Puerto Rico Farm Credit, ACA

SECOND QUARTER 2017

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2017 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, 2017

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, 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.

Ricardo L. Fernández
Chief Executive Officer

August 8, 2017

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 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 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 $80,874 or 49.95 percent of the gross principal balance, net of sold loans, at June 30, 2017.

The outstanding loan volume of the Association at June 30, 2017 was $157,211 a decrease of $7,013 or 4.27 percent as compared to $164,224 at December 31, 2016. Loans originated within the Association's chartered territory were lower by approximately $3,954 and participation loans purchased decreased by approximately $3,059.

Net loans outstanding at June 30, 2017 totaled $155,960 as compared to $162,862 at December 31, 2016. Net loans made up 95.87 percent of total assets at June 30, 2017, as compared to 95.71 percent at December 31, 2016.

Non-accrual loans totaled $5,088 or 3.24 percent of total loans at June 30, 2017, compared to $5,300 or 3.23 percent of total loans at December 31, 2016. Nonaccrual loans decreased during the six months of 2017 primarily due to CT loans transferred to other property owned (OPO) along with payments of CT loans in process of collection during the period.

The overall delinquency rate for the accruing loan portfolio increased during the second quarter 2017. Management believes that high risk loans will decrease by the end of the year.

The allowance for loan losses decreased $111 to $1,251 at June 30, 2017 from $1,362 at December 31, 2016. The decrease was primarily due to a decrease in reserves on impaired loans transferred to OPO, along with a decrease in the general reserve for CT collateral risk partially offset by an increase in general reserves for other industries. 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 0.80 percent at June 30, 2017 from 0.83 percent at December 31, 2016.

During the first six months of 2017, charge-offs of $2 were recognized when an accrual loan was transferred to nonaccrual. Also, recoveries of $3 were recognized on nonaccrual loans transferred to Other Property Owned. The Association is actively marketing acquired properties and may incur additional accounting losses or gains as sales are completed.

The economic activity in the island continues to decrease with an unofficial -2.3% for fiscal year 2016. It is expected to decrease another 3.2% in fiscal 2017 after considering corrective measures under the PROMESA Act. The fiscal oversight board established in 2016 under the Act, is in charge of correcting the government finances while providing the best opportunity for the government to pay as much as possible of its $70 billion debt. Its action will have an impact on the island's economic activity and the outlook is negative in 2017. On May 3rd, the fiscal oversight board filed for protection under Article III of the Promesa Act. This seems to be the best vehicle to help the island resolve its financial crisis. However, resolutions through this process are expected to require austerity measures that will continue to hamper economic activity. Management actively monitors measures taken by the government or imposed by the fiscal oversight board that could significantly impact economic activity and/or agricultural production in the island that could, in turn, negatively impact the business of the Association.

Economic recovery will be slow and Management expects economic deterioration to continue for at least 4 more years before the economy begins to stabilize. The Association has sufficient capital to withstand considerable deterioration in economic conditions and the performance of the loan portfolio.

Through all this, the agricultural sector has remained stable the last three years and should continue to remain stable as local food production is only 15% of food consumed in Puerto Rico. This should allow farmers to continue managing their operations profitably and maintain the credit quality of the Association's portfolio.

The local dairy industry's production declined about 9% year over year in 2016. This trend is expected to continue at a slower rate in 2017. The Association continues to monitor events within the industry and their potential impact on the performance of the dairy portfolio. The Association lends almost 42% of total loans to this industry and has implemented risk management practices to reduce overall risk.

Other agricultural sectors do not represent significant risk for the association. Management monitors all sectors and does not anticipate any adverse impact to the portfolio in 2017.

As mentioned before, the Association continues to identify opportunities that allow it 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 establishing strategic alliances that promote agricultural production growth and 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, 2017

The Association recorded net income for the three months ended June 30, 2017 of $866 as compared to $530 for the same period in 2016. This $336 or 63.40 percent increase in net income is primarily attributed to an increase in the reversal of allowance for loan losses.

