AgCredit Agricultural Credit Association

SECOND QUARTER 2016

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2016 quarterly report of AgCredit Agricultural Credit Association, 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.

Brian J. Ricker
Chief Executive Officer

Daniel E. Ebert
Chief Financial Officer

Scott A. Schroeder
Chairman of the Board

August 8, 2016

AgCredit Agricultural Credit Association

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, to provide 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 and 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 changes to or weaknesses in the internal control over financial reporting as of June 30, 2016.

Brian J. Ricker
Brian J. Ricker
Chief Executive Officer

Daniel E. Ebert
Daniel E. Ebert
Chief Financial Officer

August 8, 2016

AgCredit Agricultural Credit Association

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

The following commentary reviews the financial condition and results of operations of AgCredit Agricultural Credit Association (Association) for the six months ended June 30, 2016. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, the Association's June 30, 2015 quarterly report and the 2015 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes Michael W. Stump, David M. Stott, Ph.D., CPA and Deborah L. Johlin-Bach. The results for the first six months of 2016 are not necessarily indicative of results to be expected for the year.

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 through numerous product types. The Association's loan portfolio consists predominantly of grains (primarily soybeans, corn and wheat) which constitute about 61 percent of the entire portfolio as of June 30, 2016. The Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This risk, along with the risk associated with large loans, is reduced by members' off-farm income, utilization of crop insurance, and the use of FSA, USDA, Business and Industry, and Farmer Mac loan guarantees. As of June 30, 2016 the Association had $468,749 of guaranteed loan volume, which is 27.75 percent of loans as compared to $466,451 of guaranteed volume or 29.33 percent of the portfolio at June 30, 2015. Loan guarantees reduce the potential of loss in the Association's loan portfolio and help to leverage the Association's capital.

Gross loan volume of the Association as of June 30, 2016 was $1,689,133, a decrease of $27,357 or 1.59 percent when compared to $1,716,490 at December 31, 2015. The decrease in loan volume primarily relates to the decrease in production and intermediate term (IT) and process and marketing loan volume. The reduction in production and IT loans relates to the normal seasonal pay-downs on lines of credit during the first half of the year from grain sales. This reduction was offset, in part, by increases to the real estate mortgage, farm related business, and rural residential real estate segments of our portfolio.

From June 30, 2015 to June 30, 2016 volume increased by $98,845 or 6.22 percent. The increase in loan volume primarily relates to an increase in production and IT, real estate mortgage, process and marketing, farm related business and rural residential real estate volume.

Net loans outstanding at June 30, 2016 were $1,676,076 as compared to $1,702,632 at December 31, 2015. Net loans accounted for 95.10 percent of total assets at June 30, 2016 as compared to 94.49 percent at December 31, 2015.

The following table summarizes the Association's risk assets (accruing volume includes accrued interest receivable):

	6/30/16	12/31/15
Nonaccrual loans	$ 935	$ 9,223
Accruing restructured loans	7,777	–
Accruing loans 90 days or more past due	–	–
Total high risk loans	8,712	9,223
Other property owned	–	60
Total high-risk assets	$ 8,712	$ 9,283
Ratios:		
Nonaccrual loans to total loans	0.06%	0.54%
High-risk assets to total assets	0.49%	0.52%

High risk assets decreased during the first six months of 2016 primarily as a result of payments received on high risk loans. Additionally, nonaccrual loans decreased due to nonaccrual loans moving to accruing restructured status.

There is an inherent risk in the extension of any type of credit, and accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

General portfolio credit quality showed a slight decline during the first six months of 2016 when compared to December 31, 2015, but remains strong.

Credit administration is satisfactory.

During the first six months of 2016 the Association recorded charge-offs of $23, no recoveries, and reversal of allowance for loan losses of $778. For the same period of 2015, the Association recorded $99 charge-offs, recoveries of $1, and $1,468 provision for loan losses. The allowance for loan losses represented 0.77 percent and 0.81 percent of loans at June 30, 2016 and December 31, 2015, respectively.

