AgCredit Agricultural Credit Association

SECOND QUARTER 2017

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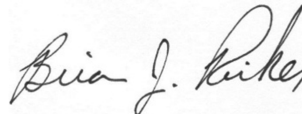
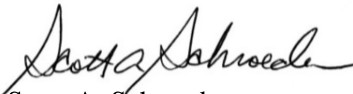
CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2017 quarterly report of AgCredit Agricultural Credit Association, 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.



Brian J. Ricker
Chief Executive Officer

Daniel E. Ebert
Chief Financial Officer



Scott A. Schroeder
Chairman of the Board

August 8, 2017

AgCredit Agricultural Credit Association

Report on Internal Control Over Financial Reporting

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

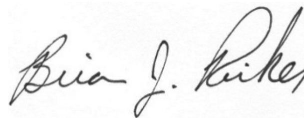
1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association,

2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and

3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of 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 changes to or weaknesses in the internal control over financial reporting as of June 30, 2017.



Brian J. Ricker
Chief Executive Officer

Daniel E. Ebert
Chief Financial Officer

August 8, 2017

AgCredit Agricultural Credit Association

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

The following commentary reviews the financial condition and results of operations of AgCredit Agricultural Credit Association (Association) for the six months ended June 30, 2017. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, the Association's June 30, 2016 quarterly report and the 2016 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes David J. Conrad, David M. Stott, Ph.D., CPA and Deborah L. Johlin-Bach. The results for the six months of 2017 are not necessarily indicative of results to be expected for the year.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types. The Association's loan portfolio consists predominantly of grains (primarily soybeans, corn and wheat) which constitute about 60 percent of the entire portfolio as of June 30, 2017. The Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This risk, along with the risk associated with large loans, is reduced by members' off-farm income, utilization of crop insurance, and the use of FSA, USDA, Business and Industry and Farmer Mac loan guarantees. As of June 30, 2017, the Association had $471,019 of guaranteed loan volume, which is 26.51 percent of loans as compared to $468,749 of guaranteed volume or 27.75 percent of the portfolio at June 30, 2016. Loan guarantees reduce the potential of loss in the Association's loan portfolio and help to leverage the Association's capital.

Gross loan volume of the Association as of June 30, 2017 was $1,777,049 a decrease of $19,466 or 1.08 percent when compared to $1,796,515 at December 31, 2016. The decrease in loan volume primarily relates to the decrease in production and intermediate term (IT) offset in part by the increase in real estate mortgage and process and marketing volume. The reduction in loan volume is a normal seasonal trend. The current year reduction is less than last year.

From June 30, 2016 to June 30, 2017, volume increased by $87,916 or 5.20 percent. The increase in loan volume primarily relates to an increase in real estate mortgage and process and marketing volume. The year over year reduction in volume is a result of reduced borrowing due to the stressed agricultural economy and the sale of loan volume to manage hold limits.

Net loans outstanding at June 30, 2017 were $1,764,746 as compared to $1,783,031 at December 31, 2016. Net loans accounted for 95.55 percent of total assets at June 30, 2017 as compared to 94.79 percent at December 31, 2016.

The following table summarizes the Association's risk assets (accruing volume includes accrued interest receivable):

	6/30/17	12/31/16
Nonaccrual loans	$ 3,434	$ 811
Accruing restructured loans	7,187	7,841
Accruing loans 90 days or more past due	3,636	–
Total high risk loans	14,257	8,652
Other property owned	–	–
Total high-risk assets	$ 14,257	$ 8,652
Ratios:		
Nonaccrual loans to total loans	0.19%	0.05%
High-risk assets to total assets	0.77%	0.46%

High risk assets increased during the first six months of 2017 primarily as a result of increased accruing loans 90 days or more past due and nonaccrual loans. High risk loans increased as a result of the challenging agricultural environment.

There is an inherent risk in the extension of any type of credit, and accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

General portfolio credit quality showed a decline during the first six months of 2017 when compared to December 31, 2016, but remains at an acceptable level.

Credit administration is satisfactory.

