TOGETHER

Lending Support For Rural Colorado

FARM CREDIT
OF SOUTHERN COLORADO

Second Quarter Report to Shareholders

As of June 30, 2017 (unaudited)

NOTICE TO STOCKHOLDERS

The shareholders' investment in Farm Credit of Southern Colorado, ACA is materially affected by the financial condition and results of operations of CoBank, ACB (CoBank). The 2016 CoBank Annual Report to Shareholders, and the CoBank quarterly shareholders' reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at:

Farm Credit of Southern Colorado, ACA

5110 Edison Avenue, PO Box 75640
Colorado Springs, Colorado 80970-5640
Phone Number: 800-815-8559

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Thousands, Except as Noted)
(Unaudited)

The following discussion summarizes the financial position and results of operations of Farm Credit of Southern Colorado for the six months ended June 30, 2017, with comparisons to prior periods. You should read these comments along with the accompanying financial statements and footnotes and the 2016 Annual Report to Shareholders. The accompanying financial statements were prepared under the oversight of our Audit Committee.

The Farm Credit of Southern Colorado territory can be described as a tale of three regions. The eastern plains region, southeast region and the San Luis Valley region are the regions with significant commodity concentration. Wheat, corn, and potatoes have the largest commodity impact, while cattle, specifically the cow/calf enterprise, is the largest livestock/animal concentration throughout our territory.

The Eastern Plains region: This region is within the eastern borders of our territory from Limon to Burlington. It had excellent spring moisture conditions allowing for an above average wheat crop. As a result, the winter wheat harvest is wrapping up with exceptional results. The yields have been at all-time highs with reports of 80-100 bushels/acre on dryland wheat. As harvest began, test weights were at 60-62 pounds, but late June and early July rains caused test weights to slip back to 57-58 pounds. Unfortunately, a high yielding crop usually leads to lower protein levels, which is the case in this region with protein levels having trouble exceeding 10%. Most millers and elevators will pay premiums in excess of 10% protein. Wheat prices at the start of harvest were in the range of $4.57 per bushel. As harvest progressed and reported protein levels were recorded, prices slipped down to $4.20 per bushel range, which is still better than expected. Since other areas of the country, such as the Dakotas, have experienced severe drought, the lost wheat crop will be picked up by the excellent results in Colorado and Kansas. Therefore huge swings in wheat prices are not expected. Corn planting in this region was delayed by rain, however, the mid-season rain coupled with a mixture of hot temperature days, has allowed the corn to catch up. If we are able to close with a few good rains in August, then this region will have an excellent corn crop. Additionally, the moisture will provide above average subsoil moisture conditions for the fall wheat planting.

The Southeast region: This region is south of Burlington and down to the southeast corner of Colorado to our Lamar office. This region did not receive the same consistent rainfall as the north. This inconsistent rainfall resulted in a lower yielding wheat crop with best results in the 40-50 bushels/acre range and most areas seeing yields of 35 bushels/acre. However, stressed wheat leads to higher protein levels. This was no exception for this region with protein levels being reported in the 11-14% range. This region, while reporting lower yields, compensated for the lower yields with higher protein levels, resulting in premium pricing to the producer. Protein premiums being paid are exceeding $0.30/bushel. Row crops, specifically corn, are doing great. The June rainfall they received has allowed corn to be above normal with expectations at this point for a strong fall harvest.

The San Luis Valley region: This region is the western portion of our territory and centrally managed by our Monte Vista office. This region's most significant commodity is potatoes. A large snow storm that occurred during planting season has produced mix results. Fields planted prior to snow are doing well and those planted after have struggled. As such, the potato crop will be an average potato crop. The good news is that the price index is $2.00/hundred weight higher, which moves the producer into an above breakeven price point.

The producers in our territory are feeling the impact of rising interest rates. The Fed has raised rates twice this year each time by 25 basis points. The Association has reacted accordingly increasing our variable rate by similar amounts. Another increase of 25 basis points is expected by the end of 2017. The interest rate increase will hopefully be overcome by increased commodity prices.

Excellent grazing conditions and pricing have allowed for 2017 calf crop to meeting producers' expectations of being profitable. Some producers put additional weight on the calves through good grass conditions or moved them to feedlots to get the calves to 700 pounds on reasonable cheap gains.

