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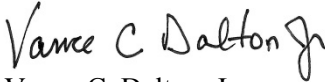
*Carolina Farm Credit, ACA*  
**SECOND QUARTER 2016**


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**CERTIFICATION**

The undersigned certify that we have reviewed the June 30, 2016 quarterly report of Carolina Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

  
Vance C. Dalton, Jr.  
Chief Executive Officer

  
Christopher H. Scott  
Chief Financial Officer

  
L. Kim Starnes  
Chairman of the Board

August 8, 2016

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*Carolina Farm Credit, ACA*

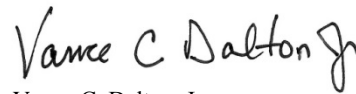
## Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 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.



Vance C. Dalton, Jr.  
Chief Executive Officer



Christopher H. Scott  
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 Carolina Farm Credit, ACA (Association) for the period ended 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. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## **LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including part-time farm, poultry, and rural home loans. 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, reduces the dependency on a single agricultural commodity.

The gross loan volume of the Association as of June 30, 2016, was \$1,380,018, a decrease of \$4,202 as compared to \$1,384,220 at December 31, 2015. Net loans outstanding at June 30, 2016, were \$1,372,696 as compared to \$1,376,818 at December 31, 2015. Net loans accounted for 94.21% of total assets at June 30, 2016, as compared to 92.84% of total assets at December 31, 2015. The decrease in loan volume during the reporting period is a result of principal payments and payoffs outpacing new loan volume.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory.

Nonaccrual loans decreased from \$11,915 at December 31, 2015, to \$11,829 at June 30, 2016. This decrease is primarily the result of transfers of loan volume to nonaccrual being less than regular payments made on nonaccrual loans, along with nonaccrual loans liquidated or reinstated back to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in

the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2016, was \$7,322 compared to \$7,402 at December 31, 2015, and was considered by management to be adequate to cover probable losses.

## **RESULTS OF OPERATIONS**

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

Net income for the three months ended June 30, 2016, totaled \$5,897, as compared to \$5,718 for the same period in 2015, which is an increase of \$179.

At June 30, 2016, total interest income increased \$691 compared to June 30, 2015. Interest income recognized on nonaccrual loans was \$105 for the three months ended June 30, 2016, as compared to \$57 for the same period in 2015, an increase of \$48. Interest expense increased \$656 for the three months ended June 30, 2016, as compared to the same period in 2015. Consequently, net interest income increased \$35 for the three months ended June 30, 2016, as compared to the same period in 2015.

The Association recorded a provision/(reversal) for loan losses of \$348 for the three months ended June 30, 2016 as compared to a provision/(reversal) of \$519 for the same period of 2015. The primary reason for the provision is growth in loan volume during the quarter.

Noninterest income for the three months ended June 30, 2016, totaled \$4,029 as compared to \$3,577 for the same period of 2015, an increase of \$452. The increase in noninterest income is attributed to increases of \$140 in loan fees, \$60 in patronage refunds from other Farm Credit institutions, \$27 in gains/(losses) on sales of premises equipment, \$269 in gains/(losses) on other transactions, and \$23 in other noninterest income, when compared to the same period in 2015. These increases were offset by decreases of \$17 in fees for financially-related services, and \$50 in gains/(losses) on the sale of rural home loans, when compared for the same period of 2015.

Noninterest expense for the three months ended June 30, 2016, totaled \$9,430 as compared to \$8,950 for the same period of 2015, an increase of \$480. This increase in noninterest expense is attributed to increases of \$369 in salaries and employee benefits, \$86 in Insurance Fund premiums, and \$282 in other operating expenses, when compared to the same period in 2015. These increases were offset by decreases of \$32 in occupancy and

equipment, and \$235 in (gains)/losses on other property owned, when compared for the same period of 2015.

The Association recorded a provision/(benefit) for income taxes of \$0 for the three months ended June 30, 2016 as compared a provision/(benefit) of \$1 for the same period of 2015.

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

Net income for the six months ended June 30, 2016, totaled \$12,622, as compared to \$12,163 for the same period in 2015, an increase of \$459, or 3.77 percent.

