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*AgChoice Farm Credit, ACA*  
**SECOND QUARTER 2017**

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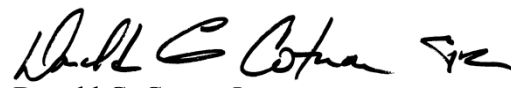
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**CERTIFICATION**

The undersigned certify that we have reviewed the June 30, 2017 quarterly report of *AgChoice* 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.

  
Darrell L. Curtis  
Chief Executive Officer

  
Mark F. Kerstetter  
Chief Financial Officer

  
Donald G. Cotner Jr.  
Chairman of the Board

August 8, 2017

# 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.



Darrell L. Curtis  
Chief Executive Officer



Mark F. Kerstetter  
Chief Financial Officer

August 8, 2017

# 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 *AgChoice* Farm Credit ACA, (Association) 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. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

## **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 dairy, livestock, poultry, forest products, and various crops, and also includes part-time farm and rural home loans. 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, impacts the level of dependency on a given commodity.

Loans as of June 30, 2017 totaled \$1,828,046, an increase of \$25,755 as compared to \$1,802,291 at December 31, 2016. Net loans outstanding at June 30, 2017, were \$1,815,505 as compared to \$1,790,489 at December 31, 2016. Net loans accounted for 97.2 percent of total assets at June 30, 2017, as compared to 96.3 percent of total assets at December 31, 2016. The increase in both loans and net loans primarily resulted from increased local servicing area loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual volume decreased from \$22,687 at December 31, 2016, to \$22,134 at June 30, 2017, mainly due to small payoffs and paydowns, offset by six additional transfers to nonaccrual. The Association continues efforts to work out of nonaccrual accounts or to assist such operations to return to accrual status.

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 was \$12,541 and \$11,802 at June 30, 2017 and December 31, 2016, respectively. As a further means to reduce credit risk, the Association had \$486 and \$461 in a reserve for unfunded loan commitments at June 30, 2017 and December 31, 2016, respectively, which is classified as a liability on the Consolidated Balance Sheets. These reserves were considered by management to be adequate to cover possible losses.

## **RESULTS OF OPERATIONS**

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

Net income for the three months ended June 30, 2017, totaled \$8,775 an increase of \$914 compared to \$7,861 for the same period in 2016. This increase resulted primarily from higher net interest income, higher noninterest income, lower noninterest expense offset by higher provisions for loan losses and income taxes.

Net interest income increased by \$357 for the three months ended June 30, 2017 compared to the same period in 2016. This increase resulted from an increase of \$1,713 in interest income on accruing loans and investment securities and a decrease of \$45 in interest income on nonaccruing loans offset by an increase of \$1,311 in interest expense.

The provision for loan losses was \$336 in the second quarter of 2017 as compared to \$286 in the same period for 2016. Changes in credit quality resulted in a greater increase to the general allowance during the second quarter of 2017 compared to the same period in 2016.

Noninterest income for the three months ended June 30, 2017 increased by \$242 to \$3,924, compared to \$3,682 for the same period of 2016. This increase resulted primarily from higher general patronage, BMS income and higher FCSS income.

Noninterest expense for the three months ended June 30, 2017, decreased \$425, compared to the same period of 2016. This decrease is due to lower personnel costs and lower losses on other property owned in 2017 compared to 2016.

The provision for income taxes was \$60 and \$0 for the second quarters of 2017 and 2016, respectively.

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

Net income for the six months ended June 30, 2017, totaled \$17,295, as compared to \$15,591 for the same period in 2016. Net interest income increased \$872 for the six months ended June 30, 2017, as compared to the same period one year ago.

Interest income on accruing loans and investment securities increased \$3,073, interest income on nonaccruing loans increased by \$28 and interest expense increased \$2,229 as compared to the same period in 2016. The increase in interest income on accruing loans and interest expense is primarily related to an increase in loan volume.

Increases in general reserves resulted in a \$725 provision for loan losses in the first half of 2017, compared to a \$1,177 provision for loan losses in 2016.

