SOUTHERN AGCREDIT

Financial Solutions for Agriculture

Stockholders' Quarterly Financial Report

For the Quarter Ended September 30, 2016

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared 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.

Joe H. Hayman
President/Chief Executive Officer
November 9, 2016

Kevin Rhodes
Kevin Rhodes
Chairman, Board of Directors
November 9, 2016

Phillip D Morgan, CPA
Phillip D. Morgan, CPA, CGMA, CITP, CISA
Vice President/Chief Financial Officer
November 9, 2016

SOUTHERN AGCREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Southern AgCredit, ACA (Agricultural Credit Association), referred to as the association, for the quarter ended September 30, 2016. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2015 Annual Report to Stockholders.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the association's audit committee.

Significant Events:

In December 2015, the association's board of directors declared a patronage in the amount of $14,622,031 to stockholders, including $8,015,743 to be paid in cash, and $6,606,288 in the form of non-qualified allocated equity on behalf of the individual stockholders and retained by the association. Nonqualified allocated equities are not taxable to the stockholder. The cash patronage was disbursed to the association stockholders in February 2016. The 2015 cash patronage represents a record return of earnings to the stockholders of the association.

The association continues to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

Total loans outstanding at September 30, 2016, including nonaccrual loans and sales contracts, were $950,094,589 compared to $877,149,304 at December 31, 2015, reflecting an increase of 8.3 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.2 percent at September 30, 2016, compared to 0.6 percent at December 31, 2015.

The association recorded no recoveries or charge-offs for the quarter ended September 30, 2016, or for the same period in 2015. The association's allowance for loan losses was 0.1 percent of total loans outstanding as of September 30, 2016, and December 31, 2015.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	September 30, 2016		December 31, 2015	
	Amount	**%**	Amount	%
Nonaccrual	**$ 2,153,168**	**13.6%**	$ 5,053,063	29.8%
90 days past due and still accruing interest	**215,292**	**1.4%**	-	0.0%
Formally restructured	**184,313**	**1.2%**	186,977	1.1%
Other property owned, net	**13,245,973**	**83.8%**	11,736,537	69.1%
Total	**$ 15,798,746**	**100.0%**	$ 16,976,577	100.0%

The balance of nonaccrual volume as of September 30, 2016 is primarily related to loans to one borrower with a balance of $1,046,362. The loans are secured by real estate and were moved to nonaccrual in the previous quarter. No specific allowance reserve was required.

The balance of other property owned as of September 30, 2016 is primarily related to the foreclosure of a large complex of loans to a group of borrowers originated in 2006, and recognized as nonperforming in the first quarter of 2008. Upon completion of the foreclosure, the association recognized an increase in other property owned related to the value of the acquired collateral from these loans of $11,145,692, and $8,563,039, as received in years 2010 and 2011, respectively. Subsequent decreases in value include property liquidations and market value adjustments.

The increase in acquired property as of the nine months ended September 30, 2016 is due to the foreclosure of two loans secured by real estate, in default and moved to non-accrual in September 2013. Upon foreclosure, the Association recognized a principle charge-off of $282,154, and along with immediate necessary improvements resulted in a net fair value increase in acquired property balance of $3,825,473.

Investments:

During the first quarter of 2010, the association exchanged $35,192,440 of mortgage loans that previously were covered under a long-term standby commitment to purchase agreement with Federal Agricultural Mortgage Corporation (Farmer Mac) for a Farmer Mac guaranteed agricultural mortgage-backed security. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The association continues to service the loans included in this transaction. These investments in guaranteed securities are included in this report's Consolidated Balance Sheet as investments – held-to-maturity.

Results of Operations:

The association had net income of $4,065,952 and $12,412,539 for the three and nine months ended September 30, 2016, as compared to net income of $4,005,902 and $11,575,501 for the same period in 2015, reflecting an increase of 1.5 and 7.2 percent. Net interest income was $6,116,511 and 17,830,103 for the three and nine months ended September 30, 2016, compared to $5,866,263 and $16,970,393 for the same period in 2015.