Total interest income increased \$915 during the six months ended June 30, 2016, as compared to the same period in 2015. Interest income recognized on nonaccrual loans was \$176 for the six months ended June 30, 2016, as compared to \$287 for the same period in 2015, a decrease of \$111. Interest expense increased \$1,175 for the six months ended June 30, 2016, as compared to the same period in 2015. Consequently, net interest income decreased \$260 for the six months ended June 30, 2016, as compared to the same period in 2015.

The Association recorded a provision/(reversal) for loan losses of (\$294) for the six months ended June 30, 2016 as compared to a provision/(reversal) of \$733 for the same period in 2015. The primary reasons for the reversal in 2016 are improved credit quality and recoveries on previously charged-off loans.

Noninterest income for the six months ended June 30, 2016, totaled \$7,801, as compared to \$7,216 for the same period in 2015, an increase of \$585. The overall increase is attributed to an increase of \$238 in loan fees, \$44 in patronage refunds from other Farm Credit institutions, \$61 in gains/(losses) on the sale of rural home loans, \$245 in gains/(losses) on other transactions, and \$52 in other non-interest income, when compared to the same period in 2015. These increases were offset by decreases of \$26 in fees for financially-related services, and \$29 in gains/(losses) on sales of premises and equipment, when compared to the same period in 2015.

Noninterest expense for the six months ended June 30, 2016, totaled \$18,608 as compared to \$17,706 for the same period of 2015, an increase of \$902. This increase in noninterest expense is attributed to increases of \$751 in salaries and employee benefits, \$165 in Insurance Fund premiums, and \$219 in other operating expenses, when compared to the same period in 2015. These increases were offset by decreases of \$72 in occupancy and equipment, and \$161 in (gains)/losses on other property owned, when compared for the same period in 2015.

The Association recorded a provision/(benefit) for income taxes of (\$8) for the six months ended June 30, 2016 as compared a provision/(benefit) of \$1 for the same period of 2015.

## **FUNDING SOURCES**

The principal source of funds for the Association is the borrowing relationship established with AgFirst through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable is segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2016, was \$1,108,510 as compared to \$1,132,911 at December 31, 2015. The decrease during the period is primarily attributable to slight declines in loan volume and the payment of AgFirst patronage to the Association in January.

The Association has no lines of credit outstanding with third parties as of June 30, 2016.

## **CAPITAL RESOURCES**

Total members' equity at June 30, 2016, increased to \$317,661 from the December 31, 2015, total of \$305,558. The change in capital is primarily attributable to net earnings in the current year.

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 total surplus ratio and core surplus ratio were 21.16% and 18.66%, respectively, and the permanent capital ratio was 21.75%. All three ratios were well above the minimum regulatory ratios of 7.00 percent for 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 securities not included in Tier 1 Capital	Risk-weighted assets	8.0%	10.5%
Tier 1 Leverage	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.

## FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the *Financial Regulatory Reform* section of the Association's 2015 Annual Report.

## 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 1-800-521-9952, or writing Christopher H. Scott, CFO, Carolina Farm Credit, ACA, P.O. Box 1827, Statesville NC 28687-1827, or accessing the website, [www.carolinafarmercredit.com](http://www.carolinafarmercredit.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.

# Carolina Farm Credit, 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>		
Cash	\$ 1,239	\$ 7,514
Investment securities:		
Held to maturity (fair value of \$1,805 and \$1,747, respectively)	1,808	1,852
Loans	1,380,018	1,384,220
Allowance for loan losses	(7,322)	(7,402)
Net loans	1,372,696	1,376,818
Loans held for sale	2,987	5,865
Accrued interest receivable	16,661	14,690
Investments in other Farm Credit institutions	16,997	16,974
Premises and equipment, net	16,441	16,766
Other property owned	5,726	6,069
Accounts receivable	4,561	15,957
Other assets	17,931	20,516
Total assets	<b>\$ 1,457,047</b>	<b>\$ 1,483,021</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,108,510	\$ 1,132,911
Accrued interest payable	2,434	2,380
Patronage refunds payable	651	12,524
Accounts payable	2,158	2,667
Other liabilities	25,633	26,981
Total liabilities	<b>1,139,386</b>	<b>1,177,463</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	8,216	8,047
Retained earnings		
Allocated	187,292	187,593
Unallocated	123,336	111,139
Accumulated other comprehensive income (loss)	(1,183)	(1,221)
Total members' equity	<b>317,661</b>	<b>305,558</b>
Total liabilities and members' equity	<b>\$ 1,457,047</b>	<b>\$ 1,483,021</b>