Noninterest income for the six months ended June 30, 2017, totaled \$7,734, as compared to \$7,718 for the same period of 2016, an increase of \$16. This increase resulted primarily from the following factors: an increase of \$244 in general patronage due to loan volume growth, an increase of \$204 in Business Management Services revenue, an increase in servicing fee income of \$80 and an increase in other gains of \$59, offset by \$252 less gains on the sale of assets, \$165 greater losses on sale of assets and a decrease of \$140 in patronage on participations sold due to a decline in volume sold.

Noninterest expense for the six months ended June 30, 2017, decreased \$372, compared to the same period of 2016. This decrease was primarily due to lower personnel costs, training, data processing, and public and member relations expenses offset by higher furniture and equipment expense and other operating expenses.

The provision for income taxes was \$78 for the six months ended June 30, 2017 as compared to \$70 in the same period last year.

### **FUNDING SOURCES**

The principal source of funds for the Association is the borrowing relationship established with 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 \$1,478,958 as

compared to \$1,464,915 at December 31, 2016. This increase resulted from increased loan volume, offset by the receipt of the 2016 patronage refunds from other Farm Credit institutions and cash generated from Association 2017 earnings.

### **CAPITAL RESOURCES**

Total members' equity at June 30, 2017 increased by \$17,211 to \$371,229 from the December 31, 2016 total of \$354,018. The increase is primarily attributed to year-to-date 2017 net income.

Total capital stock and participation certificates were \$10,973 on June 30, 2017, compared to \$11,049 on December 31, 2016.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain certain minimum regulatory capital ratios. As of June 30, 2017, the Association was well above the minimum regulatory ratios for all capital adequacy ratios. Please refer to the Regulatory Matters section for additional disclosures related to the regulatory capital ratios.

### **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 three-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.
- 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:

<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>
<b>Risk-adjusted ratios:</b>				
CET1 Capital	4.5%	0.625%	5.125%	17.24%
Tier 1 Capital	6.0%	0.625%	6.625%	17.24%
Total Capital	8.0%	0.625%	8.625%	17.88%
Permanent Capital Ratio	7.0%	0.0%	7.0%	17.50%
<b>Non-risk-adjusted:</b>				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	18.51%
UREE Leverage Ratio	1.5%	0.0%	1.5%	18.61%

\* - 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.

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**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 1-800-349-3568 or writing **AgChoice** Farm Credit, ACA, 900 Bent Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website [www.agchoice.com](http://www.agchoice.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.

# AgChoice Farm Credit, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>June 30, 2017</b> <i>(unaudited)</i>	<b>December 31, 2016</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 49	\$ 43
Investment securities:		
Held to maturity (fair value of \$2,387 and \$2,336, respectively)	2,205	2,243
Loans	1,828,046	1,802,291
Allowance for loan losses	(12,541)	(11,802)
Net loans	1,815,505	1,790,489
Accrued interest receivable	7,776	6,402
Investments in other Farm Credit institutions	23,320	23,295
Premises and equipment, net	11,419	11,527
Other property owned	53	79
Accounts receivable	6,495	21,595
Other assets	1,873	2,670
Total assets	<b>\$ 1,868,695</b>	<b>\$ 1,858,343</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,478,958	\$ 1,464,915
Accrued interest payable	3,257	2,935
Patronage refunds payable	481	19,663
Accounts payable	2,650	4,502
Other liabilities	12,120	12,310
Total liabilities	<b>1,497,466</b>	<b>1,504,325</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	10,973	11,049
Retained earnings		
Allocated	161,489	161,489
Unallocated	198,823	181,537
Accumulated other comprehensive income (loss)	(56)	(57)
Total members' equity	<b>371,229</b>	<b>354,018</b>
Total liabilities and members' equity	<b>\$ 1,868,695</b>	<b>\$ 1,858,343</b>

