
First South 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 First South 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.

Walter R. Richardson

Walter R. Richardson
Chairman of the Board

Roger F. Chappell

Roger F. Chappell
Chief Executive Officer

Bryan Applewhite

Bryan Applewhite
Chief Financial Officer

August 8, 2017

First South 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.



Roger F. Chappell
Chief Executive Officer



Bryan Applewhite
Chief Financial Officer

August 8, 2017

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of *First South Farm Credit, ACA* (Association) for the period ended June 30, 2017. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2016 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, cotton, livestock and forestry. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

Comparison of June 30, 2017 to December 31, 2016

The gross loan volume of the Association as of June 30, 2017, was \$1,968,377 as compared to \$1,859,238 at December 31, 2016. Net loans outstanding at June 30, 2017, were \$1,955,095 as compared to \$1,846,772 at December 31, 2016. Net loans accounted for 94.89 percent of total assets at June 30, 2017, as compared to 93.58 percent of total assets at December 31, 2016.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased to \$4,260 at June 30, 2017 from \$6,702 at December 31, 2016, a decrease of \$2,442.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2017, was \$13,282 compared to \$12,466 at December 31, 2016, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2017

Net income for the three months ended June 30, 2017, totaled \$6,525, as compared to \$5,960 for the same period in 2016. The increase in net income primarily relates to increased interest income due to overall growth in the association's loan portfolio. A more detailed explanation of other changes will be discussed below.

Noninterest income for the three months ended June 30, 2017 totaled \$3,781, as compared to \$4,323 for the same period of 2016, a decrease of \$542. The decrease is the result of decreased patronage refunds from other Farm Credit institutions of \$453, decreased loan fees of \$113, offset by an increase in fees for financially related services of \$24.

Noninterest expense for the three months ended June 30, 2017 decreased \$116 compared to the same period of 2016. The decrease is primarily attributable to decreased salaries and employee benefits of \$99 along with decreases in losses on other property owned of \$64, offset by increases of \$47 in other various noninterest expense categories.

The Association recorded a provision for loan losses of \$450 for the three months ended June 30, 2017, compared to a provision for loan losses of \$224 for the same period in 2016. The Association recorded a provision for income taxes of \$25 for the three months ended June 30, 2017, compared to no benefit or provision for income taxes for the same period of 2016.

For the six months ended June 30, 2017

Net income for the six months ended June 30, 2017, totaled \$12,182, as compared to \$10,712 for the same period in 2016. This increase in net income of \$1,470 is primarily due to an increase in overall interest income. Net interest income after the provision for loan losses for the six months ended June 30, 2017 increased \$2,517 as compared to the same period in 2016. The increase in net interest income after the provision for loan losses was primarily the result of increased interest income of \$5,965, offset by an increase in interest expense on notes payable to AgFirst Farm Credit Bank of \$3,466.

Noninterest income for the six months ended June 30, 2017, totaled \$7,476, as compared to \$8,704 for the same period of 2016, a decrease of \$1,228. The decrease is attributable to decreased patronage refunds from other Farm Credit institutions

of \$1,075, and a decrease in loan fees of \$153. The decrease in patronage refunds from other farm credit institutions primarily relates to the reduction of a large portion of participation loans with AgFirst Farm Credit Bank for the three months and the six months ended June 30, 2017.

Noninterest expense for the six months ended June 30, 2017, decreased \$220 compared to the same period of 2016. The decrease in noninterest expense were due to a decrease in in salaries and employee benefits of \$282 and a decrease of \$54 in losses on other property owned. The above decreases were offset by an increase of \$86 in Insurance Fund premiums, an increase of \$23 in occupancy and equipment, and an increase of \$7 in other operating expenses.

The Association recorded provision for loan losses of \$860 for the six months ended June 30, 2017, compared to a provision for loan losses of \$878 for the same period in 2016. The Association also recorded a provision for income taxes of \$18 for the six month periods ended June 30, 2017 and a benefit for income taxes of \$21 for the six month periods ended June 30, 2016.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the AgFirst Farm Credit Bank (Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2017 was \$1,632,231 as compared to \$1,543,099 at December 31, 2016, an increase of \$89,132. The increase in notes payable from December 31, 2016 to June 30, 2017 is primarily related to seasonal lending within the portfolio.

