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ArborOne, ACA

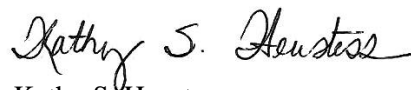
**SECOND QUARTER 2017**

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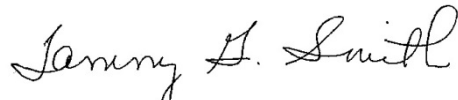
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**CERTIFICATION**

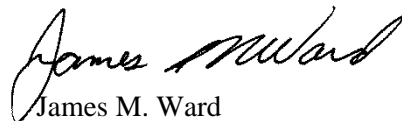
The undersigned certify that we have reviewed the June 30, 2017 quarterly report of **ArborOne, ACA**, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Kathy S. Heustess  
President and Chief Executive Officer



Tammy G. Smith  
Chief Financial Officer and Treasurer



James M. Ward  
Chairman of the Board

August 8, 2017

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ArborOne, ACA

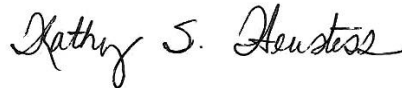
## Report on Internal Control Over Financial Reporting

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

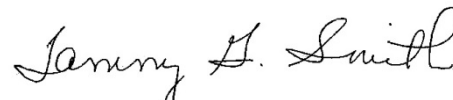
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions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

The Association’s management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2017. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the “COSO” criteria.

Based on the assessment performed, the Association’s management concluded that as of June 30, 2017, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association’s management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2017.



Kathy S. Heustess  
President and Chief Executive Officer



Tammy G. Smith  
Chief Financial Officer and Treasurer

August 8, 2017

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of **ArborOne, ACA**, (the Association) for the period ended June 30, 2017. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2016 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including cash grains, cotton, tobacco, forestry, poultry, and farm services. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, somewhat impact the level of dependency on a given commodity. Approximately twenty-two percent of the portfolio has significant outside income to diversify dependence on agriculture, consisting of lifestyle loans and loans to less than full-time farmers with retirement income, salaried income and non-agricultural business income. Further, approximately eighteen percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of June 30, 2017, was \$468,114, an increase of \$20,964 as compared to \$447,150 at December 31, 2016. Net loans outstanding at June 30, 2017, were \$458,961 as compared to \$438,474 at December 31, 2016. The Association had investment securities classified as held-to-maturity in the amount of \$14,838 at June 30, 2017 compared to \$18,489 at December 31, 2016. Net loans and investments accounted for 95.79 percent of total assets at June 30, 2017, as compared to 94.48 percent of total assets at December 31, 2016.

Net loans increased by \$20,487 during the reporting period. This increase was mainly due to an increase in originated loan volume of \$21,772 and a decrease in participations sold volume of \$446. The increase was partially offset by a decrease in participations purchased loans of \$1,168 and an increase in allowance of \$477.

The increase in originated loan volume is attributed to seasonal draws and increased originated term loans. Additionally, participation sold volume decreased by \$446 mainly due to paydowns in the normal course of business. The decrease in participations purchased loan volume was mainly due to net paydowns.

Allowance for loan losses increased by \$477 mainly due to additional general reserves on core agricultural loans and a specific reserve on a core agricultural loan as a result of a decline in credit quality during the first six months of 2017.

Investment securities held-to-maturity (HTM) consist of mission related investments (Rural America Bonds). The investments were transferred in 2014 to HTM from available-for-sale (AFS) at fair value with unrealized gains and losses recognized in Other Comprehensive Income (OCI) as a net unrealized gain as discussed in Note 4, *Investments*, of the Association's 2016 Annual Report.

The HTM investment securities decreased by \$3,651 when compared to December 31, 2016. This decrease was mainly due to pay offs in the amount of \$3,470, normal payments in the amount of \$134 and the amortization of the net unrealized loss from the transfer to HTM in the amount of \$47.

As of June 30, 2017, the majority of the Association's HTM Rural America Bonds were guaranteed; therefore the risk of credit loss to the Association was reduced. However, as of June 30, 2017, one security was rated as substandard and one security was rated as other assets especially mentioned (OAEM), which made these securities ineligible investments under Farm Credit Administration (FCA) regulation. FCA has been notified of these downgrades as required. Unrealized credit impairments on the HTM investment portfolio as of December 31, 2016 totaled \$2,024. No additional credit impairments were taken during the first six months of 2017.

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. Nonaccrual loans increased from \$10,929 at December 31, 2016, to \$13,830 at June 30, 2017. The increase in nonaccrual loan volume was due to the decline in credit quality resulting from unfavorable weather conditions in the fall of 2015 and 2016.

As of June 30, 2017, the Association has three properties classed as Other Property Owned (OPO) totaling \$586, a

decrease of \$37 as compared to \$623 at December 31, 2016. The decrease was due to the application of cash proceeds, a partial sale, and a writedown. Association staff is working diligently to market the OPO properties.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on credit quality, credit history, current conditions, and expected future conditions.

The allowance for loan losses at June 30, 2017, was \$9,153, compared to \$8,676 at December 31, 2016. The \$9,153 allowance for loan losses consisted of \$8,413 in general reserves and \$740 in specific reserves for several core agricultural loans and a Rural America Bond. The charge-offs for the six months ended June 30, 2017 were \$176 on several nonaccrual core agricultural loans. There were recoveries of \$42 for the six months ended June 30, 2017 attributed primarily to a participation loan along with several core agricultural loans. The allowance for loan losses for the period ending June 30, 2017 is considered by management to be adequate to cover any future possible losses.