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

# AgChoice 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	\$ 21,614	\$ 19,945	\$ 42,682	\$ 39,580
Investments	35	36	70	71
Total interest income	<b>21,649</b>	19,981	<b>42,752</b>	39,651
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	<b>9,600</b>	8,289	<b>18,649</b>	16,420
Net interest income	<b>12,049</b>	11,692	<b>24,103</b>	23,231
Provision for loan losses	<b>336</b>	286	<b>725</b>	1,177
Net interest income after provision for loan losses	<b>11,713</b>	11,406	<b>23,378</b>	22,054
<b>Noninterest Income</b>				
Loan fees	<b>296</b>	290	<b>581</b>	578
Fees for financially related services	<b>603</b>	481	<b>1,079</b>	862
Patronage refunds from other Farm Credit institutions	<b>3,004</b>	2,896	<b>6,141</b>	6,043
Gains (losses) on sales of rural home loans, net	<b>7</b>	—	<b>17</b>	12
Gains (losses) on sales of premises and equipment, net	<b>(19)</b>	—	<b>(152)</b>	265
Gains (losses) on other transactions	<b>4</b>	(5)	<b>36</b>	(63)
Other noninterest income	<b>29</b>	20	<b>32</b>	21
Total noninterest income	<b>3,924</b>	3,682	<b>7,734</b>	7,718
<b>Noninterest Expense</b>				
Salaries and employee benefits	<b>4,219</b>	4,417	<b>8,752</b>	8,906
Occupancy and equipment	<b>355</b>	297	<b>648</b>	567
Insurance Fund premiums	<b>535</b>	544	<b>1,061</b>	1,069
(Gains) losses on other property owned, net	<b>12</b>	275	<b>34</b>	324
Other operating expenses	<b>1,681</b>	1,694	<b>3,244</b>	3,245
Total noninterest expense	<b>6,802</b>	7,227	<b>13,739</b>	14,111
Income before income taxes	<b>8,835</b>	7,861	<b>17,373</b>	15,661
Provision for income taxes	<b>60</b>	—	<b>78</b>	70
Net income	<b>\$ 8,775</b>	\$ 7,861	<b>\$ 17,295</b>	\$ 15,591

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



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**AgChoice 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	\$ 8,775	\$ 7,861	\$ 17,295	\$ 15,591
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	1	1	1	1
Comprehensive income	\$ 8,776	\$ 7,862	\$ 17,296	\$ 15,592

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

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

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2015	\$ 11,054	\$ 161,489	\$ 159,895	\$ (52)	\$ 332,386
Comprehensive income			15,591	1	15,592
Capital stock/participation certificates issued/(retired), net	(111)				(111)
Dividends declared/paid	8		(8)		—
Patronage distribution adjustment			5		5
<b>Balance at June 30, 2016</b>	<b>\$ 10,951</b>	<b>\$ 161,489</b>	<b>\$ 175,483</b>	<b>\$ (51)</b>	<b>\$ 347,872</b>
<b>Balance at December 31, 2016</b>	<b>\$ 11,049</b>	<b>\$ 161,489</b>	<b>\$ 181,537</b>	<b>\$ (57)</b>	<b>\$ 354,018</b>
<b>Comprehensive income</b>			<b>17,295</b>	<b>1</b>	<b>17,296</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>(89)</b>				<b>(89)</b>
<b>Dividends declared/paid</b>	<b>13</b>		<b>(13)</b>		<b>—</b>
<b>Patronage distribution adjustment</b>			<b>4</b>		<b>4</b>
<b>Balance at June 30, 2017</b>	<b>\$ 10,973</b>	<b>\$ 161,489</b>	<b>\$ 198,823</b>	<b>\$ (56)</b>	<b>\$ 371,229</b>

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

# 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 AgChoice 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	\$ 838,264	\$ 811,807
Production and intermediate-term	625,608	647,005
Loans to cooperatives	45,747	53,928
Processing and marketing	137,532	116,574
Farm-related business	38,366	39,173
Communication	88,714	78,626
Power and water/waste disposal	20,471	22,391
Rural residential real estate	19,485	19,804
International	12,965	11,969
Lease receivables	851	936
Other (including Mission Related)	43	78
<b>Total loans</b>	<b>\$ 1,828,046</b>	<b>\$ 1,802,291</b>

