Puerto Rico Farm Credit, ACA

SECOND QUARTER 2016

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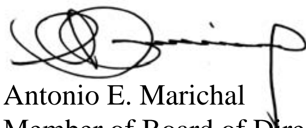
CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2016 quarterly report of Puerto Rico 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.

Robert G. Miller
Chairman of Board of Directors

Ricardo L. Fernández
Chief Executive Officer



Antonio E. Marichal
Member of Board of Directors
Chairman of the Audit Committee

August 8, 2016

Puerto Rico 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, 2016. 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, 2016, 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, 2016.

Ricardo L. Fernández
Chief Executive Officer

August 8, 2016

Puerto Rico Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Puerto Rico Farm Credit, ACA (Association) for the six months ended June 30, 2016. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, and the 2015 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 short and intermediate-term loans and long-term real estate mortgage loans. The Association also maintains a portfolio of purchased loans, originated by other Farm Credit System entities and non-system entities. The Association's predominant chartered territory (CT) agricultural commodities were dairy, fruits (including plantains and coffee) and rural home which totaled approximately $87,833 or 49.75 percent of the gross principal balance, net of sold loans, at June 30, 2016.

The outstanding loan volume of the Association at June 30, 2016 was $168,523 an increase of $3,690 or 2.24 percent as compared to $164,833 at December 31, 2015. Loans originated within the Association's chartered territory were higher by approximately $2,679 and participation loans purchased increased by approximately $1,011. Increase in loans is due to targeted marketing efforts by Association lenders to viable farmers.

Net loans outstanding at June 30, 2016 totaled $166,964 as compared to $163,194 at December 31, 2015. Net loans made up 96.48 percent of total assets at June 30, 2016, as compared to 95.72 percent at December 31, 2015.

Non-accrual loans totaled $5,815 or 3.45 percent of total loans at June 30, 2016, compared to $6,084 or 3.69 percent of total loans at December 31, 2015. Nonaccrual loans decreased $269 during the first six months of 2016 and was primarily the result of CT loans transferred to other property owned (OPO) and liquidation of CT loans in process of collection during the period.

The overall delinquency rate for the chartered territory accruing loan portfolio continues to remain stable. Management believes that high risk loans will decrease by the end of the year.

The allowance for loan losses decreased $80 to $1,559 at June 30, 2016 from $1,639 at December 31, 2015. The decrease was primarily due to $191 reduction in the specific allowance offset by a $111 increase in the general reserve. Management will continue to monitor certain risks, such as collateral risk and other factors that may increase the risk of the portfolio, such as climate conditions, government fiscal policy and overall economic conditions in the island. The total allowance for loan losses to outstanding loan volume decreased to 0.93 percent at June 30, 2016 from 0.99 percent at December 31, 2015.

During the first six months of 2016, charge-offs recognized totaled $4, mainly due to chartered territory loans transferred to nonaccrual. Also, a total of $40 in recoveries were recognized mainly due to chartered territory loans transferred to OPO. The Association is actively marketing acquired properties and may incur additional accounting losses or gains, as sales are completed.

Prevailing economic indicators signal continued weakness in the island's economy. The Puerto Rico Oversight Management and Economic Stabilization Act (PROMESA) will begin working in September 2016 to promote adequate management of public finances. It is expected that the Oversight Boards fiscal actions will lead to additional economic contraction in the short term, as government spending is reduced to achieve a balanced fiscal budget. Management expects that the economy can contract 3.2% in fiscal year 2017. The actions of the Board and local government are not expected to impact agriculture in the island significantly as agriculture represents a small portion of the island's economic output. Furthermore, the Department of Agriculture's annual budget represents a small portion of the government's financial budget. Management will monitor the Oversight Board actions to assess how they could impact the ACA's ability to serve the marketplace.

Management will also monitor US policies that may impact the performance of entire loan portfolio. It is expected that the US will achieve limited economic growth in fiscal year 2017.

The dairy industry's production has decreased slightly year-to-date with production just below the previous year. The Association lends over 30percent of chartered territory loans to this industry and continues to execute risk management practices to reduce overall risk The Association will continue

to monitor events within the industry and their potential impact on the dairy portfolio. Other industries continue to perform well and Management believes that credit quality will remain stable through the end of the year.

