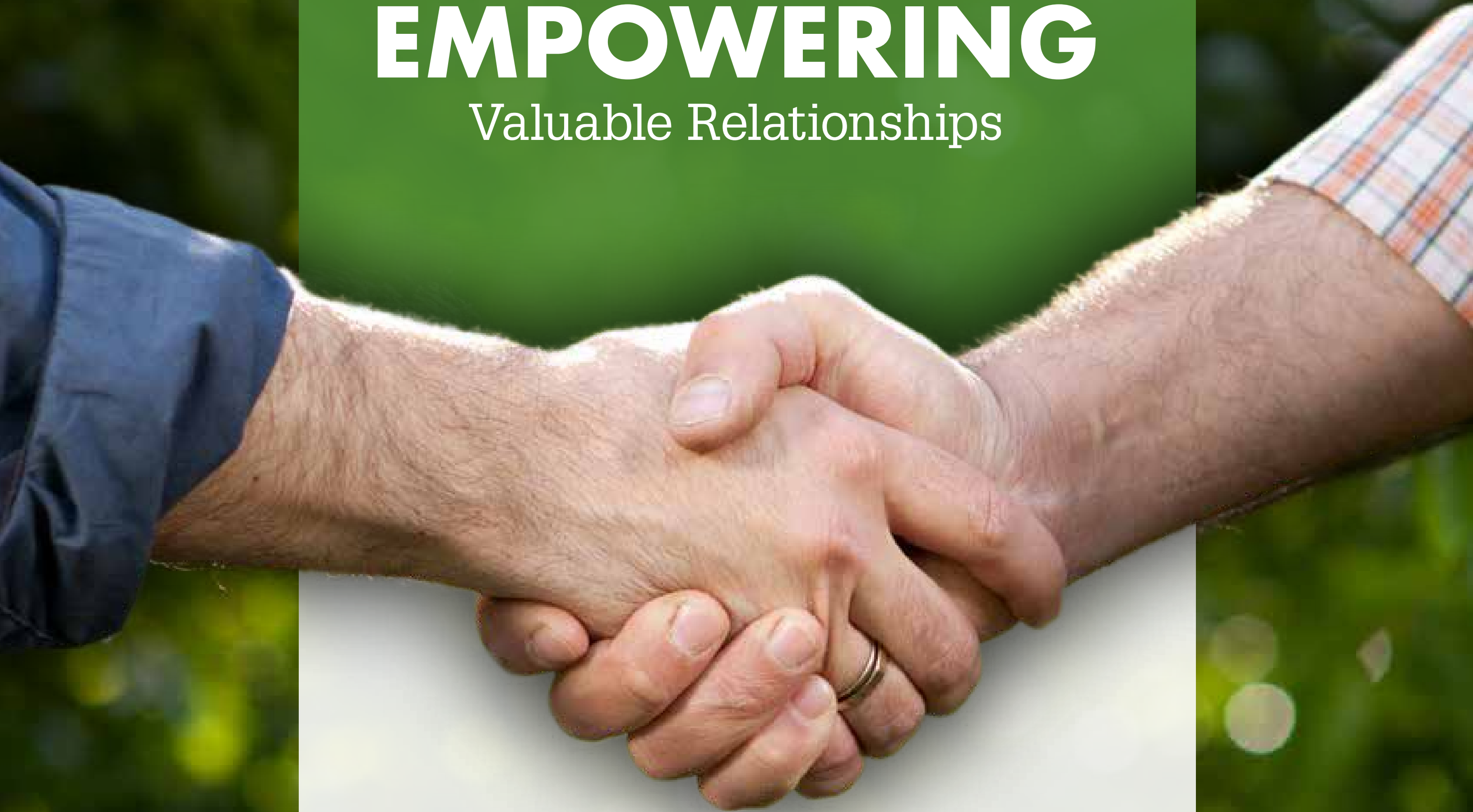
2017 Annual Report

EMPOWERING
Valuable Relationships



FARM CREDIT
OF CENTRAL FLORIDA

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FARM CREDIT

OF CENTRAL FLORIDA

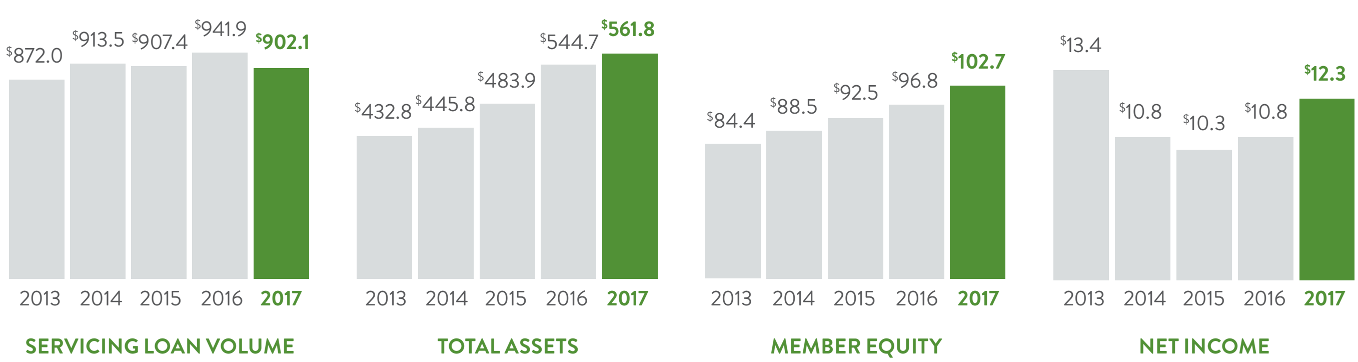
REGGIE HOLT
Chief Executive Officer

FROM THE PRESIDENT'S DESK

During 2017, we saw growth in total assets and improved credit quality. We experienced more change as an organization, but continue to be a source of stability for our members and the communities we serve.

The Association prides itself on the family atmosphere we create for our employees, members and those we interact with. This translates to everything we do. Whether it is a devastating hurricane like Irma this fall, or an exciting venture like an expansion on your operation, your relationship manager is there for you. They know you, they know your operation and they care about your success.

Just like relationships with our members are a top priority for the Association, so are the relationships within our community. As a cooperative, "Concern for Community," one of the principles of the cooperative



*Dollar amounts in millions

2017 was another year of growth for the Association which speaks to the resiliency of the farmers, ranchers and growers who **never stop working** to provide the food and fiber for people around the world.

model, is a key component to who we are. It is an obligation of ours to be a responsible corporate citizen through charitable giving and service.

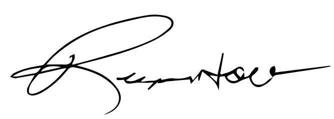
This year, we gave back $15,000 to the Redlands Christian Migrant Association (RCMA) in a statewide contribution with CoBank for hurricane relief aid to farmworkers and their families. We continue to support youth programs such as FFA, 4-H and local youth fairs and helped judge FFA sub-district events across the Association's territory, spending time mentoring agricultural leaders of the future.

In the office, we participate in Casual for a Cause, where staff make a donation to one of three charities and can dress casual on each Friday they donate. This year we raised over $2,500 staff-wide! On the weekends, our staff participated in 5K events around the territory. From the Lakeland Making Strides walk to end breast cancer, to a volunteer day at Feeding Tampa Bay...you could see our staff and their families at several events through the year supporting our community.

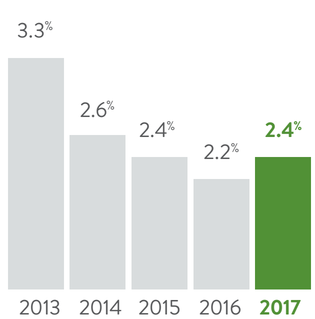
While agriculture continues to face hardships such as extreme weather events, volatile commodity pricing and more, the industry in Florida is strong and continues to overcome the obstacles that emerge. 2017 was another year of growth for the Association which speaks to the resiliency of the farmers, ranchers and growers who never stop working to provide the food and fiber for people around the world.

Farm Credit of Central Florida is proud to support our members and the communities in which they live and work. Through good times and bad, the Association is a partner in your success.

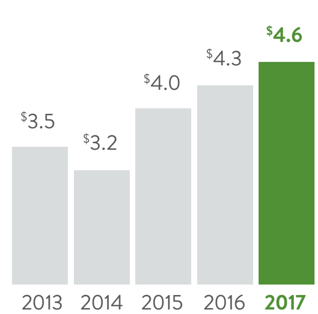
For 2018, we look forward to strengthening our community and member relationships and continuing to provide support to the agricultural and rural communities around us.



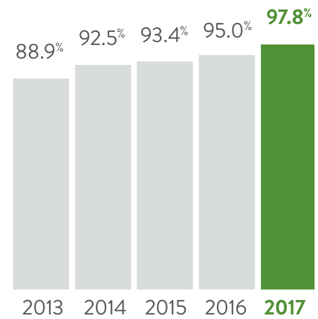
Reggie Holt



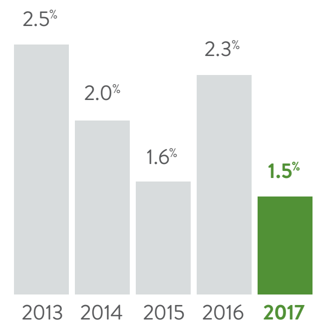
ROA



CASH PATRONAGE REFUNDS



CREDIT QUALITY

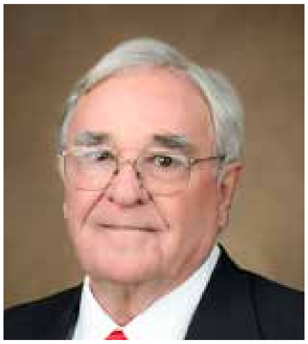


NON-EARNING ASSETS AS % OF TOTAL ASSETS

*Dollar amounts in millions

Our board of directors are dedicated to **ensuring your prosperity** by always keeping your interests in mind.

BOARD OF DIRECTORS



ROBERT R. ROBERSON
Chairman

W. REX CLONTS JR.
Vice Chairman

JENNY R. BLACK

C. DENNIS CARLTON SR.

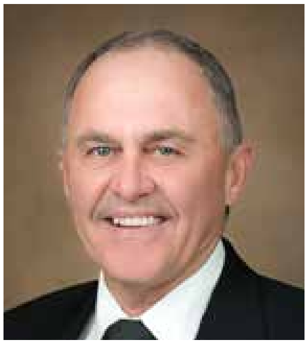
JOHN S. LANGFORD

RANDY L. LARSON

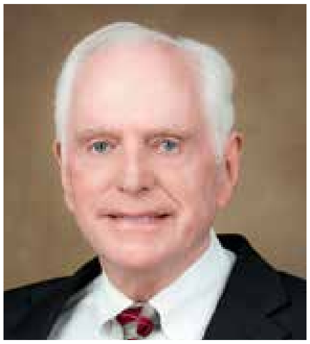
DALE MCCLELLAN

DAVID A. MERENESS

KEITH D. MIXON



RANDALL E. STRODE



RONALD R. WETHERINGTON

Our strong team of leaders make **supporting you, the agriculture industry, and its stakeholders** our number one priority.

PEOPLE WHO WORK FOR YOU

EXECUTIVE MANAGEMENT

REGGIE HOLT
Chief Executive Officer

SCOTT FONTENOT
Chief Operating Officer

SCARLET DETJEN
Chief Credit Officer

SENIOR LEADERSHIP

ANNIE SULLIVAN
Chief Financial Officer

MARK MCRAE
Chief Sales Officer

JEFF PHILLIPS
Chief Relationship Officer

DAVID MCDONALD
Regional Market Manager

GAYLE YANES
Regional Market Manager

REGINA THOMAS
Director of Financially Related Services

DAWN TUTEN
Director of Corporate Services

TORY MOORE
Director of Marketing

Renata and Robert Walker on their ranch in Lakeland, Florida.

Walker Ranch

OWNERS: Robert and Renata Walker

LOCATION: Lakeland, Florida

OPERATION: 500 head of Angus and Hereford crossbred cattle, hay and Bahia hayseed.

YEARS WITH FARM CREDIT: Over 30

EMPOWERING TIMELESS RELATIONSHIPS:

Walker Ranch

A conversation with Robert Walker about his ranch reveals that he has been impassioned for the agriculture and cattle industries since a very early age. He wakes up at 5:30 a.m. daily, eager to tend to the day-to-day operation of his 1100-plus acre ranch, alongside his wife Renata.

When Robert Walker was young, he loved animals and he loved the classic western movies, saying that is how his passion for the business began.

"I wanted to be like the cowboys in the movies," laughed Walker, "which is a big motivation for a 13-year-old who just bought his first horse from money earned on a paper route."

Walker spent his time helping on his uncle's farm, which only piqued his interest in the business and entered it upon adulthood. In the 1970s, he was leasing 120 acres near Socrum Loop in Lakeland when an attractive 1800 acre estate opened for bidding.

"There was a group of us who were going to bid on the land together, then divide it at the end. But I didn't have the money," said Walker. "As a solution, I took my vision to Carl Peters at Farm Credit, and the support he gave us was incredible."

Walker and his partners won the bid by a marginal amount of $12.50 per acre. Acquiring this sizeable property was a crucial milestone to the ranch's development, and is a warranted point of pride for the Walkers.

"Farm Credit has made so much possible. Not only by giving us a line of credit, but they've financed vehicles, equipment, operating expenses and even our old feed store, Kathleen Cash Feed."

RENATA WALKER

Robert and Renata looking out at their ranch.

"I was working for Lakeland Electric when I transitioned into a full-time cattle rancher; the inherent nature of the business demanded all of my time and it was impossible for me to come up with the cash flow," said Walker. "Believe me, there are easier ways to make a living. I was up for raises and promotions at Lakeland Electric, but my real passion was on the ranch."

After winning the bid, Walker immersed himself in the ranching business. He immediately bought cattle to put on his land.

"Farm Credit was more than helpful when it came to cattle loans," explained Walker. "The mobility of cattle means there is uncertainty when it comes to financing them. However, I was very honest with Farm Credit and, in turn, they were honest with me. Their support was vital in kick-starting that facet of my ranch."

The excitement surrounding Walker talking about his cattle is as obvious as it is captivating. He shares an anecdote of going to considerable lengths to purchase bulls for his operation, "One time, I drove to Alabama for a bull sale, and as soon as the auction started, I realized there were an incredibly high number of buyers, meaning the price of the bulls would be low. The opportunity knocked, and I answered by buying 38 bulls that day, which is unheard of for a single buyer. Farm Credit was one call away with on-the-spot approval for a loan totaling almost $80,000. People started asking what crazy, gray haired man bought so many bulls."

Renata chimed in, "And that crazy, gray haired man hasn't settled down for a second. He'll be 78 this year."

Walker Cattle and Hay houses more than 500 head of Angus and Hereford crossbred cattle, as well as pastures of hay and Bahia hayseed.

"Farm Credit has made so much possible," said Renata. "Not only by giving us a line of credit, but they've financed vehicles, equipment, operating expenses and even our old feed store, Kathleen Cash Feed. A few years prior, Bobby purchased a previously repossessed building with the help of Farm Credit. He co-owned it with Murray Edwards, and planned to return it to its former glory under the name Walker Cattle and Hay."