During the first six months of 2017 the Association recorded charge-offs of $212, recoveries of $151 and reversal of allowance for loan losses (reversal) of $1,120. The reversal is a result of changes to the management qualitative allowance (MQA) factor used for cash grain and landlord loans. Management adjusts the MQA factors due to the declining credit quality for this segment of the portfolio for which the original MQA was established. For the same period of 2016, the Association recorded $23 of charge-offs, no recoveries and reversal of allowance for loan losses of $778. The allowance for loan losses represented 0.69 percent and 0.75 percent of loans at June 30, 2017 and December 31, 2016, respectively.

RESULTS OF OPERATIONS

For the three months ending June 30, 2017

Net income for the three months ended June 30, 2017 (Q2 2017) was $10,232, a decrease of $274 or 2.61 percent when compared to the net income of $10,506 for the same period in 2016 (Q2 2016). Major changes in the components of net income when comparing Q2 2017 to Q2 2016 are identified as follows:

- Net interest income increased by $513 or 4.39 percent. The increase resulted primarily from earnings on increased loan volume and an increase in earnings on the Association's own funds in loans.

- Provision for loan losses increased by $923 as a result of Q2 2017 provision and a reversal of allowance for loan losses (reversal) in Q2 2016.

- Noninterest income increased by $221 or 6.92 percent for the following reasons:

  Patronage refund from other Farm Credit institutions (patronage refunds) increased by $183 as a result of higher AgFirst Farm Credit Bank regular and participation sold patronage. The increase in the regular patronage relates to the higher loan volume previously discussed and increased participation sold volume.

  Loan fees decreased by $19 primarily due to decreased loan servicing, bond, participation sold and participation purchased fees offset in part by increased secondary market servicing and originated commitment fees.

  Other noninterest income increased by $54 primarily due to a reclassification from other noninterest income to patronage refunds.

  Fees for financially related services (FRS) increased by $3 due to increased crop insurance fees.

- Noninterest expense increased by $81 or 1.58 percent primarily due to:

  Salary and benefits expense increased by $76 or 2.31 percent due to increased expenses related to scheduled salary increases, additional employees, salary related benefits and health benefits offset by lower incentives.

  Occupancy and equipment increased by $43 or 15.87 percent primarily due to increased expenses for depreciation on new buildings and equipment, real estate taxes and maintenance.

  Farm Credit System Insurance Corporation (FCSIC) premium expenses decreased by $3 or 0.74 percent due to decreased premium rates offset in part by increased year-over-year loan volume.

  Guarantee fees increased by $83 or 25.15 percent due to an increase in new guarantees.

  Other operating expenses decreased by $113 or 13.90 percent due to decreased expenses for purchased services, data processing, training, advertising and public and member relations. These decreases were offset in part by higher communication, loan servicing and non-property insurance.

For the six months ending June 30, 2017

Net income for the six months ended June 30, 2017 (YTD 2017) was $21,431 which is an increase of $1,394 or 6.96 percent when compared to the net income of $20,037 for the same period in 2016 (YTD 2016). Major changes in the components of net income when comparing YTD 2017 to YTD 2016 are identified as follows:

- Net interest income increased by $1,089 or 4.71 percent. The increase is a result of the same reasons previously discussed.

- The risks identified in the portfolio at June 30, 2017 and June 30, 2016 resulted in a net decrease in provision for loan losses of $342. The decrease was due to a reversal of allowance for loan losses for 2017 of $1,120 and for 2016 of $778.

- Noninterest income increased by $335 or 5.24 percent primarily due to the $412 increase in patronage dividends from the Bank. This was offset partially by the decrease of $84 in loan fees as previously discussed and a decrease in new loan fees for the first six months ending June 30, 2017.

- Noninterest expense increased by $368 or 3.58 percent primarily due to:

  Salary and benefits expense increased by $331, FCSIC insurance premium expenses decreased by $16, guarantee fees increased by $169 and other operating expenses decreased by $155, for the reasons previously discussed and an increase in employee travel expenses for the six months ending June 30, 2017.

  Net losses (gains) on other property owned (OPO) decreased by $6 primarily due to the loss on the sale of an OPO during the first half of 2016 and no activity in 2017.

The following table shows the key results of operations ratios for the three months ended June 30, 2017 and June 30, 2016, respectively.