The participation's portfolio allows the Association to diversify risk and to maximize the use of capital for the benefit of shareholders. The ACA expects this portfolio to grow slightly in 2016 and expects margins to improve as Management actively enters and exists relationships in the portfolio.

The Association will continue to search for opportunities to fulfill its public mission. The Board of Directors and management remain cautious of the Association's ability to quickly grow the portfolio under the prevailing economic environment.

Management will focus on targeted marketing to viable farmers in sectors demonstrating the ability to grow and remain competitive in a changing marketplace.

RESULTS OF OPERATIONS

For the three months ended June 30, 2016

The Association recorded net income for the three months ended June 30, 2016 of $530 as compared to net income of $373 for the same period in 2015. This $157 or 42.09 percent increase in net income is primarily attributed to a decline in noninterest expenses driven by a significant reduction in salaries and employee benefits offset by an increase in the provision for loan losses.

The negative impact of the change in the provision for (reversal of allowance for) loan losses was $392 for the three months ended June 30, 2016 compared to the same period in 2015. In 2015, improvement in collateral risk within the loan portfolio allowed the Association to recognize a reversal in the allowance for loan losses of $326 for the period.

Net interest income was $1,196 for the three months ended June 30, 2016 compared to $1,156 for the same period in 2015. The increase of $40 is attributed to an increase in accrual loan volume during the period.

Noninterest income for the three months ended June 30, 2016 totaled $252 compared to $224 for the same period of 2015, resulting in an increase of $28 or 12.50 percent. This increase was mainly due to a decline in impairment losses on investments of $40 along with a $9 increase in patronage refunds from other Farm Credit Institutions.

Noninterest expense was $852 for the three months ended June 30, 2016 as compared to $1,333 for the same period in 2015, resulting in a decrease of $481 or 36.08 percent. The decrease was primarily due to a reduction of $479 in salaries and benefits as a result of reduced staffing levels.

For the six months ended June 30, 2016

For the six months ended June 30, 2016, the Association recognized net income of $1,418. This represents an increase of $603 or 73.99 percent compared to net income of $815 for the first six months of 2015. The increase is primarily the result of a reduction of noninterest expenses driven by a significant reduction in salaries and employee benefits offset by a reduction in the reversal of allowance for loan losses.

Reversal of the allowance for loan losses declined $386 for the six months ended June 30, 2016 compared to the same period in 2015. In 2015, improvement in collateral risk within the loan portfolio allowed the Association to recognize a larger reversal of the allowance for loan losses compared to the same period in 2016.

Net interest income increased $111 or 4.69 percent to $2,480 for the six months ended June 30, 2016, from $2,369 for the same period in 2015. The increase is attributed to loan volume growth during the period.

Noninterest income for the first half of 2016 totaled $531 as compared to $430 for the same period in 2015, an increase of $101 or 23.49 percent. The increase was primarily attributable to a decline in losses on other transactions of $90.

Noninterest expense was $1,709 for the six months ended June 30, 2016 as compared to $2,486 for the same period in 2015, a decrease of $777 or 31.26 percent. The decrease was primarily related to a reduction of $748 in salaries and employee benefits as a result of reduced staffing costs.

Although the Association is subject to federal income tax, the Association does not expect to incur a federal tax liability in 2016 due to the taxable loss carryforward. No provision for income taxes has been recognized in 2016.

Key Results of Operations Ratios

	Annualized for the six months ended 6/30/16	For the year ended 12/31/15
Return on Average Assets	1.68%	0.73%
Return on Average Equity	5.38%	2.35%
Net Interest Income as a Percentage of Average Earning Assets (Includes Nonaccruals)	3.01%	2.88%

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

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 notes. The variable rate notes are utilized by the Association to fund variable rate loan advances and operating fund requirements. The fixed rate notes are used specifically to fund fixed rate loan advances made by the Association.

The total notes payable to the Bank at June 30, 2016 was $118,000 as compared to $116,270 at December 31, 2015. The increase of $1,730 or 1.49 percent is primarily due to an increase in loan volume outstanding during the period along with an increase in members' equity resulting from net income for the six months ended June 30, 2016.

See Note 4, *Debt*, in the Notes to the Consolidated Financial Statements for additional information on the status of compliance with requirements under the General Financing Agreement.

The Association had no lines of credit outstanding with third parties as of June 30, 2016.