	Nine months ended:			
	September 30, 2016		September 30, 2015	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 907,817,162**	**$ 28,905,510**	$ 831,770,708	$ 25,989,754
Investments	**11,171,206**	**340,451**	13,985,089	420,497
Total interest-earning assets	**918,988,368**	**29,245,961**	845,755,797	26,410,251
Interest-bearing liabilities	**796,203,979**	**11,415,858**	731,778,652	9,439,858
Impact of capital	**$ 122,784,389**		$ 113,977,145	
Net interest income		**$ 17,830,103**		$ 16,970,393

	2016 Average Yield	2015 Average Yield
Yield on loans	**4.25%**	4.18%
Yield on investments	**4.07%**	4.02%
Total yield on interest-earning assets	**4.25%**	4.18%
Cost of interest-bearing liabilities	**1.92%**	1.73%
Interest rate spread	**2.33%**	2.45%
Net interest income as a percentage of average earning assets	**2.59%**	2.68%

	Nine months ended: September 30, 2016 vs. September 30, 2015		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 2,378,347**	**$ 537,409**	**$ 2,915,756**
Interest income - investments	**(84,684)**	**4,638**	**(80,046)**
Total interest income	**2,293,663**	**542,047**	**2,835,710**
Interest expense	**831,840**	**1,144,160**	**1,976,000**
Net interest income	**$ 1,461,824**	**$ (602,114)**	**$ 859,710**

Interest income for the three and nine months ended September 30, 2016, increased by $965,193 and $2,835,710, or 10.5 and 10.7 percent respectively, from the same period of 2015, primarily due to an increase in interest rates and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2016, increased by $714,945 and $1,976,000, or 21.6 and 20.9 percent, from the same period of 2015 due to an increase in interest rates offset by an increase in average debt volume. Average loan volume for the third quarter of 2016 was $907,817,162, compared to $831,770,708 in the third quarter of 2015. The average net interest rate spread on the loan portfolio for the third quarter of 2016 was 2.33 percent, compared to 2.45 percent in the third quarter of 2015.

The association's return on average assets for the nine months ended September 30, 2016, was 1.73 percent compared to 1.75 percent for the same period in 2015. The association's return on average equity for the nine months ended September 30, 2016, was 12.20 percent, compared to 12.03 percent for the same period in 2015.

Liquidity and Funding Sources:

The association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the association's borrowings.

	September 30, 2016	December 31, 2015
Note payable to the bank	**$ 835,419,165**	$ 764,273,952
Accrued interest on note payable	**1,343,363**	1,187,062
Total	**$ 836,762,528**	$ 765,461,014

The association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2018. The primary source of liquidity and funding for the association is a direct loan from the bank. The outstanding balance of $835,419,165 as of September 30, 2016, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.93 percent at September 30, 2016. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2015, is due to the association's year-to-date loan growth. The association's own funds, which represent the amount of the association's loan portfolio funded by the association's equity, were $109,396,641 at September 30, 2016. The maximum amount the association may borrow from the bank as of September 30, 2016, was $944,267,238 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2018, unless sooner terminated by the bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

Capital Resources:

The association's capital position increased by $12,562,892 at September 30, 2016, compared to December 31, 2015. The association's debt as a percentage of members' equity was 5.78:1 as of September 30, 2016, compared to 5.85:1 as of December 31, 2015.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The association's permanent capital ratio at September 30, 2016, was 14.3 percent, which is in compliance with the FCA's minimum permanent capital standard. The association's core surplus ratio and total surplus ratio at September 30, 2016, were 13.9 and 13.9 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In August 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Classification of Certain Cash Receipts and Cash Payments." The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Bank's financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements — Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016. The Association is currently evaluating a potential disclosure for this recent accounting pronouncement.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

Regulatory Matters:

On March 10, 2016, the Farm Credit Administration approved a final rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

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

The final rule is effective on January 1, 2017. The association is currently evaluating the impact of the recently announced changes.

