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*Farm Credit of the Virginias, ACA*

# SECOND QUARTER 2016

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## CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2016 quarterly report of Farm Credit of the Virginias, 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.



David E. Lawrence  
Chief Executive Officer



David G. Sauer  
Chief Financial Officer



Charles B. Leech, IV  
Chairman of the Board

August 8, 2016

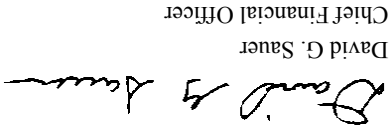
# Report on Internal Control Over Financial

## Reporting

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.

  
David E. Lawrence  
Chief Executive Officer

  
David G. Sauer  
Chief Financial Officer

August 8, 2016

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.

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*Farm Credit of the Virginias, ACA*

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

*(dollars in thousands)*

The following commentary reviews the consolidated financial condition and results of operations of Farm Credit of the Virginias, 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 including livestock, timber, poultry and field crops. 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 impacts the level of dependency on a given commodity.

As of June 30, 2016, the gross loan volume of the Association was \$1,728,665 compared to \$1,692,633 at December 31, 2015. Gross loan volume increased \$36,032 or 2.13 percent when compared to gross loan volume at December 31, 2015. Net loans outstanding at June 30, 2016 were \$1,713,462 as compared to \$1,678,146 at December 31, 2015. The increase in loan volume was primarily due to an increase in real estate and farm loans.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. As of June 30, 2016, nonaccrual loan volume was \$32,453 compared to \$28,394 at December 31, 2015. Nonaccrual loan volume at June 30, 2016 increased \$4,059 due to several loans being downgraded to nonaccrual status. Nonaccrual loan volume to gross loan volume was 1.88 percent at June 30, 2016.

Other property owned totaled \$4,732 at June 30, 2016. This was a decrease of \$71 when compared to December 31, 2015. Other property owned are actively market for sale. The

decrease was primarily due to properties being sold offset by properties which were acquired.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio. Factors considered in determining the allowance for loan losses were generally based on recent historical charge-off experience adjusted for relevant environmental factors. The allowance for loan losses at June 30, 2016 was \$15,203. The allowance for loan losses to gross loan volume was 0.88 percent.

## **RESULTS OF OPERATIONS**

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

Net income for the three months ended June 30, 2016, totaled \$8,038 as compared to \$8,031 for the same period in 2015. This was an increase of \$7. Net income as flat due to higher net interest income and noninterest income which was offset by higher operating expenses during the period.

Net interest income increased \$284 or 2.30 percent for the three months ended June 30, 2016, as compared to the same period in 2015. The increase in net interest income was primarily due to an increase in loan volume compared to last year.

The provision for loan losses for the three months ended June 30, 2016 was \$1,000. This was the same amount recorded during the three months last year.

Noninterest income for the three months ended June 30, 2016 totaled \$3,669 compared to \$3,477 for the same period last year. This was an increase of \$192 or 5.52 percent. The increase in noninterest income was primarily due to an increase in patronage refunds from AgFirst Bank.

Noninterest expenses for the three months ended June 30, 2016 totaled \$7,280. This was an increase of \$477 or 7.01 percent compared to the same period of 2015. The increase was mainly due to an increase in employees' salaries and benefits expenses, losses on other property owned and higher Farm Credit System insurance premium.

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

Net income for the six months ended June 30, 2016 totaled \$16,641 as compared to \$16,731 for the same period in 2015. This was a decrease of \$90 or 0.54 percent. The decrease in net income was primarily due to an increase in operating expenses and provision for loan losses offset somewhat by an increase in net interest income and noninterest income.

Net interest income for the six months increased \$450 or 1.82 percent compared to the same period in 2015. The increase in net interest income was primarily due to an increase in loan volume.

Provision for loan losses for the six months ended June 30, 2016, totaled \$1,500 compared to \$1,000 for the same period last year. An increase of \$500. The provision was mainly driven by the increase in loan volume growth.

