Southwest Georgia Farm Credit, ACA

SECOND QUARTER 2017

TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting 2

Management's Discussion and Analysis of

Financial Condition and Results of Operations 3

Consolidated Financial Statements

Consolidated Balance Sheets 7

Consolidated Statements of Comprehensive Income 8

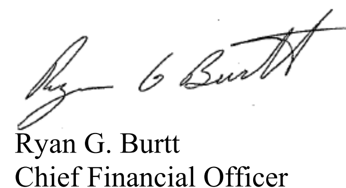
Consolidated Statements of Changes in Members' Equity 9

Notes to the Consolidated Financial Statements 10

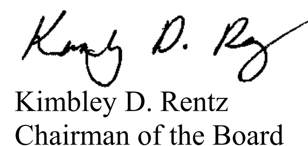
CERTIFICATION

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

Richard S. Monson
President/CEO



Ryan G. Burtt
Chief Financial Officer



Kimbley D. Rentz
Chairman of the Board

August 8, 2017

Southwest Georgia Farm Credit, ACA

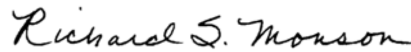
Report on Internal Control Over Financial Reporting

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

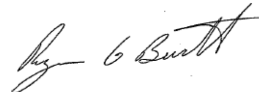
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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

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

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



Richard S. Monson
Chief Executive Officer



Ryan G. Burtt
Chief Financial Officer

August 8, 2017

Southwest Georgia Farm Credit, ACA

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

(dollars in thousands)

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

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 in our region, including timber, landlords, poultry, cotton, livestock, peanuts, fruit and nut, vegetables, and dairy. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the opportunities for non-farm income in the area, reduce the level of dependency on any given commodity.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of June 30, 2017, was $425,032, an increase of $47,904 as compared to $377,128 at December 31, 2016. Net loans outstanding at June 30, 2017, were $421,022 as compared to $373,097 at December 31, 2016. Net loans and investments accounted for 93.54 percent of total assets at June 30, 2017, as compared to 90.91 percent of total assets at December 31, 2016.

Total assets at June 30, 2017 were $456,644 compared to $417,753 at December 31, 2016, an increase of $38,891 or 9.31 percent. The increase in total assets is primarily attributed to the growth in Association loan volume.

Investment securities classed as held to maturity as of June 30, 2017 were $6,159, a decrease of $525 as compared to $6,684 at December 31, 2016. There is an inherent risk in the extension of any type of credit. The current year (2017) continues to show satisfactory credit quality within the Association's portfolio. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" are 98.80 percent of total loans and accrued interest at June 30, 2017 as compared to 98.86 percent at December 31, 2016.

Nonaccrual loans as of June 30, 2017 were $1,226, an increase of $546 as compared to $680 at December 31, 2016. The increase is primarily the result of several additional loans transferred to nonaccrual status during the year.

As of June 30, 2017, the association has four properties classed as Other Property Owned totaling $684. The properties consist of real estate in Georgia, and Tennessee.. The Association is actively marketing the properties for sale. During the year $128 of sales were reported and $11 valuation write downs were recognized.

The Association maintains an allowance for loan losses at a level considered sufficient to absorb possible losses within the loan portfolio based on current and expected future conditions. The Association increases the allowance by providing a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan is uncollectible. Any subsequent recoveries are added to the allowance. The Risk Management Committee (RIMCO), which is comprised of members of the Board of Directors, senior management, and senior lending staff, meets quarterly to evaluate the adequacy of the allowance account. The evaluation considers factors which include, among many other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions.

After review, RIMCO determined the allowance account was sufficient to absorb any expected losses in the portfolio. The allowance for loan losses at June 30, 2017, was $4,030 compared to $4,031 as of December 31, 2016 an increase of $1. The association has realized $21 in recoveries and there have been $22 in charge-offs this year.

RESULTS OF OPERATIONS

For the three months ended June 30, 2017

At June 30, 2017, total interest income was $4,766, a decrease of $143 as compared to $4,909 for the same period in 2016. Of the $4,766 in total interest income $95 was from investment

securities and $4,671 was from loans. The decrease in total interest income primarily resulted from the lower spreads on loan volume as well as payoffs on investments bonds..

Interest expense was $2,345 a decrease of $55, as compared to $2,400 for the same period in 2016. This decrease is primarily the result a $2 million increase in Loanable Funds Equity.