RESULTS OF OPERATIONS

For the three months ending June 30, 2016

Net income for the three months ended June 30, 2016 (Q2 2016) was $10,506, an increase of $2,485 or 30.98 percent when compared to the net income of $8,021 for the same period in 2015 (Q2 2015). Major changes in the components of net income when comparing Q2 2016 to Q2 2015 are identified as follows:

- Net interest income increased by $705 or 6.42 percent. The increase resulted primarily from earnings on increased loan volume and an increase in earnings on the Association's own funds in loans.

- Provision for loan losses decreased by $2,214. The decrease was due to the Q2 2016 reversal of allowance for loan losses (reversal) of $746 and a provision of $1,468 during Q2 2015. The Q2 2016 reversal primarily resulted from a reduction in specific reserves, a reduction in management's qualitative portion of the general allowance on non-impaired loans and a slight decrease in loan volume. This was partially offset by the decline in credit quality.

- Noninterest income increased by $283 or 9.72 percent for the following reasons:

  Patronage dividends from AgFirst Farm Credit Bank (the Bank) increased by $338 as a result of higher regular and participation sold patronage. The increase in the regular patronage relates to the higher loan volume previously discussed. The increase in participation sold patronage relates to increased participation sold volume.

  Loan fees increased by $8 primarily due to increased new loan, loan servicing and bond fees offset in part by a reduction in secondary market fees.

  Other noninterest income decreased by $48 primarily due to a movement of captive insurance income from other income to patronage dividends.

  Fees for financially related services (FRS) decreased by $17 due to lower life insurance offset by higher fees for appraisal services and crop insurance.

- Noninterest expense increased by $717 or 16.31 percent primarily due to:

  Salary and benefits expense increased by $356 or 12.15 percent due to increased expenses related to scheduled salary increases, additional employees, salary related benefits, higher incentive accrual, and increased pension expense. These increases were offset in part by lower post retirement benefit expenses and higher deferred costs.

  Occupancy and equipment increased by $33 or 13.87 percent primarily due to increased expenses for depreciation on new buildings and equipment, maintenance and utilities offset in part by decreased rental expenses.

  Farm Credit System Insurance Corporation (FCSIC) premium expenses increased by $102 or 33.33 percent due to increased premium rates and increased year-over-year loan volume.

  Guarantee fees increased by $111 or 50.68 percent due to an increase in new guarantees.

  Other operating expenses increased by $110 or 15.65 percent due to increased expenses for advertising, public and member relations, training, travel, communication, data processing, and supervisory and examination. These increases were offset in part by lower director, professional services, and nonaccrual expenses.

For the six months ending June 30, 2016

Net income for the six months ended June 30, 2016 (YTD 2016) was $20,037, which is an increase of $3,123 or 18.46 percent when compared to the net income of $16,914 for the same period in 2015 (YTD 2015). Major changes in the components of net income when comparing YTD 2016 to YTD 2015 are identified as follows:

- Net interest income increased by $1,518 or 7.02 percent. The increase is a result of the same reasons previously discussed.

- The risks identified in the portfolio at June 30, 2016 and June 30, 2015 resulted in a net decrease in provision for (reversal of allowance for) loan losses of $2,246. The decrease was due to a 2016 (reversal of allowance for loan losses) of $778 and a 2015 provision for loan losses of $1,468.

- Noninterest income increased by $640 or 11.12 percent primarily due to the $628 increase in patronage dividends from the Bank. This was offset partially by the decrease of $22 in fees for financially related services as previously discussed.

- Noninterest expense increased by $1,281 or 14.24 percent primarily due to:

  Salary and benefits expense increased by $674, FCSIC insurance premium expenses increased by $217, guarantee fees increased by $134, and other operating expenses increased by $194, all for the reasons previously discussed.

  Net losses (gains) on other property owned (OPO) increased by $6 primarily due to the loss on the sale of an OPO during the first half of 2016.

The following table shows the key results of operations ratios for the six months ended June 30, 2016 and June 30, 2015, respectively.

