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# AgGeorgia Farm Credit, ACA

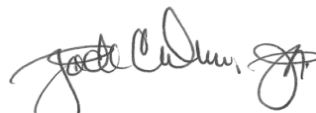
## SECOND QUARTER 2017

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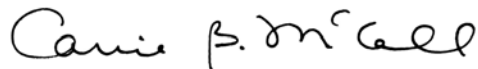
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### CERTIFICATION

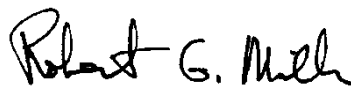
The undersigned certify that we have reviewed the June 30, 2017 quarterly report of AgGeorgia Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Jack C. Drew, Jr.  
Chief Executive Officer



Carrie B. McCall  
Chief Financial Officer



Robert G. Miller  
Chairman of the Board

August 8, 2017

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# AgGeorgia Farm Credit, ACA

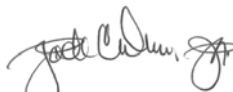
## Report on Internal Control Over Financial Reporting

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

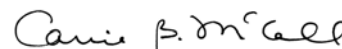
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2017. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of June 30, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2017.



Jack C. Drew, Jr.  
Chief Executive Officer



Carrie B. McCall  
Chief Financial Officer

August 8, 2017

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# AgGeorgia Farm Credit, ACA

## Management's Discussion and Analysis

### of Financial Condition and Results of Operations

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of AgGeorgia Farm Credit, ACA (Association or AgGeorgia) for the period ended June 30, 2017. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2016 Annual Report of the Association.

#### LOAN PORTFOLIO

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

The gross loan volume of the Association as of June 30, 2017 was \$888,433, an increase of \$60,822 as compared to \$827,611 at December 31, 2016. Net loans outstanding at June 30, 2017 were \$880,192, as compared to \$820,443 at December 31, 2016. This increase in loan volume is related to increased demand for financing as commodity prices remain low and the impact of drought conditions continue. Net loans accounted for 95.79 percent of total assets at June 30, 2017, as compared to 94.23 percent of total assets at December 31, 2016.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has remained stable, and credit administration remains satisfactory. Nonaccrual loans increased from \$16,635 at December 31, 2016 to \$20,108 at June 30, 2017, primarily as a result of adversity in the row crop sector.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2017, was \$8,241 compared to \$7,168 at December 31, 2016, and was considered by management to be adequate to cover probable losses.

#### RESULTS OF OPERATIONS

##### *For the three months ended June 30, 2017*

Net income for the three months ended June 30, 2017 totaled \$3,029 as compared to \$4,282 for the same period in 2016. This decrease is primarily due to a provision for loan losses of \$501 in second quarter 2017 compared to a reversal of allowance for loan losses of (\$715) for the same period in 2016. Net interest income for the period was a decrease of \$139 for a total of \$7,290 for the period ended June 30, 2017 compared to the same period in 2016.

Non-interest income for the three months ended June 30, 2017, totaled \$1,488, as compared to \$1,460 for the same period of 2016. This increase is due to higher loan fees and higher patronage refunds from other Farm Credit Institutions in 2017 compared to the same period in 2016. Non-interest expense for the three months ended June 30, 2017 totaled \$5,248, a decrease of \$72 compared to the same period of 2016.

##### *For the six months ended June 30, 2017*

Net income for the six months ended June 30, 2017, totaled \$6,122 as compared to \$7,543 for the same period in 2016. Net interest income decreased \$100 for the six months ended June 30, 2016, as compared to the same period in 2016. This decrease is primarily related to tightened spreads and lower nonaccrual income in 2017. The Association recorded a provision for loan loss of \$1,229 for the six months ended June 30, 2017, as compared to a reversal of allowance for loan losses of (\$659) for the same period in 2016.

Non-interest income for the six months ended June 30, 2017, totaled \$3,203 as compared to \$3,068 for the same period of 2016, an increase of \$135. An increase in patronage from other Farm Credit Institutions led to the increase in non-interest income. Non-interest expense for the six months ended June 30, 2016, decreased \$432 compared to the same period of 2016. This decrease is the result of decreased personnel expenses, specifically those related to the defined benefit employee pension plan due to a change in accounting method in 2017 compared to 2016.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2017, was \$671,758 as compared to \$621,886 at December 31, 2016.

