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*Farm Credit of Northwest Florida, ACA*

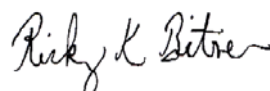
# SECOND QUARTER 2016

## TABLE OF CONTENTS

Report on Internal Control Over Financial Reporting .....	2
Management's Discussion and Analysis of Financial Condition and Results of Operations .....	3
Consolidated Financial Statements	
Consolidated Balance Sheets .....	7
Consolidated Statements of Comprehensive Income .....	8
Consolidated Statements of Changes in Members' Equity .....	9
Notes to the Consolidated Financial Statements.....	10

## CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2016 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, 2016

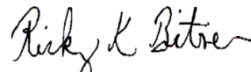
# Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of, the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of June 30, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2016.



Ricky K. Bitner  
Chief Executive Officer



John P. Mottice  
Chief Financial Officer

August 8, 2016

# 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, 2016. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2015 Annual Report of the Association.

## **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, 2016, was \$269,291, a decrease of \$6,573 or 2.38 percent as compared to \$275,864 at December 31, 2015. Net loans outstanding (gross loans net of the allowance for loan losses) at June 30, 2016, were \$264,738, a decrease of \$6,229 or 2.30 percent as compared to \$270,967 at December 31, 2015. Net loans accounted for 96.31 percent of total assets at June 30, 2016, as compared to 94.85 percent of total assets at December 31, 2015. The decline in loan volume was due to a decrease in originated accruing loans, partially offset by increases in purchased participation loans and nonaccrual loans.

Portfolio credit quality has improved due to management efforts to work through problem loans and the general improvement in the overall economic environment. Loans classified under the Farm Credit Administration's Uniform Loan Classification System as "acceptable" or "other assets especially mentioned" were 94.00 percent of total loans and accrued interest at June 30, 2016 as compared to 92.85 percent at December 31, 2015.

Nonaccrual loans were \$3,772 at June 30, 2016, an increase of \$1,079 as compared to \$2,693 at December 31, 2015. The increase was due to stress in loans to agricultural borrowers.

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, 2016 was \$4,553, a decrease of \$344 as compared to \$4,897 at December 31, 2015. The decrease reflected recoveries of \$33, charge offs of \$363 and a reversal of the allowance of \$14. The allowance for loan losses at June 30, 2016 was considered by management to be adequate to cover probable and estimable losses inherent in the loan portfolio. The allowance represented 1.69 percent of gross loan volume as of June 30, 2016.

Other property owned was \$742 as of June 30, 2016, a decrease of \$1,141 as compared to \$1,883 at December 31, 2015. The decrease was due to sales of \$1,137 and net losses on sale of \$4. Other property owned consisted of three real estate properties located in Florida and Tennessee. The Association is actively marketing the properties for sale.

Accounts receivable decreased to \$1,049 as of June 30, 2016 as compared to \$3,673 as of December 31, 2015. 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 \$2,624 was due primarily to the fact that patronage receivables at December 31, 2015 included four quarters of accrued patronage from AgFirst, as compared to two quarters of accrued patronage at June 30, 2016.

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## RESULTS OF OPERATIONS

### *For the three months ending June 30, 2016*

Net income for the three months ending June 30, 2016 totaled \$1,200, as compared to net income of \$1,201 for the same period in 2015, a decrease of \$1 or 0.08 percent. Components of the decrease in net income are discussed further in the following paragraphs.

Interest income for the three months ending June 30, 2016 was \$3,188, a decrease of \$110 or 3.34 percent as compared to \$3,298 for the same period in 2015. The decrease was due primarily to reduced interest income on nonaccrual loans, partially offset by increased interest income on net originated loans and purchased participation loans.

Interest expense for the three months ending June 30, 2016 was \$1,076, an increase of \$32 or 3.07 percent as compared to \$1,044 for the same period in 2015. The increase was due to higher interest rates on the Association's notes payable to AgFirst, partially offset by lower average balances.