CAPITAL RESOURCES

Total members' equity at June 30, 2017 and December 31, 2016 was \$368,592 and \$357,345, respectively. Allocated and unallocated retained earnings changes reflect the impact of normal earnings and patronage payments.

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 new regulatory capital and leverage 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%	16.12%
Tier 1 Capital	6.0%	0.625%	6.625%	16.12%
Total Capital	8.0%	0.625%	8.625%	17.02%
Permanent Capital Ratio	7.0%	0.0%	7.0%	16.61%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	16.31%
UREE Leverage Ratio	1.5%	0.0%	1.5%	10.74%

* - 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.

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.

STOCKHOLDER INVESTMENT

Stockholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank’s Quarterly and Annual Reports are on the AgFirst website, www.agfirst.com, or may be obtained at no charge by calling 1-800-845-1745, extension 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Copies of the Association’s Annual and Quarterly reports are also on the Association’s website, www.firstsouthland.com, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Bryan Applewhite, First South Farm Credit, ACA, 574 Highland Colony Parkway, Suite 100, Ridgeland, MS 39157. 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.

First South Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2017 <i>(unaudited)</i>	December 31, 2016 <i>(audited)</i>
Assets		
Cash	\$ 2,417	\$ 6,574
Loans	1,968,377	1,859,238
Allowance for loan losses	(13,282)	(12,466)
Net loans	1,955,095	1,846,772
Accrued interest receivable	18,579	17,804
Investments in other Farm Credit institutions	67,350	67,303
Premises and equipment, net	9,226	9,101
Other property owned	1,448	1,098
Accounts receivable	5,975	24,627
Other assets	250	273
Total assets	\$ 2,060,340	\$ 1,973,552
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,632,231	\$ 1,543,099
Accrued interest payable	3,600	3,249
Patronage refunds payable	20	10,706
Accounts payable	4,068	6,767
Other liabilities	51,829	52,386
Total liabilities	1,691,748	1,616,207
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	56,629	56,531
Retained earnings		
Allocated	219,423	221,800
Unallocated	120,731	108,424
Accumulated other comprehensive income (loss)	(28,191)	(29,410)
Total members' equity	368,592	357,345
Total liabilities and members' equity	\$ 2,060,340	\$ 1,973,552

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

First South Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Interest Income				
Loans	\$ 23,409	\$ 20,241	\$ 45,158	\$ 39,193
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	10,583	8,657	20,207	16,741
Net interest income	12,826	11,584	24,951	22,452
Provision for loan losses	450	224	860	878
Net interest income after provision for loan losses	12,376	11,360	24,091	21,574
Noninterest Income				
Loan fees	683	796	1,420	1,573
Fees for financially related services	51	27	18	18
Patronage refunds from other Farm Credit institutions	3,047	3,500	6,038	7,113
Total noninterest income	3,781	4,323	7,476	8,704
Noninterest Expense				
Salaries and employee benefits	6,760	6,859	13,552	13,834
Occupancy and equipment	401	401	812	789
Insurance Fund premiums	544	499	1,049	963
(Gains) losses on other property owned, net	26	90	48	102
Other operating expenses	1,876	1,874	3,906	3,899
Total noninterest expense	9,607	9,723	19,367	19,587
Income before income taxes	6,550	5,960	12,200	10,691
Provision (benefit) for income taxes	25	—	18	(21)
Net income	\$ 6,525	\$ 5,960	\$ 12,182	\$ 10,712

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

First South Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Net income	\$ 6,525	\$ 5,960	\$ 12,182	\$ 10,712
Other comprehensive income net of tax				
Employee benefit plans adjustments	610	554	1,219	1,107
Comprehensive income	\$ 7,135	\$ 6,514	\$ 13,401	\$ 11,819

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

First South Farm Credit, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2015	\$ 58,523	\$ 203,534	\$ 106,358	\$ (27,473)	\$ 340,942
Comprehensive income			10,712	1,107	11,819
Capital stock/participation certificates issued/(retired), net	(12)				(12)
Retained earnings retired		(3,139)			(3,139)
Patronage distribution adjustment		(197)	195		(2)
Balance at June 30, 2016	\$ 58,511	\$ 200,198	\$ 117,265	\$ (26,366)	\$ 349,608
Balance at December 31, 2016	\$ 56,531	\$ 221,800	\$ 108,424	\$ (29,410)	\$ 357,345
Comprehensive income			12,182	1,219	13,401
Capital stock/participation certificates issued/(retired), net	98				98
Retained earnings retired		(2,218)			(2,218)
Patronage distribution adjustment		(159)	125		(34)
Balance at June 30, 2017	\$ 56,629	\$ 219,423	\$ 120,731	\$ (28,191)	\$ 368,592