## CAPITAL RESOURCES

Total members' equity at June 30, 2017 decreased \$6,891 to \$216,887 from the December 31, 2016 total of \$223,778. The decrease is related to the revolving of the 2007 series of qualified and nonqualified allocated surplus netted against net income for the six months in 2017. Total capital stock and participation certificates were \$4,008 on June 30, 2017, compared to \$3,912 on December 31, 2016. This increase is attributed to the issuance of stock on new loans being greater than the retirement of stock on loans liquidated in the normal course of business.

## REGULATORY MATTERS

### Capital

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

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

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

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations. The ratios are calculated using second-month average daily balances, in accordance with FCA regulations, as follows:

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

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

<b>Ratio</b>	<b>Minimum Requirement</b>	<b>Capital Conservation Buffer*</b>	<b>Minimum Requirement with Capital Conservation Buffer</b>	<b>Capital Ratios as of June 30, 2017</b>
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	23.71%
Tier 1 Capital	6.0%	0.625%	6.625%	23.71%
Total Capital	8.0%	0.625%	8.625%	24.57%
Permanent Capital Ratio	7.0%	0.0%	7.0%	23.92%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	24.83%
UREE Leverage Ratio	1.5%	0.0%	1.5%	15.58%

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

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

#### **Other Regulatory Matters**

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

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

#### **RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 478-987-8300 Ext. 120, writing Carrie McCall, Chief Financial Officer, AgGeorgia Farm Credit, ACA, P.O. Box 1820, Perry, GA 31069, or accessing the website, [www.aggeorgia.com](http://www.aggeorgia.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# AgGeorgia Farm Credit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2017 <i>(unaudited)</i>	December 31, 2016 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 87	\$ 1,238
Loans	888,433	827,611
Allowance for loan losses	(8,241)	(7,168)
Net loans	880,192	820,443
Loans held for sale	—	1,045
Accrued interest receivable	10,282	11,220
Investments in other Farm Credit institutions	10,336	10,297
Premises and equipment, net	7,049	7,104
Other property owned	3,295	4,025
Accounts receivable	2,732	9,130
Other assets	4,865	6,139
Total assets	\$ 918,838	\$ 870,641
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 671,758	\$ 621,886
Accrued interest payable	1,487	1,338
Patronage refunds payable	1,757	4,432
Accounts payable	976	1,545
Other liabilities	25,973	17,662
Total liabilities	701,951	646,863
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	4,008	3,912
Retained earnings		
Allocated	66,025	79,099
Unallocated	146,998	140,914
Accumulated other comprehensive income (loss)	(144)	(147)
Total members' equity	216,887	223,778
Total liabilities and members' equity	\$ 918,838	\$ 870,641

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

# AgGeorgia Farm Credit, ACA

## Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
<b>Interest Income</b>				
Loans	\$ 11,565	\$ 11,251	\$ 22,609	\$ 22,048
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	4,274	3,822	8,146	7,485
Net interest income	7,291	7,429	14,463	14,563
Provision for (reversal of allowance for) loan losses	501	(714)	1,229	(659)
Net interest income after provision for (reversal of allowance for) loan losses	6,790	8,143	13,234	15,222
<b>Noninterest Income</b>				
Loan fees	61	138	339	331
Fees for financially related services	43	7	48	25
Patronage refunds from other Farm Credit institutions	1,352	1,273	2,776	2,656
Gains (losses) on sales of premises and equipment, net	26	29	26	54
Gains (losses) on other transactions	6	11	14	1
Other noninterest income	—	1	—	1
Total noninterest income	1,488	1,459	3,203	3,068
<b>Noninterest Expense</b>				
Salaries and employee benefits	3,476	3,922	6,817	7,713
Occupancy and equipment	223	219	447	445
Insurance Fund premiums	231	237	447	465
(Gains) losses on other property owned, net	251	(85)	272	(109)
Other operating expenses	1,068	1,026	2,332	2,233
Total noninterest expense	5,249	5,319	10,315	10,747
Income before income taxes	3,029	4,283	6,122	7,543
Provision for income taxes	—	1	—	2
Net income	\$ 3,029	\$ 4,282	\$ 6,122	\$ 7,541

