MidAtlantic 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 MidAtlantic 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.

Thomas H. Truitt, Jr.
Chief Executive Officer

John E. Wheeler, Jr.
Chief Financial Officer

Paul D. Baumgardner
Chairman of the Board

August 8, 2017

MidAtlantic 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.

Thomas H. Truitt, Jr.
Chief Executive Officer

John E. Wheeler, Jr.
Chief Financial Officer

August 8, 2017

MidAtlantic Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of MidAtlantic Farm Credit, ACA (Association) for the period ended June 30, 2017. The comments contained in this report 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 the financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well-diversified range of agricultural commodities, with cash grains, poultry and dairy representing the largest segments. In addition, the Association provides a significant amount of loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Gross loans at June 30, 2017 totaled $2,684,559 compared to $2,607,353 at December 31, 2016, increasing $77,206 (2.96 percent) during the first six months. The Association's allowance for loan losses of $25,261 increased $884 (3.63 percent) during the first six months of 2017 resulting in net loans (gross loans less allowance for loan losses) of $2,659,298 and $2,582,976 at June 30, 2017 and December 31, 2016, respectively. Nonaccrual loans increased $2,269 (12.39 percent) from $18,306 at December 31, 2016 to $20,575 at June 30, 2017 resulting in an increase in the ratio of nonaccrual loans to total loans from 0.70 percent to 0.77 percent. In addition, Other property owned increased from $729 at December 31, 2016 (four properties) to $1,088 at June 30, 2017 (four properties).

There is an inherent risk in the extension of any type of credit and, accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio. Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. The allowance for loan losses represented 0.94 percent and 0.93 percent of total loans, and 122.78 percent and 133.16 percent of Nonaccrual loans, at June 30, 2017 and December 31, 2016, respectively. See also Note 2 of "Notes to the Consolidated Financial Statements".

RESULTS OF OPERATIONS

For the three months ended June 30, 2017

Net income for the three months ended June 30, 2017 totaled $11,658, an increase of $28 (0.24 percent) compared to the three months ended June 30, 2016. Major changes in the components of net income are identified as follows:

- Net interest income increased $407 (2.47 percent) for the quarter ended June 30, 2017 compared to the same period in 2016. The increase in net interest income is primarily attributable to (a) an increase in the Association's equity and a 6.49 percent increase in the interest credit rate aggregately increasing net interest income $433, (b) a $882 increase due to a $156 million increase in the average daily balance of accruing portfolio volume, offset by (c) an $8 decrease in net interest recognized attributable to nonaccruing loans and (d) a $900 decrease in the Association's portfolio margin primarily resulting from a decrease in the net interest margin.

- The risks identified in the Association's loan portfolio required a provision for loan losses of $500 to be recorded in the second quarter of 2017 and no provision was required for second quarter 2016, respectively. The Association's Nonaccrual loans increased from 0.70 percent at December 31, 2016 to 0.77 percent of the portfolio at June 30, 2017 and decreased from 0.78 percent at June 30, 2016. See also Note 2 of "Notes to the Consolidated Financial Statements".

- At June 30, 2017 and 2016, "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Income of $4,116 and $3,698, respectively, includes accruals based on second quarter operations only; management anticipates additional income for the remaining quarters in 2017.

Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The increase in the accrual in 2017 is due to the impact of an increase in loan volume.

- Noninterest income increase in the second quarter of $266 (4.94 percent) included (a) a $418 increase in Patronage related income, (b) an increase of $301 in net Gains on sales of rural home loans, (c) a $1 increase in Other noninterest income, partially offset by (d) a decrease of $269 from Loan fees, (e) a $72 decrease in Gains on sales of premises and equipment (f) a decrease of $63 from Fees for financially related services, and (g) a $50 thousand decrease in Gains on other transactions.

- Noninterest expense for the second quarter of 2017 was $10,273 as compared to $10,286 for the second quarter of 2016 or a decrease of $13 (0.13 percent).

  The increase of $34 (0.48 percent) for Salaries and benefits is comprised of favorable deferred personnel costs of $206 net of routine annual salary and benefit increases of $240. See also Note 7 of "Notes to the Consolidated Financial Statements".

  Insurance fund premium for the second quarter of 2017 of $755 remains the same as the second quarter of 2016. The Farm Credit System Insurance Corporation (FCSIC) premium decreased from 16 percent of loans outstanding for the first six months of 2016 to 15 percent for the first six months of 2017, offset by the increase in volume during the second quarter of 2017 as compared to the second quarter of 2016.