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 and syndication 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	\$ 6,029	\$ 31,933	\$ 7,064	\$ -	\$ -	\$ -	\$ 13,093
Production and intermediate-term	39,377	16,951	62,992	6,900	-	-	102,369	23,851
Loans to cooperatives	-	-	45,785	-	-	-	45,785	-
Processing and marketing	32,821	-	53,520	-	-	-	86,341	-
Farm-related business	-	381	-	-	-	-	-	381
Communication	8,793	-	80,173	-	-	-	88,966	-
Power and water/waste disposal	3,633	-	16,914	-	-	-	20,547	-
Rural residential real estate	-	163	-	-	-	-	-	163
International	992	-	12,000	-	-	-	12,992	-
Lease receivables	-	-	851	-	-	-	851	-
<b>Total</b>	<b>\$ 91,645</b>	<b>\$ 49,428</b>	<b>\$ 279,299</b>	<b>\$ 6,900</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 370,944</b>	<b>\$ 56,328</b>

**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	\$ 15,509	\$ 34,989	\$ 9,692	\$ -	\$ -	\$ -	\$ 25,201
Production and intermediate-term	37,016	19,438	70,814	7,990	-	-	107,830	27,428
Loans to cooperatives	-	-	53,971	-	-	-	53,971	-
Processing and marketing	24,886	324	51,640	-	-	-	76,526	324
Farm-related business	-	421	-	-	-	-	-	421
Communication	8,304	-	70,533	-	-	-	78,837	-
Power and water/waste disposal	3,693	-	18,784	-	-	-	22,477	-
Rural residential real estate	-	169	-	-	-	-	-	169
International	-	-	12,000	-	-	-	12,000	-
Lease receivables	-	-	776	-	-	-	776	-
<b>Total</b>	<b>\$ 89,408</b>	<b>\$ 55,341</b>	<b>\$ 288,210</b>	<b>\$ 7,990</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 377,618</b>	<b>\$ 63,331</b>

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	\$ 18,335	\$ 164,364	\$ 655,565	\$ 838,264
Production and intermediate-term	118,015	353,435	154,158	625,608
Loans to cooperatives	-	33,598	12,149	45,747
Processing and marketing	2,605	84,672	50,255	137,532
Farm-related business	8,434	21,558	8,374	38,366
Communication	-	68,690	20,024	88,714
Power and water/waste disposal	944	7,208	12,319	20,471
Rural residential real estate	1,473	2,258	15,754	19,485
International	989	2,829	9,147	12,965
Lease receivables	177	123	551	851
Other (including Mission Related)	43	-	-	43
Total Loans	\$ 151,015	\$ 738,735	\$ 938,296	\$ 1,828,046
Percentage	8.26%	40.41%	51.33%	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		June 30, 2017	December 31, 2016
<b>Real estate mortgage:</b>			<b>Power and water/waste disposal:</b>		
Acceptable	95.04%	95.85%	Acceptable	89.04%	89.95%
OAEM	1.96	1.56	OAEM	-	10.05
Substandard/doubtful/loss	3.00	2.59	Substandard/doubtful/loss	10.96	-
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Rural residential real estate:</b>		
Acceptable	94.83%	94.78%	Acceptable	92.25%	92.81%
OAEM	2.15	2.63	OAEM	2.90	2.69
Substandard/doubtful/loss	3.02	2.59	Substandard/doubtful/loss	4.85	4.50
	100.00%	100.00%		100.00%	100.00%
<b>Loans to cooperatives:</b>			<b>International:</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Processing and marketing:</b>			<b>Lease receivables:</b>		
Acceptable	100.00%	100.00%	Acceptable	80.65%	80.01%
OAEM	-	-	OAEM	11.66	11.21
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	7.69	8.78
	100.00%	100.00%		100.00%	100.00%
<b>Farm-related business:</b>			<b>Other (including Mission Related):</b>		
Acceptable	96.95%	99.60%	Acceptable	100.00%	100.00%
OAEM	2.83	0.12	OAEM	-	-
Substandard/doubtful/loss	0.22	0.28	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Communication:</b>			<b>Total loans:</b>		
Acceptable	100.00%	96.28%	Acceptable	95.67%	95.87%
OAEM	-	3.72	OAEM	1.73	1.97
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	2.60	2.16
	100.00%	100.00%		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 and Accrued Interest	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 1,333	\$ 1,428	\$ 2,761	\$ 839,606	\$ 842,367	\$ -
Production and intermediate-term	4,651	1,708	6,359	621,980	628,339	-
Loans to cooperatives	-	-	-	45,811	45,811	-
Processing and marketing	-	-	-	137,973	137,973	-
Farm-related business	25	-	25	38,543	38,568	-
Communication	-	-	-	88,747	88,747	-
Power and water/waste disposal	-	-	-	20,492	20,492	-
Rural residential real estate	141	195	336	19,231	19,567	-
International	-	-	-	13,048	13,048	-
Lease receivables	-	-	-	855	855	-
Other (including Mission Related)	-	-	-	43	43	-
Total	\$ 6,150	\$ 3,331	\$ 9,481	\$ 1,826,329	\$ 1,835,810	\$ -