Our producers will be reenrolling in the new Conservation Reserve program (CRP) to enhance cash flow and will continue the use of crop insurance to help mitigate price and yield risk. While the acres enrolled in CRP will be taken out of production, the resulting CRP payments will be sufficient enough to offset the loss of income from not farming these less productive acres.

The territory is expected to continue to receive normal to above normal precipitation and we look to have a strong fall harvest. Drought will have a minimal impact on the producers in our territory. In summary, most producers in our territory should have improved financial positions for FY 2017.

LOAN PORTFOLIO

Loans outstanding at June 30, 2017 totaled $965.3 million, an increase of $21.9 million, or 2.3%, from loans of $943.3 million at December 31, 2016. The increase was primarily due to participations purchased loan activity.

OTHER PROPERTY OWNED

Other property owned is real or personal property that has been acquired through foreclosure, deed in lieu of foreclosure or other means. We had other property owned of $2.6 million at June 30, 2017, which is the same as December 31, 2016.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2017 was $6.8 million, an increase of $203 thousand, or 3.1%, from the same period ended one year ago. The increase was a result of higher net interest income and a lower provision for credit losses, partially offset by higher noninterest expenses.

Net interest income for the six months ended June 30, 2017 was $13.2 million, an increase of $686 thousand or 5.5%, compared with June 30, 2016. Net interest income increased as a result of higher average accrual loan volume and spread.

The provision for credit losses for the six months ended June 30, 2017 was $435 thousand, a decrease of $122 thousand, or 21.9%, from the provision for credit losses for the same period ended one year ago. The provision for credit losses decreased as a result of improvement of credit quality.

Noninterest income increased $15 thousand during the first six months of 2017 compared with the first six months in 2016 primarily due to an increase in mineral income, partially offset by a decrease in loan fees on participation purchased loans. We received mineral income of $343 thousand during the first six months of 2017, compared to $277 thousand received for the same period in 2016.

During the first six months of 2017, noninterest expense increased $620 thousand to $8.4 million, primarily due to an increase in salaries and employee benefits due to salary increases and more staffing.

CAPITAL RESOURCES

Our shareholders' equity at June 30, 2017 was $239.1 million, an increase from $231.5 million at December 31, 2016. This increase is due to net income and net increases in capital and preferred stock.

NOTICE OF MATERIAL EVENTS

There have been leadership changes within the Association. In May, Alan Woodard, CEO gave notice of his intention to leave the Association as of June 9. Shawna Neppl, our CFO, was appointed interim CEO and assumed that position on June 9. The Board has engaged Farm Credit Council Services to assist with the CEO search process. In June, Linda Iverson resigned her position as Chief Operating Officer (COO). Ricky Sellers, our Compliance Officer, was appointed as Interim COO. Also in June, Christopher Bledsoe resigned his position from the Board of Directors. Mr. Bledsoe was an appointed Director serving as the Chairman of the Audit/Risk Committee and Vice Chairman of the Board. The Board is in the process of identifying a replacement Director for this vacancy. The Board members elected Kent Price as Vice Chairman of the Board. The Audit/Risk Committee members elected Mark Peterson as Chairman of the Audit/Risk Committee.

REGULATORY MATTERS

On March 10, 2016, the FCA approved new rules ("New Capital Regulations") relating to regulatory capital requirements for System Banks, including CoBank and Associations. The New Capital Regulations became effective January 1, 2017. The stated objectives of the New Capital Regulations are as follows:

- To modernize capital requirements while ensuring that System institutions continue to hold sufficient regulatory capital to fulfill the System's 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 certain requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

The New Capital Regulations, among other things, replace existing core surplus and total surplus requirements with common equity tier 1 (CET1), tier 1 and total capital (tier 1 plus tier 2) risk-based capital ratio requirements. The New Capital Regulations also add a tier 1 leverage ratio for all System institutions, which replaces the existing net collateral ratio for System Banks. In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weightings; and, for System Banks only, require additional public disclosures. The revisions to the risk weightings include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

The New Capital Regulations set the following minimum risk-based requirements:

- A CET1 capital ratio of 4.5 percent;
- A tier 1 capital ratio (CET1 capital plus additional tier 1 capital) of 6 percent; and
- A total capital ratio (tier 1 plus tier 2) of 8 percent.