Non-interest income for the three months ended June 30, 2017, totaled $2,036 an increase of $153 as compared to $1,883 for the same period in 2016. The increase is primarily related to an increase in patronage income.

Non-interest expense for the three months ended June 30, 2017 totaled $2,407, a decrease of $17 as compared to $2,424 for the same period in 2016. The decrease is primarily due to decreases of $12 in Insurance Fund Premiums, and $24 in loss of Other Property Owned.

Net income for the three months ended June 30, 2017, totaled $2,050, an increase of $82 as compared to $1,968 for the same period in 2016.

For the six months ended June 30, 2017

At June 30, 2017, total interest income was $8,985 a decrease of $618 as compared to $9,603 for the same period in 2016. Of the $8,985 in total interest income $194 was from investment securities and $8,791 was from loans. The decrease in total interest income is primarily related to the decrease in average spreads on Association average loan volume.

Interest expense was $4,358, a decrease of $295 as compared to $4,653 for the same period in 2016.

Non-interest income for the six months ended June 30, 2017, totaled $4,013, an increase of $386 as compared to $3,627 for the same period in 2016. The increase is primarily attributed to increased Patronage refunds from other Farm Credit institutions.

Non-interest expense for the six months ended June 30, 2017 totaled $4,672, a decrease of $180 as compared to $4,852for the same period in 2016. The decrease is primarily due to decreases of $29 in Insurance Fund Premiums, $91 in losses on Other Property Owned, and decreases of $71 in Salary and Benefits.
Net income for the six months ended June 30, 2017, totaled $3,968, an increase of $243 as compared to $3,725 for the same period in 2016. The increase primarily resulted from the growth in average loan volume.

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 funds are advanced by the Bank 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 $369,721, an increase of $41,858 as compared to $327,863 at December 31, 2016. The increase is primarily the result of the increase in average loan volume. The Association has no lines of credit with third parties as of June 30, 2017.

CAPITAL RESOURCES

Total members' equity at June 30, 2017, increased $2,638 to $79,124 from the December 31, 2016, total of $76,486. Total capital stock and participation certificates were $1,242 as of June 30, 2017, an increase of $67 compared to $1,175 at December 31, 2016.

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.
- 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%	14.04%
Tier 1 Capital	6.0%	0.625%	6.625%	14.04%
Total Capital	8.0%	0.625%	8.625%	16.70%
Permanent Capital Ratio	7.0%	0.0%	7.0%	15.83%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	13.07%
UREE Leverage Ratio	1.5%	0.0%	1.5%	15.34%

** - 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 issued a final regulation by year-end. The stated objectives of the rule are as follows:

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-229-246-0384 or 1-866-304-3276, writing Belinda Harper, Treasurer, Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817 or accessing the website, *www.swgafarmcredit.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.

Southwest Georgia Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2017 *(unaudited)*	December 31, 2016 *(audited)*
Assets		
Cash	**$ 900**	$ 2,041
Investment securities:		
Held to maturity (fair value of $6,553 and $6,993, respectively)	**6,159**	6,684
Loans	**425,032**	377,128
Allowance for loan losses	**(4,030)**	(4,031)
Net loans	**421,002**	373,097
Loans held for sale	**198**	200
Accrued interest receivable	**4,613**	5,437
Investments in other Farm Credit institutions	**15,092**	15,103
Premises and equipment, net	**3,079**	3,116
Other property owned	**684**	823
Accounts receivable	**3,579**	9,560
Other assets	**1,338**	1,692
Total assets	**$ 456,644**	$ 417,753
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 369,721**	$ 327,863
Accrued interest payable	**818**	689
Patronage refunds payable	**37**	4,796
Accounts payable	**297**	660
Other liabilities	**6,647**	7,259
Total liabilities	**377,520**	341,267
Commitments and contingencies (Note 7)		
Members' Equity		
Protected borrower stock	**—**	1
Capital stock and participation certificates	**1,242**	1,174
Retained earnings		
Allocated	**16,037**	17,434
Unallocated	**61,845**	57,877
Total members' equity	**79,124**	76,486
Total liabilities and members' equity	**$ 456,644**	$ 417,753