Net interest income before provision for loan losses for the three months ending June 30, 2016 was \$2,112, a decrease of \$142 or 6.30 percent as compared to \$2,254 for the same period in 2015. The decrease was due to \$153 in lower interest income on nonaccrual loans and \$32 in higher interest expense, partially offset by higher interest income on net originated loans and purchased participation loans of \$43.

There was no provision for or reversal of allowance for loan losses for the three months ending June 30, 2016 or June 30, 2015.

Noninterest income for the three months ending June 30, 2016 totaled \$607, an increase of \$12 or 2.02 percent as compared to \$595 for the same period in 2015. Higher loan fees, patronage refunds, and gains on sales of rural home loans were partially offset by lower other noninterest income.

Noninterest expense for the three months ending June 30, 2016 totaled \$1,519, a decrease of \$129 or 7.83 percent as compared to \$1,648 for the same period in 2015. The decrease reflects reductions in all expense categories, with the exception of higher insurance fund premiums.

### *For the six months ending June 30, 2016*

Net income for the six months ending June 30, 2016 totaled \$2,416 as compared to net income of \$2,206 for the same period in 2015, an increase of \$210 or 9.52 percent. Components of the increase in net income are discussed further in the following paragraphs.

Interest income for the six months ending June 30, 2016 was \$6,580, an increase of \$265 or 4.20 percent as compared to \$6,315 for the same period in 2015. The increase was due to

higher interest income recognized on originated loans and purchased participation loans, partially offset by decreased interest income on nonaccrual loans.

Interest expense for the six months ending June 30, 2016 was \$2,161, an increase of \$142 or 7.03 percent as compared to \$2,019 for the same period in 2015. The increase was due to both higher interest rates and, to a lesser extent, 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, 2016 was \$4,419, an increase of \$123 or 2.86 percent as compared to \$4,296 for the same period in 2015. The increase was due to \$325 in higher interest income on net accruing loans, partially offset by \$142 in higher interest expense and \$60 in lower interest income on nonaccrual loans.

There was a reversal of the allowance for loan losses of \$14 for the six months ending June 30, 2016. There was no provision for or reversal of allowance for loan losses for the six months ending June 30, 2015.

Noninterest income for the six months ending June 30, 2016, totaled \$1,177 a decrease of \$25 or 2.08 percent as compared to \$1,202 for the same period in 2015. Lower loan fees and patronage refunds, as well as losses on other transactions, were partially offset by higher gains on sales of rural home loans and other noninterest income.

Noninterest expense for the six months ending June 30, 2016 totaled \$3,194, a decrease of \$98 or 2.98 percent as compared to \$3,292 for the same period in 2015. The decrease reflects reductions in other operating expenses and occupancy and equipment expense, as well as gains on other property owned, partially offset by increases in salaries and benefits expense and insurance fund premiums.

## 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, 2016 were \$186,695, a decrease of \$10,071 or 5.12 percent as compared to \$196,766 at December 31, 2015. The decrease is the result of a reduction in loans and other assets and an increase in members' equity,

partially offset by a decline in other liabilities. The Association had no lines of credit with third parties as of June 30, 2016.

## CAPITAL RESOURCES

Total members' equity as of June 30, 2016 was \$84,911, an increase of \$2,423 or 2.94 percent as compared to \$82,488 at December 31, 2015. Total capital stock and participation certificates were \$864 as of June 30, 2016, an increase of \$7 as compared to \$857 at December 31, 2015.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2016 the Association's permanent capital ratio was 29.47 percent and the total surplus ratio and core surplus ratios were 29.16 percent and 28.10 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for the permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

## REGULATORY MATTERS

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

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

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

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

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

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

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2016. The stated objectives of the proposed rule are as follows:

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

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## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, “*Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*”, in the Notes to the Financial Statements, and the 2015 Annual Report to Shareholders for recently issued accounting pronouncements.