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

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AgGeorgia Farm Credit, ACA

# Consolidated Statements of Comprehensive Income

*(unaudited)*

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Net income	\$ 3,029	\$ 4,282	\$ 6,122	\$ 7,541
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	1	1	3	3
Comprehensive income	\$ 3,030	\$ 4,283	\$ 6,125	\$ 7,544

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



**AgGeorgia Farm Credit, ACA**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

*(dollars in thousands)*

	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2015	\$ 1	\$ 3,889	\$ 93,387	\$ 134,084	\$ (137)	\$ 231,224
Comprehensive income				7,541	3	7,544
Protected borrower stock issued/(retired), net	(1)					(1)
Capital stock/participation certificates issued/(retired), net		64				64
Retained earnings retired			(14,608)			(14,608)
Patronage distribution adjustment			57	(92)		(35)
<b>Balance at June 30, 2016</b>	<b>\$ —</b>	<b>\$ 3,953</b>	<b>\$ 78,836</b>	<b>\$ 141,533</b>	<b>\$ (134)</b>	<b>\$ 224,188</b>
<b>Balance at December 31, 2016</b>	<b>\$ —</b>	<b>\$ 3,912</b>	<b>\$ 79,099</b>	<b>\$ 140,914</b>	<b>\$ (147)</b>	<b>\$ 223,778</b>
<b>Comprehensive income</b>				<b>6,122</b>	<b>3</b>	<b>6,125</b>
<b>Capital stock/participation certificates issued/(retired), net</b>		<b>96</b>				<b>96</b>
<b>Retained earnings retired</b>			<b>(13,099)</b>			<b>(13,099)</b>
<b>Patronage distribution adjustment</b>			<b>25</b>	<b>(38)</b>		<b>(13)</b>
<b>Balance at June 30, 2017</b>	<b>\$ —</b>	<b>\$ 4,008</b>	<b>\$ 66,025</b>	<b>\$ 146,998</b>	<b>\$ (144)</b>	<b>\$ 216,887</b>

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

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# AgGeorgia Farm Credit, ACA

## Notes to the Consolidated Financial Statements

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

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

#### Organization

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

#### Basis of Presentation

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

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

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

#### Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and

other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

#### Accounting Standards Updates (ASUs) Issued During the Period

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

- In March 2017, the FASB issued ASU 2017-08 *Receivables—Nonrefundable Fees and Other Costs* (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In February 2017, the FASB issued ASU 2017-05 *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets* (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In January 2017, the FASB issued ASU 2017-04 *Intangibles—Goodwill and Other* (Topic 350): Simplifying the Test for Goodwill Impairment. The Update simplifies the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of

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

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

#### ***ASUs Pending Effective Date***

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

Potential effects of ASUs issued in previous periods:

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

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

reporting periods. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June, 2016, the FASB issued this Update to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued this Update which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued this Update which is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2014-09 Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued this guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of

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

#### ***Accounting Standards Effective During the Period***

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

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

- 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. In November, 2016, the FASB issued this Update to clarify that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.
- 2016-17 Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control: In October, 2016, the FASB issued this Update to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary

beneficiary of that VIE. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Application of the guidance had no impact on the Association's financial statements.

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

#### **Note 2 — Loans and Allowance for Loan Losses**

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

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

A summary of loans outstanding at period end follows:

	June 30, 2017	December 31, 2016
Real estate mortgage	\$ 487,856	\$ 451,111
Production and intermediate-term	371,459	351,330
Processing and marketing	19,859	15,238
Farm-related business	1,119	1,380
Rural residential real estate	6,254	6,667
International	1,886	1,885
Total Loans	<u>\$ 888,433</u>	<u>\$ 827,611</u>

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

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

	June 30, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 7,827	\$ 9,574	\$ -	\$ -	\$ -	\$ -	\$ 7,827	\$ 9,574
Production and intermediate-term	4,499	18,834	164	-	-	-	4,663	18,834
Processing and marketing	7,239	58,862	-	-	-	-	7,239	58,862
International	1,894	-	-	-	-	-	1,894	-
Total	<u>\$ 21,459</u>	<u>\$ 87,270</u>	<u>\$ 164</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,623</u>	<u>\$ 87,270</u>