## RESULTS OF OPERATIONS

### *For the three months ended June 30, 2017*

Net income for the three months ended June 30, 2017, totaled \$1,334, a decrease of \$776, as compared to \$2,110 for the same period in 2016. This decrease was mainly due to a decrease in noninterest income of \$724 and an increase in noninterest expense of \$58.

Interest income on accruing loans increased by \$795 for the three months ended June 30, 2017 compared to \$4,594 for the three months ended June 30, 2016, as a result of an increase in originated loan volume and a decrease in participations sold volume. Nonaccrual interest income decreased by \$74 as compared to the same period in 2016, which was mainly due to a reinstatement and liquidation on nonaccrual core agricultural loans that occurred in 2016. Interest income on investment securities was \$215 compared to \$443 for the same period in 2016. The decrease in investment interest income is due to the reduction in volume as a result of several pay offs and repayments in the normal course of business.

Interest expense increased \$426 for the three months ended June 30, 2017, as compared to the comparable period of 2016. The interest expense increase was primarily due to the increase in originated loan volume as well as an increase in rates, which was partially offset by the reduction in the HTM investment securities.

The Association recorded a provision for loan losses of \$267 as compared to \$206 for the comparable period of 2016. The

increase in provision was due to an increase in general reserves on core agricultural loans.

Noninterest income for the three months ended June 30, 2017, totaled \$994 as compared to \$1,718 for the same period of 2016, a decrease of \$724. This decrease was mainly due to a decrease in loan fees of \$404 and a decrease in patronage refunds from other Farm Credit institutions of \$277. The decrease in loan fees was due to reduced fee income on investment securities when compared to the same period in 2016, as well as a decrease in originated loan fees. The decrease in patronage refunds from other Farm Credit institutions is due to the repurchase of the capitalized participation pools (CPPs) effective October 1, 2016. The repurchase of the CPP loans reduces noninterest income; however, it increases the amount of interest income received on the loans. Thus shifting the income from noninterest to interest income.

Noninterest expense for the three months ended June 30, 2017, increased \$58 compared to the same period of 2016. This increase was mainly due to an increase in salaries and employee benefits of \$44, an increase in losses on other property owned of \$28, which was partially offset by a decrease in other operating expenses of \$23.

The Association recorded no provision or benefit for income taxes for the three months ended June 30, 2017, and for the same period in 2016.

### *For the six months ended June 30, 2017*

Net income for the six months ended June 30, 2017, totaled \$2,607, as compared to \$3,827 for the same period in 2016. The decrease was mainly due to a decrease in noninterest income of \$1,116, an increase in the provision of \$348, which was partially offset by the increase in net interest income of \$230.

Interest income on accruing loans increased by \$1,562 primarily due to increased loan volume. Nonaccrual interest income decreased by \$82 as compared to the same period in 2016, which was mainly due to several reinstatements and a liquidation on nonaccrual core agricultural loans that occurred in 2016. Interest income on investment securities decreased by \$433 primarily due to the reduction in volume as a result of pay offs, repayments in the normal course of business, and no additional accretions to interest income in 2017 of the credit impairment. Interest expense increased by \$817 compared to the same period of 2016, primarily due to the increase in loan volume as well as an increase in rates, which was partially offset by the decrease in the HTM investment securities.

The Association recorded a provision for loan losses of \$611 for the six months ended June 30, 2017, as compared to a provision for loan losses of \$263 for the same period in 2016.

The increase is mainly due to several charge-offs on core loan volume and a large increase in general reserves resulting from the increase in volume during the first six months of 2017. Even though loan volume continued to increase in 2017, the unused reserves from the flood and drought at the end of 2016 were able to offset a portion of the additional provisions from loan volume. See the 2016 Annual Report for further information.

Noninterest income for the six months ended June 30, 2017, totaled \$2,165 as compared to \$3,281 for the same period of 2016, a decrease of \$1,116. The decrease is mainly due to a decrease in loan fees of \$476 as a result from the decline in investment securities and a decrease in patronage refunds from other Farm Credit institutions of \$616 resulting from the repurchase of the CPPs effective October 1, 2016.

Noninterest expense for the six months ended June 30, 2017, decreased \$14 compared to the same period of 2016. This decrease was mainly due to the decrease in losses on other property owned of \$42, which was partially offset by an increase in occupancy and equipment of \$8 and an increase in insurance fund premiums of \$19.

The Association recorded no provision or benefit for income taxes for the six months ended June 30, 2017, and for the same period in 2016.

## 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 funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2017, was \$400,512 as compared to \$386,383 at December 31, 2016. The increase during the period is a result of overall increases in loan volume.

## CAPITAL RESOURCES

Total members' equity increased by \$2,462 from \$84,518 at December 31, 2016 to \$86,980 at June 30, 2017, primarily due to an increase in retained earnings.

Total capital stock and participation certificates were \$1,431 on June 30, 2017, compared to \$1,413 on December 31, 2016. This increase is attributed to the purchases of capital stock and

participation certificates on loans in the normal course of business.

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association has an unrealized gain of \$4 as of June 30, 2017, as compared to an unrealized loss of \$10 as of December 31, 2016 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association also has an unrealized net loss of \$47 as of June 30, 2017 as compared to an unrealized net loss of \$469 as of December 31, 2016 on the HTM investment securities. The resulting effect was a net loss of \$43 to Accumulated Other Comprehensive Income for the six months ending June 30, 2017.