  Occupancy and equipment and Other operating expenses decreased $154 (5.93 percent) from $2,597 to $2,443, which includes expense decreases in building repair costs, communication, information technology, advertising, and public and member partially offset by routine increases and Farm Credit System increase.

  The $107 increase in Losses on other property is primarily related to two properties sold during the second quarter of 2016 which realized a Net gain and no properties were sold during the second quarter of 2017.

- The Association recorded a Provision for income taxes of $110 and a benefit for income taxes of $48, respectively, for the second quarters of 2017 and 2016.

For the six months ended June 30, 2017

Net income for the six months ended June 30, 2017 totaled $23,497 or $1,691 (7.75 percent) greater than the six months ended June 30, 2016. Major changes in the components of net income are identified as follows:

- Net interest income for the six months was up $1,750 (5.34 percent); there are several key factors impacting the results. The increase in net interest income is primarily attributable to (a) a $1,745 increase due to the increase in accruing loan volume, (b) an increase of $712 in the income recognized from nonaccruing volume, and (c) an increase of $609 attributable to an increase in the interest rate and increased equity. These increases were offset by a $1,316 decrease in the Associations portfolio margin.

- The risk identified in the Association's portfolio required a provision for loan losses of $1,000 to be recorded in the first six months of 2017, whereas, no provision was required for the six months of 2016.

- At the period ended June 30, 2017, the Association accrued an estimated patronage receipt of $7,971 as compared to $7,493 at June 30, 2016. The increase of $478 (6.38 percent) is due to the increased volume. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The increase is primarily related to the increase in outstanding loan volume.

- Noninterest income included (a) a $601 increase in net Gains on sales of rural home loans, (b) a $478 increase in Patronage related income, (c) a $123 increase in Gains on other transactions, and (d) an increase of $9 in Other noninterest income, offset by (e) a decrease of $451 in Loan fees, (f) a $90 decrease in Gains on sales of premises and equipment, net, and (g) a decrease of $46 in Fees for financially related services, primarily related to insurance fees.

- Noninterest expense decreased $365 (1.74 percent) for the first six months of 2017 as compared to 2016.

  The year-to-date decrease for Salaries and employee benefits of $38 (0.27 percent) includes a decrease of $270 (21.14 percent) for medical benefits. The remaining Salaries and employee benefits increase of $232 includes annual salary and incentive compensation increases, payroll related benefit expenses, filling several open staff positions, net of an increase in deferred personnel costs.

Insurance fund premium expense increased $3 (0.20 percent) resulting from the FCSIC premium decrease for 2017, offset by increased loan volume.

Occupancy and equipment and Other operating expenses decreased $107 (2.19 percent) from $4,882 to $4,775 which includes expense decreases in public and member expenses, purchased services, data processing, and other operating expenses which were partially offset by increases in travel and Farm Credit System related expenses.

- Losses on other property owned, net decreased $223. The decrease is primarily related to a writedown on one property sold in 2016.

- The Association recorded a Provision for income taxes of $165 and $117, respectively, for the six months ended June 30, 2017 and 2016.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total Notes payable to the Bank at June 30, 2017 was $2,106,313 compared to $2,040,901 at December 31, 2016. This increase during the period of $65,412 (3.21 percent) corresponds to the receipt of prior year Bank patronage, current year net cash generated from operating activities reduced by the increase in the Association's loan volume and by patronage payments to stockholders.

CAPITAL RESOURCES

Members' equity at June 30, 2017 totaled $585,871, an increase of $17,341 (3.05 percent) compared to total members' equity of $568,530 at December 31, 2016. Total Comprehensive income of $23,518 for the six months ended June 30, 2017 and net member capital stock/participation certificates issued of $191, an estimated cash patronage distribution accrual for the first six months of 2017 totaling $6,250, and net patronage distribution adjustment and retained earnings retired of $118 account for the change.

FCA regulations require that all Farm Credit institutions maintain regulatory capital requirements. The Association exceeded the Minimum Requirement with Capital Conservation Buffer for all regulatory capital ratios at June 30, 2017. See **Regulatory Matters** for the ratios.