Noninterest income for the six months ended June 30, 2016, totaled \$7,368 as compared to \$7,080 for the same period of 2015. This was an increase of \$288. The increase was mainly due to an increase patronage refund from AgFirst Farm Credit Bank.

Noninterest expenses for the six months ended June 30, 2016 totaled \$14,455. This was an increase of \$343 or 2.43 percent compared to the same period of 2015. The increase was mainly due to increases in employees' salaries and benefits, and higher Farm Credit System insurance premium offset somewhat by gains on other property owned.

### FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate 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 \$1,370,988 as compared to \$1,354,433 at December 31, 2015.

### CAPITAL RESOURCES

Total members' equity at June 30, 2016 totaled \$381,479, an increase of \$16,701, as compared to \$364,778 at December 31, 2015. The increase in members' equity was primarily attributed to earnings.

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, both the Association's total surplus ratio and core surplus ratio were 19.55 percent and the permanent capital ratio was 20.28 percent. 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 540-886-3435, ext. 5020, or writing David Sauer, Farm Credit of the Virginias, ACA, P.O. Box 899, Staunton, VA 24402, or accessing the website, [www.farmcreditofvirginias.com](http://www.farmcreditofvirginias.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# Farm Credit of the Virginias, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2016 <i>(unaudited)</i>	December 31, 2015 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 2,029	\$ 2,945
Loans	1,728,665	1,692,633
Allowance for loan losses	(15,203)	(14,487)
Net loans	1,713,462	1,678,146
Loans held for sale	1,056	2,269
Accrued interest receivable	12,437	8,680
Investments in other Farm Credit institutions	24,855	25,330
Premises and equipment, net	8,844	8,035
Other property owned	4,732	4,803
Accounts receivable	6,675	22,239
Other assets	4,098	5,228
Total assets	<b>\$ 1,778,188</b>	<b>\$ 1,757,675</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,370,988	\$ 1,354,433
Accrued interest payable	3,182	3,060
Patronage refunds payable	225	15,259
Accounts payable	1,847	2,463
Other liabilities	20,467	17,682
Total liabilities	<b>1,396,709</b>	<b>1,392,897</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	12,666	12,606
Retained earnings		
Allocated	92,568	92,568
Unallocated	276,267	259,626
Accumulated other comprehensive income (loss)	(22)	(22)
Total members' equity	<b>381,479</b>	<b>364,778</b>
Total liabilities and members' equity	<b>\$ 1,778,188</b>	<b>\$ 1,757,675</b>

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

# Farm Credit of the Virginias, 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	\$ 22,082	\$ 20,991	\$ 43,927	\$ 41,756
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	9,427	8,620	18,686	16,965
Net interest income	12,655	12,371	25,241	24,791
Provision for loan losses	1,000	1,000	1,500	1,000
Net interest income after provision for loan losses	11,655	11,371	23,741	23,791
<b>Noninterest Income</b>				
Loan fees	199	255	357	378
Fees for financially related services	5	9	34	14
Patronage refunds from other Farm Credit institutions	3,206	2,938	6,487	6,160
Gains (losses) on sales of rural home loans, net	185	247	406	469
Gains (losses) on sales of premises and equipment, net	15	9	35	9
Gains (losses) on other transactions	41	4	11	19
Other noninterest income	18	15	38	31
Total noninterest income	3,669	3,477	7,368	7,080
<b>Noninterest Expense</b>				
Salaries and employee benefits	4,616	4,269	9,482	8,934
Occupancy and equipment	365	371	716	675
Insurance Fund premiums	537	416	1,064	818
(Gains) losses on other property owned, net	178	54	(137)	220
Other operating expenses	1,584	1,693	3,330	3,465
Total noninterest expense	7,280	6,803	14,455	14,112
Income before income taxes	8,044	8,045	16,654	16,759
Provision for income taxes	6	14	13	28
Net income	8,038	8,031	16,641	16,731
Other comprehensive income	—	—	—	—
Comprehensive income	\$ 8,038	\$ 8,031	\$ 16,641	\$ 16,731