	6/30/17	6/30/16
Return on average assets	2.37%	2.31%
Return on average equity	14.20%	14.35%
Net interest margin	2.76%	2.73%
Members' equity to assets	17.08%	16.40%
Debt to members' equity (:1)	4.86	5.10

CAPITAL RESOURCES

Total members' equity was $315,421 at June 30, 2017 as compared to $293,945 at December 31, 2016 for an increase of $21,476 or 7.31 percent. The increase is due primarily to 2017 year-to-date earnings, Class C Stock and Participation Certificates and the issuance of additional Class A Preferred Stock. These increases were offset in part by a reduction in allocated equities.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. As of June 30, 2017, the Association exceeded minimum regulatory standards for all the ratios.

The Association's capital ratios as of June 30, along with FCA minimum requirements, are included in the following regulatory matters section.

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

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

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of June 30, 2017
Risk-adjusted ratios:				
CET1 Capital	4.5%	0.625%	5.125%	17.40%
Tier 1 Capital	6.0%	0.625%	6.625%	17.40%
Total Capital	8.0%	0.625%	8.625%	19.64%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.83%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	13.99%
UREE Leverage Ratio	1.5%	0.0%	1.5%	14.52%

** - 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: The Association obtains funding from AgFirst Farm Credit Bank (the Bank). The Association is materially affected and shareholder investment could be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, *www.agfirst.com* or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association's Quarterly and Annual Reports are available on the Association's website, www.agcredit.net, or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1023, or writing Daniel Ebert, Chief Financial Officer, AgCredit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

AgCredit Agricultural Credit Association

Consolidated Balance Sheets

(dollars in thousands)	**June 30, 2017** *(unaudited)*	**December 31, 2016** *(audited)*
Assets		
Cash	**$ 3,821**	$ 5,148
Investment securities:		
Held to maturity (fair value of $12,605 and $12,727, respectively)	**12,311**	12,720
Loans	**1,777,049**	1,796,515
Allowance for loan losses	**(12,303)**	(13,484)
Net loans	**1,764,746**	1,783,031
Loans held for sale	**11**	—
Accrued interest receivable	**26,724**	25,300
Investments in other Farm Credit institutions	**20,779**	20,747
Premises and equipment, net	**7,975**	7,969
Accounts receivable	**6,504**	21,349
Other assets	**3,982**	4,796
Total assets	**$ 1,846,853**	$ 1,881,060
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,512,575**	$ 1,551,034
Accrued interest payable	**3,319**	3,134
Patronage refunds payable	**83**	19,104
Accounts payable	**991**	2,090
Advanced conditional payments	**4,383**	484
Other liabilities	**10,081**	11,269
Total liabilities	**1,531,432**	1,587,115
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**19,805**	19,661
Retained earnings		
Allocated	**197,558**	197,649
Unallocated	**98,058**	76,635
Total members' equity	**315,421**	293,945
Total liabilities and members' equity	**$ 1,846,853**	$ 1,881,060

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

AgCredit Agricultural Credit Association

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2017	For the three months ended June 30, 2016	For the six months ended June 30, 2017	For the six months ended June 30, 2016
Interest Income				
Loans	**$ 21,911**	$ 20,385	**$ 43,123**	$ 40,443
Investments	**173**	259	**348**	506
Total interest income	**22,084**	20,644	**43,471**	40,949
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**9,893**	8,966	**19,241**	17,808
Net interest income	**12,191**	11,678	**24,230**	23,141
Provision for (reversal of allowance for) loan losses	**177**	(746)	**(1,120)**	(778)
Net interest income after provision for (reversal of allowance for) loan losses	**12,014**	12,424	**25,350**	23,919
Noninterest Income				
Loan fees	**128**	147	**219**	303
Fees for financially related services	**25**	22	**35**	33
Patronage refunds from other Farm Credit institutions	**3,250**	3,067	**6,450**	6,038
Gains (losses) on sales of premises and equipment, net	**—**	—	**—**	3
Gains (losses) on other transactions	**3**	3	**7**	2
Other noninterest income (loss)	**10**	(44)	**20**	17
Total noninterest income	**3,416**	3,195	**6,731**	6,396
Noninterest Expense				
Salaries and employee benefits	**3,362**	3,286	**6,969**	6,638
Occupancy and equipment	**314**	271	**592**	547
Insurance Fund premiums	**405**	408	**798**	814
Guarantee fees	**413**	330	**731**	562
(Gains) losses on other property owned, net	**—**	5	**—**	6
Other operating expenses	**700**	813	**1,556**	1,711
Total noninterest expense	**5,194**	5,113	**10,646**	10,278
Income before income taxes	**10,236**	10,506	**21,435**	20,037
Provision for income taxes	**4**	—	**4**	—
Net income	**10,232**	10,506	**21,431**	20,037
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 10,232**	$ 10,506	**$ 21,431**	$ 20,037