The New Capital Regulations also set a minimum tier 1 leverage ratio (tier 1 divided by total assets) of 4 percent, of which at least 1.5 percent must consist of unallocated retained earnings (URE) and URE equivalents, which are nonqualified allocated equities with certain characteristics of URE.

The New Capital Regulations establish a capital cushion (capital conservation buffer) of 2.5 percent above the risk-based CET1, tier 1 and total capital requirements. In addition, the New Capital Regulations establish a leverage capital cushion (leverage buffer) of 1 percent above the tier 1 leverage ratio requirements. If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations establish a three-year phase-in of the capital conservation buffer, which began on January 1, 2017. There will be no phase-in of the leverage buffer.

Refer to Note 3 of the accompanying Consolidated Financial Statements for additional detail regarding the capital ratios as of June 30, 2017.

The undersigned certify they have reviewed this report, this report has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of his or her knowledge and belief.

//signed//
Gary Pautler
Chairman of the Board
August 4, 2017

//signed//
Shawna R Neppl
Interim CEO
August 4, 2017

//signed//
Shawna R Neppl
CFO
August 4, 2017

Consolidated Statement of Condition

(Dollars in Thousands)

	June 30 2017	December 31 2016
	UNAUDITED	AUDITED
ASSETS		
Loans	**$ 965,269**	$ 943,326
Less allowance for loan losses	**1,946**	1,535
Net loans	**963,323**	941,791
Cash	**2,353**	5,035
Accrued interest receivable	**14,191**	14,337
Investment in CoBank, ACB	**30,894**	30,876
Premises and equipment, net	**12,503**	12,642
Other property owned	**2,550**	2,575
Prepaid benefit expense	**1,226**	1,105
Other assets	**2,893**	4,688
Total assets	**$ 1,029,933**	$ 1,013,049
LIABILITIES		
Note payable to CoBank, ACB	**$ 782,268**	$ 765,542
Advance conditional payments	**4,886**	7,248
Accrued interest payable	**1,277**	1,236
Patronage distributions payable	**-**	4,000
Accrued benefits liability	**182**	189
Reserve for unfunded commitments	**279**	270
Other liabilities	**1,956**	3,101
Total liabilities	**790,848**	781,586
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock	**2,726**	1,879
Capital stock	**1,408**	1,407
Unallocated retained earnings	**234,951**	228,177
Total shareholders' equity	**239,085**	231,463
Total liabilities and shareholders' equity	**$ 1,029,933**	$ 1,013,049

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

Consolidated Statement of Comprehensive Income

(Dollars in Thousands)

	For the three months ended June 30		For the six months ended June 30	
UNAUDITED	**2017**	2016	**2017**	2016
INTEREST INCOME				
Loans	**$ 10,923**	$ 10,168	**$ 21,319**	$ 20,244
Total interest income	**10,923**	10,168	**21,319**	20,244
INTEREST EXPENSE				
Note payable to CoBank	**4,208**	3,866	**8,107**	7,721
Other	**4**	2	**7**	4
Total interest expense	**4,212**	3,868	**8,114**	7,725
Net interest income	**6,711**	6,300	**13,205**	12,519
(Credit loss reversals)/Provision for credit losses	**(178)**	323	**435**	557
Net interest income after credit loss reversals/provision for credit losses	**6,889**	5,977	**12,770**	11,962
NONINTEREST INCOME				
Financially related services income	**43**	49	**70**	70
Loan fees	**90**	100	**198**	230
Patronage refund from Farm Credit Institutions	**885**	882	**1,754**	1,752
Mineral income	**175**	138	**343**	277
Other noninterest income	**4**	28	**55**	76
Total noninterest income	**1,197**	1,197	**2,420**	2,405
NONINTEREST EXPENSE				
Salaries and employee benefits	**2,347**	2,170	**4,734**	4,341
Occupancy and equipment	**290**	300	**647**	629
Purchased services from AgVantis, Inc.	**454**	426	**904**	850
Losses on other property owned, net	**24**	1	**41**	-
Farm Credit Insurance Fund premium	**267**	289	**530**	570
Supervisory and examination costs	**77**	80	**171**	161
Other noninterest expense	**647**	581	**1,378**	1,234
Total noninterest expense	**4,106**	3,847	**8,405**	7,785
Income before income taxes	**3,980**	3,327	**6,785**	6,582
Provision for income taxes	**1**	1	**4**	4
Net income/Comprehensive income	**$ 3,979**	$ 3,326	**$ 6,781**	$ 6,578