**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://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](http://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

<i>(dollars in thousands)</i>	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>		
Loans	\$ 269,291	\$ 275,864
Allowance for loan losses	(4,553)	(4,897)
Net loans	264,738	270,967
Loans held for sale	36	377
Accrued interest receivable	1,889	1,867
Investments in other Farm Credit institutions	3,572	3,686
Premises and equipment, net	2,023	2,117
Other property owned	742	1,883
Accounts receivable	1,049	3,673
Other assets	839	1,098
Total assets	\$ 274,888	\$ 285,668
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 186,695	\$ 196,766
Accrued interest payable	366	387
Patronage refunds payable	46	3,043
Accounts payable	494	667
Other liabilities	2,376	2,317
Total liabilities	189,977	203,180
Commitments and contingencies (Note 7)		
<b>Members' Equity</b>		
Capital stock and participation certificates	864	857
Retained earnings		
Allocated	50,667	50,667
Unallocated	33,380	30,964
Total members' equity	84,911	82,488
Total liabilities and members' equity	\$ 274,888	\$ 285,668

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

# Farm Credit of Northwest Florida, 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,	
	2016	2015	2016	2015
<b>Interest Income</b>				
Loans	\$ 3,188	\$ 3,298	\$ 6,580	\$ 6,315
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	1,072	1,044	2,153	2,019
Other	4	—	8	—
Total interest expense	<u>1,076</u>	<u>1,044</u>	<u>2,161</u>	<u>2,019</u>
Net interest income	2,112	2,254	4,419	4,296
Provision for (reversal of allowance for) loan losses	—	—	(14)	—
Net interest income after provision for (reversal of allowance for) loan losses	<u>2,112</u>	<u>2,254</u>	<u>4,433</u>	<u>4,296</u>
<b>Noninterest Income</b>				
Loan fees	20	18	48	51
Patronage refunds from other Farm Credit institutions	525	520	1,036	1,056
Gains (losses) on sales of rural home loans, net	52	44	81	68
Gains (losses) on sales of premises and equipment, net	—	3	—	3
Gains (losses) on other transactions	(2)	(3)	(11)	2
Other noninterest income	12	13	23	22
Total noninterest income	<u>607</u>	<u>595</u>	<u>1,177</u>	<u>1,202</u>
<b>Noninterest Expense</b>				
Salaries and employee benefits	1,034	1,055	2,149	2,135
Occupancy and equipment	66	72	133	139
Insurance Fund premiums	73	61	146	120
(Gains) losses on other property owned, net	3	47	(10)	79
Other operating expenses	343	413	776	819
Total noninterest expense	<u>1,519</u>	<u>1,648</u>	<u>3,194</u>	<u>3,292</u>
Net income	1,200	1,201	2,416	2,206
Other comprehensive income	—	—	—	—
Comprehensive income	<u>\$ 1,200</u>	<u>\$ 1,201</u>	<u>\$ 2,416</u>	<u>\$ 2,206</u>

*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)*

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
			Allocated	Unallocated	
Balance at December 31, 2014	\$ 1	\$ 854	\$ 54,225	\$ 27,165	\$ 82,245
Comprehensive income				2,206	2,206
Protected borrower stock issued/(retired), net	(1)				(1)
Capital stock/participation certificates issued/(retired), net		(7)			(7)
Retained earnings retired				(8)	(8)
<b>Balance at June 30, 2015</b>	<b>\$ —</b>	<b>\$ 847</b>	<b>\$ 54,217</b>	<b>\$ 29,371</b>	<b>\$ 84,435</b>
Balance at December 31, 2015	\$ —	\$ 857	\$ 50,667	\$ 30,964	\$ 82,488
<b>Comprehensive income</b>				<b>2,416</b>	<b>2,416</b>
<b>Capital stock/participation certificates issued/(retired), net</b>		<b>7</b>			<b>7</b>
<b>Balance at June 30, 2016</b>	<b>\$ —</b>	<b>\$ 864</b>	<b>\$ 50,667</b>	<b>\$ 33,380</b>	<b>\$ 84,911</b>