Reversal of allowance for loan losses was $94 for the three months ended June 30, 2017 compared to $66 provision for loan losses for the same period in 2016. During the second quarter 2017, the reversal of allowance for loan losses was mainly due to a decrease in reserves on impaired loans transferred to OPO, along with a decrease in the general reserve for CT collateral risk partially offset by an increase in general reserves for other industries.

Net interest income was $1,198 for the three months ended June 30, 2017 compared to $1,196 for the same period in 2016, representing only a minor increase of $2 or 0.17 percent.

Noninterest income for the three months ended June 30, 2017 totaled $295 compared to $252 for the same period of 2016, resulting in an increase of $43 or 17.06 percent. This increase was mainly due to a recovery on the liability for unfunded commitments included in gains on other transactions.

Noninterest expense was $721 for the three months ended June 30, 2017 as compared to $852 for the same period in 2016, resulting in a decrease of $131 or 15.38 percent. The decrease was primarily due to an increase in gains on OPO of $289 partially offset by an increase in salaries and employee benefits of $168.

For the six months ended June 30, 2017

Net income for the six months ended June 30, 2017 totaled $1,405 compared to $1,418 for the same period in 2016, a decrease of $13 or 0.92 percent. The decrease is primarily the result of a reduction of net interest income.

Reversal of allowance for loan losses declined $4 for the six months ended June 30, 2017 compared to the same period in 2016. In 2016, improvement in collateral risk within the loan portfolio allowed the Association to recognize a larger reversal of allowance for loan losses compared to the same period in 2017.

Net interest income decreased $91 or 3.67 percent to $2,389 for the six months ended June 30, 2017, from $2,480 for the same period in 2016. The decrease is attributed to an increase in interest expense along with a decline in loan volume during the period.

Noninterest income for the first half of 2017 totaled $589 as compared to $531 for the same period in 2016, an increase of $58 or 10.92 percent. The increase was primarily attributable to an increase in patronage refunds from other Farm Credit Institutions and an increase in gains on other transactions resulting from a reversal in the liability for unfunded commitments.

Noninterest expense was $1,685 for the six months ended June 30, 2017 as compared to $1,709 for the same period in 2016, a decrease of $24 or 1.40 percent. The decrease was primarily related to an increase in gains on OPO of $171 partially offset by an increase in salaries and employee benefits of $138.

Although the Association is subject to federal income tax, the Association does not expect to incur a federal tax liability in 2017 due to the taxable loss carryforward. No provision for income taxes has been recognized in 2017.

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, 2017 was $105,693 as compared to $113,238 at December 31, 2016. The decrease of $7,545 or 6.66 percent is primarily due to a decrease 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, 2017.

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, 2017.

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, 2017 increased by $1,394 or 2.57 percent to $55,665 from December 31, 2016 total of $54,271. The increase was primarily attributable to year-to-date net income.

Total capital stock and participation certificates were $488 at June 30, 2017 compared to $499 at December 31, 2016. The decrease of $11 was the result of retirement of capital stock on loans liquidated in the normal course of business.

Unallocated retained earnings were $55,177 at June 30, 2017 for an increase of $1,405 or 2.61 percent from December 31, 2016 when unallocated retained earnings totaled $53,772. The increase was due to 2017 year-to-date net income.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum regulatory capital ratios. See the Regulatory Matters section for information on compliance with these minimums.

Key financial condition ratios were as follows:

	6/30/17	12/31/16
Total Members' Equity to Asset	34.22%	31.89%
Debt to Total Members' Equity	1.92	2.14

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%	36.87%
Tier 1 Capital	6.0%	0.625%	6.625%	36.87%
Total Regulatory Capital	8.0%	0.625%	8.625%	37.84%
Permanent Capital Ratio	7.0%	0.0%	7.0%	37.21%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	33.05%
UREE Leverage Ratio	1.5%	0.0%	1.5%	33.74%

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

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

Other Regulatory Matters

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

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

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.