	December 31, 2016							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 7,839	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,839	\$ -
Production and intermediate-term	4,946	22,254	2,361	-	332	-	7,639	22,254
Processing and marketing	7,623	51,459	-	-	-	-	7,623	51,459
International	1,894	-	-	-	-	-	1,894	-
Total	<u>\$ 22,302</u>	<u>\$ 73,713</u>	<u>\$ 2,361</u>	<u>\$ -</u>	<u>\$ 332</u>	<u>\$ -</u>	<u>\$ 24,995</u>	<u>\$ 73,713</u>

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

	June 30, 2017			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 8,234	\$ 83,856	\$ 395,766	\$ 487,856
Production and intermediate term	146,629	140,353	84,477	371,459
Processing and marketing	4,968	10,466	4,425	19,859
Farm-related business	43	1,076	-	1,119
Rural residential real estate	292	1,054	4,908	6,254
International	-	763	1,123	1,886
Total Loans	<u>\$ 160,166</u>	<u>\$ 237,568</u>	<u>\$ 490,699</u>	<u>\$ 888,433</u>
Percentage	<u>18.03%</u>	<u>26.74%</u>	<u>55.23%</u>	<u>100.00%</u>

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

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

	June 30, 2017	December 31, 2016		June 30, 2017	December 31, 2016
<b>Real estate mortgage:</b>			<b>Rural residential real estate:</b>		
Acceptable	92.95%	93.89%	Acceptable	99.18%	99.08%
OAEM	4.81	3.74	OAEM	0.82	0.81
Substandard/doubtful/loss	2.24	2.37	Substandard/doubtful/loss	–	0.11
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>International:</b>		
Acceptable	87.83%	88.85%	Acceptable	100.00%	100.00%
OAEM	7.26	6.45	OAEM	–	–
Substandard/doubtful/loss	4.91	4.70	Substandard/doubtful/loss	–	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>Total Loans:</b>		
Acceptable	100.00%	100.00%	Acceptable	91.02%	91.91%
OAEM	–	–	OAEM	5.68	4.80
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	3.30	3.29
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>					
Acceptable	93.35%	93.16%			
OAEM	–	6.84			
Substandard/doubtful/loss	6.65	–			
	<u>100.00%</u>	<u>100.00%</u>			

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

	June 30, 2017					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 657	\$ 2,492	\$ 3,149	\$ 490,564	\$ 493,713	\$ –
Production and intermediate-term	1,959	8,442	10,401	365,323	375,724	–
Processing and marketing	–	–	–	19,974	19,974	–
Farm-related business	–	27	27	1,111	1,138	–
Rural residential real estate	44	–	44	6,233	6,277	–
International	–	–	–	1,889	1,889	–
Total	\$ 2,660	\$ 10,961	\$ 13,621	\$ 885,094	\$ 898,715	\$ –

	December 31, 2016					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 1,665	\$ 1,204	\$ 2,869	\$ 454,408	\$ 457,277	\$ –
Production and intermediate-term	1,463	5,434	6,897	349,366	356,263	–
Processing and marketing	74	–	74	15,249	15,323	–
Farm-related business	–	–	–	1,390	1,390	–
Rural residential real estate	91	–	91	6,600	6,691	–
International	–	–	–	1,887	1,887	–
Total	\$ 3,293	\$ 6,638	\$ 9,931	\$ 828,900	\$ 838,831	\$ –

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

	June 30, 2017	December 31, 2016
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 4,658	\$ 4,467
Production and intermediate-term	15,374	12,160
Farm-related business	76	-
Rural residential real estate	-	8
Total	<u>\$ 20,108</u>	<u>\$ 16,635</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 11,652	\$ 10,242
Production and intermediate-term	14,643	14,128
Rural residential real estate	24	-
Total	<u>\$ 26,319</u>	<u>\$ 24,370</u>
<b>Accruing loans 90 days or more past due:</b>		
Total	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 46,427	\$ 41,005
Other property owned	3,295	4,025
Total nonperforming assets	<u>\$ 49,722</u>	<u>\$ 45,030</u>
Nonaccrual loans as a percentage of total loans	2.26%	2.01%
Nonperforming assets as a percentage of total loans and other property owned	5.58%	5.41%
Nonperforming assets as a percentage of capital	<u>22.93%</u>	<u>20.12%</u>

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

	June 30, 2017	December 31, 2016
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 7,992	\$ 8,886
Past due	12,116	7,749
Total	<u>\$ 20,108</u>	<u>\$ 16,635</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 26,319	\$ 24,370
Total	<u>\$ 26,319</u>	<u>\$ 24,370</u>
Total impaired loans	<u>\$ 46,427</u>	<u>\$ 41,005</u>
Additional commitments to lend	\$ -	\$ -