Ringing true with any business, it takes unwavering time and dedication from the owners to result in success.

"We don't really take vacations. Every once in a while, we'll go to the movies, but there's nowhere else we'd rather be than our farm," said Renata. "The small parts bring the most joy: taking in the gorgeous landscape while I spot-spray, spending time with the horses and raising the orphaned calves—they're like my babies. Those are my favorite parts."

Robert urges anyone looking to enter the agribusiness industry to be resourceful with their financing.

"Before you start an operation, be it cattle or crops, check with Farm Credit first," he said. "There are advantages other financial institutions simply don't offer, like their patronage program. Our interest rates result in being lower because of the patronage we receive."

The Walkers highlight the best aspects of traditional American Agriculture. From the beginning, their ingenuity has played in their favor. They remain steadfast in using Farm Credit as a resource and have established a reliable connection with the Association.

"The relationship we have with Farm Credit is invaluable," said Renata. "We've been with Joseph Sweat for several years, and he takes tremendous interest in our operation."

"Exactly," continued Robert. "He knows me and the ranch inside and out, and there are no secrets. Honestly, he's become a family friend whom we explicitly trust. That makes doing business with Farm Credit so easy. Without the initiative of Carl going to bat for me on the original bid, none of this would have been possible."

The Association appreciates the Walker's loyalty and invaluable contribution to the agriculture industry.

Gary Wishnatzki, owner of Wish Farms and co-owner of Harvest CROO Robotics

Wish Farms

OWNER: Gary Wishnatzki

LOCATION: Plant City, Florida

OPERATION: Berries

YEARS WITH FARM CREDIT: 14

ONLINE: wishfarms.com, harvestcroorobotics.com

Wish Farms
@WishFarms
@WishFarms

Harvest CROO's robotic strawberry harvester

EMPOWERING INNOVATIVE RELATIONSHIPS:

Wish Farms

Agriculture rapidly evolves, and each new development calls for industry experts to become innovative entrepreneurs like never before. Gary Wishnatzki, owner of Wish Farms and long-time Farm Credit customer, answered that call of solving the agricultural labor crisis with an acute vision and insatiable determination.

The Wishnatzki family has farmed berries since 1987, so Gary is no stranger to the challenges emerging on the horizon for an industry that makes up for more than $1 billion of Florida's economy.

"In recent years, the specialty crop sector has faced serious challenges," said Wishnatzki in a 2017 testimony to the United States House Agriculture Committee. "Most growers agree that availability of labor is the greatest of these challenges. I believe innovation can play a role in solving this."

Wishnatzki took initiative to explore viable solutions and co-founded Harvest CROO Robotics, a startup dedicated to using technology and automation to answer the call for agricultural innovation.

"There's a tremendous need for automation, and at the same time, technology is coming of age where we can do this," Wishnatzki said in the same testimony.

In 2013, Harvest CROO engineered a prototype for a fully autonomous strawberry harvester to tackle the labor shortage from which many agricultural operations were suffering.

"The prototype can — in an actual working strawberry field — identify, select and pick only ripe strawberries while leaving the

“They recognize agriculture needs to consider the future of the industry to maintain a competitive advantage in the world marketplace.”

GARY WISHNATZKI

Harvest CROO’s robotic strawberry harvester

unripe berries and plants unharmed,” said Wishnatzki. “The use of this technology will improve the quality of the berries picked, reduce energy usage, and increase strawberry yields by at least 10 percent.”

Since the flagship prototype, Harvest CROO has been extolled with awards and grants. In 2016, the National Science Foundation awarded a Small Business Innovation Research Program grant that supported their development of this automated machine. That same year, Harvest CROO was selected as one of the six finalists of Western Growers AgTech Innovation Arena startup competition.

The robotic strawberry picking platform has quickly developed and moved into testing on Wish’s farm in Duette, Florida.

“My cofounder developed a patented system using soft claws on a picking wheel, and that’s allowed us to travel around the plant, dive and pick at commercial speed,” said Wishnatzki at the committee testimony. “The processing power of computer chips has dramatically increased in the last five years. We’re processing 30 gigabytes of data per second.”

The sheer technological power of the machine comes with its fair share of admiration from onlookers.

“Most people react in awe when they see the absolute size of the vehicle,” said Wishnatzki. “The robots being positioned and working with sub-half-inch accuracy also fascinates most people.”

This modern marvel may seem shiny and new with several bells and whistles, but Wishnatzki insists it is still in early stages of development.

“Realistically, commercialization is several years away. Though when it happens, it will happen swiftly,” he explained. “Throughout history, when a disruptive technology emerges, it can be adopted very quickly and life before that technology was introduced is soon forgotten.”

Wishnatzki says that the disruptive magnitude of this development in agricultural labor is analogous to the effect the introduction of smartphones had on society.

“Smart phones seem like they’ve been around forever, but the iPhone was introduced only in 2007,” said Wishnatzki. “The technology Harvest CROO is developing is in its infancy can be compared to a 1980s cell phone. With the first cell phones, consumers wanted to easily make a phone call. Today, growers want to easily pick strawberries. Our picking platform will progress with many add on features, like cell phones have. Who could have imagined a smart phone in the 1980s?”

The harvester has plans to become a staple of agricultural labor, and already has tremendous support from both Florida and California growers. Approximately two-thirds of the United States strawberry industry is represented as investors in Harvest CROO Robotics.

Aligning with the spirit of innovation, Farm Credit finds the bold way Wishnatzki navigates the rough waters of the industry beneficial to the future.

“Farm Credit has always been supportive of the research and development projects we have undertaken,” he said. “They recognize agriculture needs to consider the future of the industry to maintain a competitive advantage in the world marketplace.”

The confidence placed in Harvest CROO to maintain that competitive advantage is completely warranted. The autonomous harvester can pick a single strawberry plant in eight seconds and move on to the next in 1.5 seconds. The machine will eventually have the capacity to pick eight acres of strawberries in a single day and will do the work of more than 30 pickers.

The complexity of the modern agricultural labor challenge would challenge a commercial bank’s understanding of the industry, but Farm Credit embraces and empowers growers to face that challenge head-on.

“Farm Credit’s mission of financing agriculture is a tremendous asset to growers,” said Wishnatzki. “Commercial banks can go through cycles focusing on agriculture, but lack the long term commitment that Farm Credit has. I’m confident that Farm Credit will stick with us through thick and thin.”

The Association commends the entrepreneurial spirit of Gary Wishnatzki and Wish Farms and is excited for the future of Harvest CROO Robotics.

Central Florida Ferns | Central Florida Hops

Matthew and Ray Roberts, owners of Central Florida Fern & Central Florida Hops

Central Florida Fern & Central Florida Hops

OWNERS: Roberts Family

LOCATION: Zellwood, Florida

OPERATION: Ferns, foliage and hops

YEARS WITH FARM CREDIT: 14

ONLINE: cfferns.com

Central Florida Ferns, Central Florida Hops

@CentralFloridaHops

EMPOWERING CONTEMPORARY RELATIONSHIPS:

Central Florida Fern & Central Florida Hops

For over 25 years, family owned and operated Central Florida Ferns in Zellwood has provided high quality, unique varieties of fern and foliage for garden stores around the country. Founded by Ray and Kathy Roberts in 1990, Central Florida Ferns prides itself on personal service to their customers while adapting to the consumer needs and trending interests.

"We've never had a problem with them and get a little bit of return. As long as you guys make money, we make money. It's been a good relationship."

RAY ROBERTS

In recent years, Central Florida Ferns expanded their offerings to cater to the mini-gardening boom. From fairy gardens to terrariums, Central Florida Ferns offers a wide variety of two-inch ferns and foliage to their buyers. The family's agility to meet demands within the nursery industry does not end there. Most recently, Matt Roberts, the second generation of the family business has started a new venture: Central Florida Hops. One of the first hops growing operations of its kind in Central Florida and the first in Orange County.

Washington, Oregon and Idaho are currently the leaders in hop production. Still a brand new industry to Florida agriculture, the first commercial hops grower in Florida started production in early 2017. The University of Florida's Institute for Food and Agricultural Sciences has paved the way for hops to become Florida's new niche crop through their research on hops' yield potential, resistance to disease and insect problems when grown in Florida. Still a niche product in Florida, Roberts is excited about the future of the operation.

"We want to start small and not get in over our heads," he said. "We have a lot of interest already from breweries, even home brewers. We want to take care of the local brewery movement in the community. The breweries in our community are our market and they're ready for local hops."

The local food movement includes beverage products and is more than a trend; it has become a permanent fixture and in result, microbreweries and craft beer sales have boomed in Florida. According to the Brewers Association, the craft beer industry has a $2 billion-a-year-impact on Florida's economy. In 2013, craft beer made and sold in Florida totaled in at a whopping $875.9 million. Until now, Central Florida breweries have not had local hops available to them and there is a lot of buzz around the availability of a 100 percent local beer.

"We've always sold products to small shops," Roberts said. "We take care of them and they take care of us and that's what we want to do with the hops, too."

Another exciting component of the venture is the perfect growing season of hops in relation to the fern and foliage operation. Planning for a summer harvest, the hops harvest will fill the slower period of the nursery's production cycle.

"Being able to offer hops in Florida in the spring when no one else can is going to be really good for us," he said.

Young hop plants, part of the new Central Florida Hops crop

The Roberts have been Farm Credit members since 2004 and have worked with the Association on several expansion projects. From a warehouse to purchasing the land for the new hops operation, Farm Credit has been a partner.

"We have always been able to depend on Farm Credit. We are not a big borrower but they have always been able to work with us," Ray Roberts said. "We've never had a problem with them and get a little bit of return. As long as you guys make money, we make money. It's been a good relationship."

The Association looks forward to supporting Central Florida Hops journey in this new venture.

2017 FINANCIAL RESULTS

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FARM CREDIT
OF CENTRAL FLORIDA

REPORT OF MANAGEMENT

The accompanying Consolidated Financial Statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of Central Florida, 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 Farm Credit of Central Florida, 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.

Keith D. Mixon
Chairman of the Audit Committee

Reginald T. Holt
Chief Executive Officer

Anne M. Sullivan
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.

Reginald T. Holt
Chief Executive Officer

Anne M. Sullivan
Chief Financial Officer

March 13, 2018

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(dollars in thousands)	2017	2016	December 31, 2015	2014	2013
Balance Sheet Data					
Cash	**$ 53**	$ 1,087	$ 320	$ 271	$ 277
Investment securities	**13,029**	19,008	24,612	31,756	39,511
Loans	**533,519**	508,773	445,550	399,417	374,964
Allowance for loan losses	**(4,185)**	(4,766)	(6,803)	(9,237)	(8,095)
Net loans	**529,334**	504,007	438,747	390,180	366,869
Investments in other Farm Credit institutions	**6,318**	6,481	6,598	6,931	7,611
Other property owned	**—**	216	16	—	1,108
Other assets	**13,080**	13,875	13,640	16,619	17,426
Total assets	**$ 561,814**	$ 544,674	$ 483,933	$ 445,757	$ 432,802
Notes payable to AgFirst Farm Credit Bank*	**$ 443,696**	$ 435,590	$ 379,668	$ 344,844	$ 337,140
Accrued interest payable and other liabilities with maturities of less than one year	**15,379**	12,287	11,717	12,409	11,245
Total liabilities	**459,075**	447,877	391,385	357,253	348,385
Capital stock and participation certificates	**900**	861	858	860	902
Retained earnings					
Allocated	**24,588**	26,269	28,505	30,740	34,167
Unallocated	**77,821**	70,166	63,673	57,369	49,767
Accumulated other comprehensive income (loss)	**(570)**	(499)	(488)	(465)	(419)
Total members' equity	**102,739**	96,797	92,548	88,504	84,417
Total liabilities and members' equity	**$ 561,814**	$ 544,674	$ 483,933	$ 445,757	$ 432,802
Statement of Income Data					
Net interest income	**$ 12,259**	$ 11,129	$ 10,954	$ 11,384	$ 10,810
Provision for (reversal of allowance for) loan losses	**(678)**	(2,340)	(1,983)	1,340	(747)
Noninterest income (expense), net	**(682)**	(2,676)	(2,633)	758	1,809
Net income	**$ 12,255**	$ 10,793	$ 10,304	$ 10,802	$ 13,366
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.39%**	2.22%	2.36%	2.59%	3.27%
Total members' equity	**12.24%**	11.23%	11.27%	12.34%	16.67%
Net interest income as a percentage of average earning assets	**2.44%**	2.34%	2.54%	2.79%	2.71%
Net (chargeoffs) recoveries to average loans	**0.020%**	0.067%	(0.112)%	(0.053)%	(0.783)%
Total members' equity to total assets	**18.29%**	17.77%	19.12%	19.85%	19.50%
Debt to members' equity (:1)	**4.47**	4.63	4.23	4.04	4.13
Allowance for loan losses to loans	**0.78%**	0.94%	1.53%	2.31%	2.16%
Permanent capital ratio	**18.75%**	18.95%	20.42%	21.18%	21.13%
Total surplus ratio	**	18.77%	20.21%	20.96%	20.87%
Core surplus ratio	**	17.53%	18.86%	18.24%	17.64%
Common equity tier 1 capital ratio	**18.58%**	**	**	**	**
Tier 1 capital ratio	**18.58%**	**	**	**	**
Total regulatory capital ratio	**19.50%**	**	**	**	**
Tier 1 leverage ratio	**17.80%**	**	**	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**14.02%**	**	**	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 4,600**	$ 4,300	$ 4,000	$ 3,200	$ 3,500

** 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.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

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

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 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 central Florida. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, Post Office 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.FarmCreditCFL.com***, or by calling 1-800-533-2773, or writing Anne M. Sullivan, Chief Financial Officer, Farm Credit of Central Florida, ACA, Post Office Box 8009, Lakeland, FL 33802-8009. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the 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 information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will", or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

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

AGRICULTURAL OUTLOOK

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

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

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

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

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

The USDA's income outlook varies depending on farm size and commodity specialties. The USDA classifies all farms into four primary categories: small family farms (gross cash farm income (GCFI) less than $350 thousand), midsize family farms (GCFI between $350 thousand and under $1 million), large-scale family farms (GCFI of $1 million or more), and nonfamily farms (principal operator or individuals related to the operator do not own a majority of the business). Approximately 99 percent of U.S. farms 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, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

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

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

REGIONAL ECONOMICS

General Economy

In 2017, the State of Florida was hit by Hurricane Irma which is expected to be one of the most costly natural disasters in the State's history. However, according to the University of Central Florida's Institute for Economic Competitiveness December forecast, the economic impacts of Irma will be short-lived. It projects that the most impacted business segments over the first few months of 2018 will be Leisure & Hospitality due to short-run job losses and Construction (a significant boost from repair and rebuilding.

The University of Central Florida's Institute of Economic Competitiveness is projecting the State's real GDP will grow at and average of 4.1% over the next 2 years and then slow to 2.8% in 2020 and 2021. According to this report, the improvements of the fundamentals of the state's economy helped accelerate growth in 2015 when the RGSP expanded to 3.6%, the fastest growth rate in the recovery to date before decelerating in 2016. It is believed that the states economy will grow again with the tax reform policy's this Administration has implemented.