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

**Farm Credit of the Virginias, 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	\$ 13,159	\$ 92,568	\$ 230,527	\$ (27)	\$ 336,227
Comprehensive income			16,731		16,731
Capital stock/participation certificates issued/(retired), net	89				89
Balance at June 30, 2015	\$ 13,248	\$ 92,568	\$ 247,258	\$ (27)	\$ 353,047
Balance at December 31, 2015	\$ 12,606	\$ 92,568	\$ 259,626	\$ (22)	\$ 364,778
<b>Comprehensive income</b>			<b>16,641</b>		<b>16,641</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>60</b>				<b>60</b>
<b>Balance at June 30, 2016</b>	<b>\$ 12,666</b>	<b>\$ 92,568</b>	<b>\$ 276,267</b>	<b>\$ (22)</b>	<b>\$ 381,479</b>

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



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*Farm Credit of the Virginias, 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 the Virginias, 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	\$ 1,212,514	\$ 1,188,861
Production and intermediate-term	410,217	397,512
Loans to cooperatives	–	116
Processing and marketing	40,120	40,223
Farm-related business	11,620	13,756
Communication	9,725	5,419
Rural residential real estate	44,469	46,746
Total Loans	<u>\$ 1,728,665</u>	<u>\$ 1,692,633</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	\$ 3,619	\$ 86,096	\$ –	\$ –	\$ –	\$ –	\$ 3,619	\$ 86,096
Production and intermediate-term	8,933	3,997	527	–	–	–	9,460	3,997
Processing and marketing	6,580	–	214	–	–	–	6,794	–
Farm-related business	695	152	18	–	–	–	713	152
Communication	9,754	–	–	–	–	–	9,754	–
Total	<u>\$ 29,581</u>	<u>\$ 90,245</u>	<u>\$ 759</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 30,340</u>	<u>\$ 90,245</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	\$ 3,767	\$ 88,113	\$ –	\$ –	\$ –	\$ –	\$ 3,767	\$ 88,113
Production and intermediate-term	5,033	4,969	551	–	–	–	5,584	4,969
Processing and marketing	7,787	–	227	–	–	–	8,014	–
Farm-related business	384	179	25	–	–	–	409	179
Communication	5,430	–	–	–	–	–	5,430	–
Total	<u>\$ 22,401</u>	<u>\$ 93,261</u>	<u>\$ 803</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 23,204</u>	<u>\$ 93,261</u>

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

June 30, 2016				
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 3,065	\$ 42,279	\$ 1,167,170	\$ 1,212,514
Production and intermediate-term	187,914	171,438	50,865	410,217
Processing and marketing	26,894	4,388	8,838	40,120
Farm-related business	1,881	2,937	6,802	11,620
Communication	-	6,779	2,946	9,725
Rural residential real estate	3,112	1,420	39,937	44,469
Total Loans	<u>\$ 222,866</u>	<u>\$ 229,241</u>	<u>\$ 1,276,558</u>	<u>\$ 1,728,665</u>
Percentage	12.89%	13.26%	73.85%	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	95.08%	95.42%	Acceptable	97.67%	97.94%
OAEM	2.24	1.84	OAEM	-	-
Substandard/doubtful/loss	2.68	2.74	Substandard/doubtful/loss	2.33	2.06
	<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	94.02%	94.69%	Acceptable	100.00%	100.00%
OAEM	3.25	2.32	OAEM	-	-
Substandard/doubtful/loss	2.73	2.99	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	97.53%	97.28%
OAEM	-	-	OAEM	1.48	1.13
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	0.99	1.59
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>Total Loans:</b>		
Acceptable	72.09%	61.10%	Acceptable	94.41%	94.52%
OAEM	17.12	27.77	OAEM	2.77	2.52
Substandard/doubtful/loss	10.79	11.13	Substandard/doubtful/loss	2.82	2.96
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