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

**Carolina Farm Credit, ACA**  
**Consolidated Statements of Income**

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
<b>Interest Income</b>				
Loans	\$ 18,883	\$ 18,191	\$ 37,424	\$ 36,506
Investments	23	24	46	49
Total interest income	<b>18,906</b>	18,215	<b>37,470</b>	36,555
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	7,260	6,604	14,343	13,156
Other	—	—	—	12
Total interest expense	<b>7,260</b>	6,604	<b>14,343</b>	13,168
Net interest income	<b>11,646</b>	11,611	<b>23,127</b>	23,387
Provision for (reversal of allowance for) loan losses	<b>348</b>	519	<b>(294)</b>	733
Net interest income after provision for (reversal of allowance for) loan losses	<b>11,298</b>	11,092	<b>23,421</b>	22,654
<b>Noninterest Income</b>				
Loan fees	836	696	1,435	1,197
Fees for financially related services	22	39	71	97
Patronage refunds from other Farm Credit institutions	2,203	2,143	4,500	4,456
Gains (losses) on sales of rural home loans, net	553	603	1,240	1,179
Gains (losses) on sales of premises and equipment, net	68	41	115	144
Gains (losses) on other transactions	299	30	342	97
Other noninterest income	48	25	98	46
Total noninterest income	<b>4,029</b>	3,577	<b>7,801</b>	7,216
<b>Noninterest Expense</b>				
Salaries and employee benefits	6,710	6,341	13,256	12,505
Occupancy and equipment	561	593	1,128	1,200
Insurance Fund premiums	414	328	820	655
(Gains) losses on other property owned, net	(15)	210	58	219
Other operating expenses	1,760	1,478	3,346	3,127
Total noninterest expense	<b>9,430</b>	8,950	<b>18,608</b>	17,706
Income before income taxes	<b>5,897</b>	5,719	<b>12,614</b>	12,164
Provision (benefit) for income taxes	—	1	(8)	1
Net income	<b>\$ 5,897</b>	\$ 5,718	<b>\$ 12,622</b>	\$ 12,163

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

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**Carolina Farm Credit, ACA**  
**Consolidated Statements of**  
**Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 5,897	\$ 5,718	\$ 12,622	\$ 12,163
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments	19	20	38	40
Comprehensive income	\$ 5,916	\$ 5,738	\$ 12,660	\$ 12,203

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



**Carolina Farm Credit, ACA**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2014	\$ 8,062	\$ 183,568	\$ 108,928	\$ (1,329)	\$ 299,229
Comprehensive income			12,163	40	12,203
Capital stock/participation certificates issued/(retired), net	87				87
Patronage distribution adjustment		1,002	(826)		176
<b>Balance at June 30, 2015</b>	<b>\$ 8,149</b>	<b>\$ 184,570</b>	<b>\$ 120,265</b>	<b>\$ (1,289)</b>	<b>\$ 311,695</b>
Balance at December 31, 2015	\$ 8,047	\$ 187,593	\$ 111,139	\$ (1,221)	\$ 305,558
<b>Comprehensive income</b>			<b>12,622</b>	<b>38</b>	<b>12,660</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>169</b>				<b>169</b>
<b>Patronage distribution adjustment</b>		<b>(301)</b>	<b>(425)</b>		<b>(726)</b>
<b>Balance at June 30, 2016</b>	<b>\$ 8,216</b>	<b>\$ 187,292</b>	<b>\$ 123,336</b>	<b>\$ (1,183)</b>	<b>\$ 317,661</b>