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

Consolidated Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Preferred Stock	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2015	$ 1,761	$ 1,375	$ 217,711	$ 220,847
Comprehensive income			6,578	6,578
Stock issued	126	92		218
Stock retired	(61)	(74)		(135)
Preferred stock dividends	4		(5)	(1)
Balance at June 30, 2016	$ 1,830	$ 1,393	$ 224,284	$ 227,507
Balance at December 31, 2016	$ 1,879	$ 1,407	$ 228,177	$ 231,463
Comprehensive income			6,781	6,781
Stock issued	842	78		920
Stock retired	(1)	(77)		(78)
Preferred stock dividends	6		(7)	(1)
Balance at June 30, 2017	**$ 2,726**	**$ 1,408**	**$ 234,951**	**$ 239,085**

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

NOTES TO FINANCIAL STATEMENTS
(Dollars in Thousands, Except as Noted)
(Unaudited)

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

A description of the organization and operations of Farm Credit of Southern Colorado, ACA (the Association), the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2016, are contained in the 2016 Annual Report to Shareholders. These unaudited second quarter 2017 financial statements should be read in conjunction with the 2016 Annual Report to Shareholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2016 as contained in the 2016 Annual Report to Shareholders.

In the opinion of management, the unaudited financial information is complete and reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2017. Descriptions of the significant accounting policies are included in the 2016 Annual Report to Shareholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In March 2017, the Financial Accounting Standards Board (FASB) issued guidance entitled “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Cost.” The guidance requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’s financial condition but could change the classification of certain items in the results of operations.

In August 2016, the FASB issued guidance entitled “Classification of Certain Cash Receipts and Cash Payments.” The guidance addresses specific cash flow issues with the objective of reducing the diversity in the classification of these cash flows. Included in the cash flow issues are debt prepayment or debt extinguishment costs and settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association’s financial condition or its results of operations but could change the classification of certain items in the statement of cash flows.

In June 2016, the FASB issued guidance entitled “Measurement of Credit Losses on Financial Instruments.” The guidance replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers this guidance becomes effective for interim and annual periods beginning after December 15, 2020, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In February 2016, the FASB issued guidance entitled “Leases.” The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association is currently evaluating the impact of adoption on its financial condition and results of operations.

In January 2016, the FASB issued guidance entitled “Recognition and Measurement of Financial Assets and Liabilities.” The guidance affects, among other things, the presentation and disclosure requirements for financial instruments. For public entities, the guidance eliminates the requirement to disclose the methods and significant

assumptions used to estimate the fair value of financial instruments carried at amortized cost. This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on its financial condition or results of operations.

NOTE 2 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	June 30, 2017	December 31, 2016
Real estate mortgage	**$ 559,129**	$ 539,889
Production and intermediate-term	**166,777**	182,932
Agribusiness	**159,912**	148,944
Rural infrastructure	**68,272**	61,716
Rural residential real estate	**101**	107
Mission-related	**1,199**	1,225
Agricultural export finance	**9,879**	8,513
Total loans	**$ 965,269**	$ 943,326

The Association purchases and sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2017:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	$ 28,778	$ 13,424	$ 4,325	$ —	$ 33,103	$ 13,424
Production and intermediate-term	17,876	1,089	—	—	17,876	1,089
Agribusiness	151,655	—	—	—	151,655	—
Rural infrastructure	68,272	—	—	—	68,272	—
Agricultural export finance	9,879	—	—	—	9,879	—
Total	$ 276,460	$ 14,513	$ 4,325	$ —	$ 280,785	$ 14,513

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2017	December 31, 2016
Real estate mortgage		
Acceptable	**91.71%**	91.83%
OAEM	**2.69%**	3.17%
Substandard	**5.60%**	5.00%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**88.96%**	86.42%
OAEM	**5.27%**	7.29%
Substandard	**5.77%**	6.29%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**98.65%**	97.81%
OAEM	**0.31%**	1.14%

