
Total Capital Ratio	8.0%	0.625%	8.625%	21.15%
Permanent Capital Ratio	7.0%	0.0%	7.0%	20.68%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	17.06%
UREE Leverage Ratio	1.5%	0.0%	1.5%	16.68%

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

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

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

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

		Shares Outstanding		
Class	Protected	Number		Aggregate Par Value
C Common/Voting	No	1,554,594	$	7,773
C Participation Certificates/Nonvoting	No	209,264		1,046
Total Capital Stock and Participation Certificates		1,763,858	$	8,819

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 to 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. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2017, allocated members' equity consisted of $23,294 of qualified allocated surplus, $23,328 of nonqualified allocated surplus and $147,308 of nonqualified retained surplus.

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.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A or 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 dividend paid on Classes A, B, or C Common Stock or participation certificates for such year. The rate of dividends on Class 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.

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:

1. Class C Common Stock and Class C Participation Certificates

2. Classes A and B Common Stock and Class B Participation Certificates
3. Classes A and D Preferred Stock

Liquidation

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

1. Holders of Classes A and D Preferred Stock
2. Holders of Classes A and B Common and Class B Participation Certificates
3. Holders of Class C Common Stock and Class C Participation Certificates
4. Holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro-rata by year of issuance, until all such allocated surplus has been distributed
5. Holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro-rata by year of issuances first, until all such allocated surplus has been distributed
6. All unallocated surplus issued after January 1, 1995, shall be distributed to Patrons of the Association from the period beginning January 1, 1995, through the date of liquidation on a patronage basis
7. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders

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

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

	For the years ended December 31,		
	2017	**2016**	**2015**
Employee Benefit Plans:			
Balance at beginning of period	$ (1,892)	$ (1,221)	$ (1,329)
Other comprehensive income before reclassifications	(327)	(747)	29
Amounts reclassified from AOCI	137	76	79
Net current period OCI	(190)	(671)	108
Balance at end of period	$ (2,082)	$ (1,892)	$ (1,221)

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

	2017	**2016**	**2015**	**Income Statement Line Item**
Employee Benefit Plans:				
Periodic pension costs	$ (137)	$ (76)	$ (79)	See Note 9.
Amounts reclassified	$ (137)	$ (76)	$ (79)	

(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 of the Association's financial instruments within the fair value hierarchy (See Note 2) are as follows:

Level 1
Assets held in trust funds, related to deferred compensation plans, 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.

The fair value of investment securities is determined by discounting estimated future cash flows using prevailing interest rates for similar instruments.

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

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

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in Trust funds	$ 3,530	$ 3,530	$ –	$ –	$ 3,530
Recurring Assets	$ 3,530	$ 3,530	$ –	$ –	$ 3,530
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 1,200	$ –	$ –	$ 1,200	$ 1,200
Other property owned	143	–	–	163	163
Nonrecurring Assets	$ 1,343	$ –	$ –	$ 1,363	$ 1,363
Other Financial Instruments					
Assets:					
Cash	$ 11,335	$ 11,335	$ –	$ –	$ 11,335
Investment securities, held-to-maturity	1,644	–	–	1,550	1,550
Loans	1,451,305	–	–	1,448,756	1,448,756
Other Financial Assets	$ 1,464,284	$ 11,335	$	$ 1,450,306	$ 1,461,641
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 1,180,640	$ –	$ –	$ 1,167,424	$ 1,167,424
Other Financial Liabilities	$ 1,180,640	$ –	$ –	$ 1,167,424	$ 1,167,424