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

Southwest Georgia Farm Credit, ACA

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	**$ 4,671**	$ 4,720	**$ 8,791**	$ 9,224
Investments	**95**	189	**194**	379
Total interest income	**4,766**	4,909	**8,985**	9,603
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**2,345**	2,400	**4,358**	4,653
Net interest income	**2,421**	2,509	**4,627**	4,950
Provision for loan losses	**—**	—	**—**	—
Net interest income after provision for loan losses	**2,421**	2,509	**4,627**	4,950
Noninterest Income				
Loan fees	**195**	165	**357**	346
Fees for financially related services	**—**	—	**4**	—
Patronage refunds from other Farm Credit institutions	**1,826**	1,680	**3,598**	3,202
Gains (losses) on sales of premises and equipment, net	**4**	—	**4**	18
Other noninterest income	**11**	38	**50**	61
Total noninterest income	**2,036**	1,883	**4,013**	3,627
Noninterest Expense				
Salaries and employee benefits	**1,425**	1,400	**2,773**	2,844
Occupancy and equipment	**140**	141	**290**	284
Insurance Fund premiums	**120**	132	**226**	255
(Gains) losses on other property owned, net	**14**	38	**40**	131
Other operating expenses	**708**	713	**1,343**	1,338
Total noninterest expense	**2,407**	2,424	**4,672**	4,852
Net income	**2,050**	1,968	**3,968**	3,725
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 2,050**	$ 1,968	**$ 3,968**	$ 3,725

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

Southwest Georgia Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2015	$ 7	$ 1,147	$ 19,124	$ 52,647	$ 72,925
Comprehensive income				3,725	3,725
Capital stock/participation certificates issued/(retired), net		8			8
Retained earnings retired			(1,690)		(1,690)
Balance at June 30, 2016	$ 7	$ 1,155	$ 17,434	$ 56,372	$ 74,968
Balance at December 31, 2016	**$ 1**	**$ 1,174**	**$ 17,434**	**$ 57,877**	**$ 76,486**
Comprehensive income				**3,968**	**3,968**
Protected borrower stock issued/(retired), net	**(1)**				**(1)**
Capital stock/participation certificates issued/(retired), net		**68**			**68**
Retained earnings retired			**(1,397)**		**(1,397)**
Balance at June 30, 2017	**$ —**	**$ 1,242**	**$ 16,037**	**$ 61,845**	**$ 79,124**

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

Southwest Georgia Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization
The accompanying financial statements include the accounts of Southwest Georgia 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 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:

- 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 failure of an obligor to meet the 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	$ 231,799	$ 214,858
Production and intermediate-term	120,628	94,377
Loans to cooperatives	2,046	1,770
Processing and marketing	35,451	37,834
Farm-related business	22,454	19,060
Communication	8,634	4,801
Power and water/waste disposal	891	911
Rural residential real estate	1,377	1,483
International	1,752	1,751
Lease receivables	–	283
Total Loans	$ 425,032	$ 377,128

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	$ 17,128	$ 130,933	$ 3,403	$ –	$ 1,869	$ –	$ 22,400	$ 130,933
Production and intermediate-term	10,118	76,178	958	–	–	–	11,076	76,178
Loans to cooperatives	2,049	–	–	–	–	–	2,049	–
Processing and marketing	20,455	81,169	–	423	–	–	20,455	81,592
Farm-related business	–	12,715	–	362	–	–	–	13,077
Communication	8,661	–	–	–	–	–	8,661	–
Power and water/waste disposal	896	–	–	–	–	–	896	–
International	1,754	–	–	–	–	–	1,754	–
Total	$ 61,061	$ 300,995	$ 4,361	$ 785	$ 1,869	$ –	$ 67,291	$ 301,780

	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	$ 19,538	$ 141,157	$ –	$ –	$ 1,950	$ –	$ 21,488	$ 141,157
Production and intermediate-term	15,191	75,534	–	–	600	–	15,791	75,534
Loans to cooperatives	1,773	–	–	–	–	–	1,773	–
Processing and marketing	20,315	70,255	1,137	476	–	–	21,452	70,731
Farm-related business	–	13,126	–	390	–	–	–	13,516
Communication	4,812	–	–	–	–	–	4,812	–
Power and water/waste disposal	916	–	–	–	–	–	916	–
International	1,754	–	–	–	–	–	1,754	–
Lease receivables	–	–	283	–	–	–	283	–
Total	$ 64,299	$ 300,072	$ 1,420	$ 866	$ 2,550	$ –	$ 68,269	$ 300,938

