Farm Credit of Northwest Florida, ACA

SECOND QUARTER 2017

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2017 quarterly report of Farm Credit of Northwest Florida, 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.

Ricky K. Bitner
Chief Executive Officer

John P. Mottice
Chief Financial Officer

Richard Terry
Chairman of the Board

August 8, 2017

Farm Credit of Northwest Florida, 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.

Ricky K. Bitner

Ricky K. Bitner
Chief Executive Officer

John P. Mottice
Chief Financial Officer

August 8, 2017

Farm Credit of Northwest Florida, 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 Farm Credit of Northwest Florida, ACA (the Association) for the period ending 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.

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 is diversified over a range of agricultural commodities including forestry, row crops, livestock, peanuts, horticulture, dairies and rural homes. 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.

The gross loan volume of the Association as of June 30, 2017, was $281,203, an increase of $3,828 or 1.38 percent as compared to $277,375 at December 31, 2016. Net loans outstanding (gross loans net of the allowance for loan losses) at June 30, 2017, were $276,629, an increase of $3,828 or 1.40 percent as compared to $272,801 at December 31, 2016. Net loans accounted for 95.82 percent of total assets at June 30, 2017, as compared to 94.85 percent of total assets at December 31, 2016. The increase in loan volume was due to a decrease in loan participations sold, partially offset by decreases in originated loans and purchased participation loans.

Portfolio credit quality remained stable during the first six months of 2017. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 94.56 percent of total loans and accrued interest at June 30, 2017 as compared to 94.63 percent at December 31, 2016.

Nonaccrual loans were $1,934 at June 30, 2017, an increase of $571 as compared to $1,363 at December 31, 2016. The increase was due primarily to the transfer to nonaccrual of loans outstanding to one borrower.

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. The Association's Risk Management Committee, which is comprised of senior management and a member of the Board of Directors, evaluates the adequacy of the allowance on a quarterly basis. The evaluation considers factors which include, but are not limited to, loan loss experience, portfolio quality, loan portfolio composition, commodity prices, agricultural production conditions, and general economic conditions.

The allowance for loan losses at June 30, 2017 was $4,574, unchanged from December 31, 2016. Activity reflected recoveries of $118, charge-offs of $0 and a reversal of the allowance of $118. The allowance for loan losses at June 30, 2017 was considered by management to be adequate to cover probable and estimable losses inherent in the loan portfolio. The allowance represented 1.63 percent of gross loan volume as of June 30, 2017.

Other property owned was $2,940 as of June 30, 2017, unchanged from December 31, 2016. There were no acquisitions or sales of property during the first six months of 2017. Other property owned consisted of two real estate properties located in Florida and Tennessee. The Association is actively marketing the properties for sale.

Accounts receivable decreased to $904 as of June 30, 2017 as compared to $3,569 as of December 31, 2016. Accounts receivable consist of general receivables as well as patronage receivables from AgFirst Farm Credit Bank (AgFirst or the Bank) and other Farm Credit institutions. The decrease of $2,665 was due primarily to the fact that patronage receivables at December 31, 2016 included four quarters of accrued patronage from AgFirst, as compared to two quarters of accrued patronage at June 30, 2017.

RESULTS OF OPERATIONS

For the three months ending June 30, 2017

Net income for the three months ending June 30, 2017 totaled $1,228, as compared to net income of $1,200 for the same period in 2016, an increase of $28 or 2.33 percent. Components of the increase in net income are discussed further in the following paragraphs.

Interest income for the three months ending June 30, 2017 was $3,357, an increase of $169 or 5.30 percent as compared to $3,188 for the same period in 2016. The increase was due primarily to higher interest rates and increased average net loans outstanding.

Interest expense for the three months ending June 30, 2017 was $1,244, an increase of $168 or 15.61 percent as compared to $1,076 for the same period in 2016. The increase was due to higher interest rates and higher average balances on the Association's notes payable to AgFirst.

Net interest income before provision for loan losses for the three months ending June 30, 2017 was $2,113, an increase of $1 or 0.05 percent as compared to $2,112 for the same period in 2016. Higher interest income on net loans outstanding was offset by higher interest expense on notes payable to AgFirst.