## REGULATORY MATTERS

### Capital

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced existing core surplus and total surplus ratios with common equity tier 1 (CET1), tier 1 capital, and total capital risk-based capital ratios. The new regulations also replaced the existing net collateral ratio with a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The current permanent capital ratio (PCR) remains in effect.

Risk-adjusted assets have been defined by FCA Regulations as the Balance Sheet assets and off-balance-sheet commitments adjusted by various percentages, depending on the level of risk inherent in the various types of assets. The primary changes which generally have the effect of increasing risk-adjusted assets (decreasing risk-based regulatory capital ratios) were as follows:

- Inclusion of off-balance-sheet commitments less than 14 months
- Increased risk-weighting of most loans 90 days past due or in nonaccrual status

Calculation of PCR risk-adjusted assets includes the allowance for loan losses as a deduction from risk-adjusted assets. This differs from the other risk-based capital calculations.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum

of 7 years or not subject to revolvement, unallocated retained earnings, paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.

- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the

corresponding deduction approach, divided by average risk-adjusted assets.

- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average assets less regulatory deductions to tier 1 capital.
- The UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios, which were effective January 1, 2017:

<b>Ratio</b>	<b>Minimum Requirement</b>	<b>Capital Conservation Buffer*</b>	<b>Minimum Requirement with Capital Conservation Buffer</b>	<b>Capital Ratios as of June 30, 2017</b>
<b>Risk-adjusted ratios:</b>				
CET1 Capital	4.5%	0.625%	5.125%	18.40%
Tier 1 Capital	6.0%	0.625%	6.625%	18.40%
Total Capital	8.0%	0.625%	8.625%	19.66%
Permanent Capital Ratio	7.0%	0.0%	7.0%	18.64%
<b>Non-risk-adjusted:</b>				
Tier 1 Leverage Ratio	4.0%	1.0%	5.0%	16.80%
UREE Leverage Ratio	1.5%	0.0%	1.5%	8.07%

\* - The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

### Other Regulatory Matters

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

- To strengthen the safety and soundness of System banks and associations,
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption,
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers,

- To comply with the requirements of Section 939A of the Dodd-Frank Act,
- To modernize the investment eligibility criteria for System banks, and
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, "Organization and Operations", in the Notes to the Financial Statements, and the 2016 Annual Report to Shareholders for recently issued accounting pronouncements.

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**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2764, or writing Matthew Miller, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-741-7332, writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, [www.arborone.com](http://www.arborone.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# ArborOne, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2017 <i>(unaudited)</i>	December 31, 2016 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 6	\$ 12
Investment securities:		
Held to maturity (fair value of \$15,616 and \$18,449, respectively)	14,838	18,489
Loans	468,114	447,150
Allowance for loan losses	(9,153)	(8,676)
Net loans	458,961	438,474
Accrued interest receivable	6,381	6,692
Investments in other Farm Credit institutions	5,623	5,659
Premises and equipment, net	3,783	3,940
Other property owned	586	623
Accounts receivable	2,386	7,040
Other assets	2,049	2,749
Total assets	<b>\$ 494,613</b>	<b>\$ 483,678</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 400,512	\$ 386,383
Accrued interest payable	915	868
Patronage refunds payable	888	2,896
Accounts payable	252	602
Other liabilities	5,066	8,411
Total liabilities	<b>407,633</b>	<b>399,160</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Protected borrower stock	62	62
Capital stock and participation certificates	1,369	1,351
Retained earnings		
Allocated	54,968	54,690
Unallocated	30,405	28,196
Accumulated other comprehensive income	176	219
Total members' equity	<b>86,980</b>	<b>84,518</b>
Total liabilities and members' equity	<b>\$ 494,613</b>	<b>\$ 483,678</b>

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



**ArborOne, ACA**  
**Consolidated Statements of Income**

*(unaudited)*

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
<b>Interest Income</b>				
Loans	\$ 5,409	\$ 4,688	\$ 10,543	\$ 9,063
Investments	215	443	454	887
Total interest income	<b>5,624</b>	5,131	<b>10,997</b>	9,950
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	<b>2,694</b>	2,268	<b>5,192</b>	4,375
Net interest income	<b>2,930</b>	2,863	<b>5,805</b>	5,575
Provision for loan losses	<b>267</b>	206	<b>611</b>	263
Net interest income after provision for loan losses	<b>2,663</b>	2,657	<b>5,194</b>	5,312
<b>Noninterest Income</b>				
Loan fees	<b>194</b>	598	<b>580</b>	1,059
Fees for financially related services	<b>15</b>	33	<b>16</b>	33
Patronage refunds from other Farm Credit institutions	<b>767</b>	1,044	<b>1,528</b>	2,144
Gains (losses) on sales of premises and equipment, net	<b>2</b>	12	<b>2</b>	32
Gains (losses) on other transactions	<b>16</b>	30	<b>39</b>	11
Other noninterest income	—	1	—	2
Total noninterest income	<b>994</b>	1,718	<b>2,165</b>	3,281
<b>Noninterest Expense</b>				
Salaries and employee benefits	<b>1,637</b>	1,593	<b>3,258</b>	3,177
Occupancy and equipment	<b>104</b>	104	<b>211</b>	203
Insurance Fund premiums	<b>119</b>	110	<b>231</b>	212
(Gains) losses on other property owned, net	<b>23</b>	(5)	<b>39</b>	81
Other operating expenses	<b>440</b>	463	<b>1,013</b>	1,093
Total noninterest expense	<b>2,323</b>	2,265	<b>4,752</b>	4,766
Income before income taxes	<b>1,334</b>	2,110	<b>2,607</b>	3,827
Provision for income taxes	—	—	—	—
Net income	<b>\$ 1,334</b>	\$ 2,110	<b>\$ 2,607</b>	\$ 3,827