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	$ 572	$ 26,584	$ 204,643	$ 231,799
Production and intermediate-term	41,837	59,449	19,342	120,628
Loans to cooperatives	–	–	2,046	2,046
Processing and marketing	621	19,050	15,780	35,451
Farm-related business	1,911	14,846	5,697	22,454
Communication	–	4,892	3,742	8,634
Power and water/waste disposal	–	–	891	891
Rural residential real estate	6	106	1,265	1,377
International	–	709	1,043	1,752
Total Loans	$ 44,947	$ 125,636	$ 254,449	$ 425,032
Percentage	10.57%	29.56%	59.87%	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	98.38%	99.11%
OAEM	1.20	0.70
Substandard/doubtful/loss	0.42	0.19
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	97.63%	98.19%
OAEM	1.18	0.68
Substandard/doubtful/loss	1.19	1.13
	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	88.68%	85.92%
OAEM	–	–
Substandard/doubtful/loss	11.32	14.08
	100.00%	100.00%
Communication		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2017	December 31, 2016
Power and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	87.68%	88.44%
OAEM	–	–
Substandard/doubtful/loss	12.32	11.56
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	–%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	–%	100.00%
Total Loans:		
Acceptable	97.81%	98.29%
OAEM	0.99	0.57
Substandard/doubtful/loss	1.20	1.14
	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	$ 378	$ –	$ 378	$ 233,937	$ 234,315	$ –
Production and intermediate-term	65	1,029	1,094	121,181	122,275	–
Loans to cooperatives	–	–	–	2,057	2,057	–
Processing and marketing	–	–	–	35,635	35,635	–
Farm-related business	–	–	–	22,647	22,647	–
Communication	–	–	–	8,645	8,645	–
Power and water/waste disposal	–	–	–	891	891	–
Rural residential real estate	170	–	170	1,213	1,383	–
International	–	–	–	1,754	1,754	–
Total	$ 613	$ 1,029	$ 1,642	$ 427,960	$ 429,602	$ –

	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	$ 29	$ –	$ 29	$ 218,176	$ 218,205	$ –
Production and intermediate-term	–	163	163	95,696	95,859	–
Loans to cooperatives	–	–	–	1,779	1,779	–
Processing and marketing	–	–	–	38,213	38,213	–
Farm-related business	–	–	–	19,212	19,212	–
Communication	–	–	–	4,802	4,802	–
Power and water/waste disposal	–	–	–	913	913	–
Rural residential real estate	172	–	172	1,318	1,490	–
International	–	–	–	1,753	1,753	–
Lease receivables	–	–	–	284	284	–
Total	$ 201	$ 163	$ 364	$ 382,146	$ 382,510	$ –

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	$ 119	$ 177
Production and intermediate-term	1,107	503
Total	$ 1,226	$ 680
Accruing restructured loans:		
Real estate mortgage	$ 1,403	$ 1,443
Production and intermediate-term	15	16
Total	$ 1,418	$ 1,459
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 2,644	$ 2,139
Other property owned	684	823
Total nonperforming assets	$ 3,328	$ 2,962
Nonaccrual loans as a percentage of total loans	0.29%	0.18%
Nonperforming assets as a percentage of total loans and other property owned	0.78%	0.78%
Nonperforming assets as a percentage of capital	4.21%	3.87%

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	$ 13	$ 517
Past due	1,213	163
Total	$ 1,226	$ 680
Impaired accrual loans:		
Restructured	$ 1,418	$ 1,459
90 days or more past due	–	–
Total	$ 1,418	$ 1,459
Total impaired loans	$ 2,644	$ 2,139
Additional commitments to lend	$ –	$ –

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

	June 30, 2017			Quarter Ended June 30, 2017		Six Months Ended June 30, 2017	
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:							
Real estate mortgage	$ 1,286	$ 1,273	$ 52	$ 1,230	$ 5	$ 1,137	$ 22
Production and intermediate-term	739	731	79	706	3	653	13
Total	$ 2,025	$ 2,004	$ 131	$ 1,936	$ 8	$ 1,790	$ 35
With no related allowance for credit losses:							
Real estate mortgage	$ 236	$ 285	$ –	$ 226	$ 1	$ 209	$ 4
Production and intermediate-term	383	475	–	366	2	338	7
Total	$ 619	$ 760	$ –	$ 592	$ 3	$ 547	$ 11
Total:							
Real estate mortgage	$ 1,522	$ 1,558	$ 52	$ 1,456	$ 6	$ 1,346	$ 26
Production and intermediate-term	1,122	1,206	79	1,072	5	991	20
Total	$ 2,644	$ 2,764	$ 131	$ 2,528	$ 11	$ 2,337	$ 46