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

## Carolina Farm Credit, ACA

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)  
(unaudited)

### Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

#### Organization

The accompanying financial statements include the accounts of Carolina Farm Credit, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 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 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

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

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

- In 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 6, *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	\$ 746,750	\$ 729,528
Production and intermediate-term	525,243	541,076
Loans to cooperatives	7,472	142
Processing and marketing	9,744	22,404
Farm-related business	3,751	5,777
Communication	6,055	6,291
Energy and water/waste disposal	1,818	1,851
Rural residential real estate	73,002	76,345
International	6,183	806
Total Loans	<u>\$ 1,380,018</u>	<u>\$ 1,384,220</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	\$ 9,985	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 9,985	\$ —
Production and intermediate-term	22,788	58,542	8,293	4,000	—	—	31,081	62,542
Loans to cooperatives	7,396	—	9	—	—	—	7,405	—
Processing and marketing	9,198	550	—	—	—	—	9,198	550
Farm-related business	281	—	26	—	—	—	307	—
Communication	6,072	—	—	—	—	—	6,072	—
Energy and water/waste disposal	1,845	—	—	—	—	—	1,845	—
International	6,198	—	—	—	—	—	6,198	—
Total	<u>\$ 63,763</u>	<u>\$ 59,092</u>	<u>\$ 8,328</u>	<u>\$ 4,000</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 72,091</u>	<u>\$ 63,092</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	\$ 5,743	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,743	\$ -
Production and intermediate-term	19,299	93,638	7,699	4,000	-	-	26,998	97,638
Loans to cooperatives	-	-	11	-	-	-	11	-
Processing and marketing	21,501	650	-	-	-	-	21,501	650
Farm-related business	2,766	-	-	-	-	-	2,766	-
Communication	6,312	-	-	-	-	-	6,312	-
Energy and water/waste disposal	1,880	-	-	-	-	-	1,880	-
International	809	-	-	-	-	-	809	-
Total	\$ 58,310	\$ 94,288	\$ 7,710	\$ 4,000	\$ -	\$ -	\$ 66,020	\$ 98,288

A significant source of liquidity for the Association is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

	June 30, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 19,268	\$ 114,476	\$ 613,006	\$ 746,750
Production and intermediate-term	144,163	241,757	139,323	525,243
Loans to cooperatives	68	1,784	5,620	7,472
Processing and marketing	5	5,790	3,949	9,744
Farm-related business	810	1,703	1,238	3,751
Communication	1,924	4,131	-	6,055
Energy and water/waste disposal	-	292	1,526	1,818
Rural residential real estate	15,660	14,603	42,739	73,002
International	-	5,327	856	6,183
Total Loans	\$ 181,898	\$ 389,863	\$ 808,257	\$ 1,380,018
Percentage	13.18%	28.25%	58.57%	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>Communication:</b>		
Acceptable	93.72%	92.54%	Acceptable	100.00%	100.00%
OAEM	3.94	5.81	OAEM	-	-
Substandard/doubtful/loss	2.34	1.65	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Energy and water/waste disposal:</b>		
Acceptable	86.50%	86.56%	Acceptable	100.00%	100.00%
OAEM	5.56	8.54	OAEM	-	-
Substandard/doubtful/loss	7.94	4.90	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Loans to cooperatives:</b>			<b>Rural residential real estate:</b>		
Acceptable	99.88%	100.00%	Acceptable	94.62%	95.22%
OAEM	0.12	-	OAEM	2.52	2.37
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	2.86	2.41
	100.00%	100.00%		100.00%	100.00%
<b>Processing and marketing:</b>			<b>International:</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Farm-related business:</b>			<b>Total Loans:</b>		
Acceptable	99.84%	99.84%	Acceptable	91.18%	90.55%
OAEM	-	-	OAEM	4.38	6.53
Substandard/doubtful/loss	0.16	0.16	Substandard/doubtful/loss	4.44	2.92
	100.00%	100.00%		100.00%	100.00%