In October 2017 the Florida Realtors single-family home report details that the existing housing market after Hurricane Irma is bouncing back. The housing market has grown substantially since the bottom of the housing crisis, and housing prices are approaching highs not seen since the housing bubble. During the crisis, the median existing home price was at $122,200 but is now at $235,558. The peak was in June 2006 with the median-price high was $257,800. Inventories of single-family homes continue to decrease and were only 3.8 months as of October 2017.

In 2017, real disposable income growth is projected to average 2.5%, which is a decrease from the prior year's 3.9% growth rate. Average growth in Florida during 2017-2021 is projected to be close to 4.0%, with U.S. real disposable income growth expected to average 3.2% during the same time frame.

Home equity in Florida has not recovered as completely as financial asset wealth, but housing prices have been climbing rapidly. An acceleration in the rate of price appreciation in 2015 to a double-digit pace, which eased in 2017, is creating significant gains in home equity wealth for Floridians; however, for many households in Florida, the effects of the lost home equity wealth will continue to weigh upon consumer spending through the end of 2017. Financial asset wealth and home equity wealth should continue to grow nationwide, boosting consumer confidence and spending and helping to finance the retirement of even more Baby Boomers to Florida.

Hurricane Irma did cause some unrest in the State's labor market, but did not stop it from its recovery trends. Florida's labor market recovery still continues to outpace the recovery of the national job market. Payroll job growth in Florida is projected to average 2.5% in 2017, 2.4% in 2018, 2.3% in 2019, 1.7% in 2020 and 1.5% in 2021. The average is projected to outpace national average growth by 0.8% from 2017-2021.

The State of Florida continues to show its resiliency. After the major downturn and the 2017 hurricane, the economy is still projected to continue growing at a rate greater than that of the US.

Agricultural Sectors

Agriculture, agribusiness, food processing and manufacturing are still a significant driver to the Florida economy. These business segments provide significant jobs and revenues to the state and local economies.

The agricultural industry in the Central Florida region produces a wide variety of farm commodities with nursery, citrus and strawberries still the largest market segments and principal commodities financed. None of the commodities produced in the region are included in any USDA government support programs and are not materially impacted by changes in U.S. farm legislation. The agricultural demographics of the region have significantly changed as a result of non-agricultural development pressures and three devastating freeze events that occurred in the 1980's. In 2017, the agriculture industry in Florida was greatly effected by Hurricane Irma. The impact of this storm is still being evaluated by the various industries in the agriculture sector. However, the Federal Government has approved a $2.6 billion federal aid package for Florida agriculture.

While the overall agricultural economy in the central Florida region has been good over the last few years, there are several significant issues that have affected the area. These issues include the introduction of pest and plant diseases such as citrus canker and greening to the citrus industry, weather-related risks, water-use regulations, environmental rules and regulations, land use and growth management regulations, and challenges to property rights. Nursery growers have seen stabilization in the market as the economy has improved from the recent recession.

Floriculture and Nursery

The floriculture and nursery product sectors continue to be a significant market for the Association, with production concentrated primarily in the Apopka area (including Orange, Lake and Volusia counties). Nursery producers in the Association's territory produce a variety of nursery products, including but not limited to woody ornamentals and trees, annual and perennial bedding and garden plants, and potted foliage and greens. Although sales growth in both the floriculture and nursery product sectors has slowed over the last decade, history has shown that the demand for each of these crops is driven by different market factors.

One segment consists of trees that are primarily produced for end-use in the outdoor landscape market. As such, a large portion of the total demand for these crops is driven by landscape regulation, new housing construction and home-improvement activity. As supply and demand for landscape trees fell between 2006 and 2011, nurseries decreased or stopped planting new production, abandoned existing fields, ceased maintaining critical infrastructure, and in many cases completely exited the market. Demand is increasing due to shortages in various product lines combined with an increase in housing starts, which is resulting in prices slowly and steadily increasing. The growers that were able to maintain production and inventory levels are well positioned to take advantages of the shortages that are now being seen in the marketplace. Producers willing and able to make the capital investment today to expand capacity will need to wait 4-6 years for the inventories to mature. It is projected that housing starts will increase during the next 5 year period; therefore, there is a forecast of shortages in plant material during that time.

The woody ornamental sector is similar to the tree sector in its reliance and sensitivity to landscape regulation, new housing starts, and home improvement activity. This sector has also seen a steady increase in demand with shortages due to lack of production and inventory shrink over the past five years. Growers that were able to maintain inventories or that were able to react in a timely fashion are taking advantage of these shortages and demanding higher prices. Inventory turn in this sector is somewhat shorter than the tree sector and would range from 18 months to 3 years.

Sod production also falls within this SIC code segment and is driven by similar factors relating to housing and development but also includes road building activities. Customers in this market segment experienced weak sales and orders since 2008 as a result in the housing and development slowdown. Fern borrowers typically see a spike in sales around Valentine's Day and Mother's Day of each year. Prices appear to be more stable with some consolidation of smaller growers into larger farms.

Strawberries

The U.S. strawberry industry is primarily located in the southern and coastal areas in California where production practices thrive under moderate climates with warm days and low humidity. The 2012 census data reported 38,500 acres of strawberries were harvested in California. Florida and Oregon are the second and third largest strawberry-producing states, respectively. Florida production for 2012 was reported at 8,700 acres while Oregon is approximately 2,000 acres. The census data also reported 2.76 billion pounds of strawberry production was harvested in California, with Florida and Oregon reporting 182.7 million and 21.3 million pounds produced, respectively.

Although Florida produces about fifteen percent of the nation's strawberries, it produces nearly all of the berries harvested in the U.S. during the winter months. Florida's typical harvest season begins around Thanksgiving and goes into March with typical peak season in March. California production ramps down by November and what little remains stay west of the Mississippi. Production in Mexico over the last decade has increased substantially in response to amplified costs in California. Production has shifted from California to Mexico. This has led to increased volumes produced during the Florida market window and has put pressure on Florida growers. In March, shipments begin ramping upward enough to begin supplying eastern markets and cut into Florida strawberry profit margins. This leaves Florida with a great market window in the winter months.

Over the last two decades, the U.S. strawberry industry has experienced increased rates of consumption at a higher rate than other fruits and vegetables. Strawberries are the fifth most preferred fresh fruit in the United States, behind bananas, apples, watermelon and grapes.

Per capita fresh strawberry use in the United States has generally trended higher since 1980, reaching a record 7.9 pounds per person in 2013. Greater awareness of the importance of fruits and vegetables in a healthy diet (health benefits include antioxidant levels, folate, potassium, vitamin C, and fiber content), increased year-round availability through domestic production and imports, and adoption of better varieties helped promote increased strawberry consumption in the United States.

Following a generally successful 2016/17 season, which saw above average yields, good quality fruit and adequate pricing, the acreage planted for 2017/18 stayed relatively flat, with some increased plantings of organic acreage. Through mid-January, quality and pricing has been above average however volumes for growers is lower than previous season due to cooler weather in November and December 2017. The success of the season will depend if growers' marketers are able to move the expected volumes of fruit in late January and February at adequate pricing.

The Florida strawberry industry continues to evolve to remain competitive in the marketplace with increased pressure from Mexico. The industry is developing plants that will produce a quality fruit in the opportune market window earlier in the season. Growers are also expanding into organic production as technologies allow for increases in production that offset the higher costs compared with conventional berries.

Citrus

The citrus industry is an essential part of the Florida economy. Florida Citrus Mutual reports that the citrus industry in the state provides a total economic revenue impact of $9 billion. Florida is second behind Brazil in orange production for juice. The industry supports 76,000 jobs in Florida and is the backbone of many communities in the state's heartland. The Florida citrus industry is, however, under threat by a number of challenges in dealing with diseases (e.g., citrus canker, citrus greening, black spot and tristeza), extreme weather conditions (e.g., hurricanes), constrained nursery and budwood supply, urban development, energy cost increases, environmental policy, labor issues, and long-term uncertainty.

Citrus greening, a bacterial disease spread by the Asian citrus psyllid, poses a serious threat to Florida's citrus industry. The disease causes citrus trees to die and adversely impacts fruit production and quality, and this is evident in commercial citrus acreage and production declines. Even though citrus greening is a serious obstacle for the Florida citrus industry there have been positive changes within the industry to mitigate the effects. Improved production practices, including higher density plantings, improved nutritional practices, and recently approved bactericide treatments are on the cutting edge of techniques being utilized by Florida growers. Incentives such as tax relief, new tree rebates, and irrigation rebates are being offered to reduce the upfront cost for replanting an infected citrus grove. There are also citrus varieties and rootstocks being developed that are resistant or tolerant to greening. Hundreds of acres of these new varieties are currently in the ground producing marketable fruit.

Hurricane Irma hit central Florida in September of 2017. It did most of its damage in the form of tree damage and fruit drop. The damage has been assessed, and the government set aside a $760 million emergency aid package for citrus growers and other producers who suffered crop losses.
The USDA National Agricultural Statistics forecast in December, states that the 2017-2018 Florida all-orange forecast released by the U.S. Department of Agriculture is 46 million boxes. This figure is down 8 percent from the November forecast. If realized, this forecast will be 33 percent less than last season's production and the least since the 1944-1945 season of 42.2 million boxes. The forecast consists of 19 million boxes of non-Valencia oranges (early, midseason and Navel varieties) and 27 million boxes of Valencia oranges. Regression data used are from the 2007-2008 through 2016-2017 seasons. For those previous 10 seasons, the December forecast has deviated from final production by an average of 6 percent, with eight seasons above and two below, with differences ranging from 16 percent below to 16 percent above.

Florida has also experienced declines in grapefruit and specialty citrus fruit. Although grown to some extent within the Association's chartered territory, these citrus types do not comprise a large component in most of our citrus growers' operations. Our growers' primary citrus crop remains oranges grown for processing into concentrated and not-from-concentrate orange juice.

Blueberries

Commercial blueberry production has significantly increased in Florida since 2000. Florida has become a major producer of early-season blueberries. In Florida, blueberries can be grown commercially as far south as Highlands and DeSoto counties and north to the Georgia border. U-pick blueberry farms are scattered throughout Florida, primarily near population centers.

Florida growers experienced a generally profitable year in 2017 due to a late freeze that kept Georgia production at bay and allowed more of a traditional window to be filled with Florida fruit. Growers continue to experiment with different varieties and growing practices in order to harvest sooner and avoid the entrance of Georgia fruit into the market. Going forward, it will be important for Florida growers to focus on operations efficiencies and high quality /high producing varieties. Additionally, the industry continues to experiment with mechanical harvesting and other avenues of product distribution.

Advantages of blueberries include their high market value for early-season fruit, wide consumer acceptance and health benefits, and the availability of commercial and/or pick-your-own (u-pick) marketing channels. The primary disadvantages include freeze hazard to early-flowering cultivars, exacting cultural requirements to maintain good plant health, insects, pests, diseases, and birds.

Florida's early-season southern highbush cultivars are the first blueberries to ripen in North America. Most of the state's blueberries grown for commercial shipping are harvested between early April and late May. The Florida blueberry industry has developed despite production problems because Florida growers can produce high-quality fruit when few fresh berries are available. High prices received for this fruit have made some farms more profitable even with relatively low yields. However, high prices encourage competition. If berry prices remain high, competition from Central America, Mexico, and the Caribbean may eventually develop. The best long-term defense for Florida growers is through higher yields per acre, lower production costs, and development of currently under-exploited markets for blueberries. Improvements have been made to grower production and efficiency during the last several years – including releasing new highbush variety plants. Acreage and production continue to increase and fruit prices have generally been at levels necessary for profitable operations.

The amount of additional blueberries that can be sold on the national market without forcing the price down is unknown, but Florida has the potential to produce larger quantities of blueberries early in the year, when prices are highest. Shipment of southern highbush blueberries from Florida begins during early April. Producers in southeast Georgia can harvest southern highbush blueberries in mid-to-late April. Shipment of large quantities of blueberries from California begins in mid-May and from other eastern states in late May. At present, the market window from April 1 to May 10 is available almost exclusively to Florida and South Georgia growers who grow southern highbush blueberries. A major incentive for developing blueberry plantings in central and south-central Florida has been the ability to put blueberries on the market during late March and early April.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including horticulture, citrus, strawberries, and cattle. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the level of dependency on a given commodity.

The Association's total servicing loan volume for the past three years is shown below.

	December 31,					
Servicing Loan Volume	**2017**		**2016**		**2015**	
	(dollars in thousands)					
Net Loans Outstanding	$ 533,519	59.15%	$ 508,773	54.02%	$ 445,550	49.10%
Participations Sold	171,555	19.02	202,449	21.49	239,923	26.45
Available Commitments	183,971	20.39	211,637	22.47	197,293	21.74
Investments	13,029	1.44	19,008	2.02	24,612	2.71
Total	$ 902,074	100.00%	$ 941,867	100.00%	$ 907,378	100.00%

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

	December 31,					
Loan Type	**2017**		**2016**		**2015**	
	(dollars in thousands)					
Real estate mortgage	$ 276,252	51.78%	$ 247,923	48.73%	$ 224,160	50.31%
Production and Intermediate-term	153,523	28.78	164,923	32.41	144,445	32.43
Processing and marketing	56,244	10.54	55,259	10.86	56,409	12.66
Communication	19,940	3.74	15,849	3.12	5,188	1.16
Rural residential real estate	8,348	1.56	7,540	1.48	6,734	1.51
Farm-related business	8,171	1.53	6,618	1.30	8,614	1.93
International	5,832	1.09	5,830	1.15	–	–
Power and water/waste disposal	3,831	0.72	–	–	–	–
Loans to Cooperatives	1,378	0.26	4,831	.95	–	–
Total	$ 533,519	100.00%	$ 508,773	100.00%	$ 445,550	100.00%

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

The distribution of the loan volume by line of business for the past three years is as follows:

	December 31,		
Line of Business	**2017**	**2016**	**2015**
Apopka	6.15%	5.74%	6.29%
Plant City	3.81	4.06	4.47
Brooksville	3.13	2.96	2.90
Lake Wales	–	–	3.06
Lakeland	1.96	2.73	0.04
Agribusiness	60.10	59.16	58.97
Capital Markets	19.33	19.45	17.08
Residential Lending	1.86	1.77	1.95
Special Assets	3.66	4.13	5.24
	100.00%	100.00%	100.00%

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

The major commodities in the Association loan portfolio are shown below. The predominant commodities are livestock, strawberry, nursery, fruits and vegetables, and citrus, which constitute over 64 percent of the entire portfolio.