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

	June 30, 2017			Quarter Ended June 30, 2017		Six Months Ended June 30, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans:</b>							
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 546	\$ 577	\$ 57	\$ 527	\$ 5	\$ 501	\$ 11
Production and intermediate-term	7,941	8,320	1,620	7,663	68	7,276	157
Farm-related business	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
Total	<u>\$ 8,487</u>	<u>\$ 8,897</u>	<u>\$ 1,677</u>	<u>\$ 8,190</u>	<u>\$ 73</u>	<u>\$ 7,777</u>	<u>\$ 168</u>
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 15,764	\$ 16,818	\$ -	\$ 15,211	\$ 135	\$ 14,444	\$ 313
Production and intermediate-term	22,076	25,697	-	21,304	190	20,230	438
Farm-related business	76	78	-	73	1	69	2
Rural residential real estate	24	24	-	23	-	22	-
Total	<u>\$ 37,940</u>	<u>\$ 42,617</u>	<u>\$ -</u>	<u>\$ 36,611</u>	<u>\$ 326</u>	<u>\$ 34,765</u>	<u>\$ 753</u>
<b>Total:</b>							
Real estate mortgage	\$ 16,310	\$ 17,395	\$ 57	\$ 15,738	\$ 140	\$ 14,945	\$ 324
Production and intermediate-term	30,017	34,017	1,620	28,967	258	27,506	595
Farm-related business	76	78	-	73	1	69	2
Rural residential real estate	24	24	-	23	-	22	-
Total	<u>\$ 46,427</u>	<u>\$ 51,514</u>	<u>\$ 1,677</u>	<u>\$ 44,801</u>	<u>\$ 399</u>	<u>\$ 42,542</u>	<u>\$ 921</u>

Impaired loans:	December 31, 2016			Year Ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 932	\$ 967	\$ 175	\$ 926	\$ 44
Production and intermediate-term	7,123	8,089	1,470	7,081	340
Rural residential real estate	—	—	—	—	—
Total	\$ 8,055	\$ 9,056	\$ 1,645	\$ 8,007	\$ 384
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 13,777	\$ 14,843	\$ —	\$ 13,695	\$ 657
Production and intermediate-term	19,165	22,230	—	19,050	913
Rural residential real estate	8	26	—	8	—
Total	\$ 32,950	\$ 37,099	\$ —	\$ 32,753	\$ 1,570
<b>Total:</b>					
Real estate mortgage	\$ 14,709	\$ 15,810	\$ 175	\$ 14,621	\$ 701
Production and intermediate-term	26,288	30,319	1,470	26,131	1,253
Rural residential real estate	8	26	—	8	—
Total	\$ 41,005	\$ 46,155	\$ 1,645	\$ 40,760	\$ 1,954