	6/30/2016	6/30/2015
Return on average assets	2.31%	2.11%
Return on average equity	14.35%	13.41%
Net interest margin	2.73%	2.76%
Members' equity to assets	16.40%	15.87%
Debt to members' equity (:1)	5.10	5.30

CAPITAL RESOURCES

Total members' equity was $289,027 at June 30, 2016 as compared to $268,892 at December 31, 2015 for an increase of $20,135 or 7.49 percent. The increase is due primarily to 2016 year-to-date earnings, Class C Stock and Participation Certificates, and the issuance of additional Class A Preferred Stock. These increases were offset in part by a reduction in allocated equities.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. As of June 30, 2016, the Association exceeded minimum regulatory standards for all the ratios.

The Association's capital ratios as of June 30 and the FCA minimum requirements follow:

	6/30/16	Regulatory Minimum
Permanent capital ratio	20.01%	7.00%
Total surplus ratio	18.51%	7.00%
Core surplus ratio	17.27%	3.50%

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: The Association obtains funding from AgFirst Farm Credit Bank (the Bank). The Association is materially affected and shareholder investment could be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, *www.agfirst.com* or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association's Quarterly and Annual Reports are available on the Association's website, www.agcredit.net, or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1023, or writing Daniel Ebert, Chief Financial Officer, AgCredit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares an electronic version of the 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 Association.

AgCredit Agricultural Credit Association

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2016 *(unaudited)*	December 31, 2015 *(audited)*
Assets		
Cash	**$ 1,639**	$ 4,080
Investment securities:		
Held to maturity (fair value of $24,157 and $19,073, respectively)	**22,731**	19,193
Loans	**1,689,133**	1,716,490
Allowance for loan losses	**(13,057)**	(13,858)
Net loans	**1,676,076**	1,702,632
Accrued interest receivable	**24,589**	23,619
Investments in other Farm Credit institutions	**19,146**	19,122
Premises and equipment, net	**8,077**	8,233
Other property owned	**—**	60
Accounts receivable	**6,108**	20,180
Other assets	**4,042**	4,797
Total assets	**$ 1,762,408**	$ 1,801,916
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,459,891**	$ 1,500,003
Accrued interest payable	**2,991**	2,969
Patronage refunds payable	**130**	18,560
Accounts payable	**1,102**	1,715
Advanced conditional payments	**669**	507
Other liabilities	**8,598**	9,270
Total liabilities	**1,473,381**	1,533,024
Commitments and contingencies (Note 7)		
Members' Equity		
Capital stock and participation certificates	**19,710**	19,505
Retained earnings		
Allocated	**176,918**	177,063
Unallocated	**92,399**	72,324
Total members' equity	**289,027**	268,892
Total liabilities and members' equity	**$ 1,762,408**	$ 1,801,916

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

AgCredit Agricultural Credit Association

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2016	For the three months ended June 30, 2015	For the six months ended June 30, 2016	For the six months ended June 30, 2015
Interest Income				
Loans	**$ 20,385**	$ 18,588	**$ 40,443**	$ 36,638
Investments	**259**	291	**506**	585
Total interest income	**20,644**	18,879	**40,949**	37,223
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**8,966**	7,906	**17,808**	15,600
Net interest income	**11,678**	10,973	**23,141**	21,623
Provision for (reversal of allowance for) loan losses	**(746)**	1,468	**(778)**	1,468
Net interest income after provision for (reversal of allowance for) loan losses	**12,424**	9,505	**23,919**	20,155
Noninterest Income				
Loan fees	**147**	139	**303**	281
Fees for financially related services	**22**	39	**33**	55
Patronage refunds from other Farm Credit institutions	**3,067**	2,729	**6,038**	5,410
Gains (losses) on sales of premises and equipment, net	**—**	—	**3**	—
Gains (losses) on other transactions	**3**	1	**2**	2
Other noninterest income (loss)	**(44)**	4	**17**	8
Total noninterest income	**3,195**	2,912	**6,396**	5,756
Noninterest Expense				
Salaries and employee benefits	**3,286**	2,930	**6,638**	5,964
Occupancy and equipment	**271**	238	**547**	491
Insurance Fund premiums	**408**	306	**814**	597
Guarantee fees	**330**	219	**562**	428
(Gains) losses on other property owned, net	**5**	—	**6**	—
Other operating expenses	**813**	703	**1,711**	1,517
Total noninterest expense	**5,113**	4,396	**10,278**	8,997
Net income	**10,506**	8,021	**20,037**	16,914
Other comprehensive income	**—**	—	**—**	—
Comprehensive income	**$ 10,506**	$ 8,021	**$ 20,037**	$ 16,914