Funds Management

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers variable and fixed rate loan products which are competitively priced according to local market rates. Variable rate loans are generally indexed to either the Prime rate or the London Interbank Offered Rate (LIBOR). The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at June 30, 2016 increased by $1,405 or 2.69 percent to $53,729 from December 31, 2015 total of $52,324. The increase was primarily attributable to the year-to-date net income.

Total capital stock and participation certificates were $499 at June 30, 2016 compared to $512 at December 31, 2015. The decrease of $13 was the result of retirement of capital stock on loans liquidated in the normal course of business.

Unallocated retained earnings were $53,230 at June 30, 2016 for an increase of $1,418 or 2.74 percent from December 31, 2015 when unallocated retained earnings totaled $51,812. The increase was due to 2016 year-to-date net income.

The Association's regulatory permanent capital ratio at June 30, 2016 was 34.87 percent compared to 35.11 percent at December 31, 2015. The Association's total surplus and core surplus ratios were both 34.53 percent at June 30, 2016. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

Key financial condition ratios were as follows:

	3/31/16	12/31/15
Total Members' Equity to Asset	31.05%	30.69%
Debt to Total Members' Equity	2.22	2.26

REGULATORY MATTERS

Supervisory Agreement

On March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement superseded FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporated certain requirements from these letters. The Supervisory Agreement required the Board of Directors to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibited the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement included portfolio credit quality deterioration, high turnover in senior management, perceived weaknesses in board governance, and, reduced earnings and liquidity.

The Board of Directors and the Association worked together to reach full compliance with the requirements of the SA. On February 24, 2016, the Board of Directors was notified by FCA that the written Supervisory Agreement was terminated by the FCA Board. The termination was recognition by the FCA that the conditions that prompted the need for the SA were met. As of that date the Association is under normal regulatory supervision.

Other Regulatory Matters

On March 10, 2016, the FCA adopted a final regulation to modify the regulatory capital requirements for System banks and associations. The stated objectives of the rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent, and
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

The final rule will replace existing core surplus and total surplus requirements with Common Equity Tier 1, Tier 1 and Total Capital risk-based capital ratio requirements. The final rule will also replace the existing net collateral ratio with a Tier 1 Leverage ratio and is applicable to all banks and associations. The Permanent Capital Ratio will remain in effect with the final rule. The following sets forth the new regulatory capital ratios:

Ratio	Primary Components of Numerator	Denominator	Minimum Requirement	Minimum Requirement with Conservation Buffer
Common Equity Tier 1 (CET1) Capital	Unallocated retained earnings/surplus (URE), Common Stock (subject to certain conditions)	Risk-weighted assets	4.5%	7.0%
Tier 1 Capital	CET1 Capital, Non-cumulative perpetual preferred stock	Risk-weighted assets	6.0%	8.5%
Total Capital	Tier 1 Capital, Allowance for Loan Losses, other equity securities not included in Tier 1 Capital	Risk-weighted assets	8.0%	10.5%
Tier 1 Leverage	Tier 1 Capital (1.5% must be URE or URE equivalents)	Total assets	4.0%	5.0%

On July 28, 2016, the FCA published the final regulation in the Federal Register, and it is anticipated that the effective date of the new capital requirements will be January 1, 2017, with a three-year phase-in of the capital conservation buffer applied to the risk-adjusted capital ratios. District institutions are well-positioned to be in compliance with the new requirements at adoption.

On November 30, 2015, the FCA, along with four other federal agencies, published in the Federal Register a final rule to establish capital and margin requirements for covered swap entities as required by the Dodd-Frank Act. See below for further information regarding the Dodd-Frank Act.

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 in 2016. 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.

OTHER MATTERS

During the third quarter of 2015, the Association entered into an agreement with and began receiving certain standard and as-requested optional or negotiated services from Farm Credit of Florida, ACA for a fee. These services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources and, loan on-boarding and servicing. The agreement is expected to leverage synergies and realize operating efficiencies and savings for both institutions. Both institutions are required to meet specified obligations under the agreement, which is automatically renewable for a one year term, unless terminated by either institution with 180 days prior written notice or sooner if specified obligations are not satisfied.

Subsequent to June 30th, 2016 a loan to one borrower in the amount of $394 was transferred to nonaccrual status. It is anticipated this will increase provision expense by approximately $80 in the third quarter of 2016.

FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the Financial Regulatory Reform section of the Association's 2015 Annual Report.

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 2015 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. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at its website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Alice Rivera, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, *www.puertoricofarmcredit.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 Association.

Puerto Rico Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2016 *(unaudited)*	December 31, 2015 *(audited)*
Assets		
Cash	**$ 105**	$ 754
Loans	**168,523**	164,833
Allowance for loan losses	**(1,559)**	(1,639)
Net loans	**166,964**	163,194
Accrued interest receivable	**676**	536
Investments in other Farm Credit institutions	**1,750**	1,750
Premises and equipment, net	**1,168**	1,097
Other property owned	**1,762**	1,326
Accounts receivable	**459**	1,663
Other assets	**173**	174
Total assets	**$ 173,057**	$ 170,494
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 118,000**	$ 116,270
Accrued interest payable	**183**	161
Patronage refunds payable	**—**	800
Accounts payable	**351**	429
Other liabilities	**794**	510
Total liabilities	**119,328**	118,170
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**499**	512
Unallocated retained earnings	**53,230**	51,812
Total members' equity	**53,729**	52,324
Total liabilities and members' equity	**$ 173,057**	$ 170,494

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Interest Income				
Loans	**$ 1,731**	$ 1,626	**$ 3,544**	$ 3,307
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**535**	470	**1,064**	938
Net interest income	**1,196**	1,156	**2,480**	2,369
Provision for (reversal of allowance for) loan losses	**66**	(326)	**(116)**	(502)
Net interest income after provision for (reversal of allowance for) loan losses	**1,130**	1,482	**2,596**	2,871
Noninterest Income				
Loan fees	**21**	27	**42**	51
Fees for financially related services	**1**	1	**10**	1
Patronage refunds from other Farm Credit institutions	**233**	224	**460**	467
Gains (losses) on sales of premises and equipment, net	**—**	—	**11**	—
Gains (losses) on other transactions	**(3)**	(4)	**8**	(82)
Net other-than-temporary impairment losses on investments	**—**	(40)	**—**	(40)
Other noninterest income	**—**	16	**—**	33
Total noninterest income	**252**	224	**531**	430
Noninterest Expense				
Salaries and employee benefits	**201**	680	**633**	1,381
Occupancy and equipment	**81**	61	**137**	114
Insurance Fund premiums	**39**	32	**76**	64
(Gains) losses on other property owned, net	**23**	5	**(39)**	8
Other operating expenses	**508**	555	**902**	919
Total noninterest expense	**852**	1,333	**1,709**	2,486
Net income	**530**	373	**1,418**	815
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 530**	$ 373	**$ 1,418**	$ 815

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

Puerto Rico Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Total Members' Equity
Balance at December 31, 2014	$ 520	$ 51,377	$ 51,897
Comprehensive income		815	815
Capital stock/participation certificates issued/(retired), net	(10)		(10)
Balance at June 30, 2015	$ 510	$ 52,192	$ 52,702
Balance at December 31, 2015	$ 512	$ 51,812	$ 52,324
Comprehensive income		**1,418**	**1,418**
Capital stock/participation certificates issued/(retired), net	**(13)**		**(13)**
Balance at June 30, 2016	**$ 499**	**$ 53,230**	**$ 53,729**

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

Puerto Rico 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 Puerto Rico Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, 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, 2015, are contained in the 2015 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 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 June, 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The Update improves 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. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Update will take effect for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. 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. For all other organizations, the ASU will take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

- In May, 2016, the FASB issued ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The guidance addresses certain issues identified by the Transition Resource Group (TRG) in the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In April, 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The Update clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In March, 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments clarify the implementation guidance on principal versus agent considerations. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In March, 2016, the FASB issued ASU 2016-07 Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. To simplify the accounting for equity method investments, the amendments in the Update eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

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:

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued an update that requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. 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 an update that is intended to improve the recognition and measurement of financial instruments. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2015-14 Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date: In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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:

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) – The amendment was adopted prospectively. There were no changes to the Association's statements of financial condition or results of operations as a result of this guidance. See Note 5, *Fair Value Measurement*, for the disclosures required by this guidance.

- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the

Association's statements of financial condition or results of operations as a result of this guidance.