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

ArborOne, 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,	
	2017	2016	2017	2016
Net income	\$ 1,334	\$ 2,110	\$ 2,607	\$ 3,827
<b>Other comprehensive income net of tax</b>				
Unrealized gains (losses) on investments:				
Other-than-temporarily impaired	—	1	—	3
Not other-than-temporarily impaired	(74)	(11)	(47)	(22)
Employee benefit plans adjustments	2	2	4	3
Other comprehensive income (Note 5)	(72)	(8)	(43)	(16)
Comprehensive income	\$ 1,262	\$ 2,102	\$ 2,564	\$ 3,811

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

ArborOne, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

*(dollars in thousands)*

	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2015	\$ 62	\$ 1,290	\$ 52,625	\$ 25,945	\$ 698	\$ 80,620
Comprehensive income (loss)				3,827	(16)	3,811
Capital stock/participation certificates issued/(retired), net		30				30
Retained earnings retired			(12)			(12)
Patronage distribution adjustment			(82)	116		34
Balance at June 30, 2016	\$ 62	\$ 1,320	\$ 52,531	\$ 29,888	\$ 682	\$ 84,483
<b>Balance at December 31, 2016</b>	<b>\$ 62</b>	<b>\$ 1,351</b>	<b>\$ 54,690</b>	<b>\$ 28,196</b>	<b>\$ 219</b>	<b>\$ 84,518</b>
<b>Comprehensive income (loss)</b>				<b>2,607</b>	<b>(43)</b>	<b>2,564</b>
<b>Capital stock/participation certificates issued/(retired), net</b>		<b>18</b>				<b>18</b>
<b>Patronage distribution adjustment</b>			<b>278</b>	<b>(398)</b>		<b>(120)</b>
Balance at June 30, 2017	\$ 62	\$ 1,369	\$ 54,968	\$ 30,405	\$ 176	\$ 86,980

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

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

#### Basis of Presentation

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

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

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

#### Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and

financial instruments (Note 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 March 2017, the FASB issued ASU 2017-08 *Receivables—Nonrefundable Fees and Other Costs* (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update will be effective for interim and annual periods beginning after December 15, 2018 for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In February 2017, the FASB issued ASU 2017-05 *Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets* (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The Update clarifies whether certain transactions are within the scope of the guidance on derecognition and the accounting for partial sales of nonfinancial assets, and defines the term in substance nonfinancial asset. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue recognition standard. The amendments will be effective for reporting periods beginning after December 15, 2017 for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- In January 2017, the FASB issued ASU 2017-04 *Intangibles—Goodwill and Other* (Topic 350): Simplifying the Test for Goodwill Impairment. The Update simplifies the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. The amendment removes Step 2 of the goodwill impairment test. Goodwill impairment will now be the

amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the technical corrections will be effective for reporting periods beginning after December 15, 2020 for public business entities that are not SEC filers. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

#### *ASUs Pending Effective Date*

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

Potential effects of ASUs issued in previous periods:

- 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. In January, 2017, the FASB issued this update to provide a more robust framework to use in determining when a set of assets and activities is a business. It supports more consistency in applying the guidance, reduces the costs of application, and makes the definition of a business more operable. For public business entities, the ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments should be applied prospectively. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-16 Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory: In October, 2016, the FASB issued this Update that requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. For public business entities, the amendments are effective, on a modified retrospective basis, for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June, 2016, the FASB issued this Update to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial institutions and other organizations will use forward-looking information to better estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued this Update which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases will be classified as either finance leases or operating leases. This distinction will be relevant for the pattern of expense recognition in the income statement. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Early adoption is permitted. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued this Update which is intended to improve the recognition and measurement of financial instruments. The new guidance makes targeted improvements to existing GAAP. The ASU will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years for public business entities. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2014-09 Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued this guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. This guidance also includes expanded disclosure requirements that result in an entity providing users of financial

statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Based on input received from stakeholders, the FASB has issued several additional Updates that generally provide clarifying guidance where there was the potential for diversity in practice, or address the cost and complexity of applying Topic 606. The guidance and all related updates will be effective for reporting periods beginning after December 15, 2017 for public business entities. Early application is not permitted. The amendments are to be applied retrospectively. The Association has identified ancillary revenues that will be affected by this Update. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

#### ***Accounting Standards Effective During the Period***

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

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

- 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash. In November, 2016, the FASB issued this Update to clarify that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.
- 2016-17 Consolidation (Topic 810) - Interests Held through Related Parties That Are under Common Control: In October, 2016, the FASB issued this Update to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The amendments are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Application of the guidance had no impact on the Association's financial statements.
- 2016-15 Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August, 2016, the FASB issued this Update to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The Update addresses eight specific cash flow issues with the objective of reducing existing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments are to be applied using a retrospective transition method to each period presented. The Association elected retrospective early adoption of this guidance. The criteria of the standard were not significantly different from the Association's policy in place at adoption. Application of the guidance had no impact on the Association's Statements of Cash Flows.