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 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.prfarmcredit.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, 2017 *(unaudited)*	December 31, 2016 *(audited)*
Assets		
Cash	**$ 109**	$ 80
Loans	**157,211**	164,224
Allowance for loan losses	**(1,251)**	(1,362)
Net loans	**155,960**	162,862
Accrued interest receivable	**671**	553
Investments in other Farm Credit institutions	**1,753**	1,752
Premises and equipment, net	**1,112**	1,144
Other property owned	**2,407**	1,967
Accounts receivable	**485**	1,680
Other assets	**178**	128
Total assets	**$ 162,675**	$ 170,166
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 105,693**	$ 113,238
Accrued interest payable	**217**	186
Patronage refunds payable	**—**	1,605
Accounts payable	**298**	379
Other liabilities	**802**	487
Total liabilities	**107,010**	115,895
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**488**	499
Unallocated retained earnings	**55,177**	53,772
Total members' equity	**55,665**	54,271
Total liabilities and members' equity	**$ 162,675**	$ 170,166

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, 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	**$ 1,840**	$ 1,731	**$ 3,639**	$ 3,544
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**642**	535	**1,250**	1,064
Net interest income	**1,198**	1,196	**2,389**	2,480
Provision for (reversal of allowance for) loan losses	**(94)**	66	**(112)**	(116)
Net interest income after provision for (reversal of allowance for) loan losses	**1,292**	1,130	**2,501**	2,596
Noninterest Income				
Loan fees	**28**	21	**58**	42
Fees for financially related services	**1**	1	**4**	10
Patronage refunds from other Farm Credit institutions	**230**	233	**480**	460
Gains (losses) on sales of premises and equipment, net	**—**	—	**—**	11
Gains (losses) on other transactions	**36**	(3)	**47**	8
Total noninterest income	**295**	252	**589**	531
Noninterest Expense				
Salaries and employee benefits	**369**	201	**771**	633
Occupancy and equipment	**68**	81	**124**	137
Insurance Fund premiums	**32**	39	**65**	76
(Gains) losses on other property owned, net	**(266)**	23	**(210)**	(39)
Other operating expenses	**518**	508	**935**	902
Total noninterest expense	**721**	852	**1,685**	1,709
Net income	**866**	530	**1,405**	1,418
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 866**	$ 530	**$ 1,405**	$ 1,418

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, 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
Balance at December 31, 2016	**$ 499**	**$ 53,772**	**$ 54,271**
Comprehensive income		**1,405**	**1,405**
Capital stock/participation certificates issued/(retired), net	**(11)**		**(11)**
Balance at June 30, 2017	**$ 488**	**$ 55,177**	**$ 55,665**

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

A summary of loans outstanding at period end follows:

	June 30, 2017	December 31, 2016
Real estate mortgage	$ 75,530	$ 75,056
Production and intermediate-term	29,198	38,264
Loans to cooperatives	2,089	4,025
Processing and marketing	20,065	17,937
Farm-related business	1,939	1,980
Communication	13,013	10,782
Power and water/waste disposal	998	1,496
Rural residential real estate	12,669	12,974
International	1,710	1,710
Total Loans	$ 157,211	$ 164,224

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	$ 966	$ 1,500	$ –	$ –	$ 493	$ –	$ 1,459	$ 1,500
Production and intermediate term	4,272	4,190	–	–	4,246	–	8,518	4,190
Loans to cooperatives	2,093	–	–	–	–	–	2,093	–
Processing and marketing	16,419	12,736	–	–	341	–	16,760	12,736
Farm-related business	–	–	–	–	1,769	–	1,769	–
Communication	13,064	–	–	–	–	–	13,064	–
Power and water/waste disposal	1,001	–	–	–	–	–	1,001	–
International	1,714	–	–	–	–	–	1,714	–
Total	$ 39,529	$ 18,426	$ –	$ –	$ 6,849	$ –	$ 46,378	$ 18,426