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

June 30, 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	\$ 3,756	\$ 2,002	\$ 5,758	\$ 751,090	\$ 756,848	\$ -
Production and intermediate-term	2,543	3,210	5,753	525,639	531,392	-
Loans to cooperatives	-	-	-	7,496	7,496	-
Processing and marketing	-	-	-	9,769	9,769	-
Farm-related business	-	-	-	3,763	3,763	-
Communication	-	-	-	6,055	6,055	-
Energy and water/waste disposal	-	-	-	1,818	1,818	-
Rural residential real estate	649	756	1,405	71,940	73,345	-
International	-	-	-	6,185	6,185	-
Total	\$ 6,948	\$ 5,968	\$ 12,916	\$ 1,383,755	\$ 1,396,671	\$ -

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	\$ 3,751	\$ 1,662	\$ 5,413	\$ 732,938	\$ 738,351	\$ -
Production and intermediate-term	1,678	3,377	5,055	541,587	546,642	-
Loans to cooperatives	-	-	-	143	143	-
Processing and marketing	-	-	-	22,419	22,419	-
Farm-related business	-	-	-	5,808	5,808	-
Communication	-	-	-	6,291	6,291	-
Energy and water/waste disposal	-	-	-	1,851	1,851	-
Rural residential real estate	355	601	956	75,638	76,594	-
International	-	-	-	806	806	-
Total	\$ 5,784	\$ 5,640	\$ 11,424	\$ 1,387,481	\$ 1,398,905	\$ -

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	\$ 4,226	\$ 4,957
Production and intermediate-term	6,776	6,246
Rural residential real estate	827	712
Total	\$ 11,829	\$ 11,915
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 2,031	\$ 1,866
Production and intermediate-term	151	338
Farm-related business	494	521
Rural residential real estate	173	182
Total	\$ 2,849	\$ 2,907
<b>Accruing loans 90 days or more past due:</b>		
Total	\$ -	\$ -
Total nonperforming loans	\$ 14,678	\$ 14,822
Other property owned	5,726	6,069
Total nonperforming assets	\$ 20,404	\$ 20,891
Nonaccrual loans as a percentage of total loans	0.86%	0.86%
Nonperforming assets as a percentage of total loans and other property owned	1.47%	1.50%
Nonperforming assets as a percentage of capital	6.42%	6.84%

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	\$ 4,253	\$ 4,949
Past due	7,576	6,966
Total	11,829	11,915
<b>Impaired accrual loans:</b>		
Restructured	2,849	2,907
90 days or more past due	-	-
Total	2,849	2,907
Total impaired loans	\$ 14,678	\$ 14,822
Additional commitments to lend	\$ 24	\$ 21

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

	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>Impaired loans:</b>							
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 252	\$ 267	\$ 87	\$ 259	\$ 2	\$ 258	\$ 4
Production and intermediate-term	281	473	105	289	3	288	5
Farm-related business	-	-	-	-	-	-	-
Rural residential real estate	208	211	54	214	2	213	4
Total	\$ 741	\$ 951	\$ 246	\$ 762	\$ 7	\$ 759	\$ 13
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 6,005	\$ 6,965	\$ -	\$ 6,178	\$ 60	\$ 6,152	\$ 105
Production and intermediate-term	6,646	8,079	-	6,835	66	6,806	116
Farm-related business	494	492	-	508	5	506	9
Rural residential real estate	792	814	-	815	8	812	13
Total	\$ 13,937	\$ 16,350	\$ -	\$ 14,336	\$ 139	\$ 14,276	\$ 243
<b>Total:</b>							
Real estate mortgage	\$ 6,257	\$ 7,232	\$ 87	\$ 6,437	\$ 62	\$ 6,410	\$ 109
Production and intermediate-term	6,927	8,552	105	7,124	69	7,094	121
Farm-related business	494	492	-	508	5	506	9
Rural residential real estate	1,000	1,025	54	1,029	10	1,025	17
Total	\$ 14,678	\$ 17,301	\$ 246	\$ 15,098	\$ 146	\$ 15,035	\$ 256

