ALABAMA AG CREDIT, ACA

2016
Quarterly Report
Third Quarter

ALABAMA
AG CREDIT
LAND & FARM LENDERS

For the Quarter Ended September 30, 2016

REPORT OF MANAGEMENT

The consolidated financial statements of Alabama Ag Credit, ACA (Association) are prepared by management, who are responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (Bank) and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The annual financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The audit committee of the board of directors has oversight responsibility for the Association's system of internal controls and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors and the internal auditor to review the scope and results of their work. The independent auditors and internal auditor have direct access to the audit committee.

The undersigned certify that, to the best of our knowledge and belief, the consolidated financial statements and other financial information included in this quarterly report reliably present the financial condition of Alabama Ag Credit, ACA and the results of its operations for the periods shown.

Douglas Thiessen, President/Chief Executive Officer
November 4, 2016

James L. Bassett, Chairman, Board of Directors
November 4, 2016

M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
November 4, 2016

J.K. Love, CPA, Chairman, Audit Committee
November 4, 2016

ALABAMA AG CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and nine months 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.

Results of Operations:

The Association had net income of $3,593,513 and $10,800,409 for the three and nine months ended September 30, 2016, as compared to net income of $3,534,088 and 9,987,902 for the same period in 2015, reflecting an increase of 1.7 and 8.1 percent. Net interest income was $6,357,876 and 19,021,924 for the three and nine months ended September 30, 2016, compared to $6,263,331 and $18,455,318 for the same period in 2015.

	Nine months ended:			
	September 30, 2016		September 30, 2015	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 874,356,671**	**$ 30,329,433**	$ 823,597,106	$ 28,395,631
Interest-bearing liabilities	**729,493,726**	**11,307,509**	685,401,986	9,940,313
Impact of capital	**$ 144,862,945**		$ 138,195,120	
Net interest income		**$ 19,021,924**		$ 18,455,318

	2016 Average Yield	2015 Average Yield
Yield on loans	**4.63%**	4.61%
Cost of interest-bearing liabilities	**2.07%**	1.94%
Interest rate spread	**2.56%**	2.67%
Interest of capital	**0.34%**	0.33%
Net interest income as a percentage of average earning assets	**2.90%**	3.00%

	Nine months ended: September 30, 2016 vs. September 30, 2015		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 1,751,663**	**$ 182,139**	**$ 1,933,802**
Interest expense	**640,036**	**727,160**	**1,367,196**
Net interest income	**$ 1,111,627**	**$ (545,021)**	**$ 566,606**

Interest income for the three and nine months ended September 30, 2016, increased by $405,653 and $1,933,802, or 4.2 and 6.8 percent respectively, from the same period of 2015, primarily due to an increase in average loan volume. Interest income in 2016 also included the collection of several credits that had been classified as nonaccrual, resulting in recognition of $37,458 and $111,082 of foregone interest for the three and nine months ended September 30, 2016, respectively. Interest expense for the three and nine months ended September 30, 2016, increased by $311,108 and $1,367,196, or 8.9 and 13.8 percent, from the same period of 2015 due to primarily to an increase in average debt volume. Average loan volume for the third quarter of 2016 was $880,548,818, compared to $852,791,283 in the third quarter of 2015.

Noninterest income for the three months ended September 30, 2016, increased by $267,755, or 98.7 percent, over the same period of 2015. The increase is primarily due to one large prepayment penalty received in the third quarter of 2016. In addition, the increase is due to net gains on sales of acquired properties in the three months ended September 30, 2016 as compared to net losses in the three months ended September 30, 2015. Noninterest income for the nine months ended September 30, 2016, increased by $536,275, or 60.4 percent, over the same period of 2015. The increase is primarily due to one large prepayment penalty received in the nine months ended September 30, 2016. In addition, the increase is due to net gains on sales of acquired properties in the nine months ended September 30, 2016 as compared to net losses in the nine months ended September 30, 2015.