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

First South 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 First South 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 March 2017, the FASB issued ASU 2017-07 *Compensation—Retirement Benefits* (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. The amendments will be effective for the Association for interim and annual periods beginning after December 15, 2017 for public business entities. Early adoption is permitted. The Association does not expect these amendments to have a material effect on its financial statements.
- In February 2017, the FASB issued ASU 2017-06 *Plan Accounting: Defined Benefit Pension Plans* (Topic 960), *Defined Contribution Pension Plans* (Topic 962), *Health and Welfare Benefit Plans* (Topic 965): *Employee Benefit Plan Master Trust Reporting* (a consensus of the Emerging Issues Task Force) which amended the guidance related to employee benefit plan master trust reporting. The new guidance provides for presentation within the plan's financial statements of its interest in a master trust as a single line item; disclosure of the master trust's investments by general type as well as by the dollar amount

of the plan's interest in each type; disclosure of the master trust's other assets and liabilities and the balances related to the plan; and elimination of required disclosures for Section 401(h) accounts that are already provided by the associated defined benefit plan. The amendments are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Association does not expect these amendments to have a material effect on its financial statements.

- 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.

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.

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

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	\$ 1,449,419	\$ 1,433,647
Production and intermediate-term	433,787	344,258
Loans to cooperatives	4,353	4,209
Processing and marketing	49,652	47,402
Farm-related business	8,886	8,707
Communication	13,631	12,105
Rural residential real estate	8,649	8,910
Total Loans	<u>\$ 1,968,377</u>	<u>\$ 1,859,238</u>

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	\$ 5,324	\$ 11,301	\$ —	\$ —	\$ 35,136	\$ —	\$ 40,460	\$ 11,301
Production and intermediate-term	1,626	13,088	—	—	432	—	2,058	13,088
Loans to cooperatives	3,991	—	367	—	—	—	4,358	—
Processing and marketing	14,363	23,977	4,143	12,015	—	—	18,506	35,992
Farm-related business	458	—	—	—	—	—	458	—
Communication	13,588	—	—	—	—	—	13,588	—
Rural residential real estate	—	—	—	—	124	—	124	—
Total	<u>\$ 39,350</u>	<u>\$ 48,366</u>	<u>\$ 4,510</u>	<u>\$ 12,015</u>	<u>\$ 35,692</u>	<u>\$ —</u>	<u>\$ 79,552</u>	<u>\$ 60,381</u>

	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	\$ 5,422	\$ 11,308	\$ —	\$ —	\$ 40,230	\$ —	\$ 45,652	\$ 11,308
Production and intermediate-term	1,672	11,209	—	—	508	—	2,180	11,209
Loans to cooperatives	3,991	—	222	—	—	—	4,213	—
Processing and marketing	14,782	23,978	3,726	9,945	—	—	18,508	33,923
Communication	12,045	—	—	—	—	—	12,045	—
Rural residential real estate	—	—	—	—	173	—	173	—
Total	<u>\$ 37,912</u>	<u>\$ 46,495</u>	<u>\$ 3,948</u>	<u>\$ 9,945</u>	<u>\$ 40,911</u>	<u>\$ —</u>	<u>\$ 82,771</u>	<u>\$ 56,440</u>

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	\$ 44,495	\$ 391,906	\$ 1,013,018	\$ 1,449,419
Production and intermediate-term	181,865	200,264	51,658	433,787
Loans to cooperatives	-	366	3,987	4,353
Processing and marketing	15,420	27,449	6,783	49,652
Farm-related business	1,392	7,293	201	8,886
Communication	-	4,643	8,988	13,631
Rural residential real estate	487	1,662	6,500	8,649
Total Loans	<u>\$ 243,659</u>	<u>\$ 633,583</u>	<u>\$ 1,091,135</u>	<u>\$ 1,968,377</u>
Percentage	12.38%	32.19%	55.43%	100.00%