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

AgCredit Agricultural Credit Association

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2015	$ 19,505	$ 177,063	$ 72,324	$ 268,892
Comprehensive income			20,037	20,037
Capital stock/participation certificates issued/(retired), net	205			205
Dividends declared/paid			(92)	(92)
Retained earnings retired		(15)		(15)
Patronage distribution adjustment		(130)	130	—
Balance at June 30, 2016	$ 19,710	$ 176,918	$ 92,399	$ 289,027
Balance at December 31, 2016	**$ 19,661**	**$ 197,649**	**$ 76,635**	**$ 293,945**
Comprehensive income			**21,431**	**21,431**
Capital stock/participation certificates issued/(retired), net	**144**			**144**
Dividends declared/paid			**(93)**	**(93)**
Retained earnings retired		**(6)**		**(6)**
Patronage distribution adjustment		**(85)**	**85**	**—**
Balance at June 30, 2017	**$ 19,805**	**$ 197,558**	**$ 98,058**	**$ 315,421**

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

AgCredit Agricultural Credit Association

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 AgCredit Agricultural Credit Association 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 5, *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: For the first three bullets, 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 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.

- 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.

- 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 are listed in the following bullets. For the first five bullets, the Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 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.

- 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.

- 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.

- 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.

  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.

- 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:

- 2016-15 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	$ 1,049,968	$ 1,018,631
Production and intermediate-term	551,779	610,584
Loans to cooperatives	382	382
Processing and marketing	32,463	24,410
Farm-related business	17,361	16,951
Communication	2,478	2,409
Rural residential real estate	121,415	121,788
Lease receivables	1,203	1,360
Total loans	$ 1,777,049	$ 1,796,515

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	$ 6,218	$ 60,206	$ –	$ –	$ 1,703	$ –	$ 7,921	$ 60,206
Production and intermediate-term	12,296	131,690	176	704	2,144	–	14,616	132,394
Loans to cooperatives	383	–	–	–	–	–	383	–
Processing and marketing	18,588	2,436	–	6,604	–	–	18,588	9,040
Farm-related business	–	24,000	–	–	–	–	–	24,000
Communication	2,483	–	–	–	–	–	2,483	–
Total	$ 39,968	$ 218,332	$ 176	$ 7,308	$ 3,847	$ –	$ 43,991	$ 225,640

	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	$ 5,924	$ 56,217	$ –	$ –	$ 1,275	$ –	$ 7,199	$ 56,217
Production and intermediate-term	15,457	157,614	176	702	3,085	–	18,718	158,316
Loans to cooperatives	383	–	–	–	–	–	383	–
Processing and marketing	14,731	1,637	–	–	–	–	14,731	1,637
Communication	2,415	–	–	–	–	–	2,415	–
Total	$ 38,910	$ 215,468	$ 176	$ 702	$ 4,360	$ –	$ 43,446	$ 216,170

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	$ 5,291	$ 53,892	$ 990,785	$ 1,049,968
Production and intermediate-term	216,460	229,694	105,625	551,779
Loans to cooperatives	–	–	382	382
Processing and marketing	1,414	16,233	14,816	32,463
Farm-related business	4,810	3,258	9,293	17,361
Communication	–	2,478	–	2,478
Rural residential real estate	320	3,373	117,722	121,415
Lease receivables	241	873	89	1,203
Total loans	$ 228,536	$ 309,801	$ 1,238,712	$ 1,777,049
Percentage	12.86%	17.43%	69.71%	100.00%

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
Real estate mortgage:		
Acceptable	95.95%	97.57%
OAEM	1.42	1.38
Substandard/doubtful/loss	2.63	1.05
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	88.34%	93.28%
OAEM	5.38	4.95
Substandard/doubtful/loss	6.28	1.77
	100.00%	100.00%
Loans to cooperatives		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business		
Acceptable	97.85%	98.92%
OAEM	1.29	0.16
Substandard/doubtful/loss	0.86	0.92
	100.00%	100.00%