- 2014-15 Income Statement – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern: This amendment is effective for the annual reporting period ended December 31, 2016 and interim and annual periods thereafter. It may require additional disclosures but will not have a material impact on the Association's financial condition or results of operations.

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, 2016	December 31, 2015
Real estate mortgage	$ 78,026	$ 83,046
Production and intermediate-term	38,077	28,076
Loans to cooperatives	4,045	–
Processing and marketing	18,182	25,476
Farm-related business	2,226	4,225
Communication	10,849	7,993
Energy and water/waste disposal	1,995	1,995
Rural residential real estate	13,413	14,022
International	1,710	–
Total Loans	$ 168,523	$ 164,833

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, 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	$ 1,226	$ 1,654	$ –	$ –	$ 808	$ –	$ 2,034	$ 1,654
Production and intermediate term	8,993	3,984	–	–	5,135	–	14,128	3,984
Loans to cooperatives	4,053	–	–	–	–	–	4,053	–
Processing and marketing	14,895	11,375	–	–	379	–	15,274	11,375
Farm-related business	–	–	–	–	2,038	–	2,038	–
Communication	10,890	–	–	–	–	–	10,890	–
Energy and water/waste disposal	2,000	–	–	–	–	–	2,000	–
International	1,714	–	–	–	–	–	1,714	–
Total	$ 43,771	$ 17,013	$ –	$ –	$ 8,360	$ –	$ 52,131	$ 17,013

	December 31, 2015							
	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	$ 999	$ –	$ –	$ –	$ 912	$ –	$ 1,911	$ –
Production and intermediate term	4,314	–	–	–	5,333	–	9,647	–
Processing and marketing	25,018	–	–	–	414	–	25,432	–
Farm-related business	1,960	–	–	–	2,067	–	4,027	–
Communication	8,025	–	–	–	–	–	8,025	–
Energy and water/waste disposal	2,000	–	–	–	–	–	2,000	–
Total	$ 42,316	$ –	$ –	$ –	$ 8,726	$ –	$ 51,042	$ –

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, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 13,943	$ 41,170	$ 22,913	$ 78,026
Production and intermediate-term	4,809	24,902	8,366	38,077
Loans to cooperatives	–	1,956	2,089	4,045
Processing and marketing	874	8,229	9,079	18,182
Farm-related business	–	221	2,005	2,226
Communication	2,579	6,504	1,766	10,849
Energy and water/waste disposal	–	1,995	–	1,995
Rural residential real estate	218	480	12,715	13,413
International	–	–	1,710	1,710
Total Loans	$ 22,423	$ 85,457	$ 60,643	$ 168,523
Percentage	13.31%	50.71%	35.98%	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, 2016	December 31, 2015
Real estate mortgage:		
Acceptable	88.43%	88.39%
OAEM	0.89	1.49
Substandard/doubtful/loss	10.68	10.12
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	93.20%	93.09%
OAEM	4.07	–
Substandard/doubtful/loss	2.73	6.91
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2016	December 31, 2015
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	–%	–%
OAEM	100.00	100.00
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	93.81%	94.31%
OAEM	1.02	0.83
Substandard/doubtful/loss	5.17	4.86
	100.00%	100.00%
International:		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Total Loans:		
Acceptable	91.43%	91.28%
OAEM	2.59	2.03
Substandard/doubtful/loss	5.98	6.69
	100.00%	100.00%

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

	June 30, 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	$ 2,479	$ 3,817	$ 6,296	$ 72,107	$ 78,403	$ –
Production and intermediate-term	556	329	885	37,359	38,244	–
Loans to cooperatives	–	–	–	4,054	4,054	–
Processing and marketing	–	–	–	18,245	18,245	–
Farm-related business	–	–	–	2,237	2,237	–
Communication	–	–	–	10,850	10,850	–
Energy and water/waste disposal	–	–	–	1,996	1,996	–
Rural residential real estate	530	10	540	12,918	13,458	–
International	–	–	–	1,712	1,712	–
Total	$ 3,565	$ 4,156	$ 7,721	$ 161,478	$ 169,199	$ –