	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	$ 966	$ 1,602	$ –	$ –	$ 727	$ –	$ 1,693	$ 1,602
Production and intermediate term	8,121	4,706	–	–	4,952	–	13,073	4,706
Loans to cooperatives	4,033	–	–	–	–	–	4,033	–
Processing and marketing	14,340	11,304	–	–	349	–	14,689	11,304
Farm-related business	–	–	–	–	1,798	–	1,798	–
Communication	10,824	–	–	–	–	–	10,824	–
Power and water/waste disposal	1,501	–	–	–	–	–	1,501	–
International	1,714	–	–	–	–	–	1,714	–
Total	$ 41,499	$ 17,612	$ –	$ –	$ 7,826	$ –	$ 49,325	$ 17,612

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	$ 13,044	$ 37,888	$ 24,598	$ 75,530
Production and intermediate-term	7,128	17,975	4,095	29,198
Loans to cooperatives	–	–	2,089	2,089
Processing and marketing	887	13,054	6,124	20,065
Farm-related business	–	–	1,939	1,939
Communication	–	8,601	4,412	13,013
Power and water/waste disposal	–	998	–	998
Rural residential real estate	57	732	11,880	12,669
International	–	692	1,018	1,710
Total Loans	$ 21,116	$ 79,940	$ 56,155	$ 157,211
Percentage	13.43%	50.85%	35.72%	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	86.68%	91.10%
OAEM	8.79	4.15
Substandard/doubtful/loss	4.53	4.75
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	91.73%	94.10%
OAEM	6.59	4.54
Substandard/doubtful/loss	1.68	1.36
	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%	88.04%
OAEM	–	11.96
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, 2017	December 31, 2016
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	–%	–%
OAEM	100.00	100.00
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	93.74%	94.28%
OAEM	1.89	0.99
Substandard/doubtful/loss	4.37	4.73
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	90.92%	91.89%
OAEM	6.24	5.25
Substandard/doubtful/loss	2.84	2.86
	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	$ 5,492	$ 2,631	$ 8,123	$ 67,829	$ 75,952	$ –
Production and intermediate-term	834	110	944	28,368	29,312	–
Loans to cooperatives	–	–	–	2,101	2,101	–
Processing and marketing	–	–	–	20,120	20,120	–
Farm-related business	–	–	–	1,946	1,946	–
Communication	–	–	–	13,025	13,025	–
Power and water/waste disposal	–	–	–	998	998	–
Rural residential real estate	398	140	538	12,178	12,716	–
International	–	–	–	1,712	1,712	–
Total	$ 6,724	$ 2,881	$ 9,605	$ 148,277	$ 157,882	$ –

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	$ 915	$ 2,639	$ 3,554	$ 71,770	$ 75,324	$ –
Production and intermediate-term	551	146	697	37,727	38,424	–
Loans to cooperatives	–	–	–	4,038	4,038	–
Processing and marketing	–	–	–	18,002	18,002	–
Farm-related business	–	–	–	1,986	1,986	–
Communication	–	–	–	10,784	10,784	–
Power and water/waste disposal	–	–	–	1,496	1,496	–
Rural residential real estate	589	139	728	12,283	13,011	–
International	–	–	–	1,712	1,712	–
Total	$ 2,055	$ 2,924	$ 4,979	$ 159,798	$ 164,777	$ –

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

	June 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	$ 4,129	$ 4,146
Production and intermediate-term	711	829
Rural residential real estate	248	325
Total	$ 5,088	$ 5,300
Accruing restructured loans:		
Real estate mortgage	$ 2,256	$ 2,270
Production and intermediate-term	648	808
Rural residential real estate	121	–
Total	$ 3,025	$ 3,078
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 8,113	$ 8,378
Other property owned	2,407	1,967
Total nonperforming assets	$ 10,520	$ 10,345
Non-accrual loans as a percentage of total loans	3.24%	3.23%
Nonperforming assets as a percentage of total loans and other property owned	6.59%	6.22%
Nonperforming assets as a percentage of capital	18.90%	19.06%