	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>Impaired loans:</b>					
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 68	\$ 81	\$ 42	\$ 99	\$ 5
Production and intermediate-term	346	562	98	504	27
Farm-related business	-	-	-	-	-
Rural residential real estate	-	-	-	-	-
Total	\$ 414	\$ 643	\$ 140	\$ 603	\$ 32
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 6,755	\$ 7,626	\$ -	\$ 9,819	\$ 526
Production and intermediate-term	6,238	7,524	-	9,068	486
Farm-related business	521	520	-	758	41
Rural residential real estate	894	1,126	-	1,300	70
Total	\$ 14,408	\$ 16,796	\$ -	\$ 20,945	\$ 1,123
<b>Total:</b>					
Real estate mortgage	\$ 6,823	\$ 7,707	\$ 42	\$ 9,918	\$ 531
Production and intermediate-term	6,584	8,086	98	9,572	513
Farm-related business	521	520	-	758	41
Rural residential real estate	894	1,126	-	1,300	70
Total	\$ 14,822	\$ 17,439	\$ 140	\$ 21,548	\$ 1,155

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	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Total
<b>Activity related to the allowance for credit losses:</b>								
Balance at March 31, 2016	\$ 3,103	\$ 3,545	\$ 59	\$ 45	\$ 6	\$ 227	\$ 2	\$ 6,987
Charge-offs	—	(47)	—	—	—	(4)	—	(51)
Recoveries	19	15	—	—	—	4	—	38
Provision for loan losses	85	208	8	7	3	37	—	348
Balance at June 30, 2016	\$ 3,207	\$ 3,721	\$ 67	\$ 52	\$ 9	\$ 264	\$ 2	\$ 7,322
Balance at December 31, 2015	\$ 3,549	\$ 3,628	\$ 65	\$ 49	\$ 7	\$ 103	\$ 1	\$ 7,402
Charge-offs	(2)	(67)	—	—	—	(5)	—	(74)
Recoveries	41	220	—	—	—	27	—	288
Provision for loan losses	(381)	(60)	2	3	2	139	1	(294)
Balance at June 30, 2016	\$ 3,207	\$ 3,721	\$ 67	\$ 52	\$ 9	\$ 264	\$ 2	\$ 7,322
Balance at March 31, 2015	\$ 2,616	\$ 4,075	\$ 68	\$ 52	\$ 8	\$ 132	\$ —	\$ 6,951
Charge-offs	(42)	(7)	—	—	—	(5)	—	(54)
Recoveries	27	41	—	—	—	—	—	68
Provision for loan losses	251	(968)	1,254	(9)	(2)	(8)	1	519
Balance at June 30, 2015	\$ 2,852	\$ 3,141	\$ 1,322	\$ 43	\$ 6	\$ 119	\$ 1	\$ 7,484
Balance at December 31, 2014	\$ 2,539	\$ 3,693	\$ 86	\$ 59	\$ 9	\$ 228	\$ —	\$ 6,614
Charge-offs	(88)	(38)	—	—	—	(58)	—	(184)
Recoveries	47	274	—	—	—	—	—	321
Provision for loan losses	354	(788)	1,236	(16)	(3)	(51)	1	733
Balance at June 30, 2015	\$ 2,852	\$ 3,141	\$ 1,322	\$ 43	\$ 6	\$ 119	\$ 1	\$ 7,484
<b>Allowance on loans evaluated for impairment:</b>								
Individually	\$ 87	\$ 105	\$ —	\$ —	\$ —	\$ 54	\$ —	\$ 246
Collectively	3,120	3,616	67	52	9	210	2	7,076
Balance at June 30, 2016	\$ 3,207	\$ 3,721	\$ 67	\$ 52	\$ 9	\$ 264	\$ 2	\$ 7,322
Individually	\$ 42	\$ 98	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 140
Collectively	3,507	3,530	65	49	7	103	1	7,262
Balance at December 31, 2015	\$ 3,549	\$ 3,628	\$ 65	\$ 49	\$ 7	\$ 103	\$ 1	\$ 7,402
<b>Recorded investment in loans evaluated for impairment:</b>								
Individually	\$ 6,257	\$ 6,927	\$ 494	\$ —	\$ —	\$ 1,000	\$ —	\$ 14,678
Collectively	750,591	524,465	20,534	6,055	1,818	72,345	6,185	1,381,993
Balance at June 30, 2016	\$ 756,848	\$ 531,392	\$ 21,028	\$ 6,055	\$ 1,818	\$ 73,345	\$ 6,185	\$ 1,396,671
Individually	\$ 6,823	\$ 6,584	\$ 521	\$ —	\$ —	\$ 894	\$ —	\$ 14,822
Collectively	731,528	540,058	27,849	6,291	1,851	75,700	806	1,384,083
Balance at December 31, 2015	\$ 738,351	\$ 546,642	\$ 28,370	\$ 6,291	\$ 1,851	\$ 76,594	\$ 806	\$ 1,398,905