REGULATORY MATTERS

Capital

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced existing core surplus and total surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios. The new regulations also replaced the existing net collateral ratio with a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The current permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- 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%	18.93%
Tier 1 Capital	6.0%	0.625%	6.625%	18.93%
Total Capital	8.0%	0.625%	8.625%	20.55%
Permanent Capital Ratio	7.0%	0.0%	7.0%	19.79%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	19.97%
UREE Leverage Ratio	1.5%	0.0%	1.5%	17.69%

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

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

Other Regulatory Matters

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

SHAREHOLDER INVESTMENT

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association' annual and quarterly reports are also available upon request free of charge by calling 1-800-333-7950, or writing John E. Wheeler, Jr., Chief Financial Officer, MidAtlantic Farm Credit, ACA, 45 Aileron Court, Westminster, MD 21157-3022, or accessing the website, www.mafc.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution. Annual Reports are available 75 days after year-end.

WHISTLEBLOWER

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (SpeakUp) at 1-844-321-9164 or https://speakupMAFC.ethix360.com.

MidAtlantic Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	**June 30, 2017**	**December 31, 2016**
	(unaudited)	*(audited)*
Assets		
Cash	**$ 2,077**	$ 3,894
Loans	**2,684,559**	2,607,353
Allowance for loan losses	**(25,261)**	(24,377)
Net loans	**2,659,298**	2,582,976
Loans held for sale	**1,229**	473
Accrued interest receivable	**18,628**	13,656
Investments in other Farm Credit institutions	**29,228**	29,172
Premises and equipment, net	**11,915**	11,744
Other property owned	**1,088**	729
Accounts receivable	**8,753**	28,166
Other assets	**2,898**	5,915
Total assets	**$ 2,735,114**	$ 2,676,725
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 2,106,313**	$ 2,040,901
Accrued interest payable	**4,756**	4,316
Patronage refunds payable	**6,385**	18,699
Accounts payable	**2,510**	3,977
Other liabilities	**29,279**	40,302
Total liabilities	**2,149,243**	2,108,195
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**10,455**	10,264
Retained earnings		
Allocated	**332,626**	332,358
Unallocated	**243,009**	226,148
Accumulated other comprehensive income (loss)	**(219)**	(240)
Total members' equity	**585,871**	568,530
Total liabilities and members' equity	**$ 2,735,114**	$ 2,676,725

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of 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	**$ 30,958**	$ 28,854	**$ 61,874**	$ 57,081
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**14,069**	12,372	**27,334**	24,291
Net interest income	**16,889**	16,482	**34,540**	32,790
Provision for loan losses	**500**	—	**1,000**	—
Net interest income after provision for loan losses	**16,389**	16,482	**33,540**	32,790
Noninterest Income				
Loan fees	**332**	601	**658**	1,109
Fees for financially related services	**742**	805	**1,163**	1,209
Patronage refunds from other Farm Credit institutions	**4,116**	3,698	**7,971**	7,493
Gains (losses) on sales of rural home loans, net	**301**	—	**601**	—
Gains (losses) on sales of premises and equipment, net	**32**	104	**32**	122
Gains (losses) on other transactions	**75**	125	**172**	49
Other noninterest income	**54**	53	**104**	95
Total noninterest income	**5,652**	5,386	**10,701**	10,077
Noninterest Expense				
Salaries and employee benefits	**7,050**	7,016	**14,282**	14,320
Occupancy and equipment	**555**	531	**1,046**	1,106
Insurance Fund premiums	**755**	755	**1,489**	1,486
(Gains) losses on other property owned, net	**25**	(82)	**33**	256
Other operating expenses	**1,888**	2,066	**3,729**	3,776
Total noninterest expense	**10,273**	10,286	**20,579**	20,944
Income before income taxes	**11,768**	11,582	**23,662**	21,923
Provision (benefit) for income taxes	**110**	(48)	**165**	117
Net income	**$ 11,658**	$ 11,630	**$ 23,497**	$ 21,806

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

MidAtlantic 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
Net income	**$ 11,658**	$ 11,630	**$ 23,497**	$ 21,806
Other comprehensive income net of tax				
Employee benefit plans adjustments	**11**	73	**21**	145
Comprehensive income	**$ 11,669**	$ 11,703	**$ 23,518**	$ 21,951