Commodity Group per SIC Codes	**December 31 2017**		**December 31 2016**		**December 31 2015**	
	(dollars in thousands)					
Livestock	$ 100,248	18.79%	$ 83,299	16.37%	$ 75,033	16.84%
Strawberries	72,192	13.53	106,187	20.88	80,854	18.15
Nursery	64,095	12.01	59,793	11.75	64,467	14.47
Fruits & Vegetables	58,311	10.93	23,261	4.57	22,531	5.06
Citrus	48,514	9.09	55,298	10.87	55,366	12.43
Landlord/Lessors	23,090	4.33	24,344	4.78	20,662	4.64
Timber	22,865	4.29	17,168	3.37	12,209	2.74
Blueberries	21,102	3.96	27,673	5.44	25,815	5.79
Poultry	15,911	2.98	16,909	3.32	15,285	3.43
Rural Home	7,938	1.49	6,946	1.37	7,584	1.70
Other	99,253	18.60	87,895	17.28	65,744	14.75
Total	$ 533,519	100.00%	$ 508,773	100.00%	$ 445,550	100.00%

The Association manages concentration risks, both industry and large borrower, through an internal hold limit policy based on individual loan risk ratings, loss given defaults, and industry concentrations. Industry concentrations for hold limit purposes are calculated using the repayment dependency code rather than the SIC code. As a result, for portfolio management purposes, industry classifications are determined based on high dependency of repayment coming from the actual commodity itself. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. For example, citrus and livestock industries are a large percent of the total portfolio but each also have very low repayment dependency coming from the actual commodity itself. Portfolio management industry concentrations are classified in three concentration levels based on the industry concentration (with high dependency) as a percent of total ACA capital; 1) High – greater than 100% of total capital; 2) Medium – between 50% and 100% of total capital; and 3) Low – less than 50% of total capital. The Association's loan portfolio contains two medium concentrations in the nursery and strawberry industries. All other industries are in the low concentration level.

	December 31,		
Portfolio Management Industry as % of Capital	**2017**	**2016**	**2015**
	(% of Total Capital)		
Nursery	63.23%	59.20%	66.19 %
Strawberries	52.60	65.20	74.59
Cattle	37.80	29.52	17.47
Citrus	19.30	20.57	42.03
Blueberries	19.17	19.24	21.70
Fruits & Vegetables	5.11	6.22	19.05

The concentration of large loans has decreased over the past several years and the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory as well as the internal hold limit policy which limits any additional increases to already high concentrations.

The increase in loan volume for the twelve months ended December 31, 2017, is primarily attributed to increased demand for loans from within the Association's charted territory coupled with an improvement in net participation activity.

The short-term portfolio, which is cyclical in nature and heavily influenced by operating-type loans, normally reaches a minimum balance in August or September and rapidly increases in the fall months as strawberry and other winter vegetable growers increase their borrowings to prepare for the next crop season. The Association has grown the long-term portfolio through increased long term fully funding loans with guarantees.

During 2017, the Association increased activity in total loan participations purchased within the System. Loan participations purchased provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen its capital position.

	December 31,		
Loan Participations:	**2017**	**2016**	**2015**
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 103,435	$ 99,252	$ 76,305
Participations Sold	(171,555)	(202,449)	(239,923)
Total	$ (68,120)	$ (103,197)	$ (163,618)

For the years ended December 31, 2017, 2016, and 2015, 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.

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, 2017, 2016, and 2015, the Association originated loans for resale totaling $11,275, $13,765, and $9,827, respectively, which were sold into the secondary market.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2017, 2016 and 2015, the Association had loans totaling $71,460, $46,064 and $37,863, respectively, that are 100 percent guaranteed by Farmer Mac.

The Association additionally has loans wherein a certain portion of the loans are guaranteed by various governmental entities for the purpose of reducing risk. At December 31, 2017, 2016 and 2015, the balance of these loans was $22,509, $24,506 and $19,397, respectively.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist of pools of Small Business Administration (SBA) guaranteed loans. These investments carry the full faith and credit of the United States government. The balance of these SBA investments, classified as being held-to-maturity, amounted to $13,029 at December 31, 2017, $19,008 at December 31, 2016, and $24,612 at December 31, 2015. The Association has been managing its exit from the investment program due to recent changes in FCA regulations. As a result, the balance of these investments has decreased each year and will continue to do so over the next few years.

CREDIT RISK MANAGEMENT

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

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

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

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

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

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

Credit Quality	2017	2016	2015
Acceptable & OAEM	97.79%	94.96%	93.36%
Substandard	2.21%	5.04%	6.64%
Doubtful	%	–%	–%
Loss	%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. The 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	$ 8,179	$ 11,501	$ 7,106
Restructured loans	9,758	12,059	10,418
Accruing loans 90 days past due	–	–	–
Total high-risk loans	$ 17,937	$ 23,560	$ 17,524
Other property owned	–	216	16
Total high-risk assets	$ 17,937	$ 23,776	$ 17,540
Ratios			
Nonaccrual loans to total loans	1.53%	2.26%	1.59%
High-risk assets to total assets	3.19%	4.37%	3.62%

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 $3,322 or 28.9% in 2017. This decrease is primarily a result of several large payoffs of substandard loans during 2017. The largest nonaccrual sectors are fruits and vegetables, nursery, strawberry and blueberry loans due to the weakness associated with the individual borrower's repayment capacity and continuing decline of overall collateral values. Of the $8,179 in nonaccrual volume at December 31, 2017, $4,192 or 51.25%, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status compared to 24% and 66.10% at December 31, 2016 and 2015, respectively. The Association had no other property owned at December 31, 2017. During 2017, the Association sold 3 properties totaling $216 and acquired no properties during the year.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is broken down between specific reserves assigned to an individual loan and general reserves which are available for the expected losses within the entire portfolio. The current allowance for loan losses at December 31, 2017 contains $2,217 in specific reserves and $1,968 in general reserves.

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	$ 4,766	$ 6,803	$ 9,237
Charge-offs:			
Real estate mortgage	(2)	–	(452)
Production and intermediate-term	(43)	(28)	(59)
Agribusiness	–	–	–
Rural residential real estate	–	(51)	(151)
Total charge-offs	(45)	(79)	(662)
Recoveries:			
Real estate mortgage	50	206	204
Production and intermediate-term	84	105	–
Rural residential real estate	8	71	7
Total recoveries	142	382	211
Net (charge-offs) recoveries	97	303	(451)
Provision for (reversal of allowance for) loan losses	(678)	(2,340)	(1,983)
Balance at end of year	$ 4,185	$ 4,766	$ 6,803
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.02%	0.067%	(0.122)%

The $678 allowance for loan loss reversal taken in 2017 was primarily the result of improved asset quality within the accruing portfolio. The net loan recovery of $97 was primarily associated with the nursery, cattle and rural home industries.

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	$ 1,116	$ 1,481	$ 2,300
Production and intermediate-term	2,833	3,096	4,301
Agribusiness	85	90	48
Communication	48	25	20
Power and water/waste disposal	4	--	--
Rural residential real estate	96	71	134
International	3	3	--
Total loans	$ 4,185	$ 4,766	$ 6,803

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

Allowance for Loan Losses	December 31,		
as a Percentage of:	**2017**	**2016**	**2015**
Total loans	0.78%	0.94%	1.53%
Nonperforming loans	23.33%	20.23%	38.82%
Nonaccrual loans	51.17%	41.44%	95.74%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses. The Allowance for Loan Losses was determined according to generally accepted accounting principles.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $12,259, $11,129, and $10,954 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 primary reason for the increase in net interest income for 2017 as compared to 2016 is increased loan volume coupled with increased loanable funds rates which are offset by decreased loan rates. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	**Rate**	**Total**
(dollars in thousands)			
12/31/17 - 12/31/16			
Interest income	$ 1,075	$ 2,042	$ 3,117
Interest expense	494	1,493	1,987
Change in net interest income	$ 581	$ 549	$ 1,130
12/31/16 - 12/31/15			
Interest income	$ 1,906	$ (393)	$ 1,513
Interest expense	890	448	1,338
Change in net interest income	$ 1,016	$ (841)	$ 175

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

Noninterest Income

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

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Income	**2017**	**2016**	**2015**	**2017/ 2016**	**2016/ 2015**
	(dollars in thousands)				
Loan fees	$ 721	$ 342	$ 444	110.82%	(22.97)%
Fees for financially related services	576	286	238	101.40	20.17
Patronage refund from other Farm Credit Institutions	8,205	7,287	7,115	12.60	2.42
Gains (losses) on other rural home loans, net	253	326	207	(22.39)	57.49
Gains (losses) on other transactions	71	15	(2)	343.33	850.00
Gains (losses) on sales of premises and equipment, net	–	129	–	(100.00)	–
Other noninterest income	2	6	11	(66.67)	(45.46)
Total noninterest income	$ 9,828	$ 8,391	$ 8,013	17.13%	4.72%

Noninterest income increased $1,437 or 17.13% for December 31, 2017, as compared to the same period of 2016. December 31, 2016 noninterest income increased $378 or 4.72% when compared to the same period of 2015. The increase in noninterest income for 2017 and 2016 is primarily the result of increases in patronage refunds from other Farm Credit Institutions, loan fees and fees for financially related services The Association received a $3,892 special patronage distribution from the Bank in 2017 as compared to $2,419 in 2016 and $2,360 in 2015. The Association's patronage earnings from the Capitalized Participation Pool (CPP) with AgFirst were $37 compared to prior year's $560 and 2015's $703. The large decrease in CPP earnings is due to the repurchase of the entire pool on January 1, 2017. Loan fee income increased by $379 or 110.82% 2017 and fees for financial related services increased $290 or 101.40% in 2017 due to increased loan activity and improved focus on crop insurance sales.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2017	2016	2015	Percentage Increase/(Decrease) 2017/2016	2016/2015
	(dollars in thousands)				
Salaries and employee benefits	$ 5,942	$ 6,030	$ 5,666	(1.46)%	6.42%
Post retirement benefits	977	1,734	1,786	(43.66)	(2.91)
Occupancy and equipment	647	649	648	(0.31)	0.15
Insurance Fund premium	570	606	405	(5.94)	49.63
(Gains) losses on other Property owned, net	66	(5)	5	(1,420.00)	(200.00)
Other operating expenses	2,308	2,053	2,136	12.42	(3.89)
Total noninterest expense	$ 10,510	$ 11,067	$ 10,646	(5.03)%	3.95%

Noninterest expense decreased $557 or 5.03 percent for December 31, 2017, as compared to the same period of 2016 and December 31, 2016 increased $421 or 3.95 percent compared to the same period of 2015. The primary reason for the decrease in 2017 was the decrease in retirement costs and insurance fund premiums, offset by an increase in other operating expenses.

During 2017, salaries and employee benefits decreased 1.46% from 2016 as a result of decreased headcount and decreased health insurance costs in 2017. The 6.42% increase during 2016 from 2015 was due to normal annual merit increases and promotions.

Postretirement benefits decreased by $757 or 43.66 percent. During 2017, the method of recording expenses for the Association's defined benefit pension plan and other postretirement benefit plan was modified. This change resulted in the reduction of Other Assets by $2,663 and the reduction of Other Liabilities by $3,050 on the Association's Balance Sheets, and a corresponding reduction of postretirement benefit costs on the Association's Statements of Income of $387 during 2017. Refer to Note 9, Employee Benefit Plans, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

Other operating expenses increased 12.42% during 2017 as compared to 2016 primarily due to increased professional fees and data processing costs.

Insurance Fund premiums decreased 5.94 percent for the twelve months ended December 31, 2017, compared to the same period of 2016. The Farm Credit System Insurance Corporation (FCSIC) changed the methodology in assessing the insurance premiums as a result of the 2008 Farm Bill. For 2017, the FCSIC set premiums at 15 basis points on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and other than temporarily impaired investments. For 2016 the FCSIC set premiums at 16 basis points on adjusted insured debt outstanding for the first six months and 18 basis points for the last six months with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. For 2015, the FCSIC set premiums at 13 basis points, on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. .

Income Taxes

The Association recorded no provision for income taxes for the year ended December 31, 2017, as compared to no provision for 2016 and 2015. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/17	12/31/16	12/31/15
Return on average assets	2.39%	2.22%	2.36%
Return on average members' equity	12.24%	11.23%	11.27%
Net interest income as a percentage of average earning assets	2.44%	2.34%	2.54%
Net (charge-offs) recoveries to average loans	0.02%	0.07%	(0.11)%

The Association's return on average assets increased by 17 basis points and the return on average members' equity increased by 101 basis points during 2017 compared to 2016 primarily due to increased net interest income and special patronage from AgFirst. The net interest income as a percentage of average earning assets, or net interest margin increased 10 basis points to 2.44% mostly due to increased nonaccrual income as well as increased loanable funds rates offset by lower loan rates. The percentage of net charge-offs and recoveries to average loans was less than one percent in the 2017 reporting period and the Association's recoveries exceeded the total amount of charge-offs.

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

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2017, was $443,696 as compared to $435,590 at December 31, 2016 and $379,668 at December 31, 2015. The increase of 1.86 percent compared to December 31, 2016 was attributable to the increase of total loan assets. The average volume of outstanding notes payable to the Bank was $404,651 and $382,145 for the years ended December 31, 2017 and 2016, respectively. Refer to Note 6, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's investments and other secondary market programs provide 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 and 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

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

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this annual report. The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements. The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this annual report.

CAPITAL RESOURCES

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

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 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 6.14 percent to $102,739 from the December 31, 2016, total of $96,797. At December 31, 2016, total members' equity increased 4.59 percent from the December 31, 2015 total of $92,548. The increase in 2017 was primarily attributed to the positive earnings which caused an increase in retained earnings (allocated surplus and unallocated surplus) and by the increase in capital stock and participation certificates being offset by the payment of $4,600 in cash patronage distributions and the revolvement of $1,681 in allocated surplus.

Total capital stock and participation certificates were $900 on December 31, 2017, compared to $861 on December 31, 2016 and $858 on December 31, 2015. The 2017 increase from 2016 and the 2016 and 2015 were attributed to issuance of new protected borrower stock and participation certificates due to increased loan volume partially offset by the retirement of protected borrower stock and participation certificates on loans liquidated in the normal course of business and the retirement of excess stock through revolvement.

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.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios. The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

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%	18.58%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	18.58%
Total Capital Ratio	8.0%	0.625%	8.625%	19.50%
Permanent Capital Ratio	7.0%	0.0%	7.0%	18.75%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	17.80%
UREE Leverage Ratio	1.5%	0.0%	1.5%	14.02%

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

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

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	18.95%	20.42%	21.18%	21.13%	19.15%
Total Surplus Ration	7.00%	18.77%	20.21%	20.96%	20.87%	18.85%
Core Surplus Ratio	3.50%	17.53%	18.86%	18.24%	17.64%	16.42%

The decrease in the Association's Permanent Capital Ratio for December 31, 2017 from December 31, 2016 was attributed to increased risk weighted assets offset by an increase in capital from the prior period. The increase in capital is due to improved earnings from 2016. The increase in risk adjusted assets is primarily due to increased loan volume.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

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

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, (b) participation loans purchased, and (c) other non-patronage sourced activities, the remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $4,600 in 2017, $4,300 in 2016 and $4,000 in 2015.

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

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2017 goals for new volume were established. In 2017 the Association achieved all but one of its YBS goals.