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	International	Total
<b>Activity related to the allowance for credit losses:</b>						
Balance at March 31, 2017	\$ 2,637	\$ 5,107	\$ 155	\$ 9	\$ 1	\$ 7,909
Charge-offs	(78)	(150)	—	—	—	(228)
Recoveries	—	58	—	1	—	59
Provision for loan losses	1,099	(575)	(21)	(2)	—	501
Balance at June 30, 2017	\$ 3,658	\$ 4,440	\$ 134	\$ 8	\$ 1	\$ 8,241
Balance at December 31, 2016	\$ 2,208	\$ 4,835	\$ 103	\$ 20	\$ 2	\$ 7,168
Charge-offs	(82)	(185)	(2)	—	—	(269)
Recoveries	—	112	—	1	—	113
Provision for loan losses	1,532	(322)	33	(13)	(1)	1,229
Balance at June 30, 2017	\$ 3,658	\$ 4,440	\$ 134	\$ 8	\$ 1	\$ 8,241
Balance at March 31, 2016	\$ 1,881	\$ 3,830	\$ 77	\$ 17	\$ —	\$ 5,805
Charge-offs	(24)	(268)	—	—	—	(292)
Recoveries	405	980	253	—	—	1,638
Provision for loan losses	82	(580)	(228)	9	3	(714)
Balance at June 30, 2016	\$ 2,344	\$ 3,962	\$ 102	\$ 26	\$ 3	\$ 6,437
Balance at December 31, 2015	\$ 1,493	\$ 3,988	\$ 74	\$ 22	\$ —	\$ 5,577
Charge-offs	(54)	(396)	—	—	—	(450)
Recoveries	534	1,177	258	—	—	1,969
Provision for loan losses	371	(807)	(230)	4	3	(659)
Balance at June 30, 2016	\$ 2,344	\$ 3,962	\$ 102	\$ 26	\$ 3	\$ 6,437
<b>Allowance on loans evaluated for impairment:</b>						
Individually	\$ 57	\$ 1,620	\$ —	\$ —	\$ —	\$ 1,677
Collectively	3,601	2,820	134	8	1	6,564
Balance at June 30, 2017	\$ 3,658	\$ 4,440	\$ 134	\$ 8	\$ 1	\$ 8,241
Individually	\$ 175	\$ 1,470	\$ —	\$ —	\$ —	\$ 1,645
Collectively	2,033	3,365	103	20	2	5,523
Balance at December 31, 2016	\$ 2,208	\$ 4,835	\$ 103	\$ 20	\$ 2	\$ 7,168
<b>Recorded investment in loans evaluated for impairment:</b>						
Individually	\$ 17,802	\$ 34,342	\$ 76	\$ 24	\$ —	\$ 52,244
Collectively	475,911	341,382	21,036	6,253	1,889	846,471
Balance at June 30, 2017	\$ 493,713	\$ 375,724	\$ 21,112	\$ 6,277	\$ 1,889	\$ 898,715
Individually	\$ 14,709	\$ 26,288	\$ —	\$ 8	\$ —	\$ 41,005
Collectively	442,568	329,975	16,713	6,683	1,887	797,826
Balance at December 31, 2016	\$ 457,277	\$ 356,263	\$ 16,713	\$ 6,691	\$ 1,887	\$ 838,831

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



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

Three months ended June 30, 2017					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 2,014	\$ -	\$ 2,014	
Production and intermediate-term	48	4,237	-	4,285	
Total	\$ 48	\$ 6,251	\$ -	\$ 6,299	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 2,250	\$ -	\$ 2,250	\$ -
Production and intermediate-term	48	4,362	-	4,410	(2)
Total	\$ 48	\$ 6,612	\$ -	\$ 6,660	\$ (2)

Six months ended June 30, 2017					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 3,920	\$ -	\$ 3,920	
Production and intermediate-term	48	7,406	-	7,454	
Total	\$ 48	\$ 11,326	\$ -	\$ 11,374	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 4,158	\$ -	\$ 4,158	\$ -
Production and intermediate-term	48	7,555	-	7,603	(2)
Total	\$ 48	\$ 11,713	\$ -	\$ 11,761	\$ (2)

Three months ended June 30, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 339	\$ -	\$ 339	
Production and intermediate-term	-	1,031	-	1,031	
Total	\$ -	\$ 1,370	\$ -	\$ 1,370	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 339	\$ -	\$ 339	\$ -
Production and intermediate-term	-	1,006	-	1,006	-
Total	\$ -	\$ 1,345	\$ -	\$ 1,345	\$ -

Six months ended June 30, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 2,944	\$ -	\$ 2,944	
Production and intermediate-term	-	1,394	-	1,394	
Total	\$ -	\$ 4,338	\$ -	\$ 4,338	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 2,951	\$ -	\$ 2,951	\$ -
Production and intermediate-term	-	1,370	-	1,370	-
Total	\$ -	\$ 4,321	\$ -	\$ 4,321	\$ -

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Real estate mortgage	\$ 199	\$ 366	\$ 536	\$ 366
Production and intermediate-term	9	43	29	43
Processing and marketing	–	1	–	1
Total	\$ 208	\$ 410	\$ 565	\$ 410

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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Real estate mortgage	\$ 12,614	\$ 12,173	\$ 962	\$ 1,931
Production and intermediate-term	20,074	19,520	5,431	5,392
Rural residential real estate	24	8	–	8
Total Loans	\$ 32,712	\$ 31,701	\$ 6,393	\$ 7,331
Additional commitments to lend	\$ –	\$ –		

The following table presents information as of period end:

	June 30, 2017
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ –

### Note 3 — Investments

#### *Investments in other Farm Credit Institutions*

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 3.45 percent of the issued stock of the Bank as of June 30, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled \$31.5 billion and shareholders' equity totaled \$2.4 billion. The Bank's earnings were \$164 million for the first six months of 2017. In addition, the Association held investments of \$1,565 related to other Farm Credit institutions.