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	\$ 7,301	\$ 4,691	\$ 11,992	\$ 1,208,391	\$ 1,220,383	\$ -
Production and intermediate-term	1,428	6,279	7,707	406,782	414,489	108
Processing and marketing	153	-	153	40,008	40,161	-
Farm-related business	197	-	197	11,465	11,662	-
Communication	-	-	-	9,727	9,727	-
Rural residential real estate	623	-	623	44,057	44,680	-
Total	<u>\$ 9,702</u>	<u>\$ 10,970</u>	<u>\$ 20,672</u>	<u>\$ 1,720,430</u>	<u>\$ 1,741,102</u>	<u>\$ 108</u>

**December 31, 2015**

	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Recorded Investment 90 Days or More Past Due and Accruing Interest</b>
Real estate mortgage	\$ 11,311	\$ 2,626	\$ 13,937	\$ 1,180,311	\$ 1,194,248	\$ -
Production and intermediate-term	2,726	4,653	7,379	393,224	400,603	205
Loans to cooperatives	-	-	-	116	116	-
Processing and marketing	-	-	-	40,246	40,246	-
Farm-related business	-	-	-	13,784	13,784	-
Communication	-	-	-	5,420	5,420	-
Rural residential real estate	62	244	306	46,590	46,896	-
Total	<u>\$ 14,099</u>	<u>\$ 7,523</u>	<u>\$ 21,622</u>	<u>\$ 1,679,691</u>	<u>\$ 1,701,313</u>	<u>\$ 205</u>

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

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 19,905	\$ 15,888
Production and intermediate-term	9,763	9,332
Farm-related business	2,621	2,765
Rural residential real estate	164	409
Total	<u>\$ 32,453</u>	<u>\$ 28,394</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 1,089	\$ 1,099
Production and intermediate-term	521	86
Total	<u>\$ 1,610</u>	<u>\$ 1,185</u>
<b>Accruing loans 90 days or more past due:</b>		
Production and intermediate-term	\$ 108	\$ 205
Total	<u>\$ 108</u>	<u>\$ 205</u>
<b>Performing impaired loans:</b>		
Real estate mortgage	\$ 1,931	\$ 2,364
Production and intermediate-term	1,218	1,975
Processing and marketing	4,334	4,481
Rural residential real estate	93	-
Total	<u>\$ 7,576</u>	<u>\$ 8,820</u>
Total nonperforming loans	\$ 41,747	\$ 38,604
Other property owned	4,732	4,803
Total nonperforming assets	<u>\$ 46,479</u>	<u>\$ 43,407</u>
Nonaccrual loans as a percentage of total loans	1.88%	1.68%
Nonperforming assets as a percentage of total loans and other property owned	2.68%	2.56%
Nonperforming assets as a percentage of capital	12.18%	11.90%

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.

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 18,856	\$ 18,838
Past due	13,597	9,556
Total	<u>32,453</u>	<u>28,394</u>
<b>Impaired accrual loans:</b>		
Performing	7,576	8,820
Restructured	1,610	1,185
90 days or more past due	108	205
Total	<u>9,294</u>	<u>10,210</u>
Total impaired loans	\$ 41,747	\$ 38,604
Additional commitments to lend	\$ 374	\$ 354

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	\$ 10,205	\$ 10,712	\$ 2,292	\$ 10,188	\$ 79	\$ 9,871	\$ 162
Production and intermediate-term	7,593	7,930	1,745	7,581	58	7,344	121
Processing and marketing	—	—	—	—	—	—	—
Farm-related business	2,621	3,305	142	2,617	20	2,535	42
Rural residential real estate	—	—	—	—	—	—	—
Total	\$ 20,419	\$ 21,947	\$ 4,179	\$ 20,386	\$ 157	\$ 19,750	\$ 325
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 12,720	\$ 15,393	\$ —	\$ 12,700	\$ 98	\$ 12,302	\$ 202
Production and intermediate-term	4,017	6,774	—	4,011	31	3,886	63
Processing and marketing	4,334	4,334	—	4,327	33	4,192	69
Farm-related business	—	—	—	—	—	—	—
Rural residential real estate	257	400	—	257	2	249	4
Total	\$ 21,328	\$ 26,901	\$ —	\$ 21,295	\$ 164	\$ 20,629	\$ 338
<b>Total:</b>							
Real estate mortgage	\$ 22,925	\$ 26,105	\$ 2,292	\$ 22,888	\$ 177	\$ 22,173	\$ 364
Production and intermediate-term	11,610	14,704	1,745	11,592	89	11,230	184
Processing and marketing	4,334	4,334	—	4,327	33	4,192	69
Farm-related business	2,621	3,305	142	2,617	20	2,535	42
Rural residential real estate	257	400	—	257	2	249	4
Total	\$ 41,747	\$ 48,848	\$ 4,179	\$ 41,681	\$ 321	\$ 40,379	\$ 663