2017 YBS Goals and Results	2017 Goal	2017 Result	% of Goal
Young			
# of New Loans	15	33	220.00%
$ of New Loans	$1,500	$3,490	232.65%
Beginning			
# of New Loans	60	87	145.00%
$ of New Loans	$9,000	$8,236	91.51%
Small			
# of New Loans	125	149	119.20%
$ of New Loans	$12,500	$16,491	131.93%
Total YBS Program			
# of New Loans	200	269	134.50%
$ of New Loans	$23,000	$28,217	122.68%

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

	As of December 31, 2017	
	Number of Loans	Amount of Loans
Young	74	$12,732
Beginning	237	30,759
Small	455	49,572

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 2012 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 16,257 reported farmers of which by definition 576 or 3.54 percent were Young, 3,070 or 18.88 percent were Beginning, and 12,611 or 77.58 percent were Small. Comparatively, as of December 31, 2017, the demographics of the Association's agricultural portfolio contained 766 YBS farmers, of which by definition 74 or 9.66 percent were Young, 237 or 30.94 percent were Beginning and 455 or 59.40 percent were Small.

The Association Board of Directors has adopted a Young, Beginning, and Small Farmer Plan with specific goals for the number of loans and new volume closed for 2018 and two succeeding years. The Association will continue to review the demographics of its territory during 2018 utilizing 2012 Ag census data.

The following strategies and outreach programs have been conducted which assists and supports the Association's efforts to meet its objectives and goals for financing to the Young, Beginning, and Small farmers.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations.
- Sponsor seminars on farm transition planning and financial management.
- Youth livestock financing program for Youth Steer and Swine Shows. Available territory wide.
- Financial Training in cooperation with Florida Southern College, Citrus and Horticulture Dept.
- Employees serve as judges for youth livestock project record books.
- Sponsor participants and participate in Florida Council of Coops, Young Cooperator Conference.
- Sponsor Florida Nursery Growers Young Professional Award.
- Sponsors and attends the statewide Farm Bureau Young Farmers and Ranchers Leadership Conference.

In addition, the Association's lending personnel actively participate in various commodity trade group conferences and continuing education programs. Association lenders have established performance goals to provide informational and financial training to agricultural youth groups and industry trade associations.

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

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

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

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

REGULATORY MATTERS

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
Accounting Standards Update (ASU) 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities	
• Requires amortization of premiums to the earliest call date on debt securities with call features that are explicit, noncontingent and callable at fixed prices and on preset dates. • Does not impact securities held at a discount; the discount continues to be amortized to the contractual maturity. • Requires adoption on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. • Effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted.	• The investment securities portfolio includes holdings of callable debt securities. The Association is currently evaluating the impact of the Update on the financial statements, which will be affected by any investments in callable debt securities carried at a premium at the time of adoption. • The Association expects to adopt the guidance using the modified retrospective method with a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption.

ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to a CECL model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.	• The Association has begun implementation efforts by establishing a cross-discipline governance structure. The Association is currently identifying key interpretive issues, and assessing existing credit loss forecasting models and processes against the new guidance to determine what modifications may be required. • The Association expects that the new guidance will result in an increase in its allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of the increase is under evaluation, but will depend upon the nature and characteristics of the Association's portfolio at the adoption date, and the macroeconomic conditions and forecasts at that date. • The Association expects to adopt the guidance in first quarter 2021.

ASU 2016-02 – Leases (Topic 842)

• Requires lessees to recognize leases on the balance sheet with lease liabilities and corresponding right-of-use assets based on the present value of lease payments. • Lessor accounting activities are largely unchanged from existing lease accounting. • The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. • Also, expands qualitative and quantitative disclosures of leasing arrangements. • Requires adoption using a modified cumulative effect approach wherein the guidance is applied to all periods presented. • Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted.	• The practical expedients allow entities to largely account for existing leases consistent with current guidance, except for the incremental balance sheet recognition for lessees. • The Association has started its implementation of the Update which has included an initial evaluation of leasing contracts and activities. • As a lessee the Association is developing its methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments but does not expect a material change to the timing of expense recognition. • Given the limited changes to lessor accounting, the Association does not expect material changes to recognition or measurement, but it is early in the implementation process and the impact will continue to be evaluated. • The Association is evaluating existing disclosures and may need to provide additional information as a result of adopting the Update. • The Association expects to adopt the guidance in first quarter 2019 using the modified retrospective method and practical expedients for transition.

ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities

• The Update amends the presentation and accounting for certain financial instruments, including liabilities measured at fair value under the fair value option and equity investments. • Requires certain equity instruments be measured at fair value, with changes in fair value recognized in earnings. • The guidance also updates fair value presentation and disclosure requirements for financial instruments measured at amortized cost. Effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years.	• The Association is currently evaluating any impacts to the financial statements. The Association's implementation efforts include the identification of securities within the scope of the guidance, the evaluation of the measurement alternative available for equity securities without a readily determinable fair value, and the related impact to accounting policies, presentation, and disclosures. • Any investments in nonmarketable equity investments accounted for under the cost method of accounting (except for other Farm Credit Institution stock) will be accounted for either at fair value with unrealized gains and losses reflected in earnings or, if elected, using an alternative method. The alternative method is similar to the cost method of accounting, except that the carrying value is adjusted (through earnings) for subsequent observable transactions in the same or similar investment. The Association is currently evaluating which method will be applied to these nonmarketable equity investments. • Additionally, for purposes of disclosing the fair value of loans carried at amortized cost, the Association is evaluating valuation methods to determine the necessary changes to conform to an "exit price" notion as required by the Standard. Accordingly, the fair value amounts disclosed for such loans may change upon adoption. The Association expects to adopt the guidance in first quarter 2018 with a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption, except for changes related to nonmarketable equity investments, which is applied prospectively. The Association expects the primary accounting changes will relate to equity investments.

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

DISCLOSURE REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

Description of Business

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

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

Unincorporated Business Entities

The Association had no unincorporated business entities at December 31, 2017.

Description of Property

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

Location	Description	Form of Ownership
115 S. Missouri Ave.* Lakeland	Administrative/ Branch	Leased
507 E. Third Street Apopka	Branch	Owned
2301 Thonotosassa Road Plant City	Branch	Owned
31081 Cortez Blvd.** Brooksville	Branch	Leased

* *The Administrative / branch office located at 115 S. Missouri Ave. is leased through December 31, 2020.*

** *The Brooksville branch office located at 31081 Cortez Blvd. was leased through November 30, 2012 and was then converted to a month-to-month rental.*

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

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

Senior Officer	Time in Position	Prior Experience
Reginald T. Holt, *President & Chief Executive Officer*	9 years	Sr. VP & Director of Agribusiness Lending from October 1997 to April 2008. Area VP from June 1992 to October 1997. Also serves on the Executive Committee of the AgFirst Farm Credit Council and the AgFirst/Farm Credit Bank of Texas Benefits Plan Sponsor Committee.
D. Scott Fontenot, *Executive Vice President & Chief Operating Officer*	1 year	Association CFO from June 2009 until September 2016. Association Director of Risk Management from March 2009 to June 2009. EVP & CFO of Jack M. Berry, Inc. from 2005 to 2009. CFO of Farm Credit of Southwest Florida from 2000 to 2004.
Scarlet D. Detjen, *Sr. Vice President / Chief Credit Officer*	7 Months	Association Chief Audit Executive from November 2016 to June 2017. Director of Internal Audit from October 2008 until November 2016. CFO with SunnyRidge Farm, Inc. from 2006 until 2008. Controller with SunnyRidge Farm, Inc. from 2001 to 2008.
Anne M. Sullivan, *Sr. Vice President / Corporate Treasurer, Chief Financial Officer*	1 year	Association Controller from June 2011 until September 2016. Director of Accounting with Century Residential, LLC from June 2009 until June 2011. Senior Accountant with the NCT Group from September 2006 until June 2009.

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

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value	Perq/ Other*	Total
Reginald T. Holt	2017	$ 345,014	$ 116,753	$	$ 88,678	$ --	$ 550,445
Reginald T. Holt	2016	$ 331,679	$ 115,955	$ –	$ 245,355	$ –	$ 692.989
Reginald T. Holt	2015	$ 321,367	$ 100,074	$ –	$ (85,423)	$ –	$ 336,018
6	2017	$ 1,026,291	$ 246,821	$	$ 212,031	$ --	$ 1,485,143
6	2016	$ 978,743	$ 196,168	$ –	$ (297,563)	$ –	$ 877,348
7	2015	$ 972,939	$ 219,243	$ –	$ 178,664	$ –	$ 1,370,846

* *Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement, if the annual aggregate value of such Perquisites is more than $5,000.*

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 above is available and will be disclosed to the shareholders of the institution upon request.

In addition to base salary, all Association employees (except the Director of Internal Audit and internal audit and review staff who may earn additional compensation under the Auditor Incentive Plan) may earn additional compensation under a corporate bonus plan (Plan). The Plan is designed to encourage participants to achieve the objectives of the Association by providing incentives to those employees who attain and sustain consistently high levels of performance, which contribute to the overall success and profitability of the Association. The Plan is designed to support the ACA's organizational vision, long-range and annual strategic plans. The Plan consists of three pools; 1) General Pool; 2) Loan Officer Pool; and 3) SAM Officer Pool.

The General Pool covers all employees that are not lenders and/or lending managers. The payout of the pool is based on the Association meeting and exceeding certain objectives for Earnings and Liquidity (weighted at 50%), Asset Quality and Credit Administration (weighted at 25%), and Lending and Growth (weighted at 25%). Payments are calculated at year-end based on the weighted average performance in each category, paid 100 percent in cash. The General Pool contains four different payout levels. Level 1 contains all non-exempt employees (for wage and salary administration purposes) and the maximum award at this level shall not exceed 5% of their annual earned salary. Level 2 contains exempt employees (except CEO, Senior Officers, Director of Internal Audit, and employees identified as "lenders") and the maximum award at this level shall not exceed 12% of their annual earned salary. Level 3 contains Senior Officers (except CEO, Director of Internal Audit, and employees identified as "lenders") and the maximum award at this level shall not exceed 25% of their annual earned salary. Level 4 contains the CEO only and the maximum award at this level shall not exceed 40% of the annual earned salary. Each of the levels requires a certain minimum individual employee evaluation score. In addition, the General Pool limits the total of all payments within the pool to a maximum of 10 percent of the total net income.

The Loan Officer Pool covers lenders and the lending managers and is based upon the individual performance of each. Award percentage points are earned for Portfolio Management (weighted 65%) and Loan Administration (weighted 35%) standards based upon a points scoring matrix with performance areas weighted according to the individual's standard of performance. Deductions to earned awards shall be made for the individual's performance score in the area of Loan Administration (asset quality and delinquencies). Payments at this level are calculated at year-end based on the weighted average performance in each category and also require a certain minimum individual employee evaluation score. The maximum award at this level shall not exceed 50% of their annual earned salary for all employees who have executed a non-disclosure and non-solicitation agreement and 30% of their annual earned salary for all employees who have not executed a non-disclosure and non-solicitation agreement. All payments are paid 100% in cash.

The SAM Officer Pool covers Special Asset Management lenders and the SAM lending managers and is based upon the individual performance of each. Award percentage points are earned for Resolutions on Non-performing Assets (weighted 65%) and Loan Administration (weighted 35%) standards based upon a points scoring matrix with performance areas weighted according to the individual's standard of performance. Deductions to earned awards shall be made for the individual's performance score in the area of Loan Administration. Payments at this level are calculated at year-end based on the weighted average performance in each category and also require a certain minimum individual employee evaluation score. The maximum award at this level shall not exceed 50% of their annual earned salary for all employees who have executed a non-disclosure and non-solicitation agreement and 30% of their annual earned salary for all employees who have not executed a non-disclosure and non-solicitation agreement. All payments are paid 100% in cash.

The Director of Internal Audit and internal audit and review staff may earn additional compensation under the Auditor Incentive Plan. The purpose of the plan is to encourage participants to achieve the long-term objectives of the Association by providing incentives to eligible audit staff that attain and sustain consistently high levels of performance, which contribute to the safety and soundness of the Association. The pay-out of the plan is based on the audit employee's performance rating as determined by their respective employee evaluations. The Director of Internal Audit's evaluation is conducted by the audit committee and reviewed by the board. The audit staff's evaluation is conducted by the Director of Internal Audit and reviewed by the audit committee. While the award is based on the employee's performance the final pay-out is made at the discretion of the board of directors.

Payment of the 2017 Corporate Bonus is in the first quarter of 2018. Bonuses are shown in the year earned, which may be different than the year of payment.

In 2016, the CEO, Mr. Holt, and the Association entered into a change of control agreement. Should a change of control occur, the Association will continue to employ Mr. Holt for a minimum of three years. Should his employment be terminated during the two years prior or the three years after the change of control or should any major changes to the employment conditions occur during the same time periods, Mr. Holt will be entitled to a severance package as outlined in the agreement.

For the Retirement Plan, the present value of pension benefits is the value at a specific date of the benefit payment stream an individual is expected to receive upon retirement based on pay and service earned to date. These present values change year over year as (1) pension benefits increase due to an additional year of pay and service being earned under the benefit formula, (2) individuals are one year closer to receiving payments, and (3) the assumptions used to determine the present value change.

The present value of Retirement Plan pension benefits will naturally increase as the benefits earned under the plan increase. Since the pension benefit formula is dependent on base pay, pay increases directly impact the pension values.

The present values are calculated by discounting each expected future benefit payment back to the determination date at a specified interest (or discount) rate. When a year passes, there is one fewer year of discounting, which increases the present value.

Finally, the present value of the expected future benefit payment stream is based on actuarial assumptions, chiefly the discount rate mentioned above. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values. The discount rate is updated every year based on the interest rate environment at December 31. A decrease in the discount rate (i.e. less discounting) increases the present values and vice versa. There was a decrease in the discount rate assumption from December 31, 2016 to December 31, 2017, causing the pension values to increase.

Other actuarial assumptions are updated periodically. At December 31, 2017, the optional form election assumption was updated to align with 2017 year-end reporting under ASC 715 and the mortality improvement assumption was updated to reflect recent mortality studies indicating a lower degree of mortality improvement (and thus slightly shorter life expectancies). These changes resulted in a decrease in Retirement Plan present values.

For the Cash Balance Plan, all participants received a lump sum payment in March 2017 as a result of the plan termination. Therefore, the December 31, 2017 present value of the benefit is $0 for all participants. Because the December 31, 2016 present values were equal to the lump sum benefits to be paid in March 2017 with no discounting applied, there is no change in pension values for 2017.

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:					
Reginald T. Holt	2017	AgFirst Retirement Plan	37.75	$ 2,765,893	$ –
Reginald T. Holt	2017	Supplemental Executive Retirement Plan	37.75	1,076,124	–
				$ 3,842,017	$ –
Senior Officers and Highly Compensated Employees:					
6 Officers, excluding the CEO	2017	AgFirst Retirement Plan	11.08*	$ 1,028,166	$ 73,896
				$ 1,028,166	$ 73,896

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

Mr. Holt participates in the AgFirst Farm Credit Bank Supplemental Retirement Plan, a nonqualified supplemental executive retirement plan. Benefits that would have accrued in the qualified defined benefit retirement plan in the absence of Internal Revenue Code limitations are made up through the nonqualified supplemental executive retirement plan. At the election of the retiree, benefits are paid based upon various annuity terms.