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

AgCredit Agricultural Credit Association

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2014	$ 19,173	$ 157,715	$ 68,849	$ 245,737
Comprehensive income			16,914	16,914
Capital stock/participation certificates issued/(retired), net	138			138
Dividends declared/paid			(94)	(94)
Retained earnings retired		(5)		(5)
Patronage distribution adjustment		(142)	(114)	(256)
Balance at June 30, 2015	$ 19,311	$ 157,568	$ 85,555	$ 262,434
Balance at December 31, 2015	**$ 19,505**	**$ 177,063**	**$ 72,324**	**$ 268,892**
Comprehensive income			**20,037**	**20,037**
Capital stock/participation certificates issued/(retired), net	**205**			**205**
Dividends declared/paid			**(92)**	**(92)**
Retained earnings retired		**(15)**		**(15)**
Patronage distribution adjustment		**(130)**	**130**	**—**
Balance at June 30, 2016	**$ 19,710**	**$ 176,918**	**$ 92,399**	**$ 289,027**

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

AgCredit Agricultural Credit Association

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 AgCredit Agricultural Credit Association and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

Accounting Standards Updates (ASUs) Issued During the Period

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

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

- In May, 2016, the FASB issued ASU 2016-12 Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The guidance addresses certain issues identified by the Transition Resource Group (TRG) in the guidance on assessing collectability, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In April, 2016, the FASB issued ASU 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The Update clarifies the following two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In March, 2016, the FASB issued ASU 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments clarify the implementation guidance on principal versus agent considerations. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09).

- In March, 2016, the FASB issued ASU 2016-07 Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. To simplify the accounting for equity method investments, the amendments in the Update eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

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

Potential effects of ASUs issued in previous periods:

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued an update that requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued an update that is intended to improve the recognition and measurement of financial instruments. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2015-14 Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date: In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

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

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

- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the

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

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	June 30, 2016	December 31, 2015
Real estate mortgage	$ 968,758	$ 964,995
Production and intermediate-term	550,814	584,371
Loans to cooperatives	1,483	–
Processing and marketing	22,636	24,361
Farm-related business	19,119	16,849
Communication	2,421	2,451
Rural residential real estate	122,516	121,074
Lease receivables	1,386	1,696
Other (including Mission Related)	–	693
Total loans	$ 1,689,133	$ 1,716,490

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 and syndication 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	$ 3,337	$ 36,656	$ –	$ –	$ –	$ –	$ 3,337	$ 36,656
Production and intermediate-term	16,287	107,042	294	1,176	11,187	–	27,768	108,218
Loans to cooperatives	1,485	–	–	–	–	–	1,485	–
Processing and marketing	15,573	898	–	–	4,322	–	19,895	898
Communication	2,427	–	–	–	–	–	2,427	–
Total	$ 39,109	$ 144,596	$ 294	$ 1,176	$ 15,509	$ –	$ 54,912	$ 145,772

December 31, 2015	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,747	$ 8,746	$ –	$ 715	$ 5,610	$ –	$ 7,357	$ 9,461
Production and intermediate-term	12,315	130,676	1,049	1,258	8,010	–	21,374	131,934
Processing and marketing	16,184	–	445	–	1	–	16,630	–
Farm-related business	1,102	–	–	–	–	–	1,102	–
Communication	2,458	–	–	–	–	–	2,458	–
Other (including Mission Related)	–	182	–	–	875	–	875	182
Total	$ 33,806	$ 139,604	$ 1,494	$ 1,973	$ 14,496	$ –	$ 49,796	$ 141,577