Noninterest expenses for the three months ended September 30, 2016 increased by $177,373, or 6.1 percent, as compared to the same period in 2015. The increase is primarily due to increases in salaries and benefits and Insurance Fund premiums. Salaries and benefits increased as a result of a net increase of employee hiring actions from the third quarter of 2015 through the third quarter of 2016. Insurance Fund premiums increased as a result of increased rates from 2015 to 2016 and a larger base of insurable debt to which the premiums apply. The increases were partially offset by decreases in advertising and public and member relations from 2015 to 2016 due to the timing of several large purchases. Noninterest expenses for the nine months ended September 30, 2016 increased by $500,488, or 5.7 percent, as compared to the same period in 2015. The increase is primarily due to increases in salaries and benefits and Insurance Fund premiums. Salaries and benefits increased as a result of a net increase of employee hiring actions from the third quarter of 2015 through the third quarter of 2016. Insurance Fund premiums increased as a result of increased rates from 2015 to 2016 and a larger base of insurable debt to which the premiums apply. The increases were partially offset by decreases in advertising and public and member relations in the first nine months of 2016 as compared to the first nine months of 2015 due to the timing of several large purchases.

The Association's return on average assets for the nine months ended September 30, 2016, was 1.60 percent compared to 1.58 percent for the same period in 2015. The Association's return on average equity for the nine months ended September 30, 2016, was 9.00 percent, compared to 8.80 percent for the same period in 2015.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive prime- and LIBOR-based, fixed and adjustable interest rates and loan maturities ranging up to 40 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with seasonal cash-flow capabilities of the borrower.

Total loans outstanding at September 30, 2016, stated at recorded investment (principal less funds held), were $885,232,818 compared to $861,660,052 at December 31, 2015, reflecting an increase of 2.7 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.8 percent at September 30, 2016, compared to 1.0 percent at December 31, 2015. The major commodities within the Association's portfolio are timber, poultry, cattle and field crops.

The Association recorded charge-offs of $0 and $53,597 for the three and nine months ended September 30, 2016, and charge-offs of $110,344 and $371,694 for the same periods in 2015. The Association recorded recoveries of $6,185 and $20,039 for the three and nine months ended September 30, 2016, and recoveries of $337,607 and $429,681 for the same periods in 2015. The Association's allowance for loan losses was 0.6 percent and 0.6 percent of total loans outstanding as of September 30, 2016, and December 31, 2015, respectively.

The following table reflects credit quality of the Association's loan volume as of:

	September 30, 2016	December 31, 2015
Acceptable	**98.2** %	97.9 %
OAEM	**0.7**	0.7
Substandard/doubtful	**1.1**	1.4
	100.0 %	100.0 %

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	**$ 7,092,168**	**95.8%**	$ 8,685,474	90.1%
Formally restructured	**313,835**	**4.2%**	417,777	4.3%
Other property owned, net	**-**	**0.0%**	541,945	5.6%
Total	**$ 7,406,003**	**100.0%**	$ 9,645,196	100.0%

At September 30, 2016, loans that were considered impaired were $7,406,003 compared to $9,103,251 at December 31, 2015. This represents 0.8 percent and 1.1 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. While the total number of nonaccrual loans as of September 30, 2016, remained relatively consistent compared to December 31, 2015, the primary reason for the decrease in volume is attributable to several large credits that were paid down during the first nine months of 2016.

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 System-wide obligations. The following schedule summarizes the Association's borrowings.

	September 30, 2016	December 31, 2015
Note payable to the bank	**$ 737,906,406**	$ 716,390,864
Accrued interest on note payable	**1,248,862**	1,211,565
Total	**$ 739,155,268**	$ 717,602,429

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 $737,906,406 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 2.02 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 GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2015, is due increased funding needs generated by growth in the Association's loan portfolio. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $147,486,553 at September 30, 2016. The maximum amount the Association may borrow from the Bank as of September 30, 2016, was $891,441,738 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, 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 $10,891,822 at September 30, 2016, compared to December 31, 2015. The Association's debt as a ratio of members' equity was 4.51:1 as of September 30, 2016, compared to 4.74:1 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 17.1 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 16.7 and 16.7 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

Information regarding significant recent accounting pronouncements, required to be disclosed, is incorporated herein by reference to Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report.