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

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

	June 30, 2017	December 31, 2016		June 30, 2017	December 31, 2016
Real estate mortgage:			Farm-related business:		
Acceptable	96.53%	96.43%	Acceptable	97.08%	100.00%
OAEM	2.62	2.59	OAEM	2.92	-
Substandard/doubtful/loss	0.85	0.98	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Communication:		
Acceptable	90.31%	89.54%	Acceptable	100.00%	100.00%
OAEM	7.46	8.80	OAEM	-	-
Substandard/doubtful/loss	2.23	1.66	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Loans to cooperatives:			Rural residential real estate:		
Acceptable	91.54%	94.73%	Acceptable	100.00%	99.91%
OAEM	-	-	OAEM	-	0.09
Substandard/doubtful/loss	8.46	5.27	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing:			Total Loans:		
Acceptable	100.00%	100.00%	Acceptable	95.27%	95.23%
OAEM	-	-	OAEM	3.59	3.67
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	1.14	1.10
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

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	\$ 3,491	\$ 893	\$ 4,384	\$ 1,457,596	\$ 1,461,980	\$ 410
Production and intermediate-term	2,454	809	3,263	436,186	439,449	5
Loans to cooperatives	-	-	-	4,358	4,358	-
Processing and marketing	-	-	-	49,815	49,815	-
Farm-related business	-	-	-	8,997	8,997	-
Communication	-	-	-	13,644	13,644	-
Rural residential real estate	59	-	59	8,654	8,713	-
Total	<u>\$ 6,004</u>	<u>\$ 1,702</u>	<u>\$ 7,706</u>	<u>\$ 1,979,250</u>	<u>\$ 1,986,956</u>	<u>\$ 415</u>

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	\$ 2,033	\$ 3,658	\$ 5,691	\$ 1,441,218	\$ 1,446,909	\$ -
Production and intermediate-term	418	702	1,120	347,400	348,520	-
Loans to cooperatives	-	-	-	4,213	4,213	-
Processing and marketing	-	-	-	47,515	47,515	-
Farm-related business	-	-	-	8,774	8,774	-
Communication	-	-	-	12,111	12,111	-
Rural residential real estate	191	-	191	8,809	9,000	-
Total	\$ 2,642	\$ 4,360	\$ 7,002	\$ 1,870,040	\$ 1,877,042	\$ -

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	\$ 1,023	\$ 4,070
Production and intermediate-term	3,237	2,624
Rural residential real estate	-	8
Total	\$ 4,260	\$ 6,702
Accruing restructured loans:		
Real estate mortgage	\$ 5,672	\$ 6,521
Production and intermediate-term	2,673	2,180
Total	\$ 8,345	\$ 8,701
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 410	\$ -
Production and intermediate-term	5	-
Total	\$ 415	\$ -
Total nonperforming loans	\$ 13,020	\$ 15,403
Other property owned	1,448	1,098
Total nonperforming assets	\$ 14,468	\$ 16,501
Nonaccrual loans as a percentage of total loans	0.22%	0.36%
Nonperforming assets as a percentage of total loans and other property owned	0.73%	0.89%
Nonperforming assets as a percentage of capital	3.93%	4.62%

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	\$ 1,228	\$ 2,251
Past due	3,032	4,451
Total	\$ 4,260	\$ 6,702
Impaired accrual loans:		
Restructured	\$ 8,345	\$ 8,701
90 days or more past due	415	-
Total	\$ 8,760	\$ 8,701
Total impaired loans	\$ 13,020	\$ 15,403
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	
	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
Impaired loans:							
With a related allowance for credit losses:							
Production and intermediate-term	\$ 184	\$ 187	\$ 18	\$ 168	\$ 2	\$ 190	\$ 5
Total	\$ 184	\$ 187	\$ 18	\$ 168	\$ 2	\$ 190	\$ 5
With no related allowance for credit losses:							
Real estate mortgage	\$ 7,105	\$ 8,814	\$ –	\$ 6,487	\$ 83	\$ 7,341	\$ 189
Production and intermediate-term	5,731	6,849	–	5,232	67	5,920	153
Total	\$ 12,836	\$ 15,663	\$ –	\$ 11,719	\$ 150	\$ 13,261	\$ 342
Total:							
Real estate mortgage	\$ 7,105	\$ 8,814	\$ –	\$ 6,487	\$ 83	\$ 7,341	\$ 189
Production and intermediate-term	5,915	7,036	18	5,400	69	6,110	158
Total	\$ 13,020	\$ 15,850	\$ 18	\$ 11,887	\$ 152	\$ 13,451	\$ 347