There was a reversal of the allowance for loan losses of $76 for the three months ending June 30, 2017, as compared to no reversal or provision for the three months ending June 30, 2016.

Noninterest income for the three months ending June 30, 2017 totaled $525, a decrease of $82 or 13.51 percent as compared to $607 for the same period in 2016. Reduced patronage refunds and other noninterest income, and higher losses on sales of premises and equipment and other transactions, were partially offset by higher gains on sales of rural home loans. The decrease in patronage refunds was due to a decline in average balances of participation loans sold.

Noninterest expense for the three months ending June 30, 2017 totaled $1,486, a decrease of $33 or 2.17 percent as compared to $1,519 for the same period in 2016. The decrease reflects reductions in most expense categories, partially offset by an increase in occupancy and equipment expense and losses on other property owned.

For the six months ending June 30, 2017

Net income for the six months ending June 30, 2017 totaled $2,422 as compared to net income of $2,416 for the same period in 2016, an increase of $6 or 0.25 percent. Components of the increase in net income are discussed further in the following paragraphs.

Interest income for the six months ending June 30, 2017 was $6,609, an increase of $29 or 0.44 percent as compared to $6,580 for the same period in 2016. The increase was due to higher interest rates and increased average net loans outstanding, partially offset by decreased interest income on nonaccrual loans.

Interest expense for the six months ending June 30, 2017 was $2,412, an increase of $251 or 11.61 percent as compared to $2,161 for the same period in 2016. The increase was due to higher interest rates and higher average balances under the Association's notes payable to AgFirst.

Net interest income before provision for loan losses for the six months ending June 30, 2017 was $4,197, a decrease of $222 or 5.02 percent as compared to $4,419 for the same period in 2016. The decrease was due to lower interest income on nonaccrual loans and higher interest expense on notes payable to AgFirst.

There was a reversal of the allowance for loan losses of $118 for the six months ending June 30, 2017, as compared to a reversal of $14 for the six months ending June 30, 2016.

Noninterest income for the six months ending June 30, 2017 totaled $1,082, a decrease of $95 or 8.07 percent as compared to $1,177 for the same period in 2016. Lower loan fees and patronage refunds, as well as losses on sales of premises and equipment and other transactions, were partially offset by higher gains on sales of rural home loans. The decrease in patronage refunds was due to a decline in average balances of participation loans sold.

Noninterest expense for the six months ending June 30, 2017 totaled $2,975, a decrease of $219 or 6.86 percent as compared to $3,194 for the same period in 2016. The decrease reflects reductions in all expense categories, partially offset by an increase in losses on other property owned.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst through the General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association.

Notes payable to AgFirst as of June 30, 2017 were $199,694, an increase of $1,467 or 0.74 percent as compared to $198,227 at December 31, 2016. The increase is primarily the result of the increase in loan volume, partially offset by a decrease in accounts receivable. The Association had no lines of credit with third parties as of June 30, 2017.

CAPITAL RESOURCES

Total members' equity as of June 30, 2017 was $85,519, an increase of $2,450 or 2.95 percent as compared to $83,069 at December 31, 2016. Total capital stock and participation certificates were $912 as of June 30, 2017, an increase of $28 as compared to $884 at December 31, 2016.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum capital ratios. Effective January 1, 2017, the regulatory capital requirements for System institutions were modified to include, among other changes, revised capital ratios to ensure comparability with the Basel III framework. The new capital requirements are more fully explained in the *Regulatory Matters* section below. As of June 30, 2017, the Association was in compliance with all minimum regulatory capital 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 ratio 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 Ratio	4.5%	0.625%	5.125%	28.43%
Tier 1 Capital Ratio	6.0%	0.625%	6.625%	28.43%
Total Capital Ratio	8.0%	0.625%	8.625%	29.69%
Permanent Capital Ratio	7.0%	0.0%	7.0%	28.79%
Non-risk-adjusted:				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	29.32%
UREE Leverage Ratio	1.5%	0.0%	1.5%	25.19%

** 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.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 850-526-4910 ext. 118, or writing John P. Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, ACA, P.O. Box 7000, Marianna, FL 32447, or accessing the website, *www.farmcredit-fl.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.