	December 31, 2015					
	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	$ 3,291	$ 2,798	$ 6,089	$ 77,241	$ 83,330	$ –
Production and intermediate-term	1,474	2	1,476	26,714	28,190	–
Processing and marketing	–	–	–	25,561	25,561	–
Farm-related business	–	–	–	4,237	4,237	–
Communication	–	–	–	7,996	7,996	–
Energy and water/waste disposal	–	–	–	1,995	1,995	–
Rural residential real estate	228	12	240	13,819	14,059	–
Total	$ 4,993	$ 2,812	$ 7,805	$ 157,563	$ 165,368	$ –

Nonperforming assets (including the recorded investment for loans) and related credit quality statistics at period end were as follows:

	June 30, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	$ 5,037	$ 5,802
Production and intermediate-term	433	2
Rural residential real estate	345	280
Total	$ 5,815	$ 6,084
Accruing restructured loans:		
Real estate mortgage	$ 2,346	$ 2,302
Production and intermediate-term	1,077	1,368
Total	$ 3,423	$ 3,670
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 9,238	$ 9,754
Other property owned	1,762	1,326
Total nonperforming assets	$ 11,000	$ 11,080
Non-accrual loans as a percentage of total loans	3.45%	3.69%
Nonperforming assets as a percentage of total loans and other property owned	6.46%	6.67%
Nonperforming assets as a percentage of capital	20.47%	21.18%

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, 2016	December 31, 2015
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,424	$ 1,390
Past due	4,391	4,694
Total	5,815	6,084
Impaired accrual loans:		
Restructured	3,423	3,670
90 days or more past due	–	–
Total	3,423	3,670
Total impaired loans	$ 9,238	$ 9,754
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, 2016			Quarter Ended June 30, 2016		Six Months Ended June 30, 2016	
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	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	114	122	71	118	1	120	2
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 114	$ 122	$ 71	$ 118	$ 1	$ 120	$ 2
With no related allowance for credit losses:							
Real estate mortgage	$ 7,383	$ 14,906	$ –	$ 7,678	$ 46	$ 7,808	$ 156
Production and intermediate-term	1,396	1,639	–	1,452	9	1,477	30
Rural residential real estate	345	407	–	359	2	365	7
Total	$ 9,124	$ 16,952	$ –	$ 9,489	$ 57	$ 9,650	$ 193
Total:							
Real estate mortgage	$ 7,383	$ 14,906	$ –	$ 7,678	$ 46	$ 7,808	$ 156
Production and intermediate-term	1,510	1,761	71	1,570	10	1,597	32
Rural residential real estate	345	407	–	359	2	365	7
Total	$ 9,238	$ 17,074	$ 71	$ 9,607	$ 58	$ 9,770	$ 195

	December 31, 2015			Year Ended December 31, 2015	
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	$ 1,783	$ 1,786	$ 262	$ 2,021	$ 58
Production and intermediate-term	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 1,783	$ 1,786	$ 262	$ 2,021	$ 58
With no related allowance for credit losses:					
Real estate mortgage	$ 6,321	$ 13,448	$ –	$ 7,164	$ 205
Production and intermediate-term	1,370	1,990	–	1,553	44
Rural residential real estate	280	334	–	317	9
Total	$ 7,971	$ 15,772	$ –	$ 9,034	$ 258
Total:					
Real estate mortgage	$ 8,104	$ 15,234	$ 262	$ 9,185	$ 263
Production and intermediate-term	1,370	1,990	–	1,553	44
Rural residential real estate	280	334	–	317	9
Total	$ 9,754	$ 17,558	$ 262	$ 11,055	$ 316

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows. Prior to issuance of the Association's 2015 Annual Report, management identified errors in classification of the loan portfolio among the various FCA loan type categories that are used to report disaggregated loan information in footnote disclosures. As discussed in Note 3, *Loans and Allowance for Loan Losses*, of the Association's 2015 Annual Report, FCA loan type classifications prior to December 31, 2015 have been revised as necessary to reflect these loan type classifications, as adjusted. In the table below, activity for the quarter and six months ended June 30, 2015 is presented as revised.