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings: Allocated	Retained Earnings: Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2015	$ 9,950	$ 309,030	$ 221,238	$ (511)	$ 539,707
Comprehensive income			21,806	145	21,951
Capital stock/participation					
certificates issued/(retired), net	205				205
Patronage distribution					
Cash			(6,750)		(6,750)
Retained earnings retired		(376)	90		(286)
Patronage distribution adjustment		49	(66)		(17)
Balance at June 30, 2016	$ 10,155	$ 308,703	$ 236,318	$ (366)	$ 554,810
Balance at December 31, 2016	**$ 10,264**	**$ 332,358**	**$ 226,148**	**$ (240)**	**$ 568,530**
Comprehensive income			**23,497**	**21**	**23,518**
Capital stock/participation					
certificates issued/(retired), net	**191**				**191**
Patronage distribution					
Cash			**(6,250)**		**(6,250)**
Retained earnings retired		**(26)**			**(26)**
Patronage distribution adjustment		**294**	**(386)**		**(92)**
Balance at June 30, 2017	**$ 10,455**	**$ 332,626**	**$ 243,009**	**$ (219)**	**$ 585,871**

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

MidAtlantic 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 MidAtlantic Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2016, are contained in the 2016 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation
In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair statement of results for the periods presented. These adjustments are of a normal recurring nature, unless otherwise disclosed.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of those to be expected for a full year.

Significant Accounting Policies
The Association's accounting and reporting policies conform with U.S. generally accepted accounting principles (GAAP) and practices in the financial services industry. To prepare the financial statements in conformity with GAAP, management must make estimates based on assumptions about future economic and market conditions (for example, unemployment, market liquidity, real estate prices, etc.) that affect the reported amounts of assets and liabilities at the date of the financial statements, income and expenses during the reporting period, and the related disclosures. Although these estimates contemplate current conditions and expectations of change in the future, it is reasonably possible that actual conditions may be different than anticipated, which could materially affect results of operations and financial condition.

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period
The following ASUs were issued by the Financial Accounting Standards Board (FASB) since the most recent Annual Report:

- In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In February 2017, the FASB issued ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In January 2017, the FASB issued ASU 2017-04 Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The Update simplifies the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for reporting periods beginning after December 15, 2020 for public business entities that are not SEC filers. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- In January 2017, the FASB issued ASU 2017-03 Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update). The ASU incorporates recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The Update was effective upon issuance. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

ASUs Pending Effective Date
For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. In January, 2017, the FASB issued this update to provide a more robust framework to use in determining when a set of assets and activities is a business. It supports more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. For public business entities, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-16 Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory: In October, 2016, the FASB issued this Update that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public business entities, the amendments are effective, on a modified retrospective basis, for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June, 2016, the FASB issued this Update to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued this Update which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued this Update which is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2014-09 Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued this guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB has issued several additional Updates that generally provide clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606. The guidance and all related updates will be effective for reporting periods beginning after December 15, 2017 for public business entities. Early application is not permitted. The amendments are to be applied retrospectively. The Association has identified ancillary revenues that will be affected by this Update. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

Accounting Standards Effective During the Period

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the standards below:

- 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. In November, 2016, the FASB issued this Update to clarify that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.

- 2016-17 Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control: In October, 2016, the FASB issued this Update to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Application of the guidance had no impact on the Association's financial statements.

- 2016-15 Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August, 2016, the FASB issued this Update to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.

Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. See Note 3, *Loans and Allowance for Loan Losses*, from the latest Annual Report for further discussion.

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

A summary of loans outstanding at period end follows:

	June 30, 2017	December 31, 2016
Real estate mortgage	$ 1,625,285	$ 1,577,039
Production and intermediate-term	797,527	807,630
Loans to cooperatives	22,382	13,362
Processing and marketing	69,953	48,841
Farm-related business	68,584	63,636
Communication	60,704	57,697
Power and water/waste disposal	4,419	4,672
Rural residential real estate	35,705	34,476
Total Loans	$ 2,684,559	$ 2,607,353

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	$ 11,870	$ –	$ –	$ –	$ –	$ –	$ 11,870	$ –
Production and intermediate-term	47,530	39,827	20,104	4,142	–	–	67,634	43,969
Loans to cooperatives	7,932	–	14,489	–	–	–	22,421	–
Processing and marketing	31,075	17,792	12,600	–	–	–	43,675	17,792
Farm-related business	891	–	23,065	–	–	–	23,956	–
Communication	15,491	–	45,336	–	–	–	60,827	–
Power and water/waste disposal	–	–	4,429	–	–	–	4,429	–
Total	$ 114,789	$ 57,619	$ 120,023	$ 4,142	$ –	$ –	$ 234,812	$ 61,761