Farm Credit of Northwest Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2017	December 31, 2016
	(unaudited)	*(audited)*
Assets		
Loans	**$ 281,203**	$ 277,375
Allowance for loan losses	**(4,574)**	(4,574)
Net loans	**276,629**	272,801
Loans held for sale	**618**	251
Accrued interest receivable	**1,859**	1,952
Investments in other Farm Credit institutions	**3,341**	3,336
Premises and equipment, net	**1,943**	2,010
Other property owned	**2,940**	2,940
Accounts receivable	**904**	3,569
Other assets	**474**	741
Total assets	**$ 288,708**	$ 287,600
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 199,694**	$ 198,227
Accrued interest payable	**431**	404
Patronage refunds payable	**72**	3,046
Accounts payable	**302**	408
Other liabilities	**2,690**	2,446
Total liabilities	**203,189**	204,531
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**912**	884
Retained earnings		
Allocated	**47,644**	47,644
Unallocated	**36,963**	34,541
Total members' equity	**85,519**	83,069
Total liabilities and members' equity	**$ 288,708**	$ 287,600

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2017	For the three months ended June 30, 2016	For the six months ended June 30, 2017	For the six months ended June 30, 2016
Interest Income				
Loans	**$ 3,357**	$ 3,188	**$ 6,609**	$ 6,580
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**1,242**	1,072	**2,409**	2,153
Other	**2**	4	**3**	8
Total interest expense	**1,244**	1,076	**2,412**	2,161
Net interest income	**2,113**	2,112	**4,197**	4,419
Provision for (reversal of allowance for) loan losses	**(76)**	—	**(118)**	(14)
Net interest income after provision for (reversal of allowance for) loan losses	**2,189**	2,112	**4,315**	4,433
Noninterest Income				
Loan fees	**21**	20	**42**	48
Patronage refunds from other Farm Credit institutions	**435**	525	**902**	1,036
Gains (losses) on sales of rural home loans, net	**70**	52	**131**	81
Gains (losses) on sales of premises and equipment, net	**(3)**	—	**(3)**	—
Gains (losses) on other transactions	**(6)**	(2)	**(13)**	(11)
Other noninterest income	**8**	12	**23**	23
Total noninterest income	**525**	607	**1,082**	1,177
Noninterest Expense				
Salaries and employee benefits	**1,005**	1,034	**2,071**	2,149
Occupancy and equipment	**68**	66	**132**	133
Insurance Fund premiums	**70**	73	**138**	146
(Gains) losses on other property owned, net	**14**	3	**20**	(10)
Other operating expenses	**329**	343	**614**	776
Total noninterest expense	**1,486**	1,519	**2,975**	3,194
Net income	**1,228**	1,200	**2,422**	2,416
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 1,228**	$ 1,200	**$ 2,422**	$ 2,416

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2015	$ 857	$ 50,667	$ 30,964	$ 82,488
Comprehensive income			2,416	2,416
Capital stock/participation certificates issued/(retired), net	7			7
Balance at June 30, 2016	$ 864	$ 50,667	$ 33,380	$ 84,911
Balance at December 31, 2016	**$ 884**	**$ 47,644**	**$ 34,541**	**$ 83,069**
Comprehensive income			**2,422**	**2,422**
Capital stock/participation certificates issued/(retired), net	**28**			**28**
Balance at June 30, 2017	**$ 912**	**$ 47,644**	**$ 36,963**	**$ 85,519**

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

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

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

Accounting Standards Updates (ASUs) Issued During the Period

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

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

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

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

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

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

Potential effects of ASUs issued in previous periods:

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

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

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

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

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

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

Accounting Standards Effective During the Period

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

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

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

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

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

Note 2 — Loans and Allowance for Loan Losses

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

Credit risk arises from the 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	$ 188,867	$ 186,121
Production and intermediate-term	70,616	69,267
Loans to cooperatives	576	1,818
Processing and marketing	10,993	10,944
Farm-related business	4,130	4,088
Communication	1,115	1,152
Rural residential real estate	3,961	3,040
International	945	945
Total Loans	$ 281,203	$ 277,375