Relationship With the Farm Credit Bank of Texas:

The association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2015 Annual Report of Southern Ag Credit, ACA more fully describe the association's relationship with the bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports, as well as those of the bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports for the bank and the district are also available on its website at *www.farmcreditbank.com.*

The association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Southern AgCredit, ACA, 402 West Parkway Place, Ridgeland, MS 39157 or calling 601-499-2820. The annual and quarterly stockholder reports for the association are also available on its website at *www.southernagcredit.com.* Copies of the association's quarterly stockholder reports can also be requested by e-mailing *dlsouthernagcreditadmin@farmcreditbank.com.*

SOUTHERN AGCREDIT, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash	**$ 8,233**	$ 36,226
Investments	**10,738,935**	11,714,211
Loans	**950,094,589**	877,149,304
Less: allowance for loan losses	**808,718**	1,068,683
Net loans	**949,285,871**	876,080,621
Accrued interest receivable		
Loans	**8,229,876**	6,943,446
Investments	**146,683**	139,914
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**14,680,670**	14,680,670
Other	**2,727,998**	2,290,759
Other property owned, net	**13,245,973**	11,736,537
Premises and equipment, net	**5,397,523**	5,750,034
Other assets	**1,041,600**	820,310
Total assets	**$ 1,005,503,362**	$ 930,192,728
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 835,419,165**	$ 764,273,952
Guaranteed obligations to government entities	**13,139,081**	11,626,387
Advance conditional payments	**89,850**	371,059
Accrued interest payable	**1,343,363**	1,187,062
Drafts outstanding	**1,259,583**	1,777,236
Dividends payable	**-**	8,015,743
Other liabilities	**5,848,589**	7,100,450
Total liabilities	**857,099,631**	794,351,889
MEMBERS' EQUITY		
Capital stock and participation certificates	**3,996,450**	3,812,005
Additional paid-in capital	**10,238,891**	10,238,891
Unallocated retained earnings	**134,340,203**	121,927,664
Accumulated other comprehensive loss	**(171,813)**	(137,721)
Total members' equity	**148,403,731**	135,840,839
Total liabilities and members' equity	**$ 1,005,503,362**	$ 930,192,728

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
INTEREST INCOME				
Loans	**$ 10,028,691**	$ 9,040,971	**$ 28,905,510**	$ 25,989,754
Investments	**111,964**	134,491	**340,451**	420,497
Total interest income	**10,140,655**	9,175,462	**29,245,961**	26,410,251
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**4,023,316**	3,308,194	**11,413,188**	9,436,794
Advance conditional payments	**828**	1,005	**2,670**	3,064
Total interest expense	**4,024,144**	3,309,199	**11,415,858**	9,439,858
Net interest income	**6,116,511**	5,866,263	**17,830,103**	16,970,393
PROVISION FOR LOAN LOSSES	**(5,118)**	83,246	41,158	192,705
Net interest income after provision for loan losses	**6,121,629**	5,783,017	**17,788,945**	16,777,688
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**732,447**	668,898	**2,172,345**	2,002,269
Loan fees	**51,738**	46,035	**219,142**	194,251
Financially related services income	**2,953**	4,015	**34,022**	35,233
Loss on other property owned, net	**(202,099)**	(6,301)	**(392,944)**	(9,485)
Gain on sale of premises and equipment, net	**39,700**	92	**84,694**	272
Other noninterest income	**696**	859	**73,985**	41,710
Total noninterest income	**625,435**	713,598	**2,191,244**	2,264,250
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,415,771**	1,303,222	**3,885,277**	3,891,284
Occupancy and equipment	**140,983**	132,010	**409,768**	429,201
Insurance Fund premiums	**314,122**	207,618	**849,208**	610,074
Other noninterest expense	**810,236**	847,863	**2,423,397**	2,535,878
Total noninterest expenses	**2,681,112**	2,490,713	**7,567,650**	7,466,437
Income before income taxes	**4,065,952**	4,005,902	**12,412,539**	11,575,501
NET INCOME	**4,065,952**	4,005,902	**12,412,539**	11,575,501
Other comprehensive income:				
Change in postretirement benefit plans	**(11,364)**	(4,938)	**(34,092)**	(14,814)
Other comprehensive income, net of tax	**(11,364)**	(4,938)	**(34,092)**	(14,814)
COMPREHENSIVE INCOME	**$ 4,054,588**	$ 4,000,964	**$ 12,378,447**	$ 11,560,687