	December 31, 2016			Year Ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans:					
With a related allowance for credit losses:					
Real estate mortgage	\$ 233	\$ 253	\$ 20	\$ 213	\$ 10
Production and intermediate-term	1,830	1,992	160	1,677	81
Total	\$ 2,063	\$ 2,245	\$ 180	\$ 1,890	\$ 91
With no related allowance for credit losses:					
Real estate mortgage	\$ 10,358	\$ 12,059	\$ –	\$ 9,493	\$ 455
Production and intermediate-term	2,974	3,871	–	2,725	130
Rural residential real estate	8	8	–	7	–
Total	\$ 13,340	\$ 15,938	\$ –	\$ 12,225	\$ 585
Total:					
Real estate mortgage	\$ 10,591	\$ 12,312	\$ 20	\$ 9,706	\$ 465
Production and intermediate-term	4,804	5,863	160	4,402	211
Rural residential real estate	8	8	–	7	–
Total	\$ 15,403	\$ 18,183	\$ 180	\$ 14,115	\$ 676

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	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:						
Balance at March 31, 2017	\$ 9,578	\$ 2,786	\$ 387	\$ 71	\$ 50	\$ 12,872
Charge-offs	(41)	1	—	—	—	(40)
Recoveries	—	—	—	—	—	—
Provision for loan losses	(182)	641	(14)	6	(1)	450
Balance at June 30, 2017	\$ 9,355	\$ 3,428	\$ 373	\$ 77	\$ 49	\$ 13,282
Balance at December 31, 2016	\$ 9,050	\$ 2,980	\$ 325	\$ 64	\$ 47	\$ 12,466
Charge-offs	(47)	3	—	—	—	(44)
Recoveries	—	—	—	—	—	—
Provision for loan losses	352	445	48	13	2	860
Balance at June 30, 2017	\$ 9,355	\$ 3,428	\$ 373	\$ 77	\$ 49	\$ 13,282
Balance at March 31, 2016	\$ 8,066	\$ 2,839	\$ 301	\$ 55	\$ 46	\$ 11,307
Charge-offs	(1)	—	—	—	—	(1)
Recoveries	—	1	—	—	—	1
Provision for loan losses	(261)	499	(17)	3	—	224
Balance at June 30, 2016	\$ 7,804	\$ 3,339	\$ 284	\$ 58	\$ 46	\$ 11,531
Balance at December 31, 2015	\$ 7,494	\$ 2,774	\$ 269	\$ 75	\$ 25	\$ 10,637
Charge-offs	(1)	—	—	—	—	(1)
Recoveries	—	17	—	—	—	17
Provision for loan losses	311	548	15	(17)	21	878
Balance at June 30, 2016	\$ 7,804	\$ 3,339	\$ 284	\$ 58	\$ 46	\$ 11,531
Allowance on loans evaluated for impairment:						
Individually	\$ —	\$ 18	\$ —	\$ —	\$ —	\$ 18
Collectively	9,355	3,410	373	77	49	13,264
Balance at June 30, 2017	\$ 9,355	\$ 3,428	\$ 373	\$ 77	\$ 49	\$ 13,282
Individually	\$ 20	\$ 160	\$ —	\$ —	\$ —	\$ 180
Collectively	9,030	2,820	325	64	47	12,286
Balance at December 31, 2016	\$ 9,050	\$ 2,980	\$ 325	\$ 64	\$ 47	\$ 12,466
Recorded investment in loans evaluated for impairment:						
Individually	\$ 7,105	\$ 5,915	\$ —	\$ —	\$ —	\$ 13,020
Collectively	1,454,875	433,534	63,170	13,644	8,713	1,973,936
Balance at June 30, 2017	\$ 1,461,980	\$ 439,449	\$ 63,170	\$ 13,644	\$ 8,713	\$ 1,986,956
Individually	\$ 10,588	\$ 4,802	\$ —	\$ —	\$ 8	\$ 15,398
Collectively	1,436,321	343,718	60,502	12,111	8,992	1,861,644
Balance at December 31, 2016	\$ 1,446,909	\$ 348,520	\$ 60,502	\$ 12,111	\$ 9,000	\$ 1,877,042

*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. There were no new TDRs that occurred during the periods presented.