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

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## *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, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

#### ***Basis of Presentation***

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

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

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

#### ***Significant Accounting Policies***

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and

other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

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

#### ***Accounting Standards Updates (ASUs) Issued During the Period***

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

- In June, 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The Update improves financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The Update will take effect for U.S. Securities and Exchange Commission (SEC) filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other organizations, the ASU will take effect for fiscal years beginning after December 15, 2020, and for interim periods within fiscal years beginning after December 15, 2021. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

- In May, 2016, the FASB issued ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The guidance addresses certain issues identified by the Transition Resource Group (TRG) in the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).
- In April, 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The Update clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).
- In March, 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments clarify the implementation guidance on principal versus agent considerations. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).
- In March, 2016, the FASB issued ASU 2016-07 Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. To simplify the accounting for equity method investments, the amendments in the Update eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

### *ASUs Pending Effective Date*

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

Potential effects of ASUs issued in previous periods:

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued an update that requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued an update that is intended to improve the recognition and measurement of financial instruments. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2015-14 Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date: In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

### *Accounting Standards Effective During the Period*

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

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

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) – The amendment was adopted prospectively. There were no changes to the Association's statements of financial condition or results of operations as a result of this guidance. See Note 5, *Fair Value Measurement*, for the disclosures required by this guidance.
- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the

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

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

## Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for

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

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

A summary of loans outstanding at period end follows:

	June 30, 2016	December 31, 2015
Real estate mortgage	\$ 172,862	\$ 179,403
Production and intermediate-term	75,120	77,637
Loans to cooperatives	1,875	5
Processing and marketing	11,392	12,985
Farm-related business	2,978	1,851
Communication	1,190	1,228
Rural residential real estate	2,929	2,755
International	945	—
Total Loans	<u>\$ 269,291</u>	<u>\$ 275,864</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, 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	\$ 3,061	\$ 54,372	\$ —	\$ 783	\$ 231	\$ —	\$ 3,292	\$ 55,155
Production and intermediate-term	5,026	8,881	—	—	2,850	2,001	7,876	10,882
Loans to cooperatives	1,880	—	—	—	—	—	1,880	—
Processing and marketing	11,408	—	—	—	—	—	11,408	—
Communication	1,191	—	—	—	—	—	1,191	—
International	947	—	—	—	—	—	947	—
Total	<u>\$ 23,513</u>	<u>\$ 63,253</u>	<u>\$ —</u>	<u>\$ 783</u>	<u>\$ 3,081</u>	<u>\$ 2,001</u>	<u>\$ 26,594</u>	<u>\$ 66,037</u>

	December 31, 2015							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 1,150	\$ 57,642	\$ —	\$ 1,016	\$ 236	\$ —	\$ 1,386	\$ 58,658
Production and intermediate-term	2,941	10,967	—	—	2,850	2,065	5,791	13,032
Processing and marketing	13,000	—	—	—	—	—	13,000	—
Farm-related business	1,470	—	—	—	—	—	1,470	—
Communication	1,229	—	—	—	—	—	1,229	—
Total	<u>\$ 19,790</u>	<u>\$ 68,609</u>	<u>\$ —</u>	<u>\$ 1,016</u>	<u>\$ 3,086</u>	<u>\$ 2,065</u>	<u>\$ 22,876</u>	<u>\$ 71,690</u>

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, 2016			
	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 19,395	\$ 51,237	\$ 102,230	\$ 172,862
Production and intermediate-term	14,947	48,855	11,318	75,120
Loans to cooperatives	-	1,582	293	1,875
Processing and marketing	12	7,196	4,184	11,392
Farm-related business	-	1,640	1,338	2,978
Communication	-	1,190	-	1,190
Rural residential real estate	206	346	2,377	2,929
International	-	-	945	945
Total Loans	<u>\$ 34,560</u>	<u>\$ 112,046</u>	<u>\$ 122,685</u>	<u>\$ 269,291</u>
Percentage	12.83%	41.61%	45.56%	100.00%