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at March 31, 2016	$ 233	$ 866	$ 205	$ 17	$ 26	$ 147	$ –	$ 1,494
Charge-offs	–	(1)	–	–	–	–	–	(1)
Recoveries	–	–	–	–	–	–	–	–
Provision for loan losses	11	38	(9)	28	(9)	5	2	66
Balance at June 30, 2016	$ 244	$ 903	$ 196	$ 45	$ 17	$ 152	$ 2	$ 1,559
Balance at December 31, 2015	$ 438	$ 827	$ 191	$ 27	$ 17	$ 139	$ –	$ 1,639
Charge-offs	(1)	(3)	–	–	–	–	–	(4)
Recoveries	28	12	–	–	–	–	–	40
Provision for loan losses	(221)	67	5	18	–	13	2	(116)
Balance at June 30, 2016	$ 244	$ 903	$ 196	$ 45	$ 17	$ 152	$ 2	$ 1,559
Balance at March 31, 2015	$ 292	$ 1,048	$ 152	$ 26	$ 17	$ 223	$ –	$ 1,758
Charge-offs	(95)	–	–	–	–	–	–	(95)
Recoveries	–	–	–	–	–	–	–	–
Provision for loan losses	15	(269)	5	(3)	–	(74)	–	(326)
Balance at June 30, 2015	$ 212	$ 779	$ 157	$ 23	$ 17	$ 149	$ –	$ 1,337
Balance at December 31, 2014	$ 296	$ 1,189	$ 177	$ 26	$ 17	$ 279	$ –	$ 1,984
Charge-offs	(139)	(6)	–	–	–	–	–	(145)
Recoveries	–	–	–	–	–	–	–	–
Provision for loan losses	55	(404)	(20)	(3)	–	(130)	–	(502)
Balance at June 30, 2015	$ 212	$ 779	$ 157	$ 23	$ 17	$ 149	$ –	$ 1,337
Allowance on loans evaluated for impairment:								
Individually	$ –	$ 71	$ –	$ –	$ –	$ –	$ –	$ 71
Collectively	244	832	196	45	17	152	2	1,488
Balance at June 30, 2016	$ 244	$ 903	$ 196	$ 45	$ 17	$ 152	$ 2	$ 1,559
Individually	$ 262	$ –	$ –	$ –	$ –	$ –	$ –	$ 262
Collectively	176	827	191	27	17	139	–	1,377
Balance at December 31, 2015	$ 438	$ 827	$ 191	$ 27	$ 17	$ 139	$ –	$ 1,639
Recorded investment in loans evaluated for impairment:								
Individually	$ 6,878	$ 1,343	$ –	$ –	$ –	$ 218	$ –	$ 8,439
Collectively	71,525	36,901	24,536	10,850	1,996	13,240	1,712	160,760
Balance at June 30, 2016	$ 78,403	$ 38,244	$ 24,536	$ 10,850	$ 1,996	$ 13,458	$ 1,712	$ 169,199
Individually	$ 6,882	$ 2,058	$ –	$ –	$ –	$ 81	$ –	$ 9,021
Collectively	76,448	26,132	29,798	7,996	1,995	13,978	–	156,347
Balance at December 31, 2015	$ 83,330	$ 28,190	$ 29,798	$ 7,996	$ 1,995	$ 14,059	$ –	$ 165,368

**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. There were no new TDRs that occurred during the three or six month periods ended June 30, 2015.

	Three months ended June 30, 2016				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 142	$ –	$ 142	
Total	$ –	$ 142	$ –	$ 142	
Post-modification:					
Real estate mortgage	$ –	$ 141	$ –	$ 141	$ –
Total	$ –	$ 141	$ –	$ 141	$ –

Outstanding Recorded Investment	Six months ended June 30, 2016 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 142	$ –	$ 142	
Total	$ –	$ 142	$ –	$ 142	
Post-modification:					
Real estate mortgage	$ –	$ 141	$ –	$ 141	$ –
Total	$ –	$ 141	$ –	$ 141	$ –

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, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Real estate mortgage	$ 3,594	$ 3,434	$ 1,248	$ 1,131
Production and intermediate-term	1,230	1,372	153	3
Rural residential real estate	218	228	218	228
Total Loans	$ 5,042	$ 5,034	$ 1,619	$ 1,362
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

	June 30, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ –	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ –	$ –

Note 3 — Investments

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 0.63 percent of the issued stock of the Bank as of June 30, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled $31.6 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $144 million for the first six months of 2016. In addition, the Association held $145 in investments related to other Farm Credit institutions.