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 and Accrued Interest	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 3,030	\$ 1,104	\$ 4,134	\$ 810,932	\$ 815,066	\$ -
Production and intermediate-term	2,534	948	3,482	645,727	649,209	-
Loans to cooperatives	-	-	-	53,986	53,986	-
Processing and marketing	-	-	-	116,930	116,930	-
Farm-related business	474	-	474	38,966	39,440	-
Communication	-	-	-	78,654	78,654	-
Power and water/waste disposal	-	-	-	22,450	22,450	-
Rural residential real estate	258	-	258	19,619	19,877	-
International	-	-	-	12,052	12,052	-
Lease receivables	-	-	-	939	939	-
Other (including Mission Related)	-	-	-	79	79	-
Total	\$ 6,296	\$ 2,052	\$ 8,348	\$ 1,800,334	\$ 1,808,682	\$ -

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	\$ 11,868	\$ 11,943
Production and intermediate-term	9,957	10,609
Processing and marketing	1	4
Rural residential real estate	242	49
Lease receivables	66	82
Total	\$ 22,134	\$ 22,687
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 335	\$ 499
Production and intermediate-term	170	840
Farm-related business	317	381
Total	\$ 822	\$ 1,720
<b>Accruing loans 90 days or more past due:</b>		
Total	\$ -	\$ -
Total nonperforming loans	\$ 22,956	\$ 24,407
Other property owned	53	79
Total nonperforming assets	\$ 23,009	\$ 24,486
Nonaccrual loans as a percentage of total loans	1.21%	1.26%
Nonperforming assets as a percentage of total loans and other property owned	1.26%	1.36%
Nonperforming assets as a percentage of capital	6.19%	6.92%



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	\$ 15,820	\$ 19,163
Past due	6,314	3,524
Total	<u>\$ 22,134</u>	<u>\$ 22,687</u>
Impaired accrual loans:		
Restructured	\$ 822	\$ 1,720
90 days or more past due	-	-
Total	<u>\$ 822</u>	<u>\$ 1,720</u>
Total impaired loans	<u>\$ 22,956</u>	<u>\$ 24,407</u>
Additional commitments to lend	\$ -	\$ 353