\*Includes the loan types; Loans to cooperatives, Processing and marketing, and Farm-related business.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no TDRs for the three or six month periods ended June 30, 2015.

Outstanding Recorded Investment	Three months ended June 30, 2016				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Production and intermediate-term	\$ —	\$ 60	\$ —	\$ 60	
Total	\$ —	\$ 60	\$ —	\$ 60	
<b>Post-modification:</b>					
Production and intermediate-term	\$ —	\$ 60	\$ —	\$ 60	\$ —
Total	\$ —	\$ 60	\$ —	\$ 60	\$ —



Outstanding Recorded Investment	Six months ended June 30, 2016					Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
<b>Pre-modification:</b>						
Real estate mortgage	\$ —	\$ 24	\$ —	\$ 24		
Production and intermediate-term	—	60	—	60		
Total	\$ —	\$ 84	\$ —	\$ 84		
<b>Post-modification:</b>						
Real estate mortgage	\$ —	\$ 25	\$ —	\$ 25	\$ —	
Production and intermediate-term	—	60	—	60		
Total	\$ —	\$ 85	\$ —	\$ 85	\$ —	

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	\$ 2,922	\$ 2,905	\$ 891	\$ 1,039
Production and intermediate-term	537	607	386	269
Farm-related business	494	521	—	—
Rural residential real estate	173	182	—	—
Total Loans	\$ 4,126	\$ 4,215	\$ 1,277	\$ 1,308
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	\$ 194	\$ 304
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 343	\$ 353

### Note 3 — Investments

#### Investment Securities

The Association's held-to-maturity investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. At June 30, 2016, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	June 30, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 1,808	\$ 3	\$ (6)	\$ 1,805	5.02%

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 1,852	\$ —	\$ (105)	\$ 1,747	5.01%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	June 30, 2016			Weighted Average Yield
	Amortized Cost	Fair Value		
In one year or less	\$ —	\$ —		—%
After one year through five years	23	23		4.25
After five years through ten years	150	153		4.15
After ten years	1,635	1,629		5.11
Total	\$ 1,808	\$ 1,805		5.02%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities

because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

		June 30, 2016			
		Less than 12 Months		12 Months or Greater	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs		\$ —	\$ —	\$ 1,805	\$ (6)

		December 31, 2015			
		Less than 12 Months		12 Months or Greater	
		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs		\$ —	\$ —	\$ 1,747	\$ (105)

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

#### ***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 6.04 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 \$1,601 related to other Farm Credit institutions.

#### **Note 4 — Debt**

##### ***Notes Payable to AgFirst Farm Credit Bank***

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

## Note 5 — Members' Equity

### Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (1,202)	\$ (1,309)	\$ (1,221)	\$ (1,329)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	19	20	38	40
Net current period other comprehensive income	19	20	38	40
Balance at end of period	\$ (1,183)	\$ (1,289)	\$ (1,183)	\$ (1,289)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended June 30,		Six Months Ended June 30,		Income Statement Line Item
	2016	2015	2016	2015	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$ (19)	\$ (20)	\$ (38)	\$ (40)	See Note 7.
Net amounts reclassified	\$ (19)	\$ (20)	\$ (38)	\$ (40)	

(a) Amounts in parentheses indicate debits to AOCI.