	December 31, 2016									
		Total Carrying Amount		Level 1		Level 2		Level 3		Total Fair Value
Recurring Measurements										
Assets:										
Assets held in Trust funds	$	3,010	$	3,010	$	–	$	–	$	3,010
Recurring Assets	$	3,010	$	3,010	$	–	$	–	$	3,010
Liabilities:										
Recurring Liabilities	$	–	$	–	$	–	$	–	$	–
Nonrecurring Measurements										
Assets:										
Impaired loans	$	197	$	–	$	–	$	197	$	197
Other property owned		5,781		–		–		6,410		6,410
Nonrecurring Assets	$	5,978	$	–	$	–	$	6,607	$	6,607
Other Financial Instruments										
Assets:										
Cash	$	2,246	$	2,246	$	–	$	–	$	2,246
Investment securities, held-to-maturity		1,746		–		–		1,637		1,637
Loans		1,410,124		–		–		1,406,220		1,406,220
Other Financial Assets	$	1,414,116	$	2,246	$	–	$	1,407,857	$	1,410,103
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	$	1,138,884	$	–	$	–	$	1,124,697	$	1,124,697
Other Financial Liabilities	$	1,138,884	$	–	$	–	$	1,124,697	$	1,124,697

	December 31, 2015									
		Total Carrying Amount		Level 1		Level 2		Level 3		Total Fair Value
Recurring Measurements										
Assets:										
Assets held in Trust funds	$	2,963	$	2,963	$	–	$	–	$	2,963
Recurring Assets	$	2,963	$	2,963	$	–	$	–	$	2,963
Liabilities:										
Recurring Liabilities	$	–	$	–	$	–	$	–	$	–
Nonrecurring Measurements										
Assets:										
Impaired loans	$	274	$	–	$	–	$	274	$	274
Other property owned		6,069		–		–		6,756		6,756
Nonrecurring Assets	$	6,343	$	–	$	–	$	7,030	$	7,030
Other Financial Instruments										
Assets:										
Cash	$	7,514	$	7,514	$	–	$	–	$	7,514
Investment securities, held-to-maturity		1,852		–		–		1,747		1,747
Loans		1,382,409		–		–		1,398,113		1,398,113
Other Financial Assets	$	1,391,775	$	7,514	$	–	$	1,399,860	$	1,407,374
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	$	1,132,911	$	–	$	–	$	1,131,821	$	1,131,821
Other Financial Liabilities	$	1,132,911	$	–	$	–	$	1,131,821	$	1,131,821

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	$ 1,363	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	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 9 — Employee Benefit Plans

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

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

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

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

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

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

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

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

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

During 2017, the method of recording expenses at participating District entities for the FAP and OPEB Plans was modified. Prior to 2017, expense was recorded based on allocations of actuarially-determined costs and any differences between recorded expense and actual contributions were recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets. For 2017 and future years, participating entities will record employee benefit costs based on the actual contributions to the Plans. This change caused the Association to modify its accounting estimates recorded in Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the Plans. The change in estimate resulted in the reduction of Other Assets by $8,975 and the reduction of Other Liabilities by $15,480 on the Association's Balance Sheets, and a total reduction of employee benefit costs on the Association's Statements of Income of $6,505 during 2017.

The FAP Plan includes other District employees that are not employees of the Association and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were $4,704 for 2017, $5,850 for 2016, and $5,751 for 2015. At December 31, 2017, 2016, and 2015, the total liability balance for the FAP Plan presented in the District Combined Balance Sheets is $139,104, $119,000, and $123,902, respectively. The FAP Plan is 86.41%, 86.96%, and 85.73% percent funded to the projected benefit obligation as of December 31, 2017, 2016, and 2015, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Income were $701 for 2017, $1,494 for 2016, and $1,869 for 2015. At December 31, 2017, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition is $216,259.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $818, $771, and $635 for the years ended December 31, 2017, 2016, and 2015, respectively. Beginning in 2015, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2017, 2016, and 2015, $(190), $(671), and $108, respectively, has been recognized as a net debit, net debit and a net credit 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 $4,281 and a net under-funded status of $4,281 at December 31, 2017. Assumptions used to determine the projected benefit obligation as of December 31, 2017 included a discount rate of 3.75 percent and a rate of compensation increase of 7.00 percent. Expenses of these nonqualified plans included in employee benefits costs were $380, $258, and $243 for 2017, 2016, and 2015, respectively.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2017 amounted to $13,224. During 2017, $6,866 of new loans and advances on existing loans were made, and repayments and transfers out totaled $7,569. In the opinion of management, none of these loans outstanding at December 31, 2017, involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

Occasionally, legal actions are pending against the Association in which claims for money damages are asserted. On 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. However, the Association has established an estimated contingency loss of $124 to cover any pending claims where the loss is both probable and estimable.