#### **Note 2 — Loans and Allowance for Loan Losses**

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

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

A summary of loans outstanding at period end follows:

	June 30, 2017	December 31, 2016
Real estate mortgage	\$ 226,420	\$ 232,251
Production and intermediate-term	212,187	185,439
Loans to cooperatives	1,819	1,866
Processing and marketing	17,980	16,385
Farm-related business	4,694	4,599
Power and water/waste disposal	832	860
Rural residential real estate	3,226	4,784
International	856	856
Lease receivables	100	110
<b>Total Loans</b>	<b>\$ 468,114</b>	<b>\$ 447,150</b>

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present the principal balance of participation loans at periods ended:

	June 30, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 5,489	\$ 13,904	\$ -	\$ -	\$ -	\$ -	\$ 5,489	\$ 13,904
Production and intermediate-term	19,121	3,107	-	-	-	-	19,121	3,107
Loans to cooperatives	1,424	-	-	-	-	-	1,424	-
Processing and marketing	10,373	9,964	-	-	-	-	10,373	9,964
Farm-related business	2,106	-	-	-	-	-	2,106	-
Power and water/waste disposal	839	-	-	-	-	-	839	-
International	857	-	-	-	-	-	857	-
<b>Total</b>	<b>\$ 40,209</b>	<b>\$ 26,975</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 40,209</b>	<b>\$ 26,975</b>

	December 31, 2016							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 5,638	\$ 15,270	\$ -	\$ -	\$ -	\$ -	\$ 5,638	\$ 15,270
Production and intermediate-term	19,784	4,244	-	-	-	-	19,784	4,244
Loans to cooperatives	1,453	-	-	-	-	-	1,453	-
Processing and marketing	8,626	7,875	-	-	-	-	8,626	7,875
Farm-related business	2,429	-	-	-	-	-	2,429	-
Power and water/waste disposal	867	-	-	-	-	-	867	-
Rural residential real estate	-	-	-	-	1,831	-	1,831	-
International	857	-	-	-	-	-	857	-
<b>Total</b>	<b>\$ 39,654</b>	<b>\$ 27,389</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,831</b>	<b>\$ -</b>	<b>\$ 41,485</b>	<b>\$ 27,389</b>

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, 2017			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 4,713	\$ 32,134	\$ 189,573	\$ 226,420
Production and intermediate-term	92,303	76,924	42,960	212,187
Loans to cooperatives	-	123	1,696	1,819
Processing and marketing	845	12,072	5,063	17,980
Farm-related business	1,745	1,475	1,474	4,694
Power and water/waste disposal	-	-	832	832
Rural residential real estate	10	276	2,940	3,226
International	-	346	510	856
Lease receivables	-	100	-	100
<b>Total Loans</b>	<b>\$ 99,616</b>	<b>\$ 123,450</b>	<b>\$ 245,048</b>	<b>\$ 468,114</b>
Percentage	21.28%	26.37%	52.35%	100.00%

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

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

	June 30, 2017	December 31, 2016		June 30, 2017	December 31, 2016
<b>Real estate mortgage:</b>			<b>Power and water/waste disposal:</b>		
Acceptable	91.54%	92.45%	Acceptable	100.00%	100.00%
OAEM	4.69	4.26	OAEM	-	-
Substandard/doubtful/loss	3.77	3.29	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Rural residential real estate:</b>		
Acceptable	82.57%	87.68%	Acceptable	98.92%	99.26%
OAEM	8.33	10.78	OAEM	-	-
Substandard/doubtful/loss	9.10	1.54	Substandard/doubtful/loss	1.08	0.74
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>International:</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>Lease receivables:</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	-	-	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>			<b>Total Loans:</b>		
Acceptable	97.19%	96.99%	Acceptable	87.96%	90.92%
OAEM	2.81	3.01	OAEM	6.08	6.72
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	5.96	2.36
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>

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

	June 30, 2017					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 1,566	\$ 3,760	\$ 5,326	\$ 224,176	\$ 229,502	\$ -
Production and intermediate-term	16	7,112	7,128	208,026	215,154	-
Loans to cooperatives	-	-	-	1,827	1,827	-
Processing and marketing	-	-	-	18,112	18,112	-
Farm-related business	133	-	133	4,611	4,744	-
Power and water/waste disposal	-	-	-	832	832	-
Rural residential real estate	-	-	-	3,239	3,239	-
International	-	-	-	857	857	-
Lease receivables	-	-	-	100	100	-
Total	\$ 1,715	\$ 10,872	\$ 12,587	\$ 461,780	\$ 474,367	\$ -

	December 31, 2016					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 223	\$ 3,604	\$ 3,827	\$ 231,682	\$ 235,509	\$ -
Production and intermediate-term	1,665	2,256	3,921	184,590	188,511	-
Loans to cooperatives	-	-	-	1,872	1,872	-
Processing and marketing	-	-	-	16,543	16,543	-
Farm-related business	-	-	-	4,617	4,617	-
Power and water/waste disposal	-	-	-	862	862	-
Rural residential real estate	-	-	-	4,817	4,817	-
International	-	-	-	857	857	-
Lease receivables	-	-	-	111	111	-
Total	\$ 1,888	\$ 5,860	\$ 7,748	\$ 445,951	\$ 453,699	\$ -



Nonperforming assets (including related accrued interest as applicable) and related credit quality statistics at period end were as follows:

	June 30, 2017	December 31, 2016
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 4,840	\$ 5,915
Production and intermediate-term	8,990	5,014
Total	<u>\$ 13,830</u>	<u>\$ 10,929</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 7,109	\$ 7,346
Production and intermediate-term	2,106	1,975
Lease receivables	100	111
Total	<u>\$ 9,315</u>	<u>\$ 9,432</u>
<b>Accruing loans 90 days or more past due:</b>		
Total	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 23,145	\$ 20,361
Other property owned	586	623
Total nonperforming assets	<u>\$ 23,731</u>	<u>\$ 20,984</u>
Nonaccrual loans as a percentage of total loans	2.95%	2.44%
Nonperforming assets as a percentage of total loans and other property owned	5.06%	4.69%
Nonperforming assets as a percentage of capital	<u>27.28%</u>	<u>24.83%</u>

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

	June 30, 2017	December 31, 2016
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 2,840	\$ 4,022
Past due	10,990	6,907
Total	<u>\$ 13,830</u>	<u>\$ 10,929</u>
<b>Impaired accrual loans:</b>		
Restructured	\$ 9,315	\$ 9,432
90 days or more past due	—	—
Total	<u>\$ 9,315</u>	<u>\$ 9,432</u>
Total impaired loans	<u>\$ 23,145</u>	<u>\$ 20,361</u>
Additional commitments to lend	\$ 162	\$ 10

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

	June 30, 2017			Quarter Ended June 30, 2017		Six Months Ended June 30, 2017	
	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	\$ 3,416	\$ 3,409	\$ 341	\$ 3,333	\$ 22	\$ 3,173	\$ 43
Production and intermediate-term	1,892	1,914	287	1,847	12	1,758	24
Lease receivables	100	100	112	98	1	93	1
Total	<u>\$ 5,408</u>	<u>\$ 5,423</u>	<u>\$ 740</u>	<u>\$ 5,278</u>	<u>\$ 35</u>	<u>\$ 5,024</u>	<u>\$ 68</u>
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 8,533	\$ 9,478	\$ —	\$ 8,327	\$ 55	\$ 7,928	\$ 107
Production and intermediate-term	9,204	9,944	—	8,981	60	8,550	116
Rural residential real estate	—	26	—	—	—	—	—
Total	<u>\$ 17,737</u>	<u>\$ 19,448</u>	<u>\$ —</u>	<u>\$ 17,308</u>	<u>\$ 115</u>	<u>\$ 16,478</u>	<u>\$ 223</u>
<b>Total:</b>							
Real estate mortgage	\$ 11,949	\$ 12,887	\$ 341	\$ 11,660	\$ 77	\$ 11,101	\$ 150
Production and intermediate-term	11,096	11,858	287	10,828	72	10,308	140
Rural residential real estate	—	26	—	—	—	—	—
Lease receivables	100	100	112	98	1	93	1
Total	<u>\$ 23,145</u>	<u>\$ 24,871</u>	<u>\$ 740</u>	<u>\$ 22,586</u>	<u>\$ 150</u>	<u>\$ 21,502</u>	<u>\$ 291</u>

Impaired loans:	December 31, 2016			Year Ended December 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,506	\$ 3,488	\$ 335	\$ 3,311	\$ 119
Production and intermediate-term	1,428	1,474	138	1,349	48
Lease receivables	111	111	113	105	4
Total	\$ 5,045	\$ 5,073	\$ 586	\$ 4,765	\$ 171
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 9,755	\$ 10,603	\$ –	\$ 9,214	\$ 330
Production and intermediate-term	5,561	6,348	–	5,251	189
Rural residential real estate	–	29	–	–	–
Total	\$ 15,316	\$ 16,980	\$ –	\$ 14,465	\$ 519
<b>Total:</b>					
Real estate mortgage	\$ 13,261	\$ 14,091	\$ 335	\$ 12,525	\$ 449
Production and intermediate-term	6,989	7,822	138	6,600	237
Rural residential real estate	–	29	–	–	–
Lease receivables	111	111	113	105	4
Total	\$ 20,361	\$ 22,053	\$ 586	\$ 19,230	\$ 690

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows.