As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, current committee assignments, number of meetings, other activities, compensation for Board meetings and other activities and total cash compensation paid:

		Term in Office		Number of Days Served		Compensation			
Director	Position	Election Year	Current Term Expiration	Board Meetings	Other Official Activities	Regular Board Meetings	Other Activities*	Total Paid During 2017	Committee Assignments^
Robert R. Roberson	Chair	1997	2019	10	43	$ 5,000	$ 28,500	$ 33,500	Audit, Risk Management, Governance, Legislative
W. Rex Clonts, Jr.	Vice-Chair	1997	2018	10	19	5,000	17,400	22,400	Risk Management, Governance, Legislative
Jenny R. Black	Director	2015	2018	10	29	5,000	21,300	26,300	Risk Management, Compensation, Governance, Legislative
C. Dennis Carlton, Sr.	Director	2004	2019	10	18	5,000	16,100	21,100	Risk Management, Compensation, Legislative
John S. Langford	Director	2005	2018	9	13	4,300	13,000	17,300	Audit, Governance, Legislative
Randy L. Larson	Outside Director	2017	2020	9	22	4,500	20,200	24,700	Audit, Compensation, Legislative
Dale McClellan	Director	2016	2019	7	14	3,500	15,100	18,600	Audit, Governance, Legislative
David A. Mereness	Outside Director	2016	2020	10	19	5,000	18,000	23,000	Audit, Compensation, Legislative
Keith D. Mixon	Director	2012	2020	10	24	5,000	18,500	23,500	Audit, Risk Management, Legislative
Randall E. Strode	Director	2016	2020	10	25	5,000	20,500	25,500	Risk Management, Compensation, Legislative
Ronald R. Wetherington	Director	1993	2020	10	27	5,000	20,100	25,100	Audit, Risk Management, Legislative
						$ 52,300	$ 208,700	$ 261,000	

* *Includes board committee meetings and other board activities other than regular board meetings.*
^ *All directors are members of the Legislative committee and meetings are held as needed.*

Subject to approval by the board, the Association may allow directors an annual retainer of $7,200 to be paid monthly and honoraria of $500 for attendance at meetings and committee meetings, $300 for special assignments, $400 for telephone conference calls and $200 for travel days that include an overnight stay. Total compensation paid to directors as a group was $261,000 for 2017. No director received more than $5,000 in non-cash compensation during the year.

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the 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 $101,156 for 2017, $91,118 for 2016 and $53,918 for 2015.

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

Robert R. Roberson, Chair, is a nurseryman. His principal occupation and employment for the past 5 years was with Rob-S Holdings LLC dba FFT Nursery. In addition, he has an active real estate license with Mike Ellis Realty. Mr. Roberson also serves as the Association representative on the AgFirst District Advisory Council.

W. Rex Clonts, Jr., Vice-Chair, is a citrus grower and serves on the board of Citizens Bank of Florida. He is also past President of Seminole County Farm Bureau 2013 - 2015. Mr. Clonts is on the board of the Florida Fruit and Vegetable Association. His principal occupation and employment for the past 5 years was with Clonts Groves, Inc.

Jenny R. Black was elected to the Board in 2015. Mrs. Black is a partner in multiple citrus growing operations and is a member of Peace River Packing, a citrus growing cooperative. Mrs. Black has 20 years experience in the Information Technology field and currently manages her own IT consulting practice serving clients in the transportation and agriculture industries. Mrs. Black also serves on the Polk County 4H Foundation Board and the Advisory Board for Volunteers in Service to the Elderly (VISTE).

C. Dennis Carlton, Sr. is a cattleman, citrus grower and real estate broker and serves on the boards of Center State Bank and the Agricultural Economic Development Council of Hillsborough County.

John S. Langford is a citrus grower, citrus fruit dealer and real estate broker. Other Farm Credit activities include the AgFirst Farm Credit Bank Board of Directors, 2012 to 2018, having served as Chair; he also serves as a member of the Farm Credit System Audit Committee. His principal occupation and employment for the past five years was with John Langford, Inc.

Randy L. Larson was appointed to the Board in December 2016 as the Association's second Outside Director. Mr. Larson is currently serving on the Board for the Tampa Sports Authority. He is a licensed professional engineer in six southeast states and Puerto Rico, a registered general contractor in Florida and a Certified Construction Manager.

Dale McClellan was elected to the Board in April 2016. Mr. McClellan has been a dairyman all of his life. His principal occupation and employment for the past five years was with M&B Products, Inc. and M&B of Tampa, Inc.

David A. Mereness was appointed to the Board in March 2016 as the Association's Outside Director. Mr. Mereness is the Managing Partner of Dearolf & Mereness LLP, a member of the American Institute of Certified Public Accountants, the Florida Institute of Certificated Public Accounts and on the board of the National Society of Accountants for Cooperatives.

Keith D. Mixon is a blueberry grower and past Chair of the board of the Florida Fruit and Vegetable Association where he still serves on the board. He and his family owned and operated SunnyRidge Farms prior to being sold to Dole Food Company, he then served as President of Dole Berry Company. Mr. Mixon is the Chair of the Association's Audit Committee and also serves as the Association's representative on the AgFirst Nominating Committee.

Randall E. Strode was elected to the Board in April 2016. Mr. Strode is the President of AgriStarts, Inc. a cloning tissue culture operation in Apopka, FL. He serves on the board of First Green Bank.

Ronald R. Wetherington is a strawberry grower and serves on the boards of the Hillsborough County Farm Bureau, Florida FFA Foundation Board, South Florida Baptist Hospital Foundation Board and Hillsborough County Law Enforcement Association Board. His principal occupation and employment for the past 5 years was with Wetherington Farms.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Auditors

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

Aggregate fees for services rendered by its Independent Auditor for the year ended December 31, 2017 were as follows:

	2017
Independent Auditor	
PricewaterhouseCoopers LLP	
Audit services	$ 67,511
Total	$ 67,511

PricewaterhouseCoopers audit fees were for the annual audit of and for rendering an opinion on the Association's 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 1-800-533-2773 or writing Anne M. Sullivan, Chief Financial Officer, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802 or accessing the web site, ***www.farmcreditcfl.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

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

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Central Florida, ACA 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 Auditor 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 Farm Credit of Central Florida, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with 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:

Keith D. Mixon
Chair of the Audit Committee

Members of Audit Committee

David A. Mereness, Vice Chair
John S. Langford
Randy L. Larson
Dale McClellan
Robert R. Roberson
Ronald R. Wetherington

March 13, 2018

REPORT OF INDEPENDENT AUDITORS

pwc

Report of Independent Auditors

To the Board of Directors and Management of
Farm Credit of Central Florida, ACA

We have audited the accompanying consolidated financial statements of Farm Credit of Central Florida, 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 Farm Credit of Central Florida, 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)	December 31, 2017	2016	2015
Assets			
Cash	**$ 53**	$ 1,087	$ 320
Investment securities:			
Held to maturity (fair value of $13,278, $19,339, and $25,076, respectively)	**13,029**	19,008	24,612
Loans	**533,519**	508,773	445,550
Allowance for loan losses	**(4,185)**	(4,766)	(6,803)
Net loans	**529,334**	504,007	438,747
Loans held for sale	**676**	339	102
Accrued interest receivable	**1,963**	1,898	1,640
Investments in other Farm Credit institutions	**6,318**	6,481	6,598
Premises and equipment, net	**856**	778	733
Other property owned	**—**	216	16
Accounts receivable	**8,951**	7,731	7,683
Other assets	**634**	3,129	3,482
Total assets	**$ 561,814**	$ 544,674	$ 483,933
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 443,696**	$ 435,590	$ 379,668
Accrued interest payable	**1,052**	793	703
Patronage refunds payable	**4,872**	4,529	4,197
Accounts payable	**1,710**	1,636	1,379
Other liabilities	**7,745**	5,329	5,438
Total liabilities	**459,075**	447,877	391,385
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**900**	861	858
Retained earnings			
Allocated	**24,588**	26,269	28,505
Unallocated	**77,821**	70,166	63,673
Accumulated other comprehensive income (loss)	**(570)**	(499)	(488)
Total members' equity	**102,739**	96,797	92,548
Total liabilities and members' equity	**$ 561,814**	$ 544,674	$ 483,933

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	**$ 22,240**	$ 19,003	$ 17,466
Investments	**393**	513	537
Total interest income	**22,633**	19,516	18,003
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**10,374**	8,387	7,049
Net interest income	**12,259**	11,129	10,954
Provision for (reversal of allowance for) loan losses	**(678)**	(2,340)	(1,983)
Net interest income after provision for (reversal of allowance for) loan losses	**12,937**	13,469	12,937
Noninterest Income			
Loan fees	**721**	342	444
Fees for financially related services	**576**	286	238
Patronage refunds from other Farm Credit institutions	**8,205**	7,287	7,115
Gains (losses) on sales of rural home loans, net	**253**	326	207
Gains (losses) on sales of premises and equipment, net	**—**	129	—
Gains (losses) on other transactions	**71**	15	(2)
Other noninterest income	**2**	6	11
Total noninterest income	**9,828**	8,391	8,013
Noninterest Expense			
Salaries and employee benefits	**5,942**	6,030	5,666
Postretirement benefits (Notes 2 and 9)	**977**	1,734	1,786
Occupancy and equipment	**647**	649	648
Insurance Fund premiums	**570**	606	405
(Gains) losses on other property owned, net	**66**	(5)	5
Other operating expenses	**2,308**	2,053	2,136
Total noninterest expense	**10,510**	11,067	10,646
Net income	**$ 12,255**	$ 10,793	$ 10,304

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	**$ 12,255**	$ 10,793	$ 10,304
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(71)**	(11)	(23)
Comprehensive income	**$ 12,184**	$ 10,782	$ 10,281

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	$ 860	$ 30,740	$ 57,369	$ (465)	$ 88,504
Comprehensive income			10,304	(23)	10,281
Capital stock/participation certificates issued/(retired), net	(2)				(2)
Patronage distribution					
Cash			(4,000)		(4,000)
Retained earnings retired		(2,235)			(2,235)
Balance at December 31, 2015	$ 858	$ 28,505	$ 63,673	$ (488)	$ 92,548
Comprehensive income			10,793	(11)	10,782
Capital stock/participation certificates issued/(retired), net	3				3
Patronage distribution					
Cash			(4,300)		(4,300)
Retained earnings retired		(2,236)			(2,236)
Balance at December 31, 2016	$ 861	$ 26,269	$ 70,166	$ (499)	$ 96,797
Comprehensive income			**12,255**	**(71)**	**12,184**
Capital stock/participation certificates issued/(retired), net	**39**				**39**
Patronage distribution					
Cash			**(4,600)**		**(4,600)**
Retained earnings retired		**(1,681)**			**(1,681)**
Balance at December 31, 2017	**$ 900**	**$ 24,588**	**$ 77,821**	**$ (570)**	**$ 102,739**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the year ended December 31,		
(dollars in thousands)	**2017**	**2016**	**2015**
Cash flows from operating activities:			
Net income	**$ 12,255**	$ 10,793	$ 10,304
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**167**	150	145
Amortization (accretion) of net deferred loan costs (fees)	**10**	69	107
Premium amortization (discount accretion) on investments	**311**	312	460
Provision for (reversal of allowance for) loan losses	**(678)**	(2,340)	(1,983)
(Gains) losses on other property owned	**63**	(12)	—
(Gains) losses on sales of premises and equipment, net	**—**	(129)	—
(Gains) losses on sales of rural home loans, net	**(253)**	(326)	(207)
(Gains) losses on other transactions	**(71)**	(15)	2
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(11,276)**	(13,765)	(9,828)
Proceeds from sales of loans held for sale, net	**11,192**	13,854	9,971
(Increase) decrease in accrued interest receivable	**(65)**	(258)	229
(Increase) decrease in accounts receivable	**(1,220)**	(48)	2,949
(Increase) decrease in other assets	**2,495**	353	(192)
Increase (decrease) in accrued interest payable	**259**	90	122
Increase (decrease) in accounts payable	**74**	257	(30)
Increase (decrease) in other liabilities	**2,416**	(105)	(1,709)
Total adjustments	**3,424**	(1,913)	36
Net cash provided by (used in) operating activities	**15,679**	8,880	10,340
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investment securities, held to maturity	**5,668**	5,292	6,684
Net (increase) decrease in loans	**(24,587)**	(63,211)	(46,707)
(Increase) decrease in investment in other Farm Credit institutions	**163**	117	333
Purchases of premises and equipment	**(245)**	(195)	(88)
Proceeds from sales of premises and equipment	**—**	129	—
Proceeds from sales of other property owned	**81**	34	—
Net cash provided by (used in) investing activities	**(18,920)**	(57,834)	(39,778)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**8,106**	55,922	34,824
Capital stock and participation certificates issued/(retired), net	**39**	3	(2)
Patronage refunds and dividends paid	**(4,257)**	(3,968)	(3,100)
Retained earnings retired	**(1,681)**	(2,236)	(2,235)
Net cash provided by (used in) financing activities	**2,207**	49,721	29,487
Net increase (decrease) in cash	**(1,034)**	767	49
Cash, beginning of period	**1,087**	320	271
Cash, end of period	**$ 53**	$ 1,087	$ 320
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 72**	$ 75	$ —
Receipt of property in settlement of loans	**—**	297	16
Estimated cash dividends or patronage distributions declared or payable	**4,600**	4,300	4,000
Employee benefit plans adjustments (Note 9)	**71**	11	23
Supplemental information:			
Interest paid	**10,115**	8,297	6,928

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Central Florida, ACA (the Association or ACA) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Brevard, Citrus, Hernando, Hillsborough, Lake, Orange, Osceola, Pasco, Pinellas, Polk, Seminole, Sumter, and Volusia in the state of Florida.

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

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

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

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

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

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

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

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

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

   - Changes in credit risk classifications
   - Changes in collateral values
   - Changes in risk concentrations

- Changes in weather-related conditions
- Changes in economic conditions

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

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

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

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

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

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

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

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

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

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 $577, is included in Other Assets on the accompanying Consolidated Balance Sheets as of December 31, 2017.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Please see further discussion in Note 8.

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.

- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31,		
	2017	2016	2015
Real estate mortgage	$ 276,252	$ 247,923	$ 224,160
Production and intermediate-term	153,523	164,923	144,445
Loans to cooperatives	1,378	4,831	–
Processing and marketing	56,244	55,259	56,409
Farm-related business	8,171	6,618	8,614
Communication	19,940	15,849	5,188
Power and water/waste disposal	3,831	–	–
Rural residential real estate	8,348	7,540	6,734
International	5,832	5,830	–
Total loans	$ 533,519	$ 508,773	$ 445,550

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

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

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During 2017, the Association cancelled its participation in the Capitalized Participation Pool program with the Bank. As a result, the Association purchased $7,449 of participations previously sold to AgFirst. 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	$ 5,532	$ 61,634	$ –	$ 14,937	$ –	$ –	$ 5,532	$ 76,571
Production and intermediate-term	26,894	76,718	–	9,039	–	–	26,894	85,757
Loans to cooperatives	1,383	–	–	–	–	–	1,383	–
Processing and marketing	39,916	6,046	–	–	–	–	39,916	6,046
Farm-related business	–	3,181	–	–	–	–	–	3,181
Communication	20,026	–	–	–	–	–	20,026	–
Power and water/waste disposal	3,843	–	–	–	–	–	3,843	–
International	5,841	–	–	–	–	–	5,841	–
Total	$ 103,435	$ 147,579	$ –	$ 23,976	$ –	$ –	$ 103,435	$ 171,555

	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	$ 2,917	$ 93,231	$ –	$ 10,558	$ –	$ –	$ 2,917	$ 103,789
Production and intermediate-term	24,683	81,532	–	4,521	–	–	24,683	86,053
Loans to cooperatives	4,841	–	–	–	–	–	4,841	–
Processing and marketing	45,074	9,280	–	–	–	–	45,074	9,280
Farm-related business	–	3,327	–	–	–	–	–	3,327
Communication	15,896	–	–	–	–	–	15,896	–
International	5,841	–	–	–	–	–	5,841	–
Total	$ 99,252	$ 187,370	$ –	$ 15,079	$ –	$ –	$ 99,252	$ 202,449

	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	$ 1,099	$ 121,973	$ –	$ 9,432	$ –	$ –	$ 1,099	$ 131,405
Production and intermediate-term	18,586	93,594	343	–	–	–	18,929	93,594
Processing and marketing	48,634	11,457	–	–	–	–	48,634	11,457
Farm-related business	2,441	3,467	–	–	–	–	2,441	3,467
Communication	5,202	–	–	–	–	–	5,202	–
Total	$ 75,962	$ 230,491	$ 343	$ 9,432	$ –	$ –	$ 76,305	$ 239,923

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

	December 31, 2017			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 10,934	$ 39,208	$ 226,110	$ 276,252
Production and intermediate-term	33,886	78,760	40,877	153,523
Loans to cooperatives	–	1,378	–	1,378
Processing and marketing	5,490	35,579	15,175	56,244
Farm-related business	1,162	1,710	5,299	8,171
Communication	–	14,491	5,449	19,940
Power and water/waste disposal	–	–	3,831	3,831
Rural residential real estate	448	579	7,321	8,348
International	–	5,467	365	5,832
Total loans	$ 51,920	$ 177,172	$ 304,427	$ 533,519
Percentage	9.73%	33.21%	57.06%	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	96.71%	94.40%	92.91%
OAEM	1.51	0.95	1.01
Substandard/doubtful/loss	1.78	4.65	6.08
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	89.97%	88.55%	87.50%
OAEM	5.83	3.22	1.89
Substandard/doubtful/loss	4.20	8.23	10.61
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Processing and marketing:			
Acceptable	99.99%	93.63%	100.00%
OAEM	0.01	6.37	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	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%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Rural residential real estate:			
Acceptable	91.43%	89.45%	82.28%
OAEM	3.49	3.20	8.05
Substandard/doubtful/loss	5.08	7.35	9.67
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Total Loans:			
Acceptable	95.28%	92.71%	92.11%
OAEM	2.51	2.25	1.25
Substandard/doubtful/loss	2.21	5.04	6.64
	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	$ 443	$ 56	$ 499	$ 277,020	$ 277,519	$ –
Production and intermediate-term	1,484	2,990	4,474	149,449	153,923	–
Loans to cooperatives	–	–	–	1,382	1,382	–
Processing and marketing	–	–	–	56,342	56,342	–
Farm-related business	–	–	–	8,200	8,200	–
Communication	–	–	–	19,949	19,949	–
Power and water/waste disposal	–	–	–	3,833	3,833	–
Rural residential real estate	99	84	183	8,197	8,380	–
International	–	–	–	5,852	5,852	–
Total	$ 2,026	$ 3,130	$ 5,156	$ 530,224	$ 535,380	$ –

December 31, 2016

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,376	$ 281	$ 1,657	$ 247,414	$ 249,071	$ –
Production and intermediate-term	65	7,614	7,679	157,659	165,338	–
Loans to cooperatives	–	–	–	4,850	4,850	–
Processing and marketing	–	–	–	55,339	55,339	–
Farm-related business	–	–	–	6,639	6,639	–
Communication	–	–	–	15,852	15,852	–
Rural residential real estate	–	–	–	7,569	7,569	–
International	–	–	–	5,891	5,891	–
Total	$ 1,441	$ 7,895	$ 9,336	$ 501,213	$ 510,549	$ –

	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	$ 561	$ 1,270	$ 1,831	$ 223,243	$ 225,074	$ –
Production and intermediate-term	840	894	1,734	143,134	144,868	–
Processing and marketing	–	–	–	56,494	56,494	–
Farm-related business	–	–	–	8,661	8,661	–
Communication	–	–	–	5,188	5,188	–
Rural residential real estate	148	237	385	6,372	6,757	–
Total	$ 1,549	$ 2,401	$ 3,950	$ 443,092	$ 447,042	$ –

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

	December 31,		
	2017	2016	2015
Nonaccrual loans:			
Real estate mortgage	$ 1,861	$ 2,053	$ 2,417
Production and intermediate-term	5,892	8,978	4,391
Rural residential real estate	426	470	298
Total	$ 8,179	$ 11,501	$ 7,106
Accruing restructured loans:			
Real estate mortgage	$ 4,822	$ 5,907	$ 2,904
Production and intermediate-term	4,591	4,954	6,169
Farm-related business	–	740	781
Rural residential real estate	345	458	564
Total	$ 9,758	$ 12,059	$ 10,418
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 17,937	$ 23,560	$ 17,524
Other property owned	–	216	16
Total nonperforming assets	$ 17,937	$ 23,776	$ 17,540
Nonaccrual loans as a percentage of total loans	1.53%	2.26%	1.59%
Nonperforming assets as a percentage of total loans and other property owned	3.36%	4.67%	3.94%
Nonperforming assets as a percentage of capital	17.46%	24.56%	18.95%

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

	December 31,		
	2017	2016	2015
Impaired nonaccrual loans:			
Current as to principal and interest	$ 4,192	$ 2,764	$ 4,698
Past due	3,987	8,737	2,408
Total	8,179	11,501	7,106
Impaired accrual loans:			
Restructured	9,758	12,059	10,418
90 days or more past due	–	–	–
Total	9,758	12,059	10,418
Total impaired loans	$ 17,937	$ 23,560	$ 17,524
Additional commitments to lend	$ 1,125	$ 100	$ –

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

	December 31, 2017			Year Ended December 31, 2017	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 924	$ 976	$ 147	$ 946	$ 58
Production and intermediate-term	8,702	9,047	2,000	8,912	543
Rural residential real estate	509	540	70	521	32
Total	$ 10,135	$ 10,563	$ 2,217	$ 10,379	$ 633
With no related allowance for credit losses:					
Real estate mortgage	$ 5,759	$ 5,957	$ –	$ 5,898	$ 359
Production and intermediate-term	1,781	3,362	–	1,824	112
Rural residential real estate	262	419	–	268	16
Total	$ 7,802	$ 9,738	$ –	$ 7,990	$ 487
Total impaired loans:					
Real estate mortgage	$ 6,683	$ 6,933	$ 147	$ 6,844	$ 417
Production and intermediate-term	10,483	12,409	2,000	10,736	655
Rural residential real estate	771	959	70	789	48
Total	$ 17,937	$ 20,301	$ 2,217	$ 18,369	$ 1,120

	December 31, 2016			Year Ended December 31, 2016	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 1,417	$ 1,412	$ 46	$ 1,318	$ 59
Production and intermediate-term	7,488	7,618	2,250	6,968	309
Farm-related business	740	737	8	689	31
Rural residential real estate	586	611	37	545	24
Total	$ 10,231	$ 10,378	$ 2,341	$ 9,520	$ 423
With no related allowance for credit losses:					
Real estate mortgage	$ 6,543	$ 6,840	$ –	$ 6,089	$ 270
Production and intermediate-term	6,444	8,180	–	5,995	266
Farm-related business	–	–	–	–	–
Rural residential real estate	342	467	–	318	14
Total	$ 13,329	$ 15,487	$ –	$ 12,402	$ 550
Total impaired loans:					
Real estate mortgage	$ 7,960	$ 8,252	$ 46	$ 7,407	$ 329
Production and intermediate-term	13,932	15,798	2,250	12,963	575
Farm-related business	740	737	8	689	31
Rural residential real estate	928	1,078	37	863	38
Total	$ 23,560	$ 25,865	$ 2,341	$ 21,922	$ 973

	December 31, 2015			Year Ended December 31, 2015	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 2,078	$ 2,227	$ 337	$ 2,348	$ 163
Production and intermediate-term	8,205	8,270	2,761	9,267	643
Farm-related business	781	781	8	882	61
Rural residential real estate	861	1,029	92	973	67
Total	$ 11,925	$ 12,307	$ 3,198	$ 13,470	$ 934
With no related allowance for credit losses:					
Real estate mortgage	$ 3,242	$ 3,614	$ –	$ 3,662	$ 254
Production and intermediate-term	2,356	3,835	–	2,662	184
Farm-related business	–	–	–	–	–
Rural residential real estate	1	69	–	–	–
Total	$ 5,599	$ 7,518	$ –	$ 6,324	$ 438
Total impaired loans:					
Real estate mortgage	$ 5,320	$ 5,841	$ 337	$ 6,010	$ 417
Production and intermediate-term	10,561	12,105	2,761	11,929	827
Farm-related business	781	781	8	882	61
Rural residential real estate	862	1,098	92	973	67
Total	$ 17,524	$ 19,825	$ 3,198	$ 19,794	$ 1,372

Interest income recognized on nonaccrual and accruing restructured loans was $1,120, $973, and $1,372 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	$ 1,481	$ 3,096	$ 90	$ 25	$ –	$ 71	$ 3	$ 4,766
Charge-offs	(2)	(43)	–	–	–	–	–	(45)
Recoveries	50	84	–	–	–	8	–	142
Provision for loan losses	(413)	(304)	(5)	23	4	17	–	(678)
Balance at December 31, 2017	$ 1,116	$ 2,833	$ 85	$ 48	$ 4	$ 96	$ 3	$ 4,185
Balance at December 31, 2015	$ 2,300	$ 4,301	$ 48	$ 20	$ –	$ 134	$ –	$ 6,803
Charge-offs	–	(28)	–	–	–	(51)	–	(79)
Recoveries	206	105	–	–	–	71	–	382
Provision for loan losses	(1,025)	(1,282)	42	5	–	(83)	3	(2,340)
Balance at December 31, 2016	$ 1,481	$ 3,096	$ 90	$ 25	$ –	$ 71	$ 3	$ 4,766
Balance at December 31, 2014	$ 4,994	$ 3,387	$ 443	$ 20	$ –	$ 393	$ –	$ 9,237
Charge-offs	(452)	(59)	–	–	–	(151)	–	(662)
Recoveries	204	–	–	–	–	7	–	211
Provision for loan losses	(2,446)	973	(395)	–	–	(115)	–	(1,983)
Balance at December 31, 2015	$ 2,300	$ 4,301	$ 48	$ 20	$ –	$ 134	$ –	$ 6,803
Allowance on loans evaluated for impairment:								
Individually	$ 147	$ 2,000	$ –	$ –	$ –	$ 70	$ –	$ 2,217
Collectively	969	833	85	48	4	26	3	1,968
Balance at December 31, 2017	$ 1,116	$ 2,833	$ 85	$ 48	$ 4	$ 96	$ 3	$ 4,185
Individually	$ 46	$ 2,250	$ 8	$ –	$ –	$ 37	$ –	$ 2,341
Collectively	1,435	846	82	25	–	34	3	2,425
Balance at December 31, 2016	$ 1,481	$ 3,096	$ 90	$ 25	$ –	$ 71	$ 3	$ 4,766
Individually	$ 337	$ 2,761	$ 8	$ –	$ –	$ 92	$ –	$ 3,198
Collectively	1,963	1,540	40	20	–	42	–	3,605
Balance at December 31, 2015	$ 2,300	$ 4,301	$ 48	$ 20	$ –	$ 134	$ –	$ 6,803
Recorded investment in loans evaluated for impairment:								
Individually	$ 7,023	$ 10,535	$ –	$ –	$ –	$ 771	$ –	$ 18,329
Collectively	270,496	143,388	65,924	19,949	3,833	7,609	5,852	517,051
Balance at December 31, 2017	$ 277,519	$ 153,923	$ 65,924	$ 19,949	$ 3,833	$ 8,380	$ 5,852	$ 535,380
Individually	$ 7,998	$ 14,469	$ 745	$ –	$ –	$ 1,384	$ –	$ 24,596
Collectively	241,073	150,869	66,083	15,852	–	6,185	5,891	485,953
Balance at December 31, 2016	$ 249,071	$ 165,338	$ 66,828	$ 15,852	$ –	$ 7,569	$ 5,891	$ 510,549
Individually	$ 8,482	$ 7,994	$ 781	$ –	$ –	$ 316	$ –	$ 17,573
Collectively	216,592	136,874	64,374	5,188	–	6,441	–	429,469
Balance at December 31, 2015	$ 225,074	$ 144,868	$ 65,155	$ 5,188	$ –	$ 6,757	$ –	$ 447,042

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $91,745, $68,119, and $55,321 at December 31, 2017, 2016, and 2015, respectively. Fees paid for such guarantee commitments totaled $193, $166, and $121 for 2017, 2016, and 2015, respectively. These amounts are classified as noninterest expense.

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

	Year Ended December 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 196	$ –	$ 196	
Total	$ –	$ 196	$ –	$ 196	
Post-modification:					
Real estate mortgage	$ –	$ 204	$ –	$ 204	$ (1)
Total	$ –	$ 204	$ –	$ 204	$ (1)

	Year Ended December 31, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 200	$ 3,497	$ –	$ 3,697	
Production and intermediate-term	–	429	–	429	
Rural residential real estate	–	510	–	510	
Total	$ 200	$ 4,436	$ –	$ 4,636	
Post-modification:					
Real estate mortgage	$ 200	$ 3,497	$ –	$ 3,697	$ –
Production and intermediate-term	–	429	–	429	–
Rural residential real estate	–	514	–	514	–
Total	$ 200	$ 4,440	$ –	$ 4,640	$ –

	Year Ended December 31, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 90	$ –	$ 90	
Production and intermediate-term	173	2,216	–	2,389	
Total	$ 173	$ 2,306	$ –	$ 2,479	
Post-modification:					
Real estate mortgage	$ –	$ 91	$ –	$ 91	$ –
Production and intermediate-term	173	2,216	–	2,389	–
Total	$ 173	$ 2,307	$ –	$ 2,480	$ –

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

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

	Year Ended December 31,		
Defaulted troubled debt restructurings	**2017**	**2016**	**2015**
Production and intermediate-term	$ –	$ 412	$ 567
Total	$ –	$ 412	$ 567

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2017	2016	2015	2017	2016	2015
Real estate mortgage	$ 5,388	$ 6,295	$ 3,858	$ 566	$ 388	$ 954
Production and intermediate-term	6,048	6,721	7,624	1,457	1,767	1,455
Farm-related business	–	740	781	–	–	–
Rural residential real estate	428	458	698	83	–	134
Total loans	$ 11,864	$ 14,214	$ 12,961	$ 2,106	$ 2,155	$ 2,543
Additional commitments to lend	$ –	$ –	$ –			

The following table presents information as of period end:

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

Note 4 — Investments

Investment Securities

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

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

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 13,029	$ 272	$ (23)	$ 13,278	2.17%

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 19,008	$ 353	$ (22)	$ 19,339	2.33%

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 24,612	$ 496	$ (32)	$ 25,076	1.95%

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

December 31, 2017	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 1,595	$ 1,614	0.62%
After one year through five years	8,441	8,613	2.02
After five years through ten years	2,536	2,589	3.43
After ten years	457	462	3.37
Total	$ 13,029	$ 13,278	2.17%

A portion of these investments has 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 the impairment was first identified.