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 Alabama 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 annual and quarterly stockholder reports are also available free of charge, upon request. The quarterly reports will be available on the Association's website at *www.AlabamaAgCredit.com* approximately 40 days after quarter end and can also be obtained by writing to Alabama Ag Credit, ACA, 2660 EastChase Lane, Suite 401, Montgomery, Alabama, 36117 or calling (334) 270-8687. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *Andra.Wolf@AlabamaAgCredit.com*. The Association's annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

ALABAMA AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash	$ **19,709**	$ 11,448
Loans	**885,232,818**	861,660,052
Less: allowance for loan losses	**5,653,094**	5,381,077
Net loans	**879,579,724**	856,278,975
Accrued interest receivable	**9,246,291**	7,753,533
Investment in and receivable from the Bank:		
Capital stock	**13,754,660**	13,754,660
Accrued patronage receivable	**540,000**	67,607
Other	**1,058,729**	2,362,849
Other property owned, net	**-**	541,945
Premises and equipment, net	**6,586,800**	5,812,914
Other assets	**602,454**	415,240
Total assets	$ **911,388,367**	$ 886,999,171
LIABILITIES		
Note payable to the Bank	$ **737,906,406**	$ 716,390,864
Accrued interest payable	**1,248,862**	1,211,550
Drafts outstanding	**1,874,394**	1,675,992
Dividends payable	**3,929**	7,400,050
Other liabilities	**4,983,906**	5,841,667
Total liabilities	**746,017,497**	732,520,123
MEMBERS' EQUITY		
Capital stock and participation certificates	**3,881,470**	3,794,955
Unallocated retained earnings	**161,877,114**	151,071,753
Accumulated other comprehensive loss	**(387,714)**	(387,660)
Total members' equity	**165,370,870**	154,479,048
Total liabilities and members' equity	$ **911,388,367**	$ 886,999,171

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
INTEREST INCOME				
Loans	**$ 10,174,428**	$ 9,768,775	**$ 30,329,433**	$ 28,395,631
INTEREST EXPENSE				
Note payable to the Bank	**3,816,552**	3,505,444	**11,307,509**	9,940,313
Net interest income	**6,357,876**	6,263,331	**19,021,924**	18,455,318
PROVISION FOR LOAN LOSSES				
Provision for loan losses	**209,123**	83,621	**311,177**	521,291
Net interest income after provision for loan losses	**6,148,753**	6,179,710	**18,710,747**	17,934,027
NONINTEREST INCOME				
Patronage income from the Bank	**249,414**	230,930	**747,039**	689,721
Loan fees	**238,837**	58,124	**433,167**	151,641
Financially related services income	**1,063**	1,018	**1,620**	1,581
Gain (loss) on other property owned, net	**18,849**	(70,125)	**82,428**	(131,772)
Gain on sale of premises and equipment, net	**30,755**	51,216	**91,705**	108,410
Other noninterest income	**-**	-	**68,540**	68,643
Total noninterest income	**538,918**	271,163	**1,424,499**	888,224
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,900,517**	1,817,197	**5,723,954**	5,415,350
Directors' expense	**39,454**	41,362	**254,120**	236,169
Purchased services	**141,298**	88,697	**307,535**	262,701
Travel	**167,297**	176,176	**477,052**	490,582
Occupancy and equipment	**215,345**	165,483	**592,435**	586,289
Communications	**61,434**	90,099	**199,423**	250,776
Advertising	**54,069**	98,815	**188,810**	236,654
Public and member relations	**71,684**	95,997	**236,282**	273,377
Supervisory and exam expense	**83,209**	66,547	**216,303**	174,172
Insurance Fund premiums	**304,949**	214,618	**959,111**	737,040
Other noninterest expense	**54,902**	61,794	**179,812**	171,239
Total noninterest expenses	**3,094,158**	2,916,785	**9,334,837**	8,834,349
NET INCOME	**3,593,513**	3,534,088	**10,800,409**	9,987,902
Other comprehensive (loss) income:				
Change in postretirement benefit plans	**(18)**	8,970	**(54)**	26,910
COMPREHENSIVE INCOME	**$ 3,593,495**	$ 3,543,058	**$ 10,800,355**	$ 10,014,812