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	$ 6,055	$ 35,410	$ –	$ 693	$ 222	$ –	$ 6,277	$ 36,103
Production and intermediate-term	2,547	7,863	–	–	2,700	1,888	5,247	9,751
Loans to cooperatives	578	–	–	–	–	–	578	–
Processing and marketing	10,783	–	–	–	–	–	10,783	–
Farm-related business	–	500	–	–	–	–	–	500
Communication	1,116	–	–	–	–	–	1,116	–
International	947	–	–	–	–	–	947	–
Total	$ 22,026	$ 43,773	$ –	$ 693	$ 2,922	$ 1,888	$ 24,948	$ 46,354

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	$ 4,540	$ 42,760	$ –	$ 743	$ 227	$ –	$ 4,767	$ 43,503
Production and intermediate-term	4,446	8,181	–	–	2,700	1,945	7,146	10,126
Loans to cooperatives	1,822	–	–	–	–	–	1,822	–
Processing and marketing	10,964	–	–	–	–	–	10,964	–
Farm-related business	–	500	–	–	–	–	–	500
Communication	1,154	–	–	–	–	–	1,154	–
International	947	–	–	–	–	–	947	–
Total	$ 23,873	$ 51,441	$ –	$ 743	$ 2,927	$ 1,945	$ 26,800	$ 54,129

A significant source of liquidity for the Association is the repayment 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	$ 20,706	$ 48,707	$ 119,454	$ 188,867
Production and intermediate-term	19,732	38,141	12,743	70,616
Loans to cooperatives	–	20	556	576
Processing and marketing	325	6,121	4,547	10,993
Farm-related business	863	1,987	1,280	4,130
Communication	–	1,115	–	1,115
Rural residential real estate	660	354	2,947	3,961
International	–	383	562	945
Total Loans	$ 42,286	$ 96,828	$ 142,089	$ 281,203
Percentage	15.04%	34.43%	50.53%	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	91.43%	91.47%
OAEM	2.98	3.19
Substandard/doubtful/loss	5.59	5.34
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	87.43%	89.09%
OAEM	6.04	3.87
Substandard/doubtful/loss	6.53	7.04
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2017	December 31, 2016
Farm-related business:		
Acceptable	54.91%	68.34%
OAEM	45.09	31.66
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	95.55%	96.34%
OAEM	1.30	1.59
Substandard/doubtful/loss	3.15	2.07
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	90.36%	91.04%
OAEM	4.20	3.59
Substandard/doubtful/loss	5.44	5.37
	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	$ 705	$ –	$ 705	$ 189,249	$ 189,954	$ –
Production and intermediate-term	640	1,216	1,856	69,470	71,326	–
Loans to cooperatives	–	–	–	579	579	–
Processing and marketing	–	–	–	11,020	11,020	–
Farm-related business	–	–	–	4,144	4,144	–
Communication	–	–	–	1,115	1,115	–
Rural residential real estate	104	59	163	3,814	3,977	–
International	–	–	–	947	947	–
Total	$ 1,449	$ 1,275	$ 2,724	$ 280,338	$ 283,062	$ –

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	$ 927	$ –	$ 927	$ 186,436	$ 187,363	$ –
Production and intermediate-term	1,529	586	2,115	67,782	69,897	–
Loans to cooperatives	–	–	–	1,821	1,821	–
Processing and marketing	–	–	–	10,995	10,995	–
Farm-related business	–	–	–	4,100	4,100	–
Communication	–	–	–	1,153	1,153	–
Rural residential real estate	179	–	179	2,873	3,052	–
International	–	–	–	946	946	–
Total	$ 2,635	$ 586	$ 3,221	$ 276,106	$ 279,327	$ –

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	$ 40	$ 41
Production and intermediate-term	1,835	1,260
Rural residential real estate	59	62
Total	$ 1,934	$ 1,363
Accruing restructured loans:		
Real estate mortgage	$ 1,837	$ 1,897
Production and intermediate-term	180	184
Total	$ 2,017	$ 2,081
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 3,951	$ 3,444
Other property owned	2,940	2,940
Total nonperforming assets	$ 6,891	$ 6,384
Nonaccrual loans as a percentage of total loans	0.69%	0.49%
Nonperforming assets as a percentage of total loans and other property owned	2.43%	2.28%
Nonperforming assets as a percentage of capital	8.06%	7.69%