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Power and water/waste disposal	Rural Residential Real Estate	International	Lease Receivables	Total
<b>Activity related to the allowance for credit losses:</b>								
Balance at March 31, 2017	\$ 1,772	\$ 6,852	\$ 273	\$ 8	\$ 18	\$ 7	\$ 112	\$ 9,042
Charge-offs	–	(162)	–	–	–	–	–	(162)
Recoveries	–	5	1	–	–	–	–	6
Provision for loan losses	138	99	29	–	1	–	–	267
Balance at June 30, 2017	\$ 1,910	\$ 6,794	\$ 303	\$ 8	\$ 19	\$ 7	\$ 112	\$ 9,153
Balance at December 31, 2016	\$ 1,823	\$ 6,410	\$ 297	\$ 8	\$ 18	\$ 7	\$ 113	\$ 8,676
Charge-offs	–	(176)	–	–	–	–	–	(176)
Recoveries	33	8	1	–	–	–	–	42
Provision for loan losses	54	552	5	–	1	–	(1)	611
Balance at June 30, 2017	\$ 1,910	\$ 6,794	\$ 303	\$ 8	\$ 19	\$ 7	\$ 112	\$ 9,153
Balance at March 31, 2016	\$ 1,871	\$ 4,835	\$ 303	\$ 274	\$ 9	\$ –	\$ 114	\$ 7,406
Charge-offs	–	(8)	–	–	–	–	–	(8)
Recoveries	2	1	–	–	–	–	–	3
Provision for loan losses	(79)	242	31	2	3	7	–	206
Balance at June 30, 2016	\$ 1,794	\$ 5,070	\$ 334	\$ 276	\$ 12	\$ 7	\$ 114	\$ 7,607
Balance at December 31, 2015	\$ 1,811	\$ 4,872	\$ 293	\$ 277	\$ 9	\$ –	\$ 117	\$ 7,379
Charge-offs	–	(65)	–	–	–	–	–	(65)
Recoveries	4	26	–	–	–	–	–	30
Provision for loan losses	(21)	237	41	(1)	3	7	(3)	263
Balance at June 30, 2016	\$ 1,794	\$ 5,070	\$ 334	\$ 276	\$ 12	\$ 7	\$ 114	\$ 7,607
<b>Allowance on loans evaluated for impairment:</b>								
Individually	\$ 341	\$ 287	\$ –	\$ –	\$ –	\$ –	\$ 112	\$ 740
Collectively	1,569	6,507	303	8	19	7	–	8,413
Balance at June 30, 2017	\$ 1,910	\$ 6,794	\$ 303	\$ 8	\$ 19	\$ 7	\$ 112	\$ 9,153
Individually	\$ 335	\$ 138	\$ –	\$ –	\$ –	\$ –	\$ 113	\$ 586
Collectively	1,488	6,272	297	8	18	7	–	8,090
Balance at December 31, 2016	\$ 1,823	\$ 6,410	\$ 297	\$ 8	\$ 18	\$ 7	\$ 113	\$ 8,676
<b>Recorded investment in loans evaluated for impairment:</b>								
Individually	\$ 11,949	\$ 11,096	\$ –	\$ –	\$ –	\$ –	\$ 100	\$ 23,145
Collectively	217,553	204,058	24,683	832	3,239	857	–	451,222
Balance at June 30, 2017	\$ 229,502	\$ 215,154	\$ 24,683	\$ 832	\$ 3,239	\$ 857	\$ 100	\$ 474,367
Individually	\$ 13,261	\$ 6,989	\$ –	\$ –	\$ –	\$ –	\$ 111	\$ 20,361
Collectively	222,248	181,522	23,032	862	4,817	857	–	433,338
Balance at December 31, 2016	\$ 235,509	\$ 188,511	\$ 23,032	\$ 862	\$ 4,817	\$ 857	\$ 111	\$ 453,699

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs which occurred during the three months ended June 30, 2017.

Outstanding Recorded Investment	Six Months Ended June 30, 2017				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Production and intermediate-term	\$ –	\$ 168	\$ –	\$ 168	
Total	\$ –	\$ 168	\$ –	\$ 168	
<b>Post-modification:</b>					
Production and intermediate-term	\$ –	\$ 168	\$ –	\$ 168	\$ –
Total	\$ –	\$ 168	\$ –	\$ 168	\$ –

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	\$ –	\$ 409	\$ –	\$ 409	
Total	\$ –	\$ 409	\$ –	\$ 409	
<b>Post-modification:</b>					
Production and intermediate-term	\$ –	\$ 423	\$ –	\$ 423	\$ –
Total	\$ –	\$ 423	\$ –	\$ 423	\$ –

Outstanding Recorded Investment	Six Months Ended June 30, 2016				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Real estate mortgage	\$ –	\$ 697	\$ –	\$ 697	
Production and intermediate-term	–	506	–	506	
Total	\$ –	\$ 1,203	\$ –	\$ 1,203	
<b>Post-modification:</b>					
Real estate mortgage	\$ –	\$ 697	\$ –	\$ 697	\$ –
Production and intermediate-term	–	520	–	520	–
Total	\$ –	\$ 1,217	\$ –	\$ 1,217	\$ –

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

Defaulted troubled debt restructurings:	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Production and intermediate-term	\$ –	\$ 53	\$ –	\$ 53
Total	\$ –	\$ 53	\$ –	\$ 53

The following table provides information at period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

	Total TDRs		Nonaccrual TDRs	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Real estate mortgage	\$ 7,109	\$ 8,162	\$ –	\$ 816
Production and intermediate-term	3,714	2,811	1,608	836
Lease receivables	100	111	–	–
Total Loans	\$ 10,923	\$ 11,084	\$ 1,608	\$ 1,652
Additional commitments to lend	\$ –	\$ –		

The following table presents information as of period end:

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

### Note 3 — Investments

#### Investment Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. As of June 30, 2017, the Association held two 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, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs (a)	\$ 14,838	\$ 851	\$ (73)	\$ 15,616	5.92%

	December 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs (b)	\$ 18,489	\$ 434	\$ (474)	\$ 18,449	5.87%

- (a) Gross unrealized losses included non-credit related other-than-temporary impairment recognized in AOCI of \$95.  
(b) Gross unrealized losses included non-credit related other-than-temporary impairment recognized in AOCI of \$95.

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

	June 30, 2017		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 881	\$ 881	5.00%
After one year through five years	-	-	-
After five years through ten years	-	-	-
After ten years	13,957	14,735	5.98
Total	\$ 14,838	\$ 15,616	5.92%

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, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ 1,344	\$ (13)	\$ 287	\$ (60)

	December 31, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ 941	\$ (30)	\$ 3,027	\$ (444)

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.