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2017, $168,816 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2017, standby letters of credit outstanding totaled $1,326 with expiration dates ranging from January 1, 2018 to July 31,2019. The maximum potential amount of future payments that may be required under these guarantees was $1,326.

The total reserve for unfunded commitments, which is classified in Other Liabilities in the Consolidated Balance Sheets, was $636 at December 31, 2017. During 2017, the Association recorded a provision for unfunded commitments totaling $265.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2017	2016	2015
Current:			
Federal	$ 2	$ (5)	$ 5
State	1	(1)	2
Federal refunds	–	–	–
State refunds related to long-term lending	–	–	–
	$ 3	(6)	7
Deferred:			
Federal	–	–	–
State	–	–	–
Total provision (benefit) for income taxes	$ 3	$ (6)	$ 7

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

	December 31,		
	2017	2016	2015
Federal tax at statutory rate	$ 15,350	$ 11,118	$ 10,477
State tax, net	1	(1)	2
Patronage distributions	(7,526)	(4,411)	(4,088)
Tax-exempt FLCA earnings	(7,236)	(7,389)	(6,362)
Change in valuation allowance	(2,332)	634	(516)
Federal refund	–	–	–
Future tax rate change	1,119	–	–
Other	627	43	494
Provision (benefit) for income taxes	$ 3	$ (6)	$ 7

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

	December 31, 2017	2016	2015
Deferred income tax assets:			
Allowance for loan losses	$ 885	$ 1,443	$ 1,517
Employee benefit plan and compensation	282	4,396	4,296
Nonaccrual loan interest	300	391	432
Loan fees	213	293	185
Other	173	234	357
Gross deferred tax assets	$ 1,853	6,757	6,787
Less: valuation allowance	(1,837)	(4,169)	(3,536)
Gross deferred tax assets, net of valuation allowance	16	2,588	3,251
Deferred income tax liabilities:			
Depreciation	(16)	(91)	(171)
Employee benefit plan and compensation	–	(2,497)	(3,080)
Gross deferred tax liability	(16)	(2,588)	(3,251)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2017, deferred income taxes have not been provided by the Association on approximately $8.9 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 maintained valuation allowances of $1,837, $4,169 and $3,536 as of December 31, 2017, 2016 and 2015, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

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

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

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

2017	First	Second	Third	Fourth	Total
Net interest income	$ 11,531	$ 11,732	$ 12,131	$ 12,035	$ 47,429
Provision for (reversal of allowance for) loan losses	(496)	453	163	55	175
Noninterest income (expense), net	(5,591)	(5,161)	(4,908)	12,261	(3,399)
Net income	$ 6,436	$ 6,118	$ 7,060	$ 24,241	$ 43,855

2016	First	Second	Third	Fourth	Total
Net interest income	$ 11,481	$ 11,646	$ 12,008	$ 12,025	$ 47,160
Provision for (reversal of allowance for) loan losses	(642)	348	(395)	204	(485)
Noninterest income (expense), net	(5,398)	(5,401)	(5,500)	426	(15,873)
Net income	$ 6,725	$ 5,897	$ 6,903	$ 12,247	$ 31,772

2015	First	Second	Third	Fourth	Total
Net interest income	$ 11,776	$ 11,611	$ 12,356	$ 11,933	$ 47,676
Provision for (reversal of allowance for) loan losses	214	519	367	1,401	2,501
Noninterest income (expense), net	(5,117)	(5,374)	(6,046)	1,290	(15,247)
Net income	$ 6,445	$ 5,718	$ 5,943	$ 11,822	$ 29,928

Note 14 — Subsequent Events

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

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