	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	$ 12,352	$ –	$ –	$ –	$ –	$ –	$ 12,352	$ –
Production and intermediate-term	63,477	40,899	20,414	6,063	–	–	83,891	46,962
Loans to cooperatives	1,616	–	11,775	–	–	–	13,391	–
Processing and marketing	30,080	6,421	9,552	–	–	–	39,632	6,421
Farm-related business	148	–	23,295	–	–	–	23,443	–
Communication	14,695	–	43,153	–	–	–	57,848	–
Power and water/waste disposal	–	–	4,683	–	–	–	4,683	–
Total	$ 122,368	$ 47,320	$ 112,872	$ 6,063	$ –	$ –	$ 235,240	$ 53,383

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	$ 83,369	$ 516,101	$ 1,025,815	$ 1,625,285
Production and intermediate-term	166,852	387,856	242,819	797,527
Loans to cooperatives	–	17,015	5,367	22,382
Processing and marketing	2,706	44,886	22,361	69,953
Farm-related business	11,421	28,311	28,852	68,584
Communication	1,998	58,706	–	60,704
Power and water/waste disposal	–	2,607	1,812	4,419
Rural residential real estate	2,462	6,237	27,006	35,705
Total Loans	$ 268,808	$ 1,061,719	$ 1,354,032	$ 2,684,559
Percentage	10.01%	39.55%	50.44%	100.00%

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest, unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table shows the recorded investment of loans, classified under the FCA Uniform Loan Classification System, as a percentage of the recorded investment of total loans by loan type as of:

	June 30, 2017	December 31, 2016
Real estate mortgage:		
Acceptable	95.16%	95.80%
OAEM	2.92	2.28
Substandard/doubtful/loss	1.92	1.92
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	94.79%	96.20%
OAEM	3.13	2.04
Substandard/doubtful/loss	2.08	1.76
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	0.00	0.00
Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	95.75%
OAEM	0.00	4.25
Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%
Farm-related business:		
Acceptable	97.61%	99.30%
OAEM	2.06	0.26
Substandard/doubtful/loss	0.33	0.44
	100.00%	100.00%

	June 30, 2017	December 31, 2016
Communication:		
Acceptable	100.00%	100.00%
OAEM	0.00	0.00
Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%
Power and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	0.00	0.00
Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%
Rural residential real estate:		
Acceptable	91.96%	92.00%
OAEM	4.64	4.31
Substandard/doubtful/loss	3.40	3.69
	100.00%	100.00%
Total Loans:		
Acceptable	95.35%	96.08%
OAEM	2.81	2.16
Substandard/doubtful/loss	1.84	1.76
	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	$ 4,361	$ 8,156	$ 12,517	$ 1,625,258	$ 1,637,775	$ –
Production and intermediate-term	4,144	4,330	8,474	794,556	803,030	34
Loans to cooperatives	–	–	–	22,469	22,469	–
Processing and marketing	–	–	–	70,039	70,039	–
Farm-related business	246	192	438	68,410	68,848	–
Communication	–	–	–	60,722	60,722	–
Power and water/waste disposal	–	–	–	4,453	4,453	–
Rural residential real estate	640	258	898	34,953	35,851	–
Total	$ 9,391	$ 12,936	$ 22,327	$ 2,680,860	$ 2,703,187	$ 34

	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	$ 6,175	$ 5,919	$ 12,094	$ 1,573,876	$ 1,585,970	$ –
Production and intermediate-term	4,377	4,585	8,962	802,962	811,924	–
Loans to cooperatives	–	–	–	13,380	13,380	–
Processing and marketing	–	–	–	48,894	48,894	–
Farm-related business	28	233	261	63,585	63,846	–
Communication	–	–	–	57,708	57,708	–
Power and water/waste disposal	–	–	–	4,707	4,707	–
Rural residential real estate	293	167	460	34,120	34,580	–
Total	$ 10,873	$ 10,904	$ 21,777	$ 2,599,232	$ 2,621,009	$ –