### Note 4 — Debt

#### *Notes Payable to AgFirst Farm Credit Bank*

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

### Note 5 — Members' Equity

#### *Accumulated other Comprehensive Income (AOCI)*

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (145)	\$ (135)	\$ (147)	\$ (137)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	1	1	3	3
Net current period other comprehensive income	1	1	3	3
Balance at end of period	\$ (144)	\$ (134)	\$ (144)	\$ (134)

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

	Three Months Ended June 30,		Six Months Ended June 30,		Income Statement Line Item
	2017	2016	2017	2016	
	<b>Defined Benefit Pension Plans:</b>				
Periodic pension costs	\$ (1)	\$ (1)	\$ (3)	\$ (3)	See Note 7.
Net amounts reclassified	\$ (1)	\$ (1)	\$ (3)	\$ (3)	

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

**Note 6 — Fair Value Measurement**

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

**At or for the Six Months Ended June 30, 2017**

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 236	\$ 236	\$ —	\$ —	\$ 236	
Recurring Assets	\$ 236	\$ 236	\$ —	\$ —	\$ 236	
<b>Liabilities:</b>						
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 44,750	\$ —	\$ —	\$ 44,750	\$ 44,750	\$ (188)
Other property owned	3,295	—	—	3,540	3,540	(83)
Nonrecurring Assets	\$ 48,045	\$ —	\$ —	\$ 48,290	\$ 48,290	\$ (271)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 87	\$ 87	\$ —	\$ —	\$ 87	
Loans	835,442	—	—	834,657	834,657	
Other Financial Assets	\$ 835,529	\$ 87	\$ —	\$ 834,657	\$ 834,744	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 671,758	\$ —	\$ —	\$ 665,696	\$ 665,696	
Other Financial Liabilities	\$ 671,758	\$ —	\$ —	\$ 665,696	\$ 665,696	

**At or for the Year Ended December 31, 2016**

	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Fair Value Effects On Earnings</b>
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 213	\$ 213	\$ -	\$ -	\$ 213	
Recurring Assets	\$ 213	\$ 213	\$ -	\$ -	\$ 213	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 39,360	\$ -	\$ -	\$ 39,360	\$ 39,360	\$ 1,769
Other property owned	4,025	-	-	4,602	4,602	191
Nonrecurring Assets	\$ 43,385	\$ -	\$ -	\$ 43,962	\$ 43,962	\$ 1,960
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 1,238	\$ 1,238	\$ -	\$ -	\$ 1,238	
Loans	782,128	-	-	779,294	779,294	
Other Financial Assets	\$ 783,366	\$ 1,238	\$ -	\$ 779,294	\$ 780,532	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 621,886	\$ -	\$ -	\$ 613,916	\$ 613,916	
Other Financial Liabilities	\$ 621,886	\$ -	\$ -	\$ 613,916	\$ 613,916	

**SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS**

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

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

certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

**Inputs to Valuation Techniques**

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

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

**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

	<b>Fair Value</b>	<b>Valuation Technique(s)</b>	<b>Unobservable Input</b>	<b>Range</b>
Impaired loans and other property owned	\$ 48,290	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

\* Ranges for this type of input are not useful because each collateral property is unique.

**Information about Other Financial Instrument Fair Value Measurements**

	<b>Valuation Technique(s)</b>	<b>Input</b>
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

**Note 7 — Employee Benefit Plans**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Pension	\$ 630	\$ 1,044	\$ 1,258	\$ 2,088
401(k)	129	116	280	258
Other postretirement benefits	160	224	319	449
Total	\$ 919	\$ 1,384	\$ 1,857	\$ 2,795

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

	<b>Actual YTD Through 6/30/17</b>	<b>Projected Contributions For Remainder of 2017</b>	<b>Projected Total Contributions 2017</b>
	Pension	\$ 24	\$ 2,222
Other postretirement benefits	319	299	618
Total	\$ 343	\$ 2,521	\$ 2,864

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

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

**Note 8 — Commitments and Contingent Liabilities**

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the

ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

**Note 9 — Subsequent Events**

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