	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:					
Real estate mortgage	$ 1,318	$ 1,305	$ 51	$ 1,410	$ 22
Production and intermediate-term	120	120	22	128	2
Total	$ 1,438	$ 1,425	$ 73	$ 1,538	$ 24
With no related allowance for credit losses:					
Real estate mortgage	$ 302	$ 380	$ –	$ 322	$ 4
Production and intermediate-term	399	489	–	427	7
Total	$ 701	$ 869	$ –	$ 749	$ 11
Total:					
Real estate mortgage	$ 1,620	$ 1,685	$ 51	$ 1,732	$ 26
Production and intermediate-term	519	609	22	555	9
Total	$ 2,139	$ 2,294	$ 73	$ 2,287	$ 35

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	Total
Activity related to the allowance for credit losses:									
Balance at March 31, 2017	$ 2,295	$ 1,064	$ 576	$ 65	$ 9	$ 15	$ 18	$ 3	$ 4,045
Charge-offs	(4)	(15)	–	–	–	–	–	–	(19)
Recoveries	–	4	–	–	–	–	–	–	4
Provision for loan losses	(113)	136	(28)	13	(1)	(2)	(2)	(3)	–
Balance at June 30, 2017	$ 2,178	$ 1,189	$ 548	$ 78	$ 8	$ 13	$ 16	$ –	$ 4,030
Balance at December 31, 2016	$ 2,305	$ 1,014	$ 616	$ 50	$ 10	$ 15	$ 18	$ 3	$ 4,031
Charge-offs	(4)	(18)	–	–	–	–	–	–	(22)
Recoveries	–	21	–	–	–	–	–	–	21
Provision for loan losses	(123)	172	(68)	28	(2)	(2)	(2)	(3)	–
Balance at June 30, 2017	$ 2,178	$ 1,189	$ 548	$ 78	$ 8	$ 13	$ 16	$ –	$ 4,030
Balance at March 31, 2016	$ 2,504	$ 965	$ 614	$ 38	$ 9	$ 17	$ –	$ 7	$ 4,154
Charge-offs	–	(2)	–	–	–	–	–	–	(2)
Recoveries	3	12	–	–	–	–	–	–	15
Provision for loan losses	(153)	185	(58)	13	–	(2)	16	(1)	–
Balance at June 30, 2016	$ 2,354	$ 1,160	$ 556	$ 51	$ 9	$ 15	$ 16	$ 6	$ 4,167
Balance at December 31, 2015	$ 2,521	$ 976	$ 623	$ 38	$ 10	$ 25	$ –	$ 8	$ 4,201
Charge-offs	–	(83)	–	–	–	–	–	–	(83)
Recoveries	3	46	–	–	–	–	–	–	49
Provision for loan losses	(170)	221	(67)	13	(1)	(10)	16	(2)	–
Balance at June 30, 2016	$ 2,354	$ 1,160	$ 556	$ 51	$ 9	$ 15	$ 16	$ 6	$ 4,167
Allowance on loans evaluated for impairment:									
Individually	$ 52	$ 79	$ –	$ –	$ –	$ –	$ –	$ –	$ 131
Collectively	2,126	1,110	548	78	8	13	16	–	3,899
Balance at June 30, 2017	$ 2,178	$ 1,189	$ 548	$ 78	$ 8	$ 13	$ 16	$ –	$ 4,030
Individually	$ 51	$ 22	$ –	$ –	$ –	$ –	$ –	$ –	$ 73
Collectively	2,254	992	616	50	10	15	18	3	3,958
Balance at December 31, 2016	$ 2,305	$ 1,014	$ 616	$ 50	$ 10	$ 15	$ 18	$ 3	$ 4,031
Recorded investment in loans evaluated for impairment:									
Individually	$ 1,522	$ 1,122	$ –	$ –	$ –	$ –	$ –	$ –	$ 2,644
Collectively	232,793	121,153	60,339	8,645	891	1,383	1,754	–	426,958
Balance at June 30, 2017	$ 234,315	$ 122,275	$ 60,339	$ 8,645	$ 891	$ 1,383	$ 1,754	$ –	$ 429,602
Individually	$ 1,620	$ 519	$ –	$ –	$ –	$ –	$ –	$ –	$ 2,139
Collectively	216,585	95,340	59,204	4,802	913	1,490	1,753	284	380,371
Balance at December 31, 2016	$ 218,205	$ 95,859	$ 59,204	$ 4,802	$ 913	$ 1,490	$ 1,753	$ 284	$ 382,510