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	\$ 5,745	\$ 6,599	\$ 73	\$ 78
Production and intermediate-term	2,673	2,180	—	—
Total Loans	\$ 8,418	\$ 8,779	\$ 73	\$ 78
Additional commitments to lend	\$ —	\$ —	—	—

The following table presents information as of period end:

	<u>June 30, 2017</u>	
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 7.50 percent of the issued stock of the Bank as of June 30, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled \$31.5 billion and shareholders' equity totaled \$2.4 billion. The Bank's earnings were \$164 million for the first six months of 2017. In addition, the Association held investments of \$1,298 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

	<u>Changes in Accumulated Other Comprehensive Income by Component (a)</u>			
	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Employee Benefit Plans:				
Balance at beginning of period	\$ (28,801)	\$ (26,920)	\$ (29,410)	\$ (27,473)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	610	554	1,219	1,107
Net current period other comprehensive income	610	554	1,219	1,107
Balance at end of period	\$ (28,191)	\$ (26,366)	\$ (28,191)	\$ (26,366)

	<u>Reclassifications Out of Accumulated Other Comprehensive Income (b)</u>				
	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>		<u>Income Statement Line Item</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (610)	\$ (554)	\$ (1,219)	\$ (1,107)	See Note 7.
Net amounts reclassified	\$ (610)	\$ (554)	\$ (1,219)	\$ (1,107)	

(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:										
Recurring Assets	\$	–	\$	–	\$	–	\$	–		
Liabilities:										
Recurring Liabilities	\$	–	\$	–	\$	–	\$	–		
Nonrecurring Measurements										
Assets:										
Impaired loans	\$	13,002	\$	–	\$	13,002	\$	13,002	\$	116
Other property owned		1,448		–		1,665		1,665		(45)
Nonrecurring Assets	\$	14,450	\$	–	\$	14,667	\$	14,667	\$	71
Other Financial Instruments										
Assets:										
Cash	\$	2,417	\$	2,417	\$	–	\$	2,417		
Loans		1,942,093		–		1,911,056		1,911,056		
Other Financial Assets	\$	1,944,510	\$	2,417	\$	–	\$	1,911,056	\$	1,913,473
Liabilities:										
Notes payable to AgFirst Farm Credit Bank	\$	1,632,231	\$	–	\$	–	\$	1,619,466	\$	1,619,466
Other Financial Liabilities	\$	1,632,231	\$	–	\$	–	\$	1,619,466	\$	1,619,466

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	\$ 15,223	\$ -	\$ -	\$ 15,223	\$ 15,223	\$ 450
Other property owned	1,098	-	-	1,263	1,263	(102)
Nonrecurring Assets	\$ 16,321	\$ -	\$ -	\$ 16,486	\$ 16,486	\$ 348
Other Financial Instruments						
Assets:						
Cash	\$ 6,574	\$ 6,574	\$ -	\$ -	\$ 6,574	
Loans	1,831,549	-	-	1,795,234	1,795,234	
Other Financial Assets	\$ 1,838,123	\$ 6,574	\$ -	\$ 1,795,234	1,801,808	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,543,099	\$ -	\$ -	\$ 1,523,853	\$ 1,523,853	
Other Financial Liabilities	\$ 1,543,099	\$ -	\$ -	\$ 1,523,853	\$ 1,523,853	

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	\$ 14,667	Appraisal	Income and expense Comparable sales Replacement costs 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	\$ 897	\$ 902	\$ 1,794	\$ 1,805
401(k)	182	178	404	388
Other postretirement benefits	160	315	319	631
Total	\$ 1,239	\$ 1,395	\$ 2,517	\$ 2,824

The following is a table of pension 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	\$ —	\$ 2,405
Other postretirement benefits	319	300	619
Total	\$ 319	\$ 2,705	\$ 3,024

Other postretirement benefit contributions in the above table include allocated estimates of funding for a multi-employer plan 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.