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	$ 659	$ (5)
Past due	1,275	1,368
Total	$ 1,934	$ 1,363
Impaired accrual loans:		
Restructured	$ 2,017	$ 2,081
90 days or more past due	–	–
Total	$ 2,017	$ 2,081
Total impaired loans	$ 3,951	$ 3,444
Additional commitments to lend	$ –	$ –

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

	June 30, 2017			Quarter Ended June 30, 2017		Six Months Ended June 30, 2017	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Production and intermediate-term	$ 1,121	$ 1,114	$ 37	$ 964	$ 10	$ 959	$ 18
Rural residential real estate	59	76	14	51	–	50	1
Total	$ 1,180	$ 1,190	$ 51	$ 1,015	$ 10	$ 1,009	$ 19
With no related allowance for credit losses:							
Real estate mortgage	$ 1,877	$ 1,882	$ –	$ 1,614	$ 16	$ 1,604	$ 31
Production and intermediate-term	894	1,033	–	769	7	765	15
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 2,771	$ 2,915	$ –	$ 2,383	$ 23	$ 2,369	$ 46
Total:							
Real estate mortgage	$ 1,877	$ 1,882	$ –	$ 1,614	$ 16	$ 1,604	$ 31
Production and intermediate-term	2,015	2,147	37	1,733	17	1,724	33
Rural residential real estate	59	76	14	51	–	50	1
Total	$ 3,951	$ 4,105	$ 51	$ 3,398	$ 33	$ 3,378	$ 65

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:					
Production and intermediate-term	$ 183	$ 183	$ 9	$ 308	$ 26
Rural residential real estate	62	77	21	103	9
Total	$ 245	$ 260	$ 30	$ 411	$ 35
With no related allowance for credit losses:					
Real estate mortgage	$ 1,938	$ 1,943	$ –	$ 3,243	$ 277
Production and intermediate-term	1,261	1,432	–	2,107	181
Total	$ 3,199	$ 3,375	$ –	$ 5,350	$ 458
Total:					
Real estate mortgage	$ 1,938	$ 1,943	$ –	$ 3,243	$ 277
Production and intermediate-term	1,444	1,615	9	2,415	207
Rural residential real estate	62	77	21	103	9
Total	$ 3,444	$ 3,635	$ 30	$ 5,761	$ 493