(Continued)	**June 30, 2017**	December 31, 2016
Substandard	**1.04%**	1.05%
Total	**100.00%**	100.00%
Rural infrastructure		
Acceptable	**98.80%**	96.56%
OAEM	**1.20%**	3.44%
Total	**100.00%**	100.00%
Rural residential real estate		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Mission-related		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Agricultural export finance		
Acceptable	**100.00%**	100.00%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**92.96%**	92.10%
OAEM	**2.61%**	3.64%
Substandard	**4.43%**	4.26%
Total	**100.00%**	100.00%

High risk assets consist of impaired loans and other property owned. These nonperforming assets (including related accrued interest) and related credit quality are as follows:

(dollars in thousands)	**June 30, 2017**	December 31, 2016
Nonaccrual loans		
Real estate mortgage	**$ 3,288**	$ 4,391
Production and intermediate-term	**354**	1,420
Total nonaccrual loans	**$ 3,642**	$ 5,811
Accruing restructured loans		
Real estate mortgage	**$ 515**	$ 97
Production and intermediate-term	**653**	727
Rural Infrastructure	**—**	1,279
Total accruing restructured loans	**$ 1,168**	$ 2,103
Total impaired loans	**$ 4,810**	$ 7,914
Other property owned	**2,550**	2,575
Total high risk assets	**$ 7,360**	$ 10,489

The Association had no accruing loans 90 days past due for the periods presented.

Additional impaired loan information is as follows:

	June 30, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 3,803**	**$ 3,816**	**$ —**	$ 4,488	$ 4,525	$ —
Production and intermediate-term	**1,007**	**5,351**	**—**	2,147	6,518	—
Rural infrastructure	**—**	**—**	**—**	1,279	1,601	—
Total	**$ 4,810**	**$ 9,167**	**$ —**	$ 7,914	$ 12,644	$ —

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

There were no impaired loans with a related allowance for credit losses for the periods presented.

	For the Three Months Ended June 30, 2017		For the Three Months Ended June 30, 2016	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ —**	**$ —**	$ 252	$ —
Production and intermediate-term	—	—	1,794	—
Total	**$ —**	**$ —**	$ 2,046	$ —
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 6,333**	**$ 111**	$ 11,322	$ 40
Production and intermediate-term	**1,562**	**2**	1,485	8
Rural infrastructure	—	—	1,699	23
Total	**$ 7,895**	**$ 113**	$ 14,506	$ 71
Total impaired loans:				
Real estate mortgage	**$ 6,333**	**$ 111**	$ 11,574	$ 40
Production and intermediate-term	**1,562**	**2**	3,279	8
Rural infrastructure	—	—	1,699	23
Total	**$ 7,895**	**$ 113**	$ 16,552	$ 71

	For the Six Months Ended June 30, 2017		For the Six Months Ended June 30, 2016	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ —**	**$ —**	$ 252	$ —
Production and intermediate-term	—	—	1,175	—
Total	**$ —**	**$ —**	$ 1,427	$ —
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 6,486**	**$ 127**	$ 10,600	$ 102
Production and intermediate-term	**2,281**	**38**	1,683	13
Rural infrastructure	—	—	1,508	23
Total	**$ 8,767**	**$ 165**	$ 13,791	$ 138
Total impaired loans:				
Real estate mortgage	**$ 6,486**	**$ 127**	$ 10,852	$ 102
Production and intermediate-term	**2,281**	**38**	2,858	13
Rural infrastructure	—	—	1,508	23
Total	**$ 8,767**	**$ 165**	$ 15,218	$ 138

The following tables provide an age analysis of past due loans (including accrued interest).

June 30, 2017	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 147	$ 3,183	$ 3,330	$ 566,095	$ 569,425	$ —
Production and intermediate-term	6,205	118	6,323	163,364	169,687	—
Agribusiness	—	—	—	160,636	160,636	—
Rural infrastructure	—	—	—	68,520	68,520	—
Rural residential real estate	—	—	—	103	103	—
Mission-related	—	—	—	1,201	1,201	—
Agricultural export finance	—	—	—	9,888	9,888	—
Total	$ 6,352	$ 3,301	$ 9,653	$ 969,807	$ 979,460	$ —