	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	\$ 10,132	\$ 10,831	\$ 2,308	\$ 9,983	\$ 651
Production and intermediate-term	8,374	8,746	1,744	8,251	538
Processing and marketing	—	—	—	—	—
Farm-related business	2,765	3,359	163	2,724	178
Rural residential real estate	221	298	60	218	14
Total	\$ 21,492	\$ 23,234	\$ 4,275	\$ 21,176	\$ 1,381
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 9,219	\$ 10,628	\$ —	\$ 9,085	\$ 593
Production and intermediate-term	3,224	5,420	—	3,176	207
Processing and marketing	4,481	4,484	—	4,415	288
Farm-related business	—	—	—	—	—
Rural residential real estate	188	293	—	185	12
Total	\$ 17,112	\$ 20,825	\$ —	\$ 16,861	\$ 1,100
<b>Total:</b>					
Real estate mortgage	\$ 19,351	\$ 21,459	\$ 2,308	\$ 19,068	\$ 1,244
Production and intermediate-term	11,598	14,166	1,744	11,427	745
Processing and marketing	4,481	4,484	—	4,415	288
Farm-related business	2,765	3,359	163	2,724	178
Rural residential real estate	409	591	60	403	26
Total	\$ 38,604	\$ 44,059	\$ 4,275	\$ 38,037	\$ 2,481

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	Total
<b>Activity related to the allowance for credit losses:</b>						
Balance at March 31, 2016	\$ 6,960	\$ 6,623	\$ 673	\$ -	\$ 366	\$ 14,622
Charge-offs	(179)	(249)	-	-	(35)	(463)
Recoveries	5	39	-	-	-	44
Provision for loan losses	355	582	44	-	19	1,000
Balance at June 30, 2016	\$ 7,141	\$ 6,995	\$ 717	\$ -	\$ 350	\$ 15,203
Balance at December 31, 2015	\$ 6,920	\$ 6,594	\$ 613	\$ -	\$ 360	\$ 14,487
Charge-offs	(216)	(561)	-	-	(80)	(857)
Recoveries	9	64	-	-	-	73
Provision for loan losses	428	898	104	-	70	1,500
Balance at June 30, 2016	\$ 7,141	\$ 6,995	\$ 717	\$ -	\$ 350	\$ 15,203
Balance at March 31, 2015	\$ 5,633	\$ 6,065	\$ 504	\$ -	\$ 252	\$ 12,454
Charge-offs	(75)	(481)	-	-	-	(556)
Recoveries	5	72	-	-	-	77
Provision for loan losses	610	416	(26)	-	-	1,000
Balance at June 30, 2015	\$ 6,173	\$ 6,072	\$ 478	\$ -	\$ 252	\$ 12,975
Balance at December 31, 2014	\$ 5,678	\$ 5,981	\$ 537	\$ -	\$ 269	\$ 12,465
Charge-offs	(75)	(589)	-	-	-	(664)
Recoveries	14	160	-	-	-	174
Provision for loan losses	556	520	(59)	-	(17)	1,000
Balance at June 30, 2015	\$ 6,173	\$ 6,072	\$ 478	\$ -	\$ 252	\$ 12,975
<b>Allowance on loans evaluated for impairment:</b>						
Individually	\$ 2,292	\$ 1,745	\$ 142	\$ -	\$ -	\$ 4,179
Collectively	4,849	5,250	575	-	350	11,024
Balance at June 30, 2016	\$ 7,141	\$ 6,995	\$ 717	\$ -	\$ 350	\$ 15,203
Individually	\$ 2,308	\$ 1,744	\$ 163	\$ -	\$ 60	\$ 4,275
Collectively	4,612	4,850	450	-	300	10,212
Balance at December 31, 2015	\$ 6,920	\$ 6,594	\$ 613	\$ -	\$ 360	\$ 14,487
<b>Recorded investment in loans evaluated for impairment:</b>						
Individually	\$ 22,925	\$ 11,610	\$ 6,955	\$ -	\$ 257	\$ 41,747
Collectively	1,197,458	402,879	44,868	9,727	44,423	1,699,355
Balance at June 30, 2016	\$ 1,220,383	\$ 414,489	\$ 51,823	\$ 9,727	\$ 44,680	\$ 1,741,102
Individually	\$ 19,351	\$ 11,598	\$ 7,246	\$ -	\$ 409	\$ 38,604
Collectively	1,174,897	389,005	46,900	5,420	46,487	1,662,709
Balance at December 31, 2015	\$ 1,194,248	\$ 400,603	\$ 54,146	\$ 5,420	\$ 46,896	\$ 1,701,313