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

	June 30, 2017	December 31, 2016
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,976	$ 2,140
Past due	3,112	3,160
Total	$ 5,088	$ 5,300
Impaired accrual loans:		
Restructured	$ 3,025	$ 3,078
90 days or more past due	–	–
Total	$ 3,025	$ 3,078
Total impaired loans	$ 8,113	$ 8,378
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	$ 10	$ 10	$ –	$ 10	$ –	$ 11	$ –
Production and intermediate-term	–	–	–	–	–	–	–
Rural residential real estate	140	151	18	146	2	147	4
Total	$ 150	$ 161	$ 18	$ 156	$ 2	$ 158	$ 4
With no related allowance for credit losses:							
Real estate mortgage	$ 6,375	$ 10,266	$ –	$ 6,630	$ 69	$ 6,722	$ 151
Production and intermediate-term	1,359	1,500	–	1,412	15	1,432	32
Rural residential real estate	229	237	–	238	2	242	5
Total	$ 7,963	$ 12,003	$ –	$ 8,280	$ 86	$ 8,396	$ 188
Total:							
Real estate mortgage	$ 6,385	$ 10,276	$ –	$ 6,640	$ 69	$ 6,733	$ 151
Production and intermediate-term	1,359	1,500	–	1,412	15	1,432	32
Rural residential real estate	369	388	18	384	4	389	9
Total	$ 8,113	$ 12,164	$ 18	$ 8,436	$ 88	$ 8,554	$ 192

	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	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	114	122	8	127	4
Rural residential real estate	141	151	18	156	5
Total	$ 255	$ 273	$ 26	$ 283	$ 9
With no related allowance for credit losses:					
Real estate mortgage	$ 6,416	$ 10,292	$ –	$ 7,130	$ 230
Production and intermediate-term	1,523	1,649	–	1,691	54
Rural residential real estate	184	247	–	206	7
Total	$ 8,123	$ 12,188	$ –	$ 9,027	$ 291
Total:					
Real estate mortgage	$ 6,416	$ 10,292	$ –	$ 7,130	$ 230
Production and intermediate-term	1,637	1,771	8	1,818	58
Rural residential real estate	325	398	18	362	12
Total	$ 8,378	$ 12,461	$ 26	$ 9,310	$ 300

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	Total
Activity related to the allowance for credit losses:								
Balance at March 31, 2017	$ 219	$ 767	$ 159	$ 39	$ 11	$ 145	$ 2	$ 1,342
Charge-offs	–	–	–	–	–	–	–	–
Recoveries	3	–	–	–	–	–	–	3
Provision for loan losses	(44)	(28)	(17)	(1)	3	(7)	–	(94)
Balance at June 30, 2017	$ 178	$ 739	$ 142	$ 38	$ 14	$ 138	$ 2	$ 1,251
Balance at December 31, 2016	$ 230	$ 760	$ 182	$ 33	$ 12	$ 143	$ 2	$ 1,362
Charge-offs	(2)	–	–	–	–	–	–	(2)
Recoveries	3	–	–	–	–	–	–	3
Provision for loan losses	(53)	(21)	(40)	5	2	(5)	–	(112)
Balance at June 30, 2017	$ 178	$ 739	$ 142	$ 38	$ 14	$ 138	$ 2	$ 1,251
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
Allowance on loans evaluated for impairment:								
Individually	$ –	$ –	$ –	$ –	$ –	$ 18	$ –	$ 18
Collectively	178	739	142	38	14	120	2	1,233
Balance at June 30, 2017	$ 178	$ 739	$ 142	$ 38	$ 14	$ 138	$ 2	$ 1,251
Individually	$ –	$ 8	$ –	$ –	$ –	$ 18	$ –	$ 26
Collectively	230	752	182	33	12	125	2	1,336
Balance at December 31, 2016	$ 230	$ 760	$ 182	$ 33	$ 12	$ 143	$ 2	$ 1,362
Recorded investment in loans evaluated for impairment:								
Individually	$ 5,991	$ 1,228	$ –	$ –	$ –	$ 261	$ –	$ 7,480
Collectively	69,961	28,084	24,167	13,025	998	12,455	1,712	150,402
Balance at June 30, 2017	$ 75,952	$ 29,312	$ 24,167	$ 13,025	$ 998	$ 12,716	$ 1,712	$ 157,882
Individually	$ 6,149	$ 1,499	$ –	$ –	$ –	$ 212	$ –	$ 7,860
Collectively	69,175	36,925	24,026	10,784	1,496	12,799	1,712	156,917
Balance at December 31, 2016	$ 75,324	$ 38,424	$ 24,026	$ 10,784	$ 1,496	$ 13,011	$ 1,712	$ 164,777