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

SOUTHERN AGCREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Additional Paid-in-Capital	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2014	$ 3,602,415	$ 10,238,891	$ 115,162,877	$ (427,735)	$ 128,576,448
Comprehensive income	-	-	11,575,501	(14,814)	11,560,687
Capital stock/participation certificates and allocated retained earnings issued	555,975	-	-	-	555,975
Capital stock/participation certificates and allocated retained earnings retired	(421,145)	-	-	-	(421,145)
Balance at September 30, 2015	$ 3,737,245	$ 10,238,891	$ 126,738,378	$ (442,549)	$ 140,271,965
Balance at December 31, 2015	$ 3,812,005	$ 10,238,891	$ 121,927,664	$ (137,721)	$ 135,840,839
Comprehensive income	-	-	12,412,539	(34,092)	12,378,447
Capital stock/participation certificates and allocated retained earnings issued	576,430	-	-	-	576,430
Capital stock/participation certificates and allocated retained earnings retired	(391,985)	-	-	-	(391,985)
Balance at September 30, 2016	**$ 3,996,450**	**$ 10,238,891**	**$ 134,340,203**	**$ (171,813)**	**$ 148,403,731**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Southern AgCredit, ACA (Agricultural Credit Association), referred to as the association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The association serves the counties of Adams, Amite, Carroll, Claiborne, Clarke, Copiah, Covington, Forrest, Franklin, George, Greene, Grenada, Hancock, Harrison, Hinds, Holmes, Humphreys, Issaquena, Jackson, Jasper, Jefferson, Jefferson Davis, Jones, Kemper, Lamar, Lauderdale, Lawrence, Leake, Leflore, Lincoln, Madison, Marion, Montgomery, Neshoba, Newton, Pearl River, Perry, Pike, Rankin, Scott, Sharkey, Simpson, Smith, Stone, Walthall, Warren, Washington, Wayne, Wilkinson and Yazoo in the state of Mississippi, as well as the parishes of Bienville, Bossier, Caddo, Claiborne, DeSoto, Jackson, Lincoln, Ouachita (west of Ouachita River), Red River, Union and Webster in the state of Louisiana. The association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2015, as contained in the 2015 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2015, as contained in the 2015 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2016. Descriptions of the significant accounting policies are included in the 2015 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In August 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled “Classification of Certain Cash Receipts and Cash Payments.” The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Bank’s financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements- Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016. The association is currently evaluating a potential disclosure for this recent accounting pronouncement.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2016, are not necessarily indicative of the results to be expected for the year ended December 31, 2016. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — INVESTMENTS:

Effective in the first quarter of 2010, $35,192,440 of agricultural mortgage loans previously covered under a long-term standby commitment to purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

September 30, 2016				
Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
$10,738,935	**$ -**	**$ 91,606**	**$10,647,329**	**4.08 %**

December 31, 2015				
Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
$ 11,714,211	$ -	$ 231,882	$ 11,482,329	3.90 %