	June 30, 2017	December 31, 2016
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	93.22%	93.03%
OAEM	5.88	6.25
Substandard/doubtful/loss	0.90	0.72
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	93.51%	95.86%
OAEM	2.92	2.88
Substandard/doubtful/loss	3.57	1.26
	100.00%	100.00%

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	$ 1,893	$ 2,096	$ 3,989	$ 1,063,398	$ 1,067,387	$ 1,952
Production and intermediate-term	2,806	2,510	5,316	555,013	560,329	1,684
Loans to cooperatives	–	–	–	382	382	–
Processing and marketing	–	–	–	32,524	32,524	–
Farm-related business	228	–	228	17,347	17,575	–
Communication	–	–	–	2,480	2,480	–
Rural residential real estate	249	–	249	121,572	121,821	–
Lease receivables	–	–	–	1,203	1,203	–
Total	$ 5,176	$ 4,606	$ 9,782	$ 1,793,919	$ 1,803,701	$ 3,636

	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	$ 1,472	$ 194	$ 1,666	$ 1,032,973	$ 1,034,639	$ –
Production and intermediate-term	1,754	417	2,171	617,096	619,267	–
Loans to cooperatives	–	–	–	382	382	–
Processing and marketing	–	–	–	24,446	24,446	–
Farm-related business	22	–	22	17,067	17,089	–
Communication	–	–	–	2,410	2,410	–
Rural residential real estate	358	–	358	121,791	122,149	–
Lease receivables	–	–	–	1,360	1,360	–
Total	$ 3,606	$ 611	$ 4,217	$ 1,817,525	$ 1,821,742	$ –

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
Nonaccrual loans:		
Real estate mortgage	$ 1,287	$ 285
Production and intermediate-term	2,025	526
Rural residential real estate	122	–
Total	$ 3,434	$ 811
Accruing restructured loans:		
Real estate mortgage	$ 321	$ 320
Production and intermediate-term	6,866	7,521
Total	$ 7,187	$ 7,841
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 1,952	$ –
Production and intermediate-term	1,684	–
Total	$ 3,636	$ –
Total nonperforming loans	$ 14,257	$ 8,652
Other property owned	–	–
Total nonperforming assets	$ 14,257	$ 8,652
Nonaccrual loans as a percentage of total loans	0.19%	0.05%
Nonperforming assets as a percentage of total loans and other property owned	0.80%	0.48%
Nonperforming assets as a percentage of capital	4.52%	2.94%

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
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,587	$ 141
Past due	1,847	670
Total	$ 3,434	$ 811
Impaired accrual loans:		
Restructured	$ 7,187	$ 7,841
90 days or more past due	3,636	–
Total	$ 10,823	$ 7,841
Total impaired loans	$ 14,257	$ 8,652
Additional commitments to lend	$ 3	$ –

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	
Impaired loans:	**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**
With a related allowance for credit losses:							
Production and intermediate-term	$ 595	$ 589	$ 555	$ 526	$ 12	$ 494	$ 25
Total	$ 595	$ 589	$ 555	$ 526	$ 12	$ 494	$ 25
With no related allowance for credit losses:							
Real estate mortgage	$ 3,560	$ 3,591	$ –	$ 3,144	$ 75	$ 2,953	$ 150
Production and intermediate-term	9,980	20,371	–	8,814	211	8,279	419
Rural residential real estate	122	122	–	108	3	101	5
Total	$ 13,662	$ 24,084	$ –	$ 12,066	$ 289	$ 11,333	$ 574
Total:							
Real estate mortgage	$ 3,560	$ 3,591	$ –	$ 3,144	$ 75	$ 2,953	$ 150
Production and intermediate-term	10,575	20,960	555	9,340	223	8,773	444
Rural residential real estate	122	122	–	108	3	101	5
Total	$ 14,257	$ 24,673	$ 555	$ 12,592	$ 301	$ 11,827	$ 599