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2014	$ 3,642,100	$ 143,465,233	$ (693,286)	$ 146,414,047
Net income	-	9,987,902	-	9,987,902
Other comprehensive income	-	-	26,910	26,910
Capital stock/participation certificates issued	403,330	-	-	403,330
Capital stock/participation certificates retired	(281,765)	-	-	(281,765)
Patronage refunds:				
Change in patronage declared and paid	-	3,525	-	3,525
Balance at September 30, 2015	$ 3,763,665	$ 153,456,660	$ (666,376)	$ 156,553,949
Balance at December 31, 2015	$ 3,794,955	$ 151,071,753	$ (387,660)	$ 154,479,048
Net income	-	10,800,409	-	10,800,409
Other comprehensive income	-	-	(54)	(54)
Capital stock/participation certificates issued	402,440	-	-	402,440
Capital stock/participation certificates retired	(315,925)	-	-	(315,925)
Patronage refunds:				
Change in patronage declared and paid	-	4,952	-	4,952
Balance at September 30, 2016	**$ 3,881,470**	**$ 161,877,114**	**$ (387,714)**	**$ 165,370,870**

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

ALABAMA AG CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Alabama Ag Credit, 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 Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama. 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 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 the Farm Credit Administration (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 and nine months 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 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2016 Amount**	December 31, 2015 Amount
Real estate mortgage	**$ 734,749,138**	$ 721,039,611
Production and intermediate term	**86,157,349**	85,015,442
Agribusiness:		
Loans to cooperatives	**4,098,076**	2,066,798
Processing and marketing	**36,958,828**	32,790,793
Farm-related business	**3,248,028**	3,471,484
Communication	**2,719,011**	1,524,369
Water and waste water	**215,223**	317,579
Rural residential real estate	**17,087,165**	15,433,976
Total	**$ 885,232,818**	$ 861,660,052

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA 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	$ 8,876,835	$ -	$ -	$ -	$ 8,876,835	$ -
Production and intermediate term	8,589,852	-	-	-	8,589,852	-
Agribusiness	43,008,362	-	-	-	43,008,362	-
Communication	2,719,011	-	-	-	2,719,011	-
Water and waste water	215,223	-	-	-	215,223	-
Total	$ 63,409,283	$ -	$ -	$ -	$ 63,409,283	$ -

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 ACP's are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $17,830,609 and $18,658,291 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	**$ 5,994,262**	$ 7,554,697
Production and intermediate term	**961,844**	971,708
Agribusiness	**42,043**	51,909
Rural residential real estate	**94,019**	107,160
Total nonaccrual loans	**7,092,168**	8,685,474
Accruing restructured loans:		
Real estate mortgage	**313,835**	417,777
Total accruing restructured loans	**313,835**	417,777
Total nonperforming loans	**7,406,003**	9,103,251
Other property owned	**-**	541,945
Total nonperforming assets	**$ 7,406,003**	$ 9,645,196