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	International	Total
Activity related to the allowance for credit losses:							
Balance at March 31, 2017	$ 3,075	$ 1,159	$ 249	$ 19	$ 56	$ 16	$ 4,574
Charge-offs	–	–	–	–	–	–	–
Recoveries	12	42	–	–	22	–	76
Provision for loan losses	(5)	(65)	9	(1)	(14)	–	(76)
Balance at June 30, 2017	$ 3,082	$ 1,136	$ 258	$ 18	$ 64	$ 16	$ 4,574
Balance at December 31, 2016	$ 3,074	$ 1,135	$ 280	$ 19	$ 50	$ 16	$ 4,574
Charge-offs	–	–	–	–	–	–	–
Recoveries	26	47	1	–	44	–	118
Provision for loan losses	(18)	(46)	(23)	(1)	(30)	–	(118)
Balance at June 30, 2017	$ 3,082	$ 1,136	$ 258	$ 18	$ 64	$ 16	$ 4,574
Balance at March 31, 2016	$ 3,204	$ 1,315	$ 308	$ 23	$ 47	$ –	$ 4,897
Charge-offs	(251)	(110)	–	–	(2)	–	(363)
Recoveries	16	2	1	–	–	–	19
Provision for loan losses	(13)	24	(28)	(3)	4	16	–
Balance at June 30, 2016	$ 2,956	$ 1,231	$ 281	$ 20	$ 49	$ 16	$ 4,553
Balance at December 31, 2015	$ 3,180	$ 1,354	$ 267	$ 22	$ 74	$ –	$ 4,897
Charge-offs	(251)	(110)	–	–	(2)	–	(363)
Recoveries	28	4	1	–	–	–	33
Provision for loan losses	(1)	(17)	13	(2)	(23)	16	(14)
Balance at June 30, 2016	$ 2,956	$ 1,231	$ 281	$ 20	$ 49	$ 16	$ 4,553
Allowance on loans evaluated for impairment:							
Individually	$ –	$ 37	$ –	$ –	$ 14	$ –	$ 51
Collectively	3,082	1,099	258	18	50	16	4,523
Balance at June 30, 2017	$ 3,082	$ 1,136	$ 258	$ 18	$ 64	$ 16	$ 4,574
Individually	$ –	$ 9	$ –	$ –	$ 21	$ –	$ 30
Collectively	3,074	1,126	280	19	29	16	4,544
Balance at December 31, 2016	$ 3,074	$ 1,135	$ 280	$ 19	$ 50	$ 16	$ 4,574
Recorded investment in loans evaluated for impairment:							
Individually	$ 1,877	$ 2,015	$ –	$ –	$ 59	$ –	$ 3,951
Collectively	188,077	69,311	15,743	1,115	3,918	947	279,111
Balance at June 30, 2017	$ 189,954	$ 71,326	$ 15,743	$ 1,115	$ 3,977	$ 947	$ 283,062
Individually	$ 1,938	$ 1,444	$ –	$ –	$ 62	$ –	$ 3,444
Collectively	185,425	68,453	16,916	1,153	2,990	946	275,883
Balance at December 31, 2016	$ 187,363	$ 69,897	$ 16,916	$ 1,153	$ 3,052	$ 946	$ 279,327

**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	$ 1,837	$ 1,897	$ –	$ –
Production and intermediate-term	268	285	88	101
Total Loans	$ 2,105	$ 2,182	$ 88	$ 101
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

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

Note 3 — Investments

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 1.06 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 $645 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Six Months Ended June 30, 2017

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in trust	$ 1	$ 1	$ –	$ –	$ 1	
Recurring Assets	$ 1	$ 1	$ –	$ –	$ 1	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Non recurring Measurements						
Assets:						
Impaired loans	$ 3,900	$ –	$ –	$ 3,900	$ 3,900	$ 97
Other property owned	2,940	–	–	3,167	3,167	2
Nonrecurring Assets	$ 6,840	$ –	$ –	$ 7,067	$ 7,067	$ 99
Other Financial Instruments						
Assets:						
Cash	$ –	$ –	$ –	$ –	$ –	
Loans	273,347	–	–	270,918	270,918	
Other Financial Assets	$ 273,347	$ –	$ –	$ 270,918	$ 270,918	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 199,694	$ –	$ –	$ 198,587	$ 198,587	
Other Financial Liabilities	$ 199,694	$ –	$ –	$ 198,587	$ 198,587	

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	$ 1	$ 1	$ –	$ –	$ 1	
Recurring Assets	$ 1	$ 1	$ –	$ –	$ 1	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 3,414	$ –	$ –	$ 3,414	$ 3,414	$ (229)
Other property owned	2,940	–	–	3,167	3,167	6
Nonrecurring Assets	$ 6,354	$ –	$ –	$ 6,581	$ 6,581	$ (223)
Other Financial Instruments						
Assets:						
Cash	$ –	$ –	$ –	$ –	$ –	
Loans	269,638	–	–	266,647	266,647	
Other Financial Assets	$ 269,638	$ –	$ –	$ 266,647	$ 266,647	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 198,227	$ –	$ –	$ 196,626	$ 196,626	
Other Financial Liabilities	$ 198,227	$ –	$ –	$ 196,626	$ 196,626	

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	$ 7,067	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 6 — Employee Benefit Plans

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Pension	$ 138	$ 143	$ 276	$ 285
401(k)	49	47	120	110
Other postretirement benefits	37	37	75	75
Total	$ 224	$ 227	$ 471	$ 470

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	$ –	$ 266	$ 266
Other postretirement benefits	54	54	108
Total	$ 54	$ 320	$ 374

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

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

Note 7 — Commitments and Contingent Liabilities

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

Note 8 — Subsequent Events

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