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2016 Amount**	December 31, 2015 Amount
Production agriculture:		
Real estate mortgage	**$ 826,578,047**	$ 770,688,964
Production and intermediate term	**64,582,423**	64,557,183
Agribusiness:		
Loans to cooperatives	**1,869,553**	809,321
Processing and marketing	**26,147,557**	23,253,770
Farm-related business	**2,111,903**	2,240,303
Communication	**4,579,743**	4,832,782
Energy	**13,489,561**	967,765
Water and waste water	**455,421**	758,362
Rural residential real estate	**10,280,381**	8,952,509
Lease receivables	**-**	88,345
Total	**$ 950,094,589**	$ 877,149,304

The association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2016:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 5,876,090	$ 33,195,888	$ 412,378	$ 13,139,081	$ 6,288,468	$ 46,334,969
Production and intermediate term	5,753,887	13,649,822	77,510	-	5,831,397	13,649,822
Agribusiness	29,340,308	-	-	-	29,340,308	-
Rural infrastructure	18,356,267	-	-	-	18,356,267	-
Total	$ 59,326,552	$ 46,845,710	$ 489,888	$ 13,139,081	$ 59,816,440	$ 59,984,791

The association is authorized under the Farm Credit Act to accept “advance conditional payments” (ACPs) from borrowers. To the extent the borrower’s access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower’s related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the association on such balances. Balances of ACPs were $89,850 and $371,059 at September 30, 2016, and December 31, 2015, respectively.

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

	September 30, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	**$ 2,072,513**	$ 4,953,234
Production and intermediate term	**80,655**	99,829
Total nonaccrual loans	**2,153,168**	5,053,063
Accruing restructured loans:		
Real estate mortgage	**184,313**	186,977
Total accruing restructured loans	**184,313**	186,977
Accruing loans 90 days or more past due:		
Real estate mortgage	**215,292**	-
Total accruing loans 90 days or more past due	**215,292**	-
Total nonperforming loans	**2,552,773**	5,240,040
Other property owned	**13,245,973**	11,736,537
Total nonperforming assets	**$ 15,798,746**	$ 16,976,577

One credit quality indicator utilized by the association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- 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 factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2016	December 31, 2015
Real estate mortgage		
Acceptable	**98.86** %	97.94 %
OAEM	**0.74**	1.15
Substandard/doubtful	**0.40**	0.91
	100.00	100.00
Production and intermediate term		
Acceptable	**99.23**	99.68
OAEM	**0.65**	0.11
Substandard/doubtful	**0.12**	0.21
	100.00	100.00
Agribusiness		
Acceptable	**100.00**	100.00
OAEM	-	-
Substandard/doubtful	-	-
	100.00	100.00
Energy and water/waste water		
Acceptable	**100.00**	100.00
OAEM	-	-
Substandard/doubtful	-	-
	100.00	100.00
Communication		
Acceptable	**100.00**	100.00
OAEM	-	-
Substandard/doubtful	-	-
	100.00	100.00
Rural residential real estate		
Acceptable	**99.67**	99.63
OAEM	**0.33**	0.37
Substandard/doubtful	-	-
	100.00	100.00
Lease receivables		
Acceptable	-	100.00
OAEM	-	-
Substandard/doubtful	-	-
	-	100.00
Total loans		
Acceptable	**98.95**	98.16
OAEM	**0.69**	1.02
Substandard/doubtful	**0.36**	0.82
	100.00 %	100.00 %

The following tables provide an age analysis of past due loans (including accrued interest) as of:

September 30, 2016	**30-89 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 and Accruing**
Real estate mortgage	**$ 1,768,786**	**$ 215,292**	**$ 1,984,078**	**$ 831,887,538**	**$ 833,871,616**	**$ 215,292**
Production and intermediate term	**-**	**-**	**-**	**65,441,029**	**65,441,029**	**-**
Agribusiness	**-**	**-**	**-**	**30,153,329**	**30,153,329**	**-**
Rural infrastructure	**-**	**-**	**-**	**18,531,433**	**18,531,433**	**-**
Rural residential real estate	**-**	**-**	**-**	**10,327,058**	**10,327,058**	**-**
Total	**$ 1,768,786**	**$ 215,292**	**$ 1,984,078**	**$ 956,340,387**	**$ 958,324,465**	**$ 215,292**