\*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. In the tables below, activity for the quarter and six months ended June 30, 2015 is presented as revised for FCA loan type reclassifications discussed above.

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	\$ -	\$ 53	\$ -	\$ 53	
Total	\$ -	\$ 53	\$ -	\$ 53	
<b>Post-modification:</b>					
Production and intermediate-term	\$ -	\$ 53	\$ -	\$ 53	\$ -
Total	\$ -	\$ 53	\$ -	\$ 53	\$ -

Six months ended June 30, 2016					
Outstanding Recorded Investment	Interest	Principal	Other	Total	Charge-offs
	Concessions	Concessions	Concessions		
<b>Pre-modification:</b>					
Real estate mortgage	\$ –	\$ 72	\$ –	\$ 72	
Production and intermediate-term	225	375	–	600	
Total	\$ 225	\$ 447	\$ –	\$ 672	
<b>Post-modification:</b>					
Real estate mortgage	\$ –	\$ 72	\$ –	\$ 72	\$ –
Production and intermediate-term	225	375	–	600	–
Total	\$ 225	\$ 447	\$ –	\$ 672	\$ –

Three Months Ended June 30, 2015 (as revised)					
Outstanding Recorded Investment	Interest	Principal	Other	Total	Charge-offs
	Concessions	Concessions	Concessions		
<b>Pre-modification:</b>					
Real estate mortgage	\$ 170	\$ 1,031	\$ –	\$ 1,201	
Production and intermediate-term	–	179	–	179	
Total	\$ 170	\$ 1,210	\$ –	\$ 1,380	
<b>Post-modification:</b>					
Real estate mortgage	\$ 170	\$ 1,031	\$ –	\$ 1,201	\$ –
Production and intermediate-term	–	179	–	179	–
Total	\$ 170	\$ 1,210	\$ –	\$ 1,380	\$ –

Six Months Ended June 30, 2015 (as revised)					
Outstanding Recorded Investment	Interest	Principal	Other	Total	Charge-offs
	Concessions	Concessions	Concessions		
<b>Pre-modification:</b>					
Real estate mortgage	\$ 170	\$ 1,031	\$ –	\$ 1,201	
Production and intermediate-term	–	1,016	–	1,016	
Total	\$ 170	\$ 2,047	\$ –	\$ 2,217	
<b>Post-modification:</b>					
Real estate mortgage	\$ 170	\$ 1,031	\$ –	\$ 1,201	\$ –
Production and intermediate-term	–	1,016	–	1,016	–
Total	\$ 170	\$ 2,047	\$ –	\$ 2,217	\$ –

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.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016		2015	
	2016	(as revised)	2016	(as revised)
Real estate mortgage	\$ –	\$ 206	\$ –	\$ 206
Production and intermediate-term	2,818	11	2,818	1,096
Total	\$ 2,818	\$ 217	\$ 2,818	\$ 1,302