Based on the results of all analyses, the Association has recognized no credit-related other-than-temporary impairment related to investment securities in the Statements of Income for

the six months ended June 30, 2017 or 2016. There was no accretion to interest income of previously recognized credit impairment for the six months ended June 30, 2017 compared to \$248 for the six months ended June 30, 2016. Since the Association does not intend to sell this other-than-temporarily impaired debt security and is not more likely than not to be required to sell before recovery, the total other-than-temporary impairment is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

For all other impaired investments, the Association has not recognized any credit losses as the 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.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Amount related to credit loss-beginning balance</b>	\$ 2,024	\$ 2,410	\$ 2,024	\$ 2,534
Additions for initial credit impairments	—	—	—	—
Additions for subsequent credit impairments	—	—	—	—
Reductions for increases in expected cash flows	—	(124)	—	(248)
Reductions for securities sold, settled, or matured	—	—	—	—
<b>Amount related to credit loss-ending balance</b>	\$ 2,024	\$ 2,286	\$ 2,024	\$ 2,286
Life to date incurred credit losses	—	—	—	—
<b>Remaining unrealized credit losses</b>	\$ 2,024	\$ 2,286	\$ 2,024	\$ 2,286

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

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 1.91 percent of the issued stock of the Bank as of June 30, 2017 net of any reciprocal investment. As of that date, the Bank's assets totaled \$31.5 billion and shareholders' equity totaled \$2.4 billion. The Bank's earnings were \$164 million for the first six months of 2017. In addition, the Association held investments of \$780 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,	
	2017	2016	2017	2016
<b>Unrealized gains (losses) on Investments</b>				
Balance at beginning of period	\$ 480	\$ 913	\$ 453	\$ 922
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	(74)	(10)	(47)	(19)
Net current period other comprehensive income	(74)	(10)	(47)	(19)
Balance at end of period	\$ 406	\$ 903	\$ 406	\$ 903
<b>Employee Benefit Plans:</b>				
Balance at beginning of period	\$ (232)	\$ (223)	\$ (234)	\$ (224)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	2	2	4	3
Net current period other comprehensive income	2	2	4	3
Balance at end of period	\$ (230)	\$ (221)	\$ (230)	\$ (221)
<b>Accumulated Other Comprehensive Income</b>				
Balance at beginning of period	\$ 248	\$ 690	\$ 219	\$ 698
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	(72)	(8)	(43)	(16)
Net current period other comprehensive income	(72)	(8)	(43)	(16)
Balance at end of period	\$ 176	\$ 682	\$ 176	\$ 682

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				Income Statement Line Item
	Three Months Ended June 30,		Six Months Ended June 30,		
	2017	2016	2017	2016	
<b>Investment Securities:</b>					
Sales gains & losses	\$ —	\$ —	\$ —	\$ —	Gains (losses) on investments, net
Holding gains & losses	—	—	—	—	Net other-than-temporary impairment
Amortization	74	10	47	19	Interest income on investments
Net amounts reclassified	74	10	47	19	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	(2)	(2)	(4)	(3)	See Note 7.
Net amounts reclassified	(2)	(2)	(4)	(3)	
Total reclassifications for period	\$ 72	\$ 8	\$ 43	\$ 16	

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

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

At or For the Six Months Ended June 30, 2017						
Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 537	\$ 537	\$ –	\$ –	\$ 537	
Recurring Assets	\$ 537	\$ 537	\$ –	\$ –	\$ 537	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 22,405	\$ –	\$ –	\$ 22,405	\$ 22,405	\$ (289)
Other property owned	586	–	–	681	681	(1)
Nonrecurring Assets	\$ 22,991	\$ –	\$ –	\$ 23,086	\$ 23,086	\$ (290)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 6	\$ 6	\$ –	\$ –	\$ 6	
Investment securities, held-to-maturity	14,838	–	–	15,616	15,616	
Loans	436,556	–	–	432,401	432,401	
Other Financial Assets	\$ 451,400	\$ 6	\$ –	\$ 448,017	\$ 448,023	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 400,512	\$ –	\$ –	\$ 399,805	\$ 399,805	
Other Financial Liabilities	\$ 400,512	\$ –	\$ –	\$ 399,805	\$ 399,805	

At or For the Year Ended December 31, 2016						
Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 499	\$ 499	\$ –	\$ –	\$ 499	
Recurring Assets	\$ 499	\$ 499	\$ –	\$ –	\$ 499	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 19,775	\$ –	\$ –	\$ 19,775	\$ 19,775	\$ (305)
Other property owned	623	–	–	718	718	(145)
Nonrecurring Assets	\$ 20,398	\$ –	\$ –	\$ 20,493	\$ 20,493	\$ (450)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 12	\$ 12	\$ –	\$ –	\$ 12	
Investment securities, held-to-maturity	18,489	–	–	18,449	18,449	
Loans	418,699	–	–	412,865	412,865	
Other Financial Assets	\$ 437,200	\$ 12	\$ –	\$ 431,314	\$ 431,326	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 386,383	\$ –	\$ –	\$ 383,443	\$ 383,443	
Other Financial Liabilities	\$ 386,383	\$ –	\$ –	\$ 383,443	\$ 383,443	

## SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

## INVESTMENT SECURITIES

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

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

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

### *Inputs to Valuation Techniques*

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

### Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 23,086	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
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



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## 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,	
	2017	2016	2017	2016
Pension	\$ 345	\$ 351	\$ 690	\$ 701
401(k)	61	58	133	125
Other postretirement benefits	65	61	131	123
Total	\$ 471	\$ 470	\$ 954	\$ 949

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

	Actual YTD Through 6/30/17	Projected Contributions For Remainder of 2017	Projected Total Contributions 2017
	Pension	\$ 26	\$ 1,213
Other postretirement benefits	94	93	187
Total	\$ 120	\$ 1,306	\$ 1,426

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

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

## Note 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, 2017, which was the date the financial statements were issued.