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

	June 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	$ 12,608	$ 11,364
Production and intermediate-term	6,847	6,000
Farm-related business	228	274
Rural residential real estate	892	668
Total	$ 20,575	$ 18,306
Accruing restructured loans:		
Real estate mortgage	$ 9,202	$ 8,664
Production and intermediate-term	6,502	6,300
Rural residential real estate	200	445
Total	$ 15,904	$ 15,409
Accruing loans 90 days or more past due:		
Production and intermediate-term	$ 34	$ –
Total	$ 34	$ –
Total nonperforming loans	$ 36,513	$ 33,715
Other property owned	1,088	729
Total nonperforming assets	$ 37,601	$ 34,444
Nonaccrual loans as a percentage of total loans	0.77%	0.70%
Nonperforming assets as a percentage of total loans and other property owned	1.40%	1.32%
Nonperforming assets as a percentage of capital	6.42%	6.06%

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	$ 4,892	$ 5,250
Past due	15,683	13,056
Total	$ 20,575	$ 18,306
Impaired accrual loans:		
Restructured	$ 15,904	$ 15,409
90 days or more past due	34	–
Total	$ 15,938	$ 15,409
Total impaired loans	$ 36,513	$ 33,715
Additional commitments to lend	$ 23	$ 23

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	$ 7,991	$ 9,531	$ 1,285	$ 7,577	$ 12	$ 7,399	$ 199
Production and intermediate-term	4,191	4,911	1,938	3,974	6	3,881	104
Farm-related business	228	231	46	216	–	211	6
Rural residential real estate	778	840	176	737	1	720	19
Total	$ 13,188	$ 15,513	$ 3,445	$ 12,504	$ 19	$ 12,211	$ 328
With no related allowance for credit losses:							
Real estate mortgage	$ 13,819	$ 15,624	$ –	$ 13,100	$ 20	$ 12,794	$ 343
Production and intermediate-term	9,192	12,263	–	8,715	13	8,510	228
Farm-related business	–	8	–	–	–	–	–
Rural residential real estate	314	448	–	299	1	291	8
Total	$ 23,325	$ 28,343	$ –	$ 22,114	$ 34	$ 21,595	$ 579
Total:							
Real estate mortgage	$ 21,810	$ 25,155	$ 1,285	$ 20,677	$ 32	$ 20,193	$ 542
Production and intermediate-term	13,383	17,174	1,938	12,689	19	12,391	332
Farm-related business	228	239	46	216	–	211	6
Rural residential real estate	1,092	1,288	176	1,036	2	1,011	27
Total	$ 36,513	$ 43,856	$ 3,445	$ 34,618	$ 53	$ 33,806	$ 907

Impaired loans:	December 31, 2016 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2016 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 6,555	$ 7,957	$ 1,154	$ 7,171	$ 156
Production and intermediate-term	3,881	4,667	1,185	4,246	93
Farm-related business	274	276	55	300	7
Rural residential real estate	541	592	143	592	13
Total	$ 11,251	$ 13,492	$ 2,537	$ 12,309	$ 269
With no related allowance for credit losses:					
Real estate mortgage	$ 13,473	$ 15,470	$ –	$ 14,741	$ 322
Production and intermediate-term	8,419	11,816	–	9,212	201
Farm-related business	–	8	–	–	–
Rural residential real estate	572	699	–	626	14
Total	$ 22,464	$ 27,993	$ –	$ 24,579	$ 537
Total:					
Real estate mortgage	$ 20,028	$ 23,427	$ 1,154	$ 21,912	$ 478
Production and intermediate-term	12,300	16,483	1,185	13,458	294
Farm-related business	274	284	55	300	7
Rural residential real estate	1,113	1,291	143	1,218	27
Total	$ 33,715	$ 41,485	$ 2,537	$ 36,888	$ 806