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

## Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Six Months Ended June 30, 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>							
Assets held in Trust funds	\$ 2,984	\$ 2,984	\$ –	\$ –	\$ 2,984		
Recurring Assets	\$ 2,984	\$ 2,984	\$ –	\$ –	\$ 2,984		
<b>Liabilities:</b>							
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –		
<b>Nonrecurring Measurements</b>							
<b>Assets:</b>							
Impaired loans	\$ 14,432	\$ –	\$ –	\$ 14,432	\$ 14,432	\$	108
Other property owned	5,726	–	–	6,407	6,407		(40)
Nonrecurring Assets	\$ 20,158	\$ –	\$ –	\$ 20,839	\$ 20,839	\$	68
<b>Other Financial Instruments</b>							
<b>Assets:</b>							
Cash	\$ 1,239	\$ 1,239	\$ –	\$ –	\$ 1,239		
Investment securities, held-to-maturity	1,808	–	–	1,805	1,805		
Loans	1,361,251	–	–	1,375,623	1,375,623		
Other Financial Assets	\$ 1,364,298	\$ 1,239	\$ –	\$ 1,377,428	\$ 1,378,667		
<b>Liabilities:</b>							
Notes payable to AgFirst Farm Credit Bank	\$ 1,108,510	\$ –	\$ –	\$ 1,115,058	\$ 1,115,058		
Other Financial Liabilities	\$ 1,108,510	\$ –	\$ –	\$ 1,115,058	\$ 1,115,058		

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>							
Assets held in Trust funds	\$ 2,963	\$ 2,963	\$ –	\$ –	\$ 2,963		
Recurring Assets	\$ 2,963	\$ 2,963	\$ –	\$ –	\$ 2,963		
<b>Liabilities:</b>							
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –		
<b>Nonrecurring Measurements</b>							
<b>Assets:</b>							
Impaired loans	\$ 14,682	\$ –	\$ –	\$ 14,682	\$ 14,682	\$	(349)
Other property owned	6,069	–	–	6,756	6,756		(866)
Nonrecurring Assets	\$ 20,751	\$ –	\$ –	\$ 21,438	\$ 21,438	\$	(1,215)
<b>Other Financial Instruments</b>							
<b>Assets:</b>							
Cash	\$ 7,514	\$ 7,514	\$ –	\$ –	\$ 7,514		
Investment securities, held-to-maturity	1,852	–	–	1,747	1,747		
Loans	1,368,001	–	–	1,383,705	1,383,705		
Other Financial Assets	\$ 1,377,367	\$ 7,514	\$ –	\$ 1,385,452	\$ 1,392,966		
<b>Liabilities:</b>							
Notes payable to AgFirst Farm Credit Bank	\$ 1,132,911	\$ –	\$ –	\$ 1,131,821	\$ 1,131,821		
Other Financial Liabilities	\$ 1,132,911	\$ –	\$ –	\$ 1,131,821	\$ 1,131,821		

## 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.

**Investment Securities**

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk

premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

**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	\$ 20,839	Appraisal	Income and expense Comparable sales Replacement cost Comparability adjustments	* * * *

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

**Information about Other Financial Instrument Fair Value Measurements**

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principle and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecast Probability of default Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

**Note 7 — Employee Benefit Plans**

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

	Three Months Ended June 30 ,		Six Months Ended June 30 ,	
	2016	2015	2016	2015
Pension	\$ 1,527	\$ 1,498	\$ 3,054	\$ 2,997
401(k)	209	171	402	263
Other postretirement benefits	373	468	747	935
Total	\$ 2,109	\$ 2,137	\$ 4,203	\$ 4,195

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	\$ 67	\$ 3,232	\$ 3,299
Other postretirement benefits	371	403	774
Total	\$ 438	\$ 3,635	\$ 4,073

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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 8 — Commitments and Contingent Liabilities**

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

**Note 9 — Subsequent Events**

The Association evaluated subsequent events and determined there were none requiring disclosure through August 8, 2016, which was the date the financial statements were issued.