December 31, 2016	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Recorded Investment in Loans	Recorded Investment Accruing Loans 90 Days or More Past Due
Real estate mortgage	$ 1,301	$ 3,423	$ 4,724	$ 544,757	$ 549,481	$ —
Production and intermediate-term	4,732	118	4,850	181,759	186,609	—
Agribusiness	—	—	—	149,673	149,673	—
Rural infrastructure	—	—	—	62,005	62,005	—
Rural residential real estate	—	—	—	109	109	—
Mission-related	—	—	—	1,228	1,228	—
Agricultural export finance	—	—	—	8,558	8,558	—
Total	$ 6,033	$ 3,541	$ 9,574	$ 948,089	$ 957,663	$ —

A summary of changes in the allowance for loan losses is as follows:

	Balance at March 31, 2017	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2017
Real estate mortgage	$ 557	$ —	$ —	$ (8)	$ 549
Production and intermediate-term	629	6	1	(146)	478
Agribusiness	648	—	—	(34)	614
Rural infrastructure	262	—	—	30	292
Mission-related	5	—	—	—	5
Agricultural export finance	8	—	—	—	8
Total	$ 2,109	$ 6	$ 1	$ (158)	$ 1,946

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2017
Real estate mortgage	$ 429	$ —	$ —	$ 120	$ 549
Production and intermediate-term	388	16	1	105	478
Agribusiness	443	—	—	171	614
Rural infrastructure	265	—	—	27	292
Mission-related	4	—	—	1	5
Agricultural export finance	6	—	—	2	8
Total	$ 1,535	$ 16	$ 1	$ 426	$ 1,946

	Balance at March 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2016
Real estate mortgage	$ 502	$ —	$ —	$ 103	$ 605
Production and intermediate-term	512	22	107	101	698
Agribusiness	400	—	—	32	432
Rural infrastructure	285	—	—	24	309
Mission-related	4	—	—	1	5
Agricultural export finance	—	—	—	14	14
Total	$ 1,703	$ 22	$ 107	$ 275	$ 2,063

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2016
Real estate mortgage	$ 446	$ —	$ —	$ 159	$ 605
Production and intermediate-term	335	23	109	277	698
Agribusiness	381	—	—	51	432
Rural infrastructure	301	—	—	8	309
Mission-related	4	—	—	1	5
Agricultural export finance	7	—	—	7	14
Total	$ 1,474	$ 23	$ 109	$ 503	$ 2,063

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Consolidated Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the Consolidated Statement of Comprehensive income, along with the provision for loan losses.

A summary of changes in the reserve for unfunded commitments follows:

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2017	2016	**2017**	2016
Balance at beginning of period	**$ 299**	$ 463	$ 270	$ 457
(Reversal of)/Provision for unfunded commitments	**(20)**	48	9	54
Total	**$ 279**	$ 511	**$ 279**	$ 511

Additional information on the allowance for credit losses follows:

	Allowance for Credit Losses Ending Balance at June 30, 2017		Recorded Investments in Loans Outstanding Ending Balance at June 30, 2017	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ —	$ 549	$ 3,903	$ 565,522
Production and intermediate-term	—	478	1,502	168,185
Agribusiness	—	614	—	160,636
Rural infrastructure	—	292	—	68,520
Rural residential real estate	—	—	—	103
Mission-related	—	5	—	1,201
Agricultural export finance	—	8	—	9,888
Total	$ —	$ 1,946	$ 5,405	$ 974,055

	Allowance for Credit Losses Ending Balance at December 31, 2016		Recorded Investments in Loans Outstanding Ending Balance at December 31, 2016	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ —	$ 429	$ 4,754	$ 544,727
Production and intermediate-term	—	388	2,147	184,462
Agribusiness	—	443	—	149,673
Rural infrastructure	—	265	—	62,005
Rural residential real estate	—	—	—	109
Mission-related	—	4	—	1,228
Agricultural export finance	—	6	—	8,558
Total	$ —	$ 1,535	$ 6,901	$ 950,762

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 regarding troubled debt restructurings that occurred during the periods.

For the Six Months Ended June 30, 2017	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Production and intermediate-term	$ 891	$ 891
Total	$ 891	$ 891

* Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The Association recorded no TDRs during the six months ended June 30, 2016. The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the period. Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings was $535 thousand at June 30, 2017.