One credit quality indicator utilized by the Association is the FCA 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	**98.0** %	97.8 %
OAEM	**0.8**	0.8
Substandard/doubtful	**1.2**	1.4
	100.0	100.0
Production and intermediate term		
Acceptable	**98.4**	97.9
OAEM	**0.5**	0.1
Substandard/doubtful	**1.1**	2.0
	100.0	100.0
Agribusiness		
Acceptable	**99.9**	99.9
OAEM	**0.0**	0.0
Substandard/doubtful	**0.1**	0.1
	100.0	100.0
Water and waste water		
Acceptable	**100.0**	100.0
OAEM	**0.0**	0.0
Substandard/doubtful	**0.0**	0.0
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**0.0**	0.0
Substandard/doubtful	**0.0**	0.0
	100.0	100.0
Rural residential real estate		
Acceptable	**99.2**	98.7
OAEM	**0.0**	0.2
Substandard/doubtful	**0.8**	1.1
	100.0	100.0
Total loans		
Acceptable	**98.2**	97.9
OAEM	**0.7**	0.7
Substandard/doubtful	**1.1**	1.4
	100.0 %	100.0 %

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	**$ 2,345,019**	**$ 934,542**	**$ 3,279,561**	**$ 739,283,284**	**$ 742,562,845**	**$ -**
Production and intermediate term	**208,886**	**-**	**208,886**	**87,171,476**	**87,380,362**	**-**
Loans to cooperatives	**-**	**-**	**-**	**4,139,116**	**4,139,116**	**-**
Processing and marketing	**-**	**-**	**-**	**37,040,265**	**37,040,265**	**-**
Farm-related business	**-**	**-**	**-**	**3,249,926**	**3,249,926**	**-**
Communication	**-**	**-**	**-**	**2,719,272**	**2,719,272**	**-**
Water and waste water	**-**	**-**	**-**	**215,555**	**215,555**	**-**
Rural residential real estate	**62,966**	**-**	**62,966**	**17,108,802**	**17,171,768**	**-**
Total	**$ 2,616,871**	**$ 934,542**	**$ 3,551,413**	**$ 890,927,696**	**$ 894,479,109**	**$ -**

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	$ 2,817,903	$ 1,136,139	$ 3,954,042	$ 723,623,429	$ 727,577,471	$ -
Production and intermediate term	80	15,110	15,190	86,050,145	86,065,335	-
Loans to cooperatives	-	-	-	2,074,843	2,074,843	-
Processing and marketing	-	-	-	32,880,353	32,880,353	-
Farm-related business	-	-	-	3,474,585	3,474,585	-
Communication	-	-	-	1,524,689	1,524,689	-
Water and waste water	-	-	-	317,670	317,670	-
Rural residential real estate	31,206	-	31,206	15,467,433	15,498,639	-
Total	$ 2,849,189	$ 1,151,249	$ 4,000,438	$ 865,413,147	$ 869,413,585	$ -

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 (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. TDRs 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 TDR loans was $3,401,977, including $3,088,142 classified as nonaccrual and $313,835 classified as accrual, with specific allowance for loan losses of $27,897. The Association had no commitments to lend funds to borrowers whose loan terms have been modified in a TDR as of September 30, 2016.

The following tables present additional information regarding TDRs, which includes both accrual and nonaccrual loans with TDR designation, that occurred during the three and nine months ended September 30, 2016 and 2015. 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 $3,128,473.

For the Three Months Ended September 30, 2015	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Production and intermediate term	$ 182,620	$ 181,320

For the Nine Months Ended September 30, 2016	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 294,900	$ 283,925

For the Nine Months Ended September 30, 2015	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Production and intermediate term	$ 182,620	$ 181,320

During the three months ended September 30, 2016 there were no loans which were modified in TDR.

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).

The predominant form of concession granted for TDR includes extension of the term and/or delayed payments. Other types of modifications include principal or accrued interest reductions and interest rate decreases, 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 TDR.