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	$ 3,162	$ 50,878	$ 914,718	$ 968,758
Production and intermediate-term	202,256	240,046	108,512	550,814
Loans to cooperatives	–	–	1,483	1,483
Processing and marketing	3,435	9,942	9,259	22,636
Farm-related business	2,431	3,602	13,086	19,119
Communication	–	2,421	–	2,421
Rural residential real estate	406	2,882	119,228	122,516
Lease receivables	186	1,159	41	1,386
Total loans	$ 211,876	$ 310,930	$ 1,166,327	$ 1,689,133
Percentage	12.54%	18.41%	69.05%	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
Real estate mortgage:		
Acceptable	97.79%	98.47%
OAEM	1.39	0.76
Substandard/doubtful/loss	0.82	0.77
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	94.89%	95.02%
OAEM	3.41	2.52
Substandard/doubtful/loss	1.70	2.46
	100.00%	100.00%
Loans to cooperatives		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Processing and marketing		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business		
Acceptable	97.24%	96.86%
OAEM	0.15	0.14
Substandard/doubtful/loss	2.61	3.00
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2016	December 31, 2015
Rural residential real estate:		
Acceptable	92.50%	91.84%
OAEM	6.88	7.43
Substandard/doubtful/loss	0.62	0.73
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	–%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	–%	100.00%
Total loans:		
Acceptable	96.49%	96.84%
OAEM	2.41	1.80
Substandard/doubtful/loss	1.10	1.36
	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	$ 3,270	$ 74	$ 3,344	$ 981,361	$ 984,705	$ –
Production and intermediate-term	1,365	162	1,527	557,181	558,708	–
Loans to cooperatives	–	–	–	1,495	1,495	–
Processing and marketing	–	–	–	22,658	22,658	–
Farm-related business	24	331	355	18,951	19,306	–
Communication	–	–	–	2,421	2,421	–
Rural residential real estate	166	–	166	122,763	122,929	–
Lease receivables	–	–	–	1,386	1,386	–
Total	$ 4,825	$ 567	$ 5,392	$ 1,708,216	$ 1,713,608	$ –

	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	$ 2,966	$ 152	$ 3,118	$ 977,149	$ 980,267	$ –
Production and intermediate-term	2,569	21	2,590	589,487	592,077	–
Processing and marketing	–	–	–	24,401	24,401	–
Farm-related business	–	332	332	16,656	16,988	–
Communication	–	–	–	2,451	2,451	–
Rural residential real estate	801	20	821	120,614	121,435	–
Lease receivables	–	–	–	1,696	1,696	–
Other (including Mission Related)	–	–	–	693	693	–
Total	$ 6,336	$ 525	$ 6,861	$ 1,733,147	$ 1,740,008	$ –

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
Nonaccrual loans:		
Real estate mortgage	$ 192	$ 568
Production and intermediate-term	412	8,303
Farm-related business	331	332
Rural residential real estate	–	20
Total	$ 935	$ 9,223
Accruing restructured loans:		
Real estate mortgage	$ 319	$ –
Production and intermediate-term	7,458	–
Total	$ 7,777	$ –
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 8,712	$ 9,223
Other property owned	–	60
Total nonperforming assets	$ 8,712	$ 9,283
Nonaccrual loans as a percentage of total loans	0.06%	0.54%
Nonperforming assets as a percentage of total loans and other property owned	0.52%	0.54%
Nonperforming assets as a percentage of capital	3.01%	3.45%

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
Impaired nonaccrual loans:		
Current as to principal and interest	$ 248	$ 8,627
Past due	687	596
Total	935	9,223
Impaired accrual loans:		
Restructured	7,777	–
90 days or more past due	–	–
Total	7,777	–
Total impaired loans	$ 8,712	$ 9,223
Additional commitments to lend	$ 3,263	$ 3,263

The following tables present additional impaired loan 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	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:							
Real estate mortgage	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	292	291	275	399	11	374	12
Farm-related business	331	401	222	453	12	425	13
Total	$ 623	$ 692	$ 497	$ 852	$ 23	$ 799	$ 25
With no related allowance for credit losses:							
Real estate mortgage	$ 511	$ 603	$ –	$ 698	$ 19	$ 655	$ 20
Production and intermediate-term	7,578	17,894	–	10,362	283	9,719	301
Farm-related business	–	–	–	–	–	–	–
Total	$ 8,089	$ 18,497	$ –	$ 11,060	$ 302	$ 10,374	$ 321
Total:							
Real estate mortgage	$ 511	$ 603	$ –	$ 698	$ 19	$ 655	$ 20
Production and intermediate-term	7,870	18,185	275	10,761	294	10,093	313
Farm-related business	331	401	222	453	12	425	13
Total	$ 8,712	$ 19,189	$ 497	$ 11,912	$ 325	$ 11,173	$ 346