December 31, 2015	30-89 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 and Accruing
Real estate mortgage	$ 1,539,753	$ 4,381,076	$ 5,920,829	$ 771,011,389	$ 776,932,218	$ -
Production and intermediate term	115,269	6,808	122,077	65,085,094	65,207,171	-
Agribusiness	-	-	-	26,326,801	26,326,801	-
Rural infrastructure	-	-	-	6,562,450	6,562,450	-
Rural residential real estate	-	-	-	8,999,203	8,999,203	-
Lease receivables	-	-	-	88,345	88,345	-
Total	$ 1,655,022	$ 4,387,884	$ 6,042,906	$ 878,073,282	$ 884,116,188	$ -

Note: The recorded investment in the 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.

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2016, the total recorded investment of troubled debt restructured loans was $264,968, including $80,655 classified as nonaccrual and $184,313 classified as accrual, with specific allowance for loan losses of $18,728. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring as of September 30, 2016 and December 31, 2015.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three and nine months ended September 30, 2016. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2016, were $272,237.

For the Nine Months Ended September 30, 2016	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Production and intermediate term	$ 22,581	$ 22,581
Total	$ 22,581	$ 22,581

For the Nine Months Ended September 30, 2015	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Production and intermediate term	-	-
Total	$ -	$ -

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). Charge-offs recorded at the modification date were $0 for the quarter ending September 30, 2016.

The predominant form of concession granted for troubled debt restructuring includes extension of terms and interest rate decreases. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Real estate mortgage	$ 184,313	$ 186,977	$ -	$ -
Production and intermediate term	80,655	85,260	80,655	85,260
Total	$ 264,968	$ 272,237	$ 80,655	$ 85,260

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	September 30, 2016			December 31, 2015		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 129,713**	**$ 129,713**	**$ 37,051**	$ 3,009,671	$ 3,009,671	$ 409,419
Production and intermediate term	**80,655**	**80,695**	**18,728**	92,068	92,068	19,368
Total	**$ 210,368**	**$ 210,408**	**$ 55,779**	$ 3,101,739	$ 3,101,739	$ 428,787
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$2,342,405**	**$ 2,337,299**	**$ -**	$ 2,130,540	$ 2,129,803	$ -
Production and intermediate term	**-**	**-**	**-**	7,761	7,761	-
Total	**$2,342,405**	**$ 2,337,299**	**$ -**	$ 2,138,301	$ 2,137,564	$ -
Total impaired loans:						
Real estate mortgage	**$2,472,118**	**$ 2,467,012**	**$ 37,051**	$ 5,140,211	$ 5,139,474	$ 409,419
Production and intermediate term	**80,655**	**80,695**	**18,728**	99,829	99,829	19,368
Total	**$2,552,773**	**$ 2,547,707**	**$ 55,779**	$ 5,240,040	$ 5,239,303	$ 428,787

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2016		September 30, 2015		**September 30, 2016**		September 30, 2015	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ 130,913**	**$ -**	$2,740,606	$ -	**$ 134,131**	**$ -**	$2,675,437	$ -
Production and intermediate term	**81,292**	**-**	74	-	**83,038**	**-**	25	-
Total	**$ 212,205**	**$ -**	$2,740,680	$ -	**$ 217,169**	**$ -**	$2,675,462	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$2,351,332**	**$ 3,317**	$2,197,747	$ 156,473	**$1,773,831**	**$ 10,726**	$2,372,419	$ 164,615
Production and intermediate term	**-**	**-**	33,765	-	**793**	**7,165**	39,269	-
Farm-related business	**-**	**-**	-	-	**-**	**-**	8,251	-
Total	**$2,351,332**	**$ 3,317**	$2,231,512	$ 156,473	**$1,774,624**	**$ 17,891**	$2,419,939	$ 164,615
Total impaired loans:								
Real estate mortgage	**$2,482,245**	**$ 3,317**	$4,938,353	$ 156,473	**$1,907,962**	**$ 10,726**	$5,047,856	$ 164,615
Production and intermediate term	**81,292**	**-**	33,839	-	**83,831**	**7,165**	39,294	-
Farm-related business	**-**	**-**	-	-	**-**	**-**	8,251	-
Total	**$2,563,537**	**$ 3,317**	$4,972,192	$ 156,473	**$1,991,793**	**$ 17,891**	$5,095,401	$ 164,615