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	\$ 2,352	\$ 2,016	\$ 1,263
Production and intermediate-term	4,167	3,978	3,646	3,892
Farm related business	2,621	2,765	2,621	2,765
Rural residential real estate	33	35	33	35
Total Loans	\$ 9,173	\$ 8,794	\$ 7,563	\$ 7,609
Additional commitments to lend	\$ 111	\$ –		



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	\$ 115	\$ 93
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 220	\$ 233

### Note 3 — Investments

#### Investment 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 9.43 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 \$819 in investments 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	\$ (22)	\$ (27)	\$ (22)	\$ (27)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	—	—	—	—
Net current period other comprehensive income	—	—	—	—
Balance at end of period	\$ (22)	\$ (27)	\$ (22)	\$ (27)

	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	\$ —	\$ —	\$ —	\$ —	See Note 7.
Net amounts reclassified	\$ —	\$ —	\$ —	\$ —	

(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	\$ 1,564	\$ 1,564	\$ -	\$ -	\$ 1,564		
Recurring Assets	\$ 1,564	\$ 1,564	\$ -	\$ -	\$ 1,564		
<b>Liabilities:</b>							
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -		
<b>Nonrecurring Measurements</b>							
<b>Assets:</b>							
Impaired loans	\$ 37,568	\$ -	\$ -	\$ 37,568	\$ 37,568	\$ (688)	
Other property owned	4,732	-	-	5,221	5,221	195	
Nonrecurring Assets	\$ 42,300	\$ -	\$ -	\$ 42,789	\$ 42,789	\$ (493)	
<b>Other Financial Instruments</b>							
<b>Assets:</b>							
Cash	\$ 2,029	\$ 2,029	\$ -	\$ -	\$ 2,029		
Loans	1,676,950	-	-	1,690,644	1,690,644		
Other Financial Assets	\$ 1,678,979	\$ 2,029	\$ -	\$ 1,690,644	\$ 1,692,673		
<b>Liabilities:</b>							
Notes payable to AgFirst Farm Credit Bank	\$ 1,370,988	\$ -	\$ -	\$ 1,383,457	\$ 1,383,457		
Other Financial Liabilities	\$ 1,370,988	\$ -	\$ -	\$ 1,383,457	\$ 1,383,457		

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	\$ 1,358	\$ 1,358	\$ -	\$ -	\$ 1,358		
Recurring Assets	\$ 1,358	\$ 1,358	\$ -	\$ -	\$ 1,358		
<b>Liabilities:</b>							
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -		
<b>Nonrecurring Measurements</b>							
<b>Assets:</b>							
Impaired loans	\$ 34,329	\$ -	\$ -	\$ 34,329	\$ 34,329	\$ (1,914)	
Other property owned	4,803	-	-	5,320	5,320	(294)	
Nonrecurring Assets	\$ 39,132	\$ -	\$ -	\$ 39,649	\$ 39,649	\$ (2,208)	
<b>Other Financial Instruments</b>							
<b>Assets:</b>							
Cash	\$ 2,945	\$ 2,945	\$ -	\$ -	\$ 2,945		
Loans	1,646,086	-	-	1,644,803	1,644,803		
Other Financial Assets	\$ 1,649,031	\$ 2,945	\$ -	\$ 1,644,803	\$ 1,647,748		
<b>Liabilities:</b>							
Notes payable to AgFirst Farm Credit Bank	\$ 1,354,433	\$ -	\$ -	\$ 1,347,654	\$ 1,347,654		
Other Financial Liabilities	\$ 1,354,433	\$ -	\$ -	\$ 1,347,654	\$ 1,347,654		

## 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	\$ 42,789	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

## Note 7 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Pension	\$ 880	\$ 867	\$ 1,759	\$ 1,734
401(k)	149	137	386	358
Other postretirement benefits	219	288	437	576
Total	\$ 1,248	\$ 1,292	\$ 2,582	\$ 2,668

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	\$ 4	\$ 1,906	\$ 1,910
Other postretirement benefits	214	220	434
Total	\$ 218	\$ 2,126	\$ 2,344

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.

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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.