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

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

	June 30, 2016	December 31, 2015		June 30, 2016	December 31, 2015
<b>Real estate mortgage:</b>			<b>Farm-related business:</b>		
Acceptable	88.52%	88.86%	Acceptable	55.95%	100.00%
OAEM	5.95	5.52	OAEM	44.05	-
Substandard/doubtful/loss	5.53	5.62	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Communication:</b>		
Acceptable	85.67%	83.51%	Acceptable	100.00%	100.00%
OAEM	5.72	4.22	OAEM	-	-
Substandard/doubtful/loss	8.61	12.27	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>Rural residential real estate:</b>		
Acceptable	100.00%	-%	Acceptable	94.47%	93.79%
OAEM	-	-	OAEM	1.73	1.91
Substandard/doubtful/loss	-	100.00	Substandard/doubtful/loss	3.80	4.30
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>International:</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	-%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>-%</u>
			<b>Total Loans:</b>		
			Acceptable	88.08%	88.05%
			OAEM	5.92	4.80
			Substandard/doubtful/loss	6.00	7.15
				<u>100.00%</u>	<u>100.00%</u>

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

	June 30, 2016					Recorded Investment 90 Days or More Past Due and Accruing Interest
	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	
Real estate mortgage	\$ 2,493	\$ -	\$ 2,493	\$ 171,512	\$ 174,005	\$ -
Production and intermediate-term	1,124	3,258	4,382	71,418	75,800	368
Loans to cooperatives	-	-	-	1,877	1,877	-
Processing and marketing	-	-	-	11,434	11,434	-
Farm-related business	-	-	-	2,987	2,987	-
Communication	-	-	-	1,190	1,190	-
Rural residential real estate	118	108	226	2,715	2,941	-
International	-	-	-	946	946	-
Total	<u>\$ 3,735</u>	<u>\$ 3,366</u>	<u>\$ 7,101</u>	<u>\$ 264,079</u>	<u>\$ 271,180</u>	<u>\$ 368</u>

December 31, 2015

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 465	\$ 253	\$ 718	\$ 179,825	\$ 180,543	\$ -
Production and intermediate-term	786	2,217	3,003	75,285	78,288	-
Loans to cooperatives	5	-	5	-	5	-
Processing and marketing	-	(10)	(10)	13,056	13,046	-
Farm-related business	-	-	-	1,855	1,855	-
Communication	-	-	-	1,228	1,228	-
Rural residential real estate	230	44	274	2,492	2,766	-
Total	\$ 1,486	\$ 2,504	\$ 3,990	\$ 273,741	\$ 277,731	\$ -

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

	June 30, 2016	December 31, 2015
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 42	\$ 297
Production and intermediate-term	3,622	2,294
Processing and marketing	-	(10)
Rural residential real estate	108	112
Total	\$ 3,772	\$ 2,693
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 1,937	\$ 2,184
Production and intermediate-term	187	2,131
Total	\$ 2,124	\$ 4,315
<b>Accruing loans 90 days or more past due:</b>		
Production and intermediate-term	\$ 368	\$ -
Total	\$ 368	\$ -
Total nonperforming loans	\$ 6,264	\$ 7,008
Other property owned	742	1,883
Total nonperforming assets	\$ 7,006	\$ 8,891
Nonaccrual loans as a percentage of total loans	1.40%	0.98%
Nonperforming assets as a percentage of total loans and other property owned	2.59%	3.20%
Nonperforming assets as a percentage of capital	8.25%	10.78%

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

	June 30, 2016	December 31, 2015
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 774	\$ 121
Past due	2,998	2,572
Total	3,772	2,693
<b>Impaired accrual loans:</b>		
Restructured	2,124	4,315
90 days or more past due	368	-
Total	2,492	4,315
Total impaired loans	\$ 6,264	\$ 7,008
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.