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	Total
Activity related to the allowance for credit losses:							
Balance at March 31, 2017	$ 9,692	$ 13,661	$ 818	$ 218	$ 11	$ 469	$ 24,869
Charge-offs	–	(114)	–	–	–	–	(114)
Recoveries	2	2	1	–	–	1	6
Provision for loan losses	159	418	(23)	(37)	(2)	(15)	500
Balance at June 30, 2017	$ 9,853	$ 13,967	$ 796	$ 181	$ 9	$ 455	$ 25,261
Balance at December 31, 2016	$ 9,715	$ 13,304	$ 634	$ 219	$ 11	$ 494	$ 24,377
Charge-offs	–	(132)	–	–	–	–	(132)
Recoveries	3	5	3	–	–	5	16
Provision for loan losses	135	790	159	(38)	(2)	(44)	1,000
Balance at June 30, 2017	$ 9,853	$ 13,967	$ 796	$ 181	$ 9	$ 455	$ 25,261
Balance at March 31, 2016	$ 9,838	$ 13,591	$ 580	$ 226	$ 9	$ 510	$ 24,754
Charge-offs	(198)	(570)	–	–	–	–	(768)
Recoveries	7	8	–	–	–	3	18
Provision for loan losses	(95)	57	13	21	1	3	–
Balance at June 30, 2016	$ 9,552	$ 13,086	$ 593	$ 247	$ 10	$ 516	$ 24,004
Balance at December 31, 2015	$ 9,959	$ 13,512	$ 540	$ 213	$ 11	$ 545	$ 24,780
Charge-offs	(198)	(714)	–	–	–	(72)	(984)
Recoveries	8	193	–	–	–	7	208
Provision for loan losses	(217)	110	38	34	(1)	36	–
Loan type reclassification	–	(15)	15	–	–	–	–
Balance at June 30, 2016	$ 9,552	$ 13,086	$ 593	$ 247	$ 10	$ 516	$ 24,004
Allowance on loans evaluated for impairment:							
Individually	$ 1,285	$ 1,938	$ 46	$ –	$ –	$ 176	$ 3,445
Collectively	8,568	12,029	750	181	9	279	21,816
Balance at June 30, 2017	$ 9,853	$ 13,967	$ 796	$ 181	$ 9	$ 455	$ 25,261
Individually	$ 1,154	$ 1,185	$ 55	$ –	$ –	$ 143	$ 2,537
Collectively	8,561	12,119	579	219	11	351	21,840
Balance at December 31, 2016	$ 9,715	$ 13,304	$ 634	$ 219	$ 11	$ 494	$ 24,377
Recorded investment in loans evaluated for impairment:							
Individually	$ 12,608	$ 6,847	$ 228	$ –	$ –	$ 892	$ 20,575
Collectively	1,625,167	796,183	161,128	60,722	4,453	34,959	2,682,612
Balance at June 30, 2017	$ 1,637,775	$ 803,030	$ 161,356	$ 60,722	$ 4,453	$ 35,851	$ 2,703,187
Individually	$ 11,364	$ 6,000	$ 274	$ –	$ –	$ 668	$ 18,306
Collectively	1,574,606	805,924	125,846	57,708	4,707	33,912	2,602,703
Balance at December 31, 2016	$ 1,585,970	$ 811,924	$ 126,120	$ 57,708	$ 4,707	$ 34,580	$ 2,621,009

**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	$ 344	$ 689	$ –	$ 1,033	
Production and intermediate-term	803	2,778	–	3,581	
Total	$ 1,147	$ 3,467	$ –	$ 4,614	
Post-modification:					
Real estate mortgage	$ 344	$ 702	$ –	$ 1,046	$ –
Production and intermediate-term	803	2,794	–	3,597	–
Total	$ 1,147	$ 3,496	$ –	$ 4,643	$ –

	Six Months Ended June 30, 2017				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 879	$ 1,325	$ –	$ 2,204	
Production and intermediate-term	803	3,996	–	4,799	
Total	$ 1,682	$ 5,321	$ –	$ 7,003	
Post-modification:					
Real estate mortgage	$ 879	$ 1,338	$ –	$ 2,217	$ –
Production and intermediate-term	803	4,012	–	4,815	–
Total	$ 1,682	$ 5,350	$ –	$ 7,032	$ –

	Three Months Ended June 30, 2016				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 239	$ –	$ 239	
Production and intermediate-term	–	3,505	–	3,505	
Rural residential real estate	–	31	–	31	
Total	$ –	$ 3,775	$ –	$ 3,775	
Post-modification:					
Real estate mortgage	$ –	$ 158	$ –	$ 158	$ –
Production and intermediate-term	–	3,635	–	3,635	–
Rural residential real estate	–	31	–	31	–
Total	$ –	$ 3,824	$ –	$ 3,824	$ –

	Six Months Ended June 30, 2016				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 239	$ –	$ 239	
Production and intermediate-term	–	7,465	–	7,465	
Rural residential real estate	–	31	–	31	
Total	$ –	$ 7,735	$ –	$ 7,735	
Post-modification:					
Real estate mortgage	$ –	$ 158	$ –	$ 158	$ –
Production and intermediate-term	–	7,596	–	7,596	–
Rural residential real estate	–	31	–	31	–
Total	$ –	$ 7,785	$ –	$ 7,785	$ –

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 period. Payment default is defined as a payment that was thirty days or more past due.