Other Investments

In 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Association purchased total equity investments in the RBIC of $250. There are no outstanding commitments to make additional equity purchases beyond this amount. Beginning in 2013, analyses indicated that decreases in value of the investment had occurred that were other than temporary, due to a series of losses and other factors. As a result, the Association recognized other-than-temporary impairment of $0 and $40 for the six months ended June 30, 2016 and 2015, respectively, which is included in Impairment Losses on Investments in the Statements of Income. As of both June 30, 2016 and December 31, 2015, RBIC investments had been written down to $0.

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.

At June 30, 2016, the Association was operating under a Special Credit Agreement (SCA) due to events of default under the GFA related to the Association's supervisory agreement with the FCA which was terminated on February 24, 2016. See Note 8, *Regulatory Matters*. The current SCA expires on April 30, 2017. At December 31, 2015, the Association was not in compliance with the net income financial covenant under the SCA. The Bank approved a waiver of the default and allowed the Association to continue to operate under the SCA.

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, 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	$ 9,167	$ –	$ –	$ 9,167	$ 9,167	$ 227
Other property owned	1,762	–	–	1,877	1,877	55
Nonrecurring Assets	$ 10,929	$ –	$ –	$ 11,044	$ 11,044	$ 282
Other Financial Instruments						
Assets:						
Cash	$ 105	$ 105	$ –	$ –	$ 105	
Loans	157,797	–	–	157,230	157,230	
Other Financial Assets	$ 157,902	$ 105	$ –	$ 157,230	$ 157,335	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 118,000	$ –	$ –	$ 118,196	$ 118,196	
Other Financial Liabilities	$ 118,000	$ –	$ –	$ 118,196	$ 118,196	

	At or for the Year ended December 31, 2015					
	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	$ 9,492	$ –	$ –	$ 9,492	$ 9,492	$ (500)
Other property owned	1,326	–	–	1,410	1,410	(71)
Other investments	–	–	–	–	–	(40)
Nonrecurring Assets	$ 10,818	$ –	$ –	$ 10,902	$ 10,902	$ (611)
Other Financial Instruments						
Assets:						
Cash	$ 754	$ 754	$ –	$ –	$ 754	
Loans	153,702	–	–	153,046	153,046	
Other Financial Assets	$ 154,456	$ 754	$ –	$ 153,046	$ 153,800	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 116,270	$ –	$ –	$ 116,629	$ 116,629	
Other Financial Liabilities	$ 116,270	$ –	$ –	$ 116,629	$ 116,629	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 11,044	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Other investments – RBIC	$ –	Third party evaluation	Income, expense, capital	Not applicable

** 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 forecast
		Probability of default
		Loss severity
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,	
	2016	2015	2016	2015
Pension	$ (10)	$ 248	$ 152	$ 496
401(k)	18	26	35	47
Other postretirement benefits	–	–	–	–
Total	$ 8	$ 274	$ 187	$ 543

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

	Actual YTD Through 6/30/16	Projected Contributions For Remainder of 2016	Projected Total Contributions 2016
Pension	$ –	$ 350	$ 350
Other postretirement benefits	–	–	–
Total	$ –	$ 350	$ 350

Contributions in the above table include an allocated estimate of funding for the multi-employer pension plan in which the Association participates. The projected amount may change when a total funding amount and allocation is determined by the pension Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change the contribution necessary before the next plan measurement date of December 31, 2016.

Further details regarding employee benefit plans are contained in the 2015 Annual Report to Shareholders, including a discussion of benefit plan changes related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan and the Puerto Rico Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental benefits.

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 — Regulatory Enforcement Matters

On March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement superseded FCA Supervisory Letters dated July 23, 2009,

March 2, 2010, and December 10, 2010 and incorporated certain requirements from these letters. The Supervisory Agreement required the Board of Directors to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibited the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement included portfolio credit quality deterioration, high turnover in senior management, perceived weaknesses in board governance, and reduced earnings and liquidity.

The Board of Directors and the Association worked together to reach full compliance with the requirements of the SA. On February 24, 2016, the Board of Directors was notified by FCA that the written Supervisory Agreement was terminated by the FCA Board. The termination was a recognition by the FCA that conditions that prompted the need for the SA were met. As of that date the Association is under normal regulatory supervision.

Note 9 — Subsequent Events

Subsequent to June 30th, 2016 a loan to one borrower in the amount of $394 was transferred to nonaccrual status. It is anticipated this will increase provision expense by approximately $80 in the third quarter of 2016.