	December 31, 2016			Year Ended December 31, 2016	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Production and intermediate-term	$ 405	$ 400	$ 310	$ 526	$ 51
Total	$ 405	$ 400	$ 310	$ 526	$ 51
With no related allowance for credit losses:					
Real estate mortgage	$ 605	$ 689	$ –	$ 786	$ 76
Production and intermediate-term	7,642	17,799	–	9,925	961
Farm-related business	–	196	–	–	–
Total	$ 8,247	$ 18,684	$ –	$ 10,711	$ 1,037
Total:					
Real estate mortgage	$ 605	$ 689	$ –	$ 786	$ 76
Production and intermediate-term	8,047	18,199	310	10,451	1,012
Farm-related business	–	196	–	–	–
Total	$ 8,652	$ 19,084	$ 310	$ 11,237	$ 1,088

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*	Communication	Rural Residential Real Estate	Lease Receivables	Other	Total
Activity related to the allowance for credit losses:								
Balance at March 31, 2017	$ 2,390	$ 8,721	$ 268	$ 10	$ 559	$ 3	$ –	$ 11,951
Charge-offs	–	24	–	–	–	–	–	24
Recoveries	–	151	–	–	–	–	–	151
Provision for loan losses	176	(55)	55	1	–	–	–	177
Balance at June 30, 2017	$ 2,566	$ 8,841	$ 323	$ 11	$ 559	$ 3	$ –	$ 12,303
Balance at December 31, 2016	$ 2,550	$ 10,140	$ 220	$ 10	$ 561	$ 3	$ –	$ 13,484
Charge-offs	–	(212)	–	–	–	–	–	(212)
Recoveries	–	151	–	–	–	–	–	151
Provision for loan losses	16	(1,238)	103	1	(2)	–	–	(1,120)
Balance at June 30, 2017	$ 2,566	$ 8,841	$ 323	$ 11	$ 559	$ 3	$ –	$ 12,303
Balance at March 31, 2016	$ 2,697	$ 10,133	$ 421	$ 11	$ 551	$ 3	$ 6	$ 13,822
Charge-offs	–	(19)	–	–	–	–	–	(19)
Recoveries	–	–	–	–	–	–	–	–
Provision for loan losses	157	(911)	14	–	–	–	(6)	(746)
Balance at June 30, 2016	$ 2,854	$ 9,203	$ 435	$ 11	$ 551	$ 3	$ –	$ 13,057
Balance at December 31, 2015	$ 2,583	$ 10,319	$ 384	$ 11	$ 554	$ 4	$ 3	$ 13,858
Charge-offs	–	(23)	–	–	–	–	–	(23)
Recoveries	–	–	–	–	–	–	–	–
Provision for loan losses	271	(1,093)	51	–	(3)	(1)	(3)	(778)
Balance at March 31, 2016	$ 2,854	$ 9,203	$ 435	$ 11	$ 551	$ 3	$ –	$ 13,057
Allowance on loans evaluated for impairment:								
Individually	$ –	$ 555	$ –	$ –	$ –	$ –	$ –	$ 555
Collectively	2,566	8,286	323	11	559	3	–	11,748
Balance at June 30, 2017	$ 2,566	$ 8,841	$ 323	$ 11	$ 559	$ 3	$ –	$ 12,303
Individually	$ –	$ 310	$ –	$ –	$ –	$ –	$ –	$ 310
Collectively	2,550	9,830	220	10	561	3	–	13,174
Balance at December 31, 2016	$ 2,550	$ 10,140	$ 220	$ 10	$ 561	$ 3	$ –	$ 13,484
Recorded investment in loans evaluated for impairment:								
Individually	$ 3,560	$ 10,575	$ –	$ –	$ 122	$ –	$ –	$ 14,257
Collectively	1,063,827	549,754	50,481	2,480	121,699	1,203	–	1,789,444
Balance at June 30, 2017	$ 1,067,387	$ 560,329	$ 50,481	$ 2,480	$ 121,821	$ 1,203	$ –	$ 1,803,701
Individually	$ 605	$ 8,047	$ –	$ –	$ –	$ –	$ –	$ 8,652
Collectively	1,034,034	611,220	41,917	2,410	122,149	1,360	–	1,813,090
Balance at December 31, 2016	$ 1,034,639	$ 619,267	$ 41,917	$ 2,410	$ 122,149	$ 1,360	$ –	$ 1,821,742

**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. There were no new TDRs that occurred during the three month period ended June 30, 2017 or the three and six month periods ended June 30, 2016. The following table provides TDR activity information for the period shown.