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

Impaired loans:	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>With a related allowance for credit losses:</b>							
Production and intermediate-term	\$ 3,184	\$ 3,370	\$ 760	\$ 3,239	\$ -	\$ 3,238	\$ -
Lease receivables	66	66	13	67	-	67	-
Total	<u>\$ 3,250</u>	<u>\$ 3,436</u>	<u>\$ 773</u>	<u>\$ 3,306</u>	<u>\$ -</u>	<u>\$ 3,305</u>	<u>\$ -</u>
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 12,203	\$ 14,108	\$ -	\$ 12,410	\$ 115	\$ 12,408	\$ 237
Production and intermediate-term	6,943	8,984	-	7,061	80	7,059	226
Processing and marketing	1	-	-	1	-	1	-
Farm-related business	317	899	-	323	25	323	25
Rural residential real estate	242	346	-	246	8	246	11
Lease receivables	-	42	-	-	-	-	-
Total	<u>\$ 19,706</u>	<u>\$ 24,379</u>	<u>\$ -</u>	<u>\$ 20,041</u>	<u>\$ 228</u>	<u>\$ 20,037</u>	<u>\$ 499</u>
<b>Total:</b>							
Real estate mortgage	\$ 12,203	\$ 14,108	\$ -	\$ 12,410	\$ 115	\$ 12,408	\$ 237
Production and intermediate-term	10,127	12,354	760	10,300	80	10,297	226
Processing and marketing	1	-	-	1	-	1	-
Farm-related business	317	899	-	323	25	323	25
Rural residential real estate	242	346	-	246	8	246	11
Lease receivables	66	108	13	67	-	67	-
Total	<u>\$ 22,956</u>	<u>\$ 27,815</u>	<u>\$ 773</u>	<u>\$ 23,347</u>	<u>\$ 228</u>	<u>\$ 23,342</u>	<u>\$ 499</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>					
Production and intermediate-term	\$ 3,479	\$ 3,569	\$ 795	\$ 3,133	\$ -
Total	<u>\$ 3,479</u>	<u>\$ 3,569</u>	<u>\$ 795</u>	<u>\$ 3,133</u>	<u>\$ -</u>
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 12,442	\$ 14,230	\$ -	\$ 11,206	\$ 378
Production and intermediate-term	7,970	9,952	-	7,178	455
Processing and marketing	4	1	-	4	-
Farm-related business	381	1,050	-	343	-
Rural residential real estate	49	161	-	44	-
Lease receivables	82	136	-	74	-
Total	<u>\$ 20,928</u>	<u>\$ 25,530</u>	<u>\$ -</u>	<u>\$ 18,849</u>	<u>\$ 833</u>
<b>Total:</b>					
Real estate mortgage	\$ 12,442	\$ 14,230	\$ -	\$ 11,206	\$ 378
Production and intermediate-term	11,449	13,521	795	10,311	455
Processing and marketing	4	1	-	4	-
Farm-related business	381	1,050	-	343	-
Rural residential real estate	49	161	-	44	-
Lease receivables	82	136	-	74	-
Total	<u>\$ 24,407</u>	<u>\$ 29,099</u>	<u>\$ 795</u>	<u>\$ 21,982</u>	<u>\$ 833</u>