The following table presents information regarding loans that met the accounting criteria as a TDR and that occurred within the previous 12 months and for which there was a subsequent payment default. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Troubled debt restructurings that subsequently defaulted:	Recorded Investment at September 30, 2016	Recorded Investment at December 31, 2015
Real estate mortgage	$ 172,106	$ -

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	$ 3,235,702	$ 3,466,147	$ 2,921,867	$ 3,048,370
Production and intermediate term	166,275	206,471	166,275	206,471
Total	$ 3,401,977	$ 3,672,618	$ 3,088,142	$ 3,254,841

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	**$ 1,055,105**	**$ 1,273,036**	**$ 239,315**	$ 4,250,354	$ 4,492,885	$ 534,147
Production and intermediate term	**718,310**	**718,310**	**353,467**	93,370	155,335	44,570
Farm-related business	**42,043**	**42,043**	**9,451**	51,909	51,909	19,317
Rural residential real estate	**31,053**	**31,053**	**22,490**	-	-	-
Total	**$ 1,846,511**	**$ 2,064,442**	**$ 624,723**	$ 4,395,633	$ 4,700,129	$ 598,034
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 5,253,018**	**$ 5,392,409**	**$ -**	$ 3,722,120	$ 3,858,437	$ -
Production and intermediate term	**243,534**	**258,022**	**-**	878,338	1,023,373	-
Farm-related business	**-**	**-**	**-**	-	-	-
Rural residential real estate	**62,966**	**62,966**	**-**	107,160	107,160	-
Total	**$ 5,559,518**	**$ 5,713,397**	**$ -**	$ 4,707,618	$ 4,988,970	$ -
Total impaired loans:						
Real estate mortgage	**$ 6,308,123**	**$ 6,665,445**	**$ 239,315**	$ 7,972,474	$ 8,351,322	$ 534,147
Production and intermediate term	**961,844**	**976,332**	**353,467**	971,708	1,178,708	44,570
Farm-related business	**42,043**	**42,043**	**9,451**	51,909	51,909	19,317
Rural residential real estate	**94,019**	**94,019**	**22,490**	107,160	107,160	-
Total	**$ 7,406,029**	**$ 7,777,839**	**$ 624,723**	$ 9,103,251	$ 9,689,099	$ 598,034

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

	For the Three Months Ended			
	September 30, 2016		September 30, 2015	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 894,911**	**$ 2,405**	$ 4,329,423	$ 4,090
Production and intermediate term	**649,558**	**-**	162,336	205
Farm-related business	**42,043**	**-**	39,496	160
Rural residential real estate	**31,838**	**-**	-	-
Total	**$ 1,618,350**	**$ 2,405**	$ 4,531,255	$ 4,455
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 5,237,574**	**$ 5,122**	$ 3,791,715	$ 9,098
Production and intermediate term	**198,724**	**971**	1,265,749	-
Farm-related business	**-**	**-**	-	-
Rural residential real estate	**63,657**	**-**	110,260	-
Total	**$ 5,499,955**	**$ 6,093**	$ 5,167,724	$ 9,098
Total impaired loans:				
Real estate mortgage	**$ 6,132,485**	**$ 7,527**	$ 8,121,138	$ 13,188
Production and intermediate term	**848,282**	**971**	1,428,085	205
Farm-related business	**42,043**	**-**	39,496	160
Rural residential real estate	**95,495**	**-**	110,260	-
Total	**$ 7,118,305**	**$ 8,498**	$ 9,698,979	$ 13,553

	For the Nine Months Ended			
	September 30, 2016		September 30, 2015	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 1,992,922**	**$ 7,699**	$ 4,684,194	$ 5,220
Production and intermediate term	**382,375**	**72**	105,405	2,361
Farm-related business	**44,753**	**-**	13,165	160
Rural residential real estate	**18,445**	**82**	9,318	-
Total	**$ 2,438,495**	**$ 7,853**	$ 4,812,082	$ 7,741
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 4,814,822**	**$ 13,773**	$ 4,178,139	$ 40,124
Production and intermediate term	**195,085**	**1,813**	999,840	1,417
Farm-related business	**-**	**-**	-	-
Rural residential real estate	**95,823**	**88**	106,684	15
Total	**$ 5,105,730**	**$ 15,674**	$ 5,284,663	$ 41,556
Total impaired loans:				
Real estate mortgage	**$ 6,807,744**	**$ 21,472**	$ 8,862,333	$ 45,344
Production and intermediate term	**577,460**	**1,885**	1,105,245	3,778
Farm-related business	**44,753**	**-**	13,165	160
Rural residential real estate	**114,268**	**170**	116,002	15
Total	**$ 7,544,225**	**$ 23,527**	$ 10,096,745	$ 49,297