	December 31, 2015			Year Ended December 31, 2015	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 331	$ 402	$ 35	$ 400	$ 1
Production and intermediate-term	4,779	5,405	161	5,770	6
Farm-related business	332	401	189	400	–
Rural residential real estate	20	20	3	25	–
Total	$ 5,462	$ 6,228	$ 388	$ 6,595	$ 7
With no related allowance for credit losses:					
Real estate mortgage	$ 237	$ 274	$ –	$ 285	$ –
Production and intermediate-term	3,524	12,884	–	4,254	5
Total	$ 3,761	$ 13,158	$ –	$ 4,539	$ 5
Total:					
Real estate mortgage	$ 568	$ 676	$ 35	$ 685	$ 1
Production and intermediate-term	8,303	18,289	161	10,024	11
Farm-related business	332	401	189	400	–
Rural residential real estate	20	20	3	25	–
Total	$ 9,223	$ 19,386	$ 388	$ 11,134	$ 12

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	Lease Receivables	Other	Total
Activity related to the allowance for credit losses:								
Balance at March 31, 2016	$ 2,697	$ 10,133	$ 421	$ 11	$ 551	$ 3	$ 6	$ 13,822
Charge-offs	–	(19)	–	–	–	–	–	(19)
Recoveries	–	–	–	–	–	–	–	–
Provision for loan losses	157	(911)	14	–	–	–	(6)	(746)
Balance at June 30, 2016	$ 2,854	$ 9,203	$ 435	$ 11	$ 551	$ 3	$ –	$ 13,057
Balance at December 31, 2015	$ 2,583	$ 10,319	$ 384	$ 11	$ 554	$ 4	$ 3	$ 13,858
Charge-offs	–	(23)	–	–	–	–	–	(23)
Recoveries	–	–	–	–	–	–	–	–
Provision for loan losses	271	(1,093)	51	–	(3)	(1)	(3)	(778)
Balance at June 30, 2016	$ 2,854	$ 9,203	$ 435	$ 11	$ 551	$ 3	$ –	$ 13,057
Balance at March 31, 2015	$ 2,235	$ 10,316	$ 381	$ 11	$ 1,063	$ 5	$ 4	$ 14,015
Charge-offs	–	(99)	–	–	–	–	–	(99)
Recoveries	–	–	–	–	–	–	–	–
Provision for loan losses	149	1,419	5	–	(103)	(2)	–	1,468
Balance at June 30, 2015	$ 2,384	$ 11,636	$ 386	$ 11	$ 960	$ 3	$ 4	$ 15,384
Balance at December 31, 2014	$ 2,259	$ 10,514	$ 351	$ –	$ 881	$ 5	$ 4	$ 14,014
Charge-offs	–	(99)	–	–	–	–	–	(99)
Recoveries	–	–	–	–	1	–	–	1
Provision for loan losses	125	1,221	35	11	78	(2)	–	1,468
Balance at June 30, 2015	$ 2,384	$ 11,636	$ 386	$ 11	$ 960	$ 3	$ 4	$ 15,384
Allowance on loans evaluated for impairment:								
Individually	$ –	$ 275	$ 222	$ –	$ –	$ –	$ –	$ 497
Collectively	2,854	8,928	213	11	551	3	–	12,560
Balance at June 30, 2016	$ 2,854	$ 9,203	$ 435	$ 11	$ 551	$ 3	$ –	$ 13,057
Individually	$ 35	$ 161	$ 189	$ –	$ 3	$ –	$ –	$ 388
Collectively	2,548	10,158	195	11	551	4	3	13,470
Balance at December 31, 2015	$ 2,583	$ 10,319	$ 384	$ 11	$ 554	$ 4	$ 3	$ 13,858
Recorded investment in loans evaluated for impairment:								
Individually	$ 511	$ 7,870	$ 331	$ –	$ –	$ –	$ –	$ 8,712
Collectively	984,194	550,838	43,128	2,421	122,929	1,386	–	1,704,896
Balance at June 30, 2016	$ 984,705	$ 558,708	$ 43,459	$ 2,421	$ 122,929	$ 1,386	$ –	$ 1,713,608
Individually	$ 568	$ 8,303	$ 332	$ –	$ 20	$ –	$ –	$ 9,223
Collectively	979,699	583,774	41,057	2,451	121,415	1,696	693	1,730,785
Balance at December 31, 2015	$ 980,267	$ 592,077	$ 41,389	$ 2,451	$ 121,435	$ 1,696	$ 693	$ 1,740,008