Impaired loans:	June 30, 2016			Quarter Ended June 30, 2016		Six Months Ended June 30, 2016	
	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
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate-term	186	186	13	194	2	203	7
Rural residential real estate	66	78	24	68	-	71	2
Total	\$ 252	\$ 264	\$ 37	\$ 262	\$ 2	\$ 274	\$ 9
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 1,980	\$ 1,985	\$ -	\$ 2,060	\$ 15	\$ 2,147	\$ 75
Production and intermediate-term	3,990	4,379	-	4,150	28	4,325	150
Rural residential real estate	42	473	-	44	1	46	2
Total	\$ 6,012	\$ 6,837	\$ -	\$ 6,254	\$ 44	\$ 6,518	\$ 227
<b>Total:</b>							
Real estate mortgage	\$ 1,980	\$ 1,985	\$ -	\$ 2,060	\$ 15	\$ 2,147	\$ 75
Production and intermediate-term	4,176	4,565	13	4,344	30	4,528	157
Rural residential real estate	108	551	24	112	1	117	4
Total	\$ 6,264	\$ 7,101	\$ 37	\$ 6,516	\$ 46	\$ 6,792	\$ 236

Impaired loans:	December 31, 2015			Year Ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 126	\$ 125	\$ 5	\$ 153	\$ 15
Production and intermediate-term	840	816	37	1,021	98
Rural residential real estate	68	78	27	83	8
Total	\$ 1,034	\$ 1,019	\$ 69	\$ 1,257	\$ 121
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 2,355	\$ 2,547	\$ -	\$ 2,862	\$ 275
Production and intermediate-term	3,585	3,941	-	4,358	420
Processing and marketing	(10)	828	-	(12)	(1)
Rural residential real estate	44	473	-	53	5
Total	\$ 5,974	\$ 7,789	\$ -	\$ 7,261	\$ 699
<b>Total:</b>					
Real estate mortgage	\$ 2,481	\$ 2,672	\$ 5	\$ 3,015	\$ 290
Production and intermediate-term	4,425	4,757	37	5,379	518
Processing and marketing	(10)	828	-	(12)	(1)
Rural residential real estate	112	551	27	136	13
Total	\$ 7,008	\$ 8,808	\$ 69	\$ 8,518	\$ 820

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Rural Residential Real Estate	International	Total
<b>Activity related to the allowance for credit losses:</b>							
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
Balance at March 31, 2015	\$ 3,254	\$ 1,114	\$ 257	\$ 23	\$ 63	\$ -	\$ 4,711
Charge-offs	-	(53)	-	-	-	-	(53)
Recoveries	330	-	-	-	-	-	330
Provision for loan losses	(290)	246	35	1	8	-	-
Balance at June 30, 2015	\$ 3,294	\$ 1,307	\$ 292	\$ 24	\$ 71	\$ -	\$ 4,988
Balance at December 31, 2014	\$ 3,200	\$ 1,111	\$ 250	\$ 24	\$ 77	\$ -	\$ 4,662
Charge-offs	(52)	(116)	-	-	-	-	(168)
Recoveries	349	145	-	-	-	-	494
Provision for loan losses	(203)	167	42	-	(6)	-	-
Balance at June 30, 2015	\$ 3,294	\$ 1,307	\$ 292	\$ 24	\$ 71	\$ -	\$ 4,988
<b>Allowance on loans evaluated for impairment:</b>							
Individually	\$ -	\$ 13	\$ -	\$ -	\$ 24	\$ -	\$ 37
Collectively	2,956	1,218	281	20	25	16	4,516
Balance at June 30, 2016	\$ 2,956	\$ 1,231	\$ 281	\$ 20	\$ 49	\$ 16	\$ 4,553
Individually	\$ 5	\$ 37	\$ -	\$ -	\$ 27	\$ -	\$ 69
Collectively	3,175	1,317	267	22	47	-	4,828
Balance at December 31, 2015	\$ 3,180	\$ 1,354	\$ 267	\$ 22	\$ 74	\$ -	\$ 4,897
<b>Recorded investment in loans evaluated for impairment:</b>							
Individually	\$ 2,299	\$ 4,260	\$ -	\$ -	\$ 108	\$ -	\$ 6,667
Collectively	171,706	71,540	16,298	1,190	2,833	946	264,513
Balance at June 30, 2016	\$ 174,005	\$ 75,800	\$ 16,298	\$ 1,190	\$ 2,941	\$ 946	\$ 271,180
Individually	\$ 2,481	\$ 4,425	\$ (10)	\$ -	\$ 112	\$ -	\$ 7,008
Collectively	178,062	73,863	14,916	1,228	2,654	-	270,723
Balance at December 31, 2015	\$ 180,543	\$ 78,288	\$ 14,906	\$ 1,228	\$ 2,766	\$ -	\$ 277,731