**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:					
Real estate mortgage	$ –	$ 136	$ –	$ 136	
Total	$ –	$ 136	$ –	$ 136	
Post-modification:					
Real estate mortgage	$ –	$ 135	$ –	$ 135	$ –
Total	$ –	$ 135	$ –	$ 135	$ –

	Six months ended June 30, 2017				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 136	$ –	$ 136	
Total	$ –	$ 136	$ –	$ 136	
Post-modification:					
Real estate mortgage	$ –	$ 135	$ –	$ 135	$ –
Total	$ –	$ 135	$ –	$ 135	$ –

Outstanding Recorded Investment	Three 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	$ –

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, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Real estate mortgage	$ 4,729	$ 4,633	$ 2,473	$ 2,363
Production and intermediate-term	1,228	1,488	580	680
Rural residential real estate	261	209	140	209
Total Loans	$ 6,218	$ 6,330	$ 3,193	$ 3,252
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

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

Note 3 — Investments

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 0.63 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 $145 in investments 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.

At December 31, 2016, the Association was operating under a Special Credit Agreement (SCA) due to events of default under the GFA. The SCA expired on April 30, 2017 and was not renewed as a result of compliance with the terms of the GFA.

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	$ 8,095	$ –	$ –	$ 8,095	$ 8,095	$ 10
Other property owned	2,407	–	–	2,561	2,561	243
Nonrecurring Assets	$ 10,502	$ –	$ –	$ 10,656	$ 10,656	$ 253
Other Financial Instruments						
Assets:						
Cash	$ 109	$ 109	$ –	$ –	$ 109	
Loans	147,865	–	–	146,913	146,913	
Other Financial Assets	$ 147,974	$ 109	$ –	$ 146,913	$ 147,022	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 105,693	$ –	$ –	$ 106,038	$ 106,038	
Other Financial Liabilities	$ 105,693	$ –	$ –	$ 106,038	$ 106,038	

	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	$ 8,352	$ –	$ –	$ 8,352	$ 8,352	$ 316
Other property owned	1,967	–	–	2,092	2,092	289
Nonrecurring Assets	$ 10,319	$ –	$ –	$ 10,444	$ 10,444	$ 605
Other Financial Instruments						
Assets:						
Cash	$ 80	$ 80	$ –	$ –	$ 80	
Loans	154,510	–	–	153,449	153,449	
Other Financial Assets	$ 154,590	$ 80	$ –	$ 153,449	$ 153,529	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 113,238	$ –	$ –	$ 113,731	$ 113,731	
Other Financial Liabilities	$ 113,238	$ –	$ –	$ 113,731	$ 113,731	

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	$ 10,656	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 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,	
	2017	2016	2017	2016
Pension	$ 92	$ (10)	$ 223	$ 152
401(k)	20	18	40	35
Other postretirement benefits	–	–	–	–
Total	$ 112	$ 8	$ 263	$ 187

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	$ 40	$ 323	$ 363
Other postretirement benefits	–	–	–
Total	$ 40	$ 323	$ 363

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, 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.