December 31, 2017	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 1,325	$ (6)	$ 1,030	$ (17)

December 31, 2016	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 1,229	$ (4)	$ 849	$ (18)

December 31, 2015	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 487	$ (3)	$ 1,406	$ (29)

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 (OTTI) 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 OTTI 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.

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

Investments in Other Farm Credit Institutions
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 $5,771 for 2017, $5,910 for 2016 and $5,979 for 2015. The Association owns 2.16 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 $547 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	$ 208	$ 208	$ 224
Buildings and improvements	914	863	909
Furniture and equipment	1,317	1,304	1,315
	2,439	2,375	2,448
Less: accumulated depreciation	1,583	1,597	1,715
Total	$ 856	$ 778	$ 733

The Association is obligated under various noncancellable operating leases for offices. At December 31, 2017 future minimum lease payments for all noncancellable operating leases are as follows:

2018	$ 397
2019	408
2020	420
2021	–
2022	–
Subsequent years	–
Total minimum lease payments	$ 1,225

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

	December 31, 2017	2016	2015
(Gains) losses on sale, net	$ –	$ (12)	$ –
Carrying value unrealized (gains) losses	63	–	–
Operating (income) expense, net	3	7	5
(Gains) losses on other property owned, net	$ 66	$ (5)	$ 5

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 2.55 percent for LIBOR-based loans and 2.69 percent for Prime-based loans, and the weighted average remaining maturities were 5.0 years and 5.5 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 3.00 percent, and the weighted average remaining maturity was 10.7 years at December 31, 2017. The weighted-average interest rate on all interest-bearing notes payable was 2.81 percent and the weighted-average remaining maturity was 8.3 years at December 31, 2017. Variable rate and fixed rate notes payable represent approximately 26.17 percent and 73.83 percent, respectively, of total notes payable at December 31, 2017. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

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

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

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

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

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

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

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

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2017
Risk-adjusted ratios:				
CET1 Capital Ratio	4.5%	0.625%	5.125%	18.58%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	18.58%
Total Capital Ratio	8.0%	0.625%	8.625%	19.50%
Permanent Capital Ratio	7.0%	0.0%	7.0%	18.75%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	17.80%
UREE Leverage Ratio	1.5%	0.0%	1.5%	14.02%

** 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	155,967	$ 780
C Participation Certificates/Nonvoting	No	23,903	120
Total Capital Stock and Participation Certificates		179,870	$ 900

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

Retained Earnings

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

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

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

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

At December 31, 2017, allocated members' equity consisted of $1,821 of qualified surplus, $20,615 of nonqualified allocated surplus and $2,152 of nonqualified retained surplus. Nonqualified distributions are tax deductible only when redeemed.

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 and D Preferred Stock or on all classes of stock and participation certificates.

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

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

Patronage Distributions

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

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

Transfer

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

Impairment

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

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

Liquidation

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

a) ***First***, to the holders of Class A Preferred and Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;
b) ***Second***, to the holders of Class A Common, Class B Common, Class C Common Stock, Class E Common Stock, and Class B Participation Certificates and Class C Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificate then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
c) ***Third***, to the 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 the total amount of such allocated surplus has been distributed;

d) ***Fourth***, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
e) ***Fifth***, in so far as practicable, all unallocated surplus issued after April 15, 1999, shall be distributed to Patrons of the Association from the period beginning April 15, 1999, through the date of liquidation, on a patronage basis; and
f) ***Sixth***, any remaining assets of the Association after such distributions 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.

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

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

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

	For the years ended December 31, 2017	2016	2015
Employee Benefit Plans:			
Balance at beginning of period	$ (499)	$ (488)	$ (465)
Other comprehensive income before reclassifications	(128)	(60)	(65)
Amounts reclassified from AOCI	57	49	42
Net current period OCI	(71)	(11)	(23)
Balance at end of period	$ (570)	$ (499)	$ (488)

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

	Year to Date 2017	2016	2015	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	$ (57)	$ (49)	$ (42)	See Note 9.
Amounts reclassified	$ (57)	$ (49)	$ (42)	

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

Note 8 — Fair Value Measurement

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

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

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

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

Level 1
Assets held in trust funds, related to a supplemental retirement plan, 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
ABSs, such as those issued through the Small Business Administration, are classified Level 2.

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

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

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

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

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

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

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

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 577	$ 577	$ –	$ –	$ 577
Recurring Assets	$ 577	$ 577	$ –	$ –	$ 577
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 7,918	$ –	$ –	$ 7,918	$ 7,918
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 7,918	$ –	$ –	$ 7,918	$ 7,918
Other Financial Instruments					
Assets:					
Cash	$ 53	$ 53	$ –	$ –	$ 53
Investment securities, held-to-maturity	13,029	–	13,278	–	13,278
Loans	522,092	–	–	514,907	514,907
Other Financial Assets	$ 535,174	$ 53	$ 13,278	$ 514,907	$ 528,238
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 443,696	$ –	$ –	$ 441,018	$ 441,018
Other Financial Liabilities	$ 443,696	$ –	$ –	$ 441,018	$ 441,018

	December 31, 2016				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 423	$ 423	$ –	$ –	$ 423
Recurring Assets	$ 423	$ 423	$ –	$ –	$ 423
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 7,890	$ –	$ –	$ 7,890	$ 7,890
Other property owned	216	–	–	233	233
Nonrecurring Assets	$ 8,106	$ –	$ –	$ 8,123	$ 8,123
Other Financial Instruments					
Assets:					
Cash	$ 1,087	$ 1,087	$ –	$ –	$ 1,087
Investment securities, held-to-maturity	19,008	–	19,339	–	19,339
Loans	496,456	–	–	489,946	489,946
Other Financial Assets	$ 516,551	$ 1,087	$ 19,339	$ 489,946	$ 510,372
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 435,590	$ –	$ –	$ 432,196	$ 432,196
Other Financial Liabilities	$ 435,590	$ –	$ –	$ 432,196	$ 432,196

	December 31, 2015				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 326	$ 326	$ –	$ –	$ 326
Recurring Assets	$ 326	$ 326	$ –	$ –	$ 326
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 8,727	$ –	$ –	$ 8,727	$ 8,727
Other property owned	16	–	–	18	18
Nonrecurring Assets	$ 8,743	$ –	$ –	$ 8,745	$ 8,745
Other Financial Instruments					
Assets:					
Cash	$ 320	$ 320	$ –	$ –	$ 320
Investment securities, held-to-maturity	24,612	–	25,076	–	25,076
Loans	430,122	–	–	427,369	427,369
Other Financial Assets	$ 455,054	$ 320	$ 25,076	$ 427,369	$ 452,765
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 379,668	$ –	$ –	$ 377,561	$ 377,561
Other Financial Liabilities	$ 379,668	$ –	$ –	$ 377,561	$ 377,561

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques
Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For

other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 7,918	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. 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 $2,663 and the reduction of Other Liabilities by $3,050 on the Association's Balance Sheets, and a total reduction of employee benefit costs on the Association's Statements of Income of $387 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 $729 for 2017, $1,047 for 2016, and $1,061 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 $160 for 2017, $243 for 2016, and $325 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 $352, $335, and $307 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, $71, $11 and $23 has been recognized as net debits to AOCI to reflect these elements.

In addition to the multi-employer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $1,168 and a net under-funded status of $1,168 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 2.00 percent. The expenses of these nonqualified plans included in employee benefit costs were $123, $111, and $93 for 2017, 2016, and 2015, respectively.

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

Note 10 — Related Party Transactions

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

Total gross loans to such persons at December 31, 2017 amounted to $21,269. During 2017, $9,542 of new loans were made and repayments totaled $8,938. In the opinion of management, none of these loans outstanding at December, 31, 2017 involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2017, $113,599 of commitments to extend credit and no commercial letters of credit were outstanding. There was no reserve for unfunded commitments included in Other Liabilities in the Consolidated Balance Sheets at December 31, 2017.

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 $1,423 with expiration dates ranging from January 1, 2018 to May 1, 2023. The maximum potential amount of future payments that may be required under these guarantees was $1,423.

Note 12 — Income Taxes

At December 31, 2017, 2016 and 2015, the Association recorded $0, $0, and $0, respectively for provision or benefit for federal or state income taxes.

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	$ 4,289	$ 3,777	$ 3,606
Effect of non-taxable FLCA subsidiary	(2,679)	(2,234)	(3,088)
Patronage distributions	(1,610)	(1,505)	(1,400)
Change in valuation allowance	(3,522)	(60)	952
Change in statutory rate	3,513		
Other	9	22	(70)
Provision (benefit) for income taxes	$ –	$ –	$ –

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

	December 31,		
	2017	2016	2015
Deferred income tax assets:			
Allowance for loan losses	$ 736	$ 1,208	$ 1,592
Net operating loss – carryforward	5,283	8,145	8,201
Nonaccrual loan interest	366	412	45
Gross deferred tax assets	6,385	9,765	9,838
Less: valuation allowance	(6,361)	(9,705)	(9,765)
Gross deferred tax assets, net of valuation allowance	24	60	73
Deferred income tax liabilities:			
Loan origination fees	(24)	(60)	(73)
Gross deferred tax liability	(24)	(60)	(73)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2017, deferred income taxes have not been provided by the Association on approximately $1.2 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $6,361, $9,705 and $9,765 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 Cuts and Jobs Act was enacted on December 22, 2017, and includes, among other items, a reduction in the federal corporate income tax rate. The reduced rate does not have an impact in our effective tax rate due to a full valuation allowance in our books. Additionally, since our deferred tax balances are calculated based on the tax rates in effect during the period, a change in federal corporate income tax rates is recorded as a component of the income tax provision for the period in which the law is enacted to change current or future tax rates. Therefore, this reduction in the corporate federal income tax rate resulted in a one-time adjustment of our deferred tax balances and a corresponding adjustment of our valuation allowance in 2017.

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	$ 3,283	$ 2,906	$ 3,033	$ 3,037	$ 12,259
Provision for (reversal of allowance for) loan losses	(228)	–	–	(450)	(678)
Noninterest income (expense), net	(1,230)	(1,159)	(1,429)	3,136	(682)
Net income	$ 2,281	$ 1,747	$ 1,604	$ 6,623	$ 12,255

	2016				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 2,828	$ 2,737	$ 2,666	$ 2,898	$ 11,129
Provision for (reversal of allowance for) loan losses	(890)	–	(470)	(980)	(2,340)
Noninterest income (expense), net	(977)	(1,386)	(1,146)	833	(2,676)
Net income	$ 2,741	$ 1,351	$ 1,990	$ 4,711	$ 10,793

	2015				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 2,737	$ 2,744	$ 2,749	$ 2,724	$ 10,954
Provision for (reversal of allowance for) loan losses	(345)	(393)	485	(1,730)	(1,983)
Noninterest income (expense), net	(1,135)	(1,258)	(1,193)	953	(2,633)
Net income	$ 1,947	$ 1,879	$ 1,071	$ 5,407	$ 10,304

Note 14 — Subsequent Events

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

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OUR LOCATIONS

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863.682.4117

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863.682.4117

Apopka Service Center
57 E. Third Street
Apopka, FL 32703
407.880.7883

Brooksville Service Center
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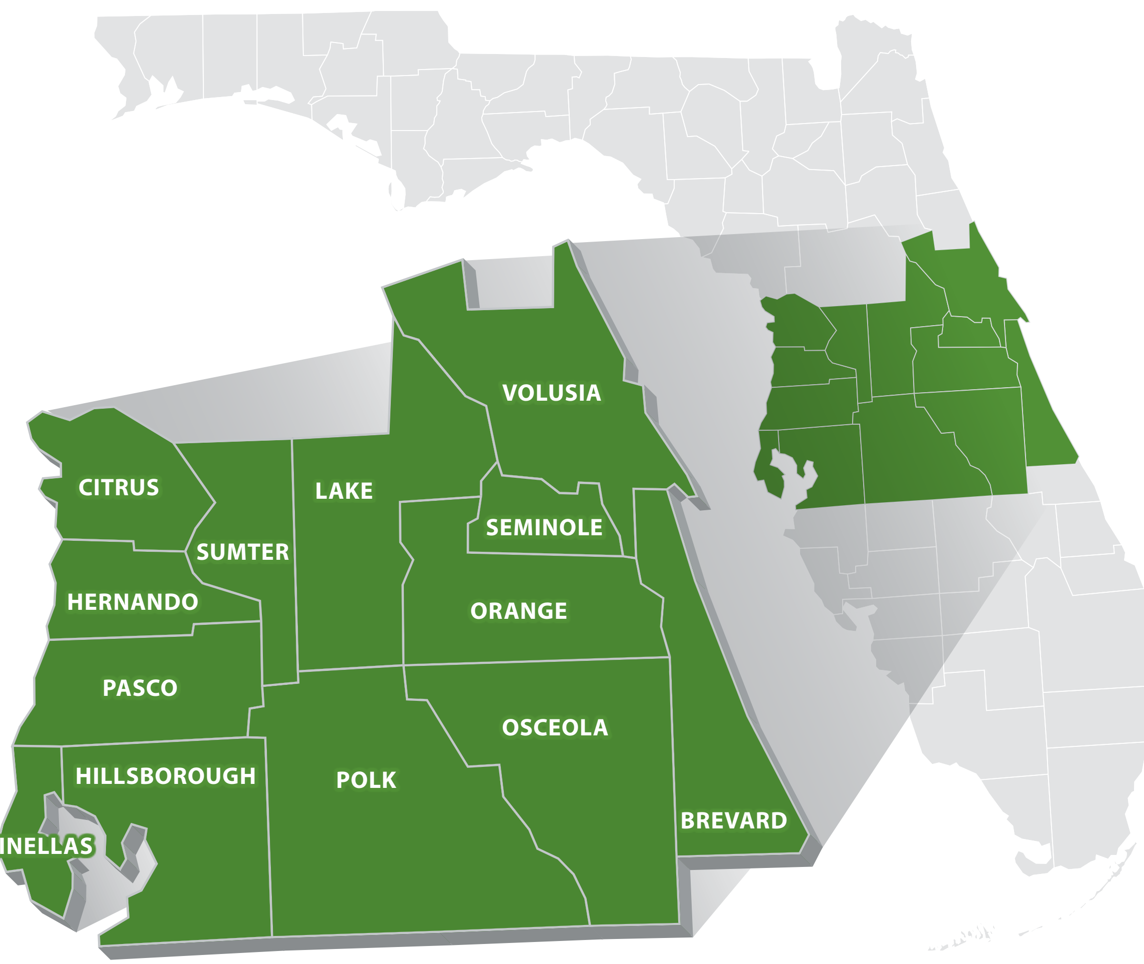
Brooksville, FL 34602
352.544.5553

Lakeland Service Center
115 S. Missouri Ave
Suite 400
Lakeland, FL 33815
863.682.4117

Plant City Service Center
2301 Thonotosassa Road
Plant City, FL 33563
813.719.7341



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