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

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

	Three months ended June 30, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 22	$ –	$ 22	
Total	$ –	$ 22	$ –	$ 22	
Post-modification:					
Production and intermediate-term	$ –	$ 13	$ –	$ 13	$ –
Total	$ –	$ 13	$ –	$ 13	$ –

	Six months ended June 30, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 22	$ –	$ 22	
Total	$ –	$ 22	$ –	$ 22	
Post-modification:					
Production and intermediate-term	$ –	$ 13	$ –	$ 13	$ –
Total	$ –	$ 13	$ –	$ 13	$ –

Outstanding Recorded Investment	Three months ended June 30, 2016 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	$ –	$ 173	$ –	$ 173	
Total	$ –	$ 173	$ –	$ 173	
Post-modification:					
Production and intermediate-term	$ –	$ 173	$ –	$ 173	$ –
Total	$ –	$ 173	$ –	$ 173	$ –

Outstanding Recorded Investment	Six months ended June 30, 2016 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	$ –	$ 173	$ –	$ 173	
Total	$ –	$ 173	$ –	$ 173	
Post-modification:					
Production and intermediate-term	$ –	$ 173	$ –	$ 173	$ –
Total	$ –	$ 173	$ –	$ 173	$ –

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 the 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	$ 1,403	$ 1,443	$ –	$ –
Production and intermediate-term	152	142	137	126
Total Loans	$ 1,555	$ 1,585	$ 137	$ 126
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

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

Note 3 — Investments

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 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 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 $862 in 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	$ 6,159	$ 478	$ (84)	$ 6,553	5.92%

	December 31, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 6,684	$ 404	$ (95)	$ 6,993	5.96%

A summary of 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	1,319	1,317	5.00
After five years through ten years	–	–	–
After ten years	4,840	5,236	6.17
Total	$ 6,159	$ 6,553	5.92%

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 table shows 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	$ 627	$ (69)	$ 1,384	$ (15)

	December 31, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 1,955	$ (82)	$ 67	$ (13)

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 5.48 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 $1,161 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:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 2,513	$ –	$ –	$ 2,513	$ 2,513	$ (59)
Other property owned	684	–	–	776	776	(11)
Nonrecurring Assets	$ 3,197	$ –	$ –	$ 3,289	$ 3,289	$ (70)
Other Financial Instruments						
Assets:						
Cash	$ 900	$ 900	$ –	$ –	$ 900	
Investment securities, held-to-maturity	6,159	–	–	6,553	6,553	
Loans	418,687	–	–	410,269	410,269	
Other Financial Assets	$ 425,746	$ 900	$ –	$ 416,822	$ 417,722	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 369,721	$ –	$ –	$ 367,207	$ 367,207	
Other Financial Liabilities	$ 369,721	$ –	$ –	$ 367,207	$ 367,207	

	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:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 2,066	$ –	$ –	$ 2,066	$ 2,066	$ 27
Other property owned	823	–	–	926	926	(25)
Nonrecurring Assets	$ 2,889	$ –	$ –	$ 2,992	$ 2,992	$ 2
Other Financial Instruments						
Assets:						
Cash	$ 2,041	$ 2,041	$ –	$ –	$ 2,041	
Investment securities, held-to-maturity	6,684	–	–	6,993	6,993	
Loans	371,231	–	–	362,463	362,463	
Other Financial Assets	$ 379,956	$ 2,041	$ –	$ 369,456	$ 371,497	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 327,863	$ –	$ –	$ 323,757	$ 323,757	
Other Financial Liabilities	$ 327,863	$ –	$ –	$ 323,757	$ 323,757	

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	$	3,289	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 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	$ 166	$ 252	$ 332	$ 504
401(k)	53	47	134	127
Other postretirement benefits	25	57	49	114
Total	$ 244	$ 356	$ 515	$ 745

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	$ –	$ 588	$ 588
Other postretirement benefits	49	45	94
Total	$ 49	$ 633	$ 682

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 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 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.