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. 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	$ 12,085	$ 11,238	$ 2,883	$ 2,574
Production and intermediate-term	8,697	8,684	2,195	2,384
Farm-related business	37	42	37	42
Rural residential real estate	587	727	387	282
Total Loans	$ 21,406	$ 20,691	$ 5,502	$ 5,282
Additional commitments to lend	$ 6	$ –		

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	$ 1,088
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 10.53 percent of the issued stock of the Bank as of June 30, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled $31.5 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $164 million for the first six months of 2017. In addition, the Association held investments of $2,489 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Employee Benefit Plans:				
Balance at beginning of period	$ (230)	$ (439)	$ (240)	$ (511)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	11	73	21	145
Net current period other comprehensive income	11	73	21	145
Balance at end of period	$ (219)	$ (366)	$ (219)	$ (366)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Three Months Ended June 30,		Six Months Ended June 30,		
	2017	2016	2017	2016	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (11)	$ (73)	$ (21)	$ (145)	See Note 7.
Net amounts reclassified	$ (11)	$ (73)	$ (21)	$ (145)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Fair values are estimated at least annually, or when information suggests a significant change in value, for assets measured at fair value on a nonrecurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

At or for the Six Months Ended June 30, 2017

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 2,343	$ 2,343	$ –	$ –	$ 2,343	
Recurring Assets	$ 2,343	$ 2,343	$ –	$ –	$ 2,343	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 33,068	$ –	$ –	$ 33,068	$ 33,068	$ (1,024)
Other property owned	1,088	–	–	1,227	1,227	(8)
Nonrecurring Assets	$ 34,156	$ –	$ –	$ 34,295	$ 34,295	$ (1,032)
Other Financial Instruments						
Assets:						
Cash	$ 2,077	$ 2,077	$ –	$ –	$ 2,077	
Loans	2,627,459	–	–	2,597,039	2,597,039	
Other Financial Assets	$ 2,629,536	$ 2,077	$ –	$ 2,597,039	$ 2,599,116	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 2,106,313	$ –	$ –	$ 2,097,222	$ 2,097,222	
Other Financial Liabilities	$ 2,106,313	$ –	$ –	$ 2,097,222	$ 2,097,222	

	At or for the Year Ended December 31, 2016					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 2,230	$ 2,230	$ –	$ –	$ 2,230	
Recurring Assets	$ 2,230	$ 2,230	$ –	$ –	$ 2,230	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 31,178	$ –	$ –	$ 31,178	$ 31,178	$ 154
Other property owned	729	–	–	823	823	(219)
Nonrecurring Assets	$ 31,907	$ –	$ –	$ 32,001	$ 32,001	$ (65)
Other Financial Instruments						
Assets:						
Cash	$ 3,894	$ 3,894	$ –	$ –	$ 3,894	
Loans	2,552,271	–	–	2,515,881	2,515,881	
Other Financial Assets	$ 2,556,165	$ 3,894	$ –	$ 2,515,881	$ 2,519,775	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 2,040,901	$ –	$ –	$ 2,023,769	$ 2,023,769	
Other Financial Liabilities	$ 2,040,901	$ –	$ –	$ 2,023,769	$ 2,023,769	

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 at June 30, 2017

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 34,295	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 7 — 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	$ 1,532	$ 1,561	$ 3,064	$ 3,122
401(k)	260	232	506	509
Other postretirement benefits	298	304	597	608
Total	$ 2,090	$ 2,097	$ 4,167	$ 4,239

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	$ 59	$ 5,372	$ 5,431
Other postretirement benefits	314	308	622
Total	$ 373	$ 5,680	$ 6,053

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2017.

Further details regarding employee benefit plans are contained in the 2016 Annual Report to Shareholders. As of March 31, 2017, the AgFirst Farm Credit Cash Balance Retirement Plan had been terminated and all vested benefits had been distributed to participants.

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through August 8, 2017, which was the date the financial statements were issued.