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	Communications	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at June 30, 2016	$ 4,850,172	$ 482,801	$ 61,384	$ 3,385	$ 889	$ 48,633	$ 5,447,264
Charge-offs	-	-	-	-	-	-	-
Recoveries	6,185	-	-	-	-	-	6,185
Provision for loan losses	191,673	14,492	1,438	(172)	(186)	1,878	209,123
Other	286	(8,759)	53	158	(26)	(1,190)	(9,478)
Balance at September 30, 2016	$ 5,048,316	$ 488,534	$ 62,875	$ 3,371	$ 677	$ 49,321	$ 5,653,094
Balance at December 31, 2015	$ 5,113,387	$ 183,005	$ 58,299	$ 1,230	$ 1,014	$ 24,142	$ 5,381,077
Charge-offs	(49,481)	(4,116)	-	-	-	-	(53,597)
Recoveries	19,605	434	-	-	-	-	20,039
Provision for loan losses	(35,633)	316,036	2,554	2,200	(264)	26,284	311,177
Other	438	(6,825)	2,022	(59)	(73)	(1,105)	(5,602)
Balance at September 30, 2016	$ 5,048,316	$ 488,534	$ 62,875	$ 3,371	$ 677	$ 49,321	$ 5,653,094
Ending Balance:							
Individually evaluated for impairment	$ 517,568	$ 353,467	$ 9,451	$ -	$ -	$ 22,490	$ 902,976
Collectively evaluated for impairment	4,530,748	135,067	53,424	3,371	677	26,831	4,750,118
Balance at September 30, 2016	$ 5,048,316	$ 488,534	$ 62,875	$ 3,371	$ 677	$ 49,321	$ 5,653,094
Balance at June 30, 2015	$ 4,715,237	$ 174,313	$ 46,634	$ 933	$ 1,113	$ 49,275	$ 4,987,505
Charge-offs	(97,391)	(6,883)	-	-	-	(6,070)	(110,344)
Recoveries	337,607	-	-	-	-	-	337,607
Provision for loan losses	64,009	47,626	(5,806)	176	(65)	(22,319)	83,621
Other	-	-	-	-	-	-	-
Balance at September 30, 2015	$ 5,019,462	$ 215,056	$ 40,828	$ 1,109	$ 1,048	$ 20,886	$ 5,298,389
Balance at December 31, 2014	$ 4,570,064	$ 70,062	$ 48,083	$ 971	$ 604	$ 29,327	$ 4,719,111
Charge-offs	(237,727)	(127,896)	-	-	-	(6,071)	(371,694)
Recoveries	429,681	-	-	-	-	-	429,681
Provision for loan losses	257,444	272,890	(7,255)	138	444	(2,370)	521,291
Balance at September 30, 2015	$ 5,019,462	$ 215,056	$ 40,828	$ 1,109	$ 1,048	$ 20,886	$ 5,298,389
Ending Balance:							
Individually evaluated for impairment	$ 860,702	$ 96,971	$ 4,169	$ -	$ -	$ 2,744	$ 964,586
Collectively evaluated for impairment	4,158,760	118,085	36,659	1,109	1,048	18,142	4,333,803
Balance at September 30, 2015	$ 5,019,462	$ 215,056	$ 40,828	$ 1,109	$ 1,048	$ 20,886	$ 5,298,389