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	Power and water/waste disposal	Rural Residential Real Estate	International	Lease Receivables	Other (Including Mission Related)	Total
<b>Activity related to the allowance for credit losses:</b>										
Balance at March 31, 2017	\$ 1,126	\$ 6,343	\$ 2,098	\$ 1,545	\$ 977	\$ 70	\$ 34	\$ 11	\$ 1	\$ 12,205
Charge-offs	—	(11)	—	—	—	—	—	—	—	(11)
Recoveries	—	7	—	—	—	—	—	4	—	11
Provision for loan losses	1,500	(1,195)	(209)	(593)	808	23	(7)	9	—	336
Balance at June 30, 2017	\$ 2,626	\$ 5,144	\$ 1,889	\$ 952	\$ 1,785	\$ 93	\$ 27	\$ 24	\$ 1	\$ 12,541
Balance at December 31, 2016	\$ 1,184	\$ 6,057	\$ 1,996	\$ 1,496	\$ 956	\$ 68	\$ 34	\$ 10	\$ 1	\$ 11,802
Charge-offs	—	(11)	—	—	—	—	—	—	—	(11)
Recoveries	—	14	—	—	—	—	—	11	—	25
Provision for loan losses	1,442	(916)	(107)	(544)	829	25	(7)	3	—	725
Balance at June 30, 2017	\$ 2,626	\$ 5,144	\$ 1,889	\$ 952	\$ 1,785	\$ 93	\$ 27	\$ 24	\$ 1	\$ 12,541
Balance at March 31, 2016	\$ 1,164	\$ 5,473	\$ 2,128	\$ 1,720	\$ 347	\$ 65	\$ 35	\$ 14	\$ 2	\$ 10,948
Charge-offs	—	(48)	—	—	—	—	—	—	—	(48)
Recoveries	—	3	—	—	—	—	—	—	—	3
Provision for loan losses	(123)	73	103	141	83	(7)	17	—	(1)	286
Balance at June 30, 2016	\$ 1,041	\$ 5,501	\$ 2,231	\$ 1,861	\$ 430	\$ 58	\$ 52	\$ 14	\$ 1	\$ 11,189
Balance at December 31, 2015	\$ 1,753	\$ 5,447	\$ 1,341	\$ 1,080	\$ 204	\$ 147	\$ 25	\$ 29	\$ 2	\$ 10,028
Charge-offs	—	(48)	—	—	—	—	—	—	—	(48)
Recoveries	—	32	—	—	—	—	—	—	—	32
Provision for loan losses	(712)	70	890	781	226	(89)	27	(15)	(1)	1,177
Balance at June 30, 2016	\$ 1,041	\$ 5,501	\$ 2,231	\$ 1,861	\$ 430	\$ 58	\$ 52	\$ 14	\$ 1	\$ 11,189
<b>Allowance on loans evaluated for impairment:</b>										
Individually	\$ —	\$ 760	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 13	\$ —	\$ 773
Collectively	2,626	4,384	1,889	952	1,785	93	27	11	1	11,768
Balance at June 30, 2017	\$ 2,626	\$ 5,144	\$ 1,889	\$ 952	\$ 1,785	\$ 93	\$ 27	\$ 24	\$ 1	\$ 12,541
Individually	\$ —	\$ 795	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 795
Collectively	1,184	5,262	1,996	1,496	956	68	34	10	1	11,007
Balance at December 31, 2016	\$ 1,184	\$ 6,057	\$ 1,996	\$ 1,496	\$ 956	\$ 68	\$ 34	\$ 10	\$ 1	\$ 11,802
<b>Recorded investment in loans evaluated for impairment:</b>										
Individually	\$ 9,735	\$ 7,006	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 66	\$ —	\$ 16,807
Collectively	832,632	621,333	222,352	88,747	20,492	19,567	13,048	789	43	1,819,003
Balance at June 30, 2017	\$ 842,367	\$ 628,339	\$ 222,352	\$ 88,747	\$ 20,492	\$ 19,567	\$ 13,048	\$ 855	\$ 43	\$ 1,835,810
Individually	\$ 9,380	\$ 7,615	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 83	\$ —	\$ 17,078
Collectively	805,686	641,594	210,356	78,654	22,450	19,877	12,052	856	79	1,791,604
Balance at December 31, 2016	\$ 815,066	\$ 649,209	\$ 210,356	\$ 78,654	\$ 22,450	\$ 19,877	\$ 12,052	\$ 939	\$ 79	\$ 1,808,682

\*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 table presents additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during the three months ended June 30, 2017.

Outstanding Recorded Investment	Six Months Ended June 30, 2017				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Production and intermediate-term	\$ 1,100	\$ —	\$ —	\$ 1,100	
Total	\$ 1,100	\$ —	\$ —	\$ 1,100	
<b>Post-modification:</b>					
Production and intermediate-term	\$ 1,235	\$ —	\$ —	\$ 1,235	\$ —
Total	\$ 1,235	\$ —	\$ —	\$ 1,235	\$ —

		Three Months Ended June 30, 2016				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs	
<b>Pre-modification:</b>						
Production and intermediate-term	\$ –	\$ 900	\$ –	\$ 900		
Total	\$ –	\$ 900	\$ –	\$ 900		
<b>Post-modification:</b>						
Production and intermediate-term	\$ –	\$ 900	\$ –	\$ 900	\$ –	
Total	\$ –	\$ 900	\$ –	\$ 900	\$ –	

		Six Months Ended June 30, 2016				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs	
<b>Pre-modification:</b>						
Production and intermediate-term	\$ –	\$ 900	\$ –	\$ 900		
Total	\$ –	\$ 900	\$ –	\$ 900		
<b>Post-modification:</b>						
Production and intermediate-term	\$ –	\$ 900	\$ –	\$ 900	\$ –	
Total	\$ –	\$ 900	\$ –	\$ 900	\$ –	

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.