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	Rural Infrastructure	Rural Residential Real Estate	Lease Receivables	Total
Allowance for Credit Losses:							
Balance at June 30, 2016	$ 673,259	$ 76,478	$ 22,778	$ 28,925	$ 7,278	$ -	$ 808,718
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	-	1,982	470	(7,570)	-	-	(5,118)
Other	-	(1,982)	(470)	7,570	-	-	5,118
Balance at September 30, 2016	$ 673,259	$ 76,478	$ 22,778	$ 28,925	$ 7,278	$ -	$ 808,718
Balance at December 31, 2015	$ 931,817	$ 79,542	$ 19,524	$ 30,802	$ 6,998	$ -	$ 1,068,683
Charge-offs	(304,068)	-	-	-	-	-	(304,068)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	45,510	2,494	928	(8,055)	280	-	41,157
Other	-	(5,558)	2,326	6,178	-	-	2,946
Balance at September 30, 2016	$ 673,259	$ 76,478	$ 22,778	$ 28,925	$ 7,278	$ -	$ 808,718
Ending Balance:							
Individually evaluated for impairment	$ 37,051	$ 18,728	$ -	$ -	$ -	$ -	$ 55,779
Collectively evaluated for impairment	636,208	57,750	22,778	28,925	7,278	-	752,939
Balance at September 30, 2016	$ 673,259	$ 76,478	$ 22,778	$ 28,925	$ 7,278	$ -	$ 808,718
Balance at June 30, 2015	$ 803,497	$ 56,548	$ 21,693	$ 20,778	$ 3,765	$ 77	$ 906,358
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	100,392	15,310	(19,819)	(13,455)	819	(1)	83,246
Other	8,920	(10,156)	(1,707)	(6,524)	-	-	(9,467)
Balance at September 30, 2015	$ 912,809	$ 61,702	$ 167	$ 799	$ 4,584	$ 76	$ 980,137
Balance at December 31, 2014	$ 1,147,164	$ 55,216	$ 32,788	$ 16,605	$ 3,293	$ 78	$ 1,255,144
Charge-offs	(424,084)	-	(13,095)	-	-	-	(437,179)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	189,740	16,991	(14,592)	(723)	1,291	(2)	192,705
Other	(11)	(10,505)	(4,934)	(15,083)	-	-	(30,533)
Balance at September 30, 2015	$ 912,809	$ 61,702	$ 167	$ 799	$ 4,584	$ 76	$ 980,137
Ending Balance:							
Individually evaluated for impairment	$ 432,248	$ 6,398	$ -	$ -	$ -	$ -	$ 438,646
Collectively evaluated for impairment	480,561	55,304	167	799	4,584	76	541,491
Balance at September 30, 2015	$ 912,809	$ 61,702	$ 167	$ 799	$ 4,584	$ 76	$ 980,137