\*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, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Real estate mortgage	\$ 1,937	\$ 2,184	\$ —	\$ —
Production and intermediate-term	187	2,131	—	—
Rural residential real estate	42	44	42	44
Total Loans	\$ 2,166	\$ 4,359	\$ 42	\$ 44
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

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

### Note 3 — Investments

#### *Investments in other Farm Credit Institutions*

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 1.15 percent of the issued stock of the Bank as of June 30, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled \$31.6 billion and shareholders' equity totaled \$2.4 billion. The Bank's earnings were \$144 million for the first six months of 2016. In addition, the Association held investments of \$639 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, 2016						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$ 1	\$ 1	\$ -	\$ -	\$ 1	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Non recurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 6,227	\$ -	\$ -	\$ 6,227	\$ 6,227	\$ (297)
Other property owned	742	-	-	796	796	11
Nonrecurring Assets	\$ 6,969	\$ -	\$ -	\$ 7,023	\$ 7,023	\$ (286)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	
Loans	258,547	-	-	258,525	258,525	
Other Financial Assets	\$ 258,547	\$ -	\$ -	\$ 258,525	\$ 258,525	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 186,695	\$ -	\$ -	\$ 187,112	\$ 187,112	
Other Financial Liabilities	\$ 186,695	\$ -	\$ -	\$ 187,112	\$ 187,112	

At or for the Year ended December 31, 2015						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$ 1	\$ 1	\$ -	\$ -	\$ 1	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 6,939	\$ -	\$ -	\$ 6,939	\$ 6,939	\$ 860
Other property owned	1,883	-	-	2,087	2,087	26
Nonrecurring Assets	\$ 8,822	\$ -	\$ -	\$ 9,026	\$ 9,026	\$ 886
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	
Loans	264,405	-	-	264,244	264,244	
Other Financial Assets	\$ 264,405	\$ -	\$ -	\$ 264,244	\$ 264,244	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 196,766	\$ -	\$ -	\$ 196,323	\$ 196,323	
Other Financial Liabilities	\$ 196,766	\$ -	\$ -	\$ 196,323	\$ 196,323	

## 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	\$ 7,023	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,		Six Months Ended June 30,	
	2016	2015	2016	2015
Pension	\$ 143	\$ 150	\$ 285	\$ 300
401(k)	47	46	110	102
Other postretirement benefits	37	48	75	97
Total	\$ 227	\$ 244	\$ 470	\$ 499

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

	Actual YTD Through 6/30/16	Projected Contributions For Remainder of 2016	Projected Total Contributions 2016
	Pension	\$ —	\$ 308
Other postretirement benefits	54	60	114
Total	\$ 54	\$ 368	\$ 422

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, 2016.

Further details regarding employee benefit plans are contained in the 2015 Annual Report to Shareholders, including a discussion of benefit plan changes related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan.

### 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, 2016, which was the date the financial statements were issued.