Defaulted troubled debt restructurings:	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Production and intermediate-term	\$ –	\$ –	\$ 136	\$ –
Total	\$ –	\$ –	\$ 136	\$ –

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	\$ 976	\$ 1,140	\$ 641	\$ 641
Production and intermediate-term	6,040	7,381	5,870	6,541
Farm-related business	317	381	–	–
Total Loans	\$ 7,333	\$ 8,902	\$ 6,511	\$ 7,182
Additional commitments to lend	\$ –	\$ 302		

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	\$ 26
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ –

### Note 3 — Investments

#### Investment Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program

approved by 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 risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. At June 30, 2017, the Association held no RABs

whose credit quality has 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	\$ 2,205	\$ 182	\$ —	\$ 2,387	6.23%

December 31, 2016					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 2,243	\$ 93	\$ —	\$ 2,336	6.23%

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	—	—	—
After five years through ten years	—	—	—
After ten years	2,205	2,387	6.23
Total	\$ 2,205	\$ 2,387	6.23%

All of these investments have 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. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The Association had no investments that have been in a continuous unrealized loss position for the periods presented.

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 8.76 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 \$1,062 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	\$ (57)	\$ (52)	\$ (57)	\$ (52)
Other comprehensive income before reclassifications	-	-	-	-
Amounts reclassified from AOCI	1	1	1	1
Net current period other comprehensive income	1	1	1	1
Balance at end of period	\$ (56)	\$ (51)	\$ (56)	\$ (51)

	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)	\$ (1)	\$ (1)	See Note 7.
Net amounts reclassified	\$ (1)	\$ (1)	\$ (1)	\$ (1)	

(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	\$ 660	\$ 660	\$ –	\$ –	\$ 660	
Recurring Assets	\$ 660	\$ 660	\$ –	\$ –	\$ 660	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 22,183	\$ –	\$ –	\$ 22,183	\$ 22,183	\$ 36
Other property owned	53	–	–	66	66	(32)
Nonrecurring Assets	\$ 22,236	\$ –	\$ –	\$ 22,249	\$ 22,249	\$ 4
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 49	\$ 49	\$ –	\$ –	\$ 49	
Investment securities, held-to-maturity	2,205	–	–	2,387	2,387	
Loans	1,793,322	–	–	1,784,731	1,784,731	
Other Financial Assets	\$ 1,795,576	\$ 49	\$ –	\$ 1,787,118	\$ 1,787,167	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,478,958	\$ –	\$ –	\$ 1,472,809	\$ 1,472,809	
Other Financial Liabilities	\$ 1,478,958	\$ –	\$ –	\$ 1,472,809	\$ 1,472,809	

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	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 577	\$ 577	\$ –	\$ –	\$ 577	
Recurring Assets	\$ 577	\$ 577	\$ –	\$ –	\$ 577	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 23,612	\$ –	\$ –	\$ 23,612	\$ 23,612	\$ (644)
Other property owned	79	–	–	92	92	(244)
Nonrecurring Assets	\$ 23,691	\$ –	\$ –	\$ 23,704	\$ 23,704	\$ (888)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 43	\$ 43	\$ –	\$ –	\$ 43	
Investment securities, held-to-maturity	2,243	–	–	2,336	2,336	
Loans	1,766,877	–	–	1,755,165	1,755,165	
Other Financial Assets	\$ 1,769,163	\$ 43	\$ –	\$ 1,757,501	\$ 1,757,544	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,464,915	\$ –	\$ –	\$ 1,454,327	\$ 1,454,327	
Other Financial Liabilities	\$ 1,464,915	\$ –	\$ –	\$ 1,454,327	\$ 1,454,327	

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

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

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 22,249	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

	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 7 — Employee Benefit Plans

The following table summarizes retirement and other postretirement benefit expenses for the Association:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Pension	\$ 494	\$ 766	\$ 989	\$ 1,531
401(k)	222	201	434	400
Other postretirement benefits	97	162	195	324
Total	\$ 813	\$ 1,129	\$ 1,618	\$ 2,255

The following table summarizes 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	\$ 10	\$ 1,747	\$ 1,757
Other postretirement benefits	195	188	383
Total	\$ 205	\$ 1,935	\$ 2,140

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Contributions in the table above 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.