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

	Loans modified as TDRs		TDRs in Nonaccrual Status*	
	June 30, 2017	December 31, 2016	**June 30, 2017**	December 31, 2016
Real estate mortgage	**$ 515**	$ 540	**$ –**	$ 443
Production and intermediate-term	**653**	727	**–**	–
Rural infrastructure	**–**	1,279	**–**	–
Total	**$ 1,168**	$ 2,546	**$ –**	$ 443

* Represents the portion of loans modified as TDRs (first column) that are in nonaccrual status.

NOTE 3 - CAPITAL

Effective January 1, 2017, the regulatory capital requirements for System Banks and Associations were modified. The new regulations replaced existing core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk based capital ratios. The new regulations also added a tier 1 leverage ratio and an unallocated retained earning equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios.

In addition, the New Capital Regulations establish a capital conservation buffer and a leverage buffer; enhance the sensitivity of risk weightings; and, for System Banks only, require additional public disclosures. The revisions to the risk weightings include alternatives to the use of credit ratings, as required by the Dodd-Frank Act.

A summary of select capital ratios as of June 30, 2017, based on a three-month average and minimums follows.

	As of June 30, 2017	Regulatory Minimums	Capital Conversation Buffer	Total
Risk Adjusted:				
Common equity tier 1 ratio	19.7%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	19.7%	6.0%	2.5%*	8.5%
Total capital ratio	19.9%	8.0%	2.5%*	10.5%
Permanent capital ratio	20.0%	7.0%	–	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	20.5%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	21.1%	1.5%	–	1.5%

* The 2.5% capital conservation buffer over risk-adjusted ratio minimums will be phased in over three years under the FCA capital requirements.

If capital ratios fall below the regulatory minimum plus buffer amounts, capital distributions (equity redemptions, cash dividend payments, and cash patronage payments) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval. The New Capital Regulations establish a three-year phase-in of the capital conservation buffer, which began on January 1, 2017. There will be no phase-in of the leverage buffer.

NOTE 4 - FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2016 Annual Report to Shareholders for a more complete description.

The Association had no assets or liabilities measured at fair value on a recurring basis at June 30, 2017 or December 31, 2016.

Assets measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below

	Fair Value Measurement Using			Total Fair Value	Total (Losses)/Gains
	Level 1	Level 2	Level 3		
June 30, 2017					
Loans	**$ —**	**$ —**	**$ 352**	**$ 352**	**$ (15)**
Other property owned	**$ —**	**$ —**	**$ 2,843**	**$ 2,843**	**$ —**
December 31, 2016					
Loans	$ —	$ —	$ 356	$ 356	$ 91
Other property owned	$ —	$ —	$ 2,870	$ 2,870	$ (109)

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and takes into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

The Association had no liabilities measured at fair value on a non-recurring basis at June 30, 2017 or December 31, 2016.

Valuation Techniques

As more fully discussed in Note 2 to the 2016 Annual Report to Shareholders, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities, subject to fair value measurement.

Loans

For impaired loans measured on a non-recurring basis, the fair value is based upon the underlying real estate collateral since the loans are collateral dependent. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and the net loan is reported at its fair value.

Other Property Owned

Other property owned measured on a non-recurring basis is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 5 – NOTICE OF MATERIAL EVENTS

There have been leadership changes within the Association. In May, Alan Woodard, CEO gave notice of his intention to leave the Association as of June 9. Shawna Neppl, our CFO, was appointed interim CEO and assumed that position on June 9. The Board has engaged Farm Credit Council Services to assist with the CEO search process. In June, Linda Iverson resigned her position as Chief Operating Officer (COO). Ricky Sellers, our Compliance Officer, was appointed as Interim COO. Also in June, Christopher Bledsoe resigned his position from the Board of Directors. Mr. Bledsoe was an appointed Director serving as the Chairman of the Audit/Risk Committee and Vice Chairman of the Board. The Board is in the process of identifying a replacement Director for this vacancy. The Board members elected Kent Price as Vice Chairman of the Board. The Audit/Risk Committee members elected Mark Peterson as Chairman of the Audit/Risk Committee.

NOTE 6 - SUBSEQUENT EVENTS

The Association has evaluated subsequent events through August 4, 2017, which is the date the financial statements were issued, and no material subsequent events were identified.