	Six months ended June 30, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 172	$ –	$ 172	
Production and intermediate-term	–	296	–	296	
Total	$ –	$ 468	$ –	$ 468	
Post-modification:					
Real estate mortgage	$ –	$ 152	$ –	$ 152	$ –
Production and intermediate-term	–	315	–	315	(236)
Total	$ –	$ 467	$ –	$ 467	$ (236)

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.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during periods presented. Payment default is defined as a payment that was thirty days or more past due.

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	$ 470	$ 320	$ 149	$ –
Production and intermediate-term	6,970	7,521	104	–
Total Loans	$ 7,440	$ 7,841	$ 253	$ –
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	$ 49

Note 3 — Investments

Investment Securities

The Association's investments consist of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a RAB ineligible if its investment rating, based on the internal 14-point probability of default scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At June 30, 2017, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

	June 30, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 12,311	$ 445	$ (151)	$ 12,605	5.40%

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 12,720	$ 205	$ (198)	$ 12,727	5.39%

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

	June 30, 2017		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	1,623	1,658	5.13
After five years through ten years	3,562	3,522	5.33
After ten years	7,126	7,425	5.50
Total	$ 12,311	$ 12,605	5.40%

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

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

	June 30, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 3,522	$ (39)	$ 897	$ (112)

	December 31, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 3,640	$ (74)	$ 894	$ (124)

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

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

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

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

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

Investments in other Farm Credit Institutions

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 8.03 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 $390 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 — 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**
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 70	$ 70	$ –	$ –	$ 70	
Recurring Assets	$ 70	$ 70	$ –	$ –	$ 70	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 13,702	$ –	$ –	$ 13,702	$ 13,702	$ (306)
Other property owned	–	–	–	–	–	–
Nonrecurring Assets	$ 13,702	$ –	$ –	$ 13,702	$ 13,702	$ (306)
Other Financial Instruments						
Assets:						
Cash	$ 3,821	$ 3,821	$ –	$ –	$ 3,821	
Investment securities, held-to-maturity	12,311	–	–	12,605	12,605	
Loans	1,751,055	–	–	1,715,267	1,715,267	
Other Financial Assets	$ 1,767,187	$ 3,821	$ –	$ 1,727,872	$ 1,731,693	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,512,575	$ –	$ –	$ 1,482,040	$ 1,482,040	
Other Financial Liabilities	$ 1,512,575	$ –	$ –	$ 1,482,040	$ 1,482,040	

	At or for the Year Ended December 31, 2016					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 78	$ 78	$ –	$ –	$ 78	
Recurring Assets	$ 78	$ 78	$ –	$ –	$ 78	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 8,343	$ –	$ –	$ 8,343	$ 8,343	$ (38)
Other property owned	–	–	–	–	–	(7)
Nonrecurring Assets	$ 8,343	$ –	$ –	$ 8,343	$ 8,343	$ (45)
Other Financial Instruments						
Assets:						
Cash	$ 5,148	$ 5,148	$ –	$ –	$ 5,148	
Investment securities, held-to-maturity	12,720	–	–	12,727	12,727	
Loans	1,774,688	–	–	1,730,216	1,730,216	
Other Financial Assets	$ 1,792,556	$ 5,148	$ –	$ 1,742,943	$ 1,748,091	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,551,034	$ –	$ –	$ 1,509,018	$ 1,509,018	
Other Financial Liabilities	$ 1,551,034	$ –	$ –	$ 1,509,018	$ 1,509,018	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 13,703	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 6 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Pension	$ 399	$ 396	$ 798	$ 793
401(k)	150	141	305	285
Other postretirement benefits	106	109	213	218
Total	$ 655	$ 646	$ 1,316	$ 1,296

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

	Actual YTD Through 6/30/17	Projected Contributions For Remainder of 2017	Projected Total Contributions 2017
Pension	$ –	$ 1,308	$ 1,308
Other postretirement benefits	89	84	173
Total	$ 89	$ 1,392	$ 1,481

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 7 — 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 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 8 — 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.