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no new TDRs for the periods presented.

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during 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	$ 319	$ 332	$ –	$ 332
Production and intermediate-term	7,458	8,282	–	8,282
Total Loans	$ 7,777	$ 8,614	$ –	$ 8,614
Additional commitments to lend	$ 3,263	$ 3,263		

The following table presents information as of period end:

	June 30, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ –	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ –	$ 119

Note 3 — Investments

Investment Securities

The Association's investments consist 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 probability of default scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification 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	$ 22,731	$ 1,461	$ (35)	$ 24,157	5.09%

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 19,193	$ 208	$ (328)	$ 19,073	5.04%

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

	June 30, 2016		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	2,024	2,092	5.13
After five years through ten years	3,861	3,921	5.33
After ten years	16,846	18,144	5.03
Total	$ 22,731	$ 24,157	5.09%

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	$ –	$ –	$ 994	$ (35)

	December 31, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 12,743	$ (328)	$ –	$ –

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 7.37 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 $358 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5— Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

	At or for the Six Months Ended June 30, 2016					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 65	$ 65	$ –	$ –	$ 65	
Recurring Assets	$ 65	$ 65	$ –	$ –	$ 65	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 8,215	$ –	$ –	$ 8,215	$ 8,215	$ (133)
Other property owned	–	–	–	–	–	(7)
Nonrecurring Assets	$ 8,215	$ –	$ –	$ 8,215	$ 8,215	$ (140)
Other Financial Instruments						
Assets:						
Cash	$ 1,639	$ 1,639	$ –	$ –	$ 1,639	
Investment securities, held-to-maturity	22,731	–	–	24,157	24,157	
Loans	1,667,861	–	–	1,656,687	1,656,687	
Other Financial Assets	$ 1,692,231	$ 1,639	$ –	$ 1,680,844	$ 1,682,483	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,459,891	$ –	$ –	$ 1,459,624	$ 1,459,624	
Other Financial Liabilities	$ 1,459,891	$ –	$ –	$ 1,459,624	$ 1,459,624	

	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
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 61	$ 61	$ –	$ –	$ 61	
Recurring Assets	$ 61	$ 61	$ –	$ –	$ 61	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 8,835	$ –	$ –	$ 8,835	$ 8,835	$ 1,890
Other property owned	60	–	–	68	68	–
Nonrecurring Assets	$ 8,895	$ –	$ –	$ 8,903	$ 8,903	$ 1,890
Other Financial Instruments						
Assets:						
Cash	$ 4,080	$ 4,080	$ –	$ –	$ 4,080	
Investment securities, held-to-maturity	19,193	–	–	19,073	19,073	
Loans	1,693,797	–	–	1,678,190	1,678,190	
Other Financial Assets	$ 1,717,070	$ 4,080	$ –	$ 1,697,263	$ 1,701,343	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,500,003	$ –	$ –	$ 1,479,430	$ 1,479,430	
Other Financial Liabilities	$ 1,500,003	$ –	$ –	$ 1,479,430	$ 1,479,430	

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. 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	$ 8,215	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
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 6 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Pension	$ 396	$ 371	$ 793	$ 741
401(k)	141	132	285	258
Other postretirement benefits	109	143	218	286
Total	$ 646	$ 646	$ 1,296	$ 1,285

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	$ –	$ 1,388	$ 1,388
Other postretirement benefits	95	106	201
Total	$ 95	$ 1,494	$ 1,589

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2016.

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

Note 7 — Commitments and Contingent Liabilities

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

Note 8 — Subsequent Events

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