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Rural Infrastructure	Rural Residential Real Estate	Lease Receivables	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at September 30, 2016	$833,871,617	$ 65,441,029	$ 30,153,329	$ 18,531,432	$10,327,058	$ -	$958,324,465
Individually evaluated for impairment	$ 2,468,700	$ 80,655	$ -	$ -	$ -	$ -	$ 2,549,355
Collectively evaluated for impairment	$831,402,917	$ 65,360,374	$ 30,153,329	$ 18,531,432	$10,327,058	$ -	$955,775,110
Ending Balance at September 30, 2015	$770,474,142	$ 60,673,473	$ 18,193,392	$ 6,998,104	$ 7,746,427	$ 89,255	$864,174,793
Individually evaluated for impairment	$ 5,254,630	$ 40,573	$ -	$ -	$ -	$ -	$ 5,295,203
Collectively evaluated for impairment	$765,219,512	$ 60,632,900	$ 18,193,392	$ 6,998,104	$ 7,746,427	$ 89,255	$858,879,590

NOTE 4 — CAPITAL:

The association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

The association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2016	2015
Accumulated other comprehensive income (loss) at January 1	**$(137,721)**	$(427,735)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(34,092)**	(34,644)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**-**	19,830
Other comprehensive income (loss), net of tax	**(34,092)**	(14,814)
Accumulated other comprehensive income at September 30	**$ (171,813)**	$ (442,549)

NOTE 5 — INCOME TAXES:

Southern AgCredit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Southern AgCredit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Southern AgCredit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the nine months ended September 30, 2016 and 2015, there was no resulting tax expense or benefit recognized.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2015 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2016	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets held in nonqualified benefit trusts	**$196,493**	**$ -**	**$ -**	**$ 196,493**

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets held in nonqualified benefit trusts	$ 189,489	$ -	$ -	$ 189,489

*Accounting guidance requires that the fair value measurement for investments be broken out by the different types of investments held.

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

September 30, 2016	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 210,368**	**$ 210,368**
Other property owned	**-**	**-**	**13,245,973**	**13,245,973**

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 2,672,952	$ 2,672,952
Other property owned	-	-	11,736,537	11,736,537

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider 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.

Information About Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Mission-related and other investment held-to-maturity	Discounted cash flow	Prepayment rates Probability of default Loss severity
Loans	Discounted cash flow	Prepayment rates Probability of default Loss severity
Note payable to the bank	Discounted cash flow	Benchmark yield curves Derived yield spread Own credit risk
Guaranteed obligations to government entities	Discounted cash flow	Prepayment rates Probability of default Loss severity

Valuation Techniques

As more fully discussed in Note 2 to the 2015 Annual Report to Stockholders, authoritative guidance 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. The following represent a brief summary of the valuation techniques used for the association's assets and liabilities. For a more complete description, see Notes to the 2015 Annual Report to Stockholders.

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services, pricing models that utilize observable inputs or discounted cash flows. Generally, these securities are classified as Level 2. This would include U.S. Treasury and certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-backed securities and certain mortgage-backed securities, including private label-FHA/VA securities and those issued by Farmer Mac.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Standby Letters of Credit

The fair value of letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral-dependent. 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. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the nine months ended September 30:

	Other Benefits	
	2016	2015
Service cost	**$ 28,512**	$ 41,651
Interest cost	**117,234**	122,906
Expected return on plan assets	**-**	-
Amortization of prior service (credits) costs	**(34,092)**	(34,643)
Amortization of net actuarial (gain) loss	**-**	19,829
Net periodic benefit cost	**$ 111,654**	$ 149,743

The association's liability for the unfunded accumulated obligation for these benefits at September 30, 2016, was $3,431,466 and is included in "Other Liabilities" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and associations). The association recognizes its amortized annual contributions to the plan as an expense. The association previously disclosed in its financial statements for the year ended December 31, 2015, that it expected to contribute $361,275 to the district's defined benefit pension plan in 2016. As of September 30, 2016, $270,956 of contributions have been made. The association presently anticipates contributing an additional $90,319 to fund the defined benefit pension plan in 2016 for a total of $361,275.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial 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. At September 30, 2016, $67,791,006 of commitments and $416,026 of commercial letters of credit were outstanding.

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 balance sheet 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

NOTE 9 — SUBSEQUENT EVENTS:

The association has evaluated subsequent events through November 9, 2016, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 9, 2016.