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at September 30, 2016	$742,562,845	$ 87,380,362	$ 44,429,307	$ 2,719,272	$ 215,555	$ 17,171,768	$894,479,109
Individually evaluated for impairment	$ 8,666,043	$ 961,844	$ 42,043	$ -	$ -	$ 129,536	$ 9,799,466
Collectively evaluated for impairment	$733,896,802	$ 86,418,518	$ 44,387,264	$ 2,719,272	$ 215,555	$ 17,042,232	$884,679,643
Ending Balance at September 30, 2015	$734,551,427	$ 86,354,971	$ 38,320,896	$ 1,548,217	$ 380,193	$ 15,102,170	$876,257,874
Individually evaluated for impairment	$ 11,150,271	$ 2,379,037	$ 51,909	$ -	$ -	$ 176,897	$ 13,758,114
Collectively evaluated for impairment	$723,401,156	$ 83,975,934	$ 38,268,987	$ 1,548,217	$ 380,193	$ 14,925,273	$862,499,760

NOTE 3 — 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 portfolio; 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.

An additional component of equity is accumulated other comprehensive income. 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 loss at January 1	**$ (387,660)**	$ (693,286)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(17,298)**	(17,756)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**17,244**	44,666
Other comprehensive (loss) income, net of tax	**(54)**	26,910
Accumulated other comprehensive loss at September 30	**$ (387,714)**	$ (666,376)

NOTE 4 — INCOME TAXES:

Alabama Ag Credit, ACA and its PCA subsidiary, Alabama Ag Credit, PCA (Associations) are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under specified conditions, the Associations 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 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. The Association has recorded a full valuation allowance against its deferred tax asset as of September 30, 2016 based on management's estimate that it is more likely than not that the deferred tax asset will not be realized. For the nine months ended September 30, 2016 and 2015, the Associations had no taxable income. The subsidiary, Alabama Ag Credit, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 5 — 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 13 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:				
Assets held in nonqualified benefit trusts	**$ 42,076**	**$ -**	**$ -**	**$ 42,076**

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 29,625	$ -	$ -	$ 29,625

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	**$ -**	**$ -**	**$ 2,185,262**	**$ 2,185,262**
Other property owned	**-**	**-**	**-**	**-**

December 31, 2015	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 5,599,681	$ 5,599,681
Other property owned	-	-	716,901	716,901

*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.

Information About Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 13 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.

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.

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.

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.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: As discussed in Note 2 and Note 11 to the 2015 Annual Report to Stockholders, employees of the Association participate in either the District's defined benefit pension plan (DB Plan) or the District's defined contribution plan (DC Plan).

The structure of the DB Plan is characterized as multi-employer 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 annual contribution is paid in January of each year, and amortized into expense on a monthly basis; unamortized contributions are included in "Other Assets" in the consolidated balance sheet. The following table represents DB contributions made, amounts amortized into expense, and the remaining unamortized contributions amounts as of September 30:

	2016	2015
DB Contribution	**$ 577,997**	$ 510,757
YTD Amortization	**433,498**	383,068
Unamortized contributions	**$ 144,499**	$ 127,689

Association contributions to the DC Plan are expensed as incurred. For the nine months ended September 30, 2016 and 2015, the Association recognized pension costs for the DC Plan of $203,350 and $190,560, respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Contributions to the 401(k) plan are expensed as incurred. The Association's contributions to the 401(k) plan were $167,755 and $170,301 for the nine months ended September 30, 2016 and 2015, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer, and consequently, the liability for these benefits is included in the consolidated balance sheet. 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	**$ 46,026**	$ 54,906
Interest cost	**89,286**	91,296
Expected return on plan assets	**-**	-
Amortization of prior service credits	**(17,298)**	(17,756)
Amortization of net actuarial loss	**17,244**	44,666
Net periodic benefit cost	**$ 135,258**	$ 173,112

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2016, was $2,638,911 and is included in "Other Liabilities" in the balance sheet.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 8 — SUBSEQUENT EVENTS

The Association has evaluated subsequent events through November 4, 2016 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 4, 2016.