ALABAMA AG CREDIT, ACA

2017
Quarterly Report
Second Quarter

ALABAMA AG CREDIT
LAND & FARM LENDERS

For the Quarter Ended June 30, 2017

REPORT OF MANAGEMENT

The consolidated financial statements of Alabama Ag Credit, ACA (Association) are prepared by management, who are responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (Bank) and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The annual financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The audit committee of the board of directors has oversight responsibility for the Association's system of internal controls and financial reporting. The audit committee consults regularly with management and meets periodically with the independent auditors and the internal auditor to review the scope and results of their work. The independent auditors and internal auditor have direct access to the audit committee.

The undersigned certify that, to the best of our knowledge and belief, the consolidated financial statements and other financial information included in this quarterly report reliably present the financial condition of Alabama Ag Credit, ACA and the results of its operations for the periods shown.

Douglas Thiessen, President/Chief Executive Officer
August 7, 2017

James L. Bassett, Chairman, Board of Directors
August 7, 2017

M. Scott Sellers, CPA, Sr. VP/Chief Financial Officer
August 7, 2017

J.K. Love, CPA, Chairman, Audit Committee
August 7, 2017

The following commentary reviews the financial performance of Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and six months ended June 30, 2017. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2016 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Results of Operations

The Association had net income of $3,536,240 and $7,775,324 for the three and six months ended June 30, 2017, as compared to net income of $3,590,824 and $7,206,893 for the same period in 2016, reflecting a decrease of 1.5 percent and an increase of 7.9 percent, respectively. Net interest income was $6,669,708 and $13,486,053 for the three and six months ended June 30, 2017, compared to $6,366,546 and $12,664,045 for the same period in 2016.

	Six months ended:			
	June 30, 2017		June 30, 2016	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 922,654,073**	**$ 21,978,484**	$ 871,226,577	$ 20,155,002
Interest-bearing liabilities	**770,962,564**	**8,492,431**	726,566,978	7,490,957
Impact of capital	**$ 151,691,509**		$ 144,659,599	
Net interest income		**$ 13,486,053**		$ 12,664,045

	2017 Average Yield	2016 Average Yield
Yield on loans	**4.80%**	4.65%
Cost of interest-bearing liabilities	**2.22%**	2.07%
Interest rate spread	**2.58%**	2.58%
Impact of capital	**0.37%**	0.34%
Net interest income as a percentage of average earning assets	**2.95%**	2.92%

	Six months ended: June 30, 2017 vs. June 30, 2016		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income	**$ 1,186,423**	**$ 637,059**	**$ 1,823,482**
Interest expense	**456,444**	**545,030**	**1,001,474**
Net interest income	**$ 729,979**	**$ 92,029**	**$ 822,008**

Interest income for the three and six months ended June 30, 2017, increased by $917,994 and $1,823,482, or 9.0 and 9.0 percent respectively, from the same period of 2016 due to increases in yields on earning assets and an increase in average loan volume. Interest income in 2017 also included the collection of several credits that had been classified as nonaccrual, resulting in recognition of $31,089 and $296,049 of foregone interest for the three and six months ended June 30, 2017, respectively. Interest expense for the three and six months ended June 30, 2017, increased by $614,832 and $1,001,474, or 16.2 and 13.4 percent, respectively, from the same period of 2016 due to an increase in average debt volume and an increase in the cost of debt. Average loan volume for the second quarter of 2017 was $931,985,888, compared to $881,137,806 in the second quarter of 2016.

Noninterest income for the three months ended June 30, 2017, increased by $110,210, or 34.8 percent, over the same period of 2016. The increase is primarily due to an increase in net gains on the sale of premises and equipment in the three months ended June 30, 2017 compared to the three months ended June 30, 2016. Noninterest income for the six months ended June 30, 2017, increased by $113,382, or 13.8 percent, over the same period of 2016. The increase is due primarily to an increase in net gains on the sale of premises and equipment and an increase in the amount of patronage income accrued in the first six months of 2017 compared to the first six months of 2016.

Noninterest expenses for the three months ended June 30, 2017 increased by $239,837, or 8.0 percent, as compared to the same period in 2016. The increase is primarily due to increases in salaries and benefits and purchased services. Salaries and benefits increased as a result of normal increases in compensation and a larger workforce from the second quarter of 2016 through the second quarter of 2017. Purchased services increased as a result of increased accounting costs. Noninterest expenses for the six months ended June 30, 2017 increased by $145,704, or 2.4 percent, as compared to the same period in 2016. The increase is primarily due to gains and losses on the sale of other property owned.

The Association's return on average assets for the six months ended June 30, 2017, was 1.65 percent compared to 1.62 percent for the same period in 2016. The Association's return on average equity for the six months ended June 30, 2017, was 9.39 percent, compared to 9.15 percent for the same period in 2016.

Loan Portfolio

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive prime- and LIBOR-based, fixed and adjustable interest rates and loan maturities ranging up to 40 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with seasonal cash-flow capabilities of the borrower.

Total loans outstanding at June 30, 2017, stated at recorded investment (principal less funds held), were $944,254,137 compared to $909,228,070 at December 31, 2016, reflecting an increase of 3.9 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at June 30, 2017, compared to 0.8 percent at December 31, 2016. The major commodities within the Association's portfolio are timber, cattle, poultry and field crops.

The Association recorded charge-offs of $59,213 for the three and six months ended June 30, 2017, and charge-offs of $49,253 and $53,597 for the same periods in 2016. The Association recorded recoveries of $1,699 and $3,398 for the three and six months ended June 30, 2017, $6,328 and $13,855 for the same periods in 2016. The Association's allowance for loan losses was 0.7 percent and 0.6 percent of total loans outstanding as of June 30, 2017, and December 31, 2016, respectively.

The following table reflects credit quality of the Association's loan volume as of:

	June 30, 2017	December 31, 2016
Acceptable	**98.2** %	98.1 %
OAEM	**0.8**	0.8
Substandard/doubtful	**1.0**	1.1
	100.0 %	100.0 %

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	June 30, 2017		December 31, 2016	
	Amount	**%**	Amount	%
Nonaccrual	**$ 5,357,812**	**71.1%**	$ 7,572,261	96.1%
Formally restructured	**1,739,394**	**23.1%**	308,599	3.9%
Other property owned, net	**433,840**	**5.8%**	-	0.0%
Total	**$ 7,531,046**	**100.0%**	$ 7,880,860	100.0%

At June 30, 2017, loans that were considered impaired were $7,097,206 compared to $7,880,860 at December 31, 2016. This represents 0.8 percent and 0.9 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. While the total number of nonaccrual loans as of June 30, 2017, remained relatively consistent compared to December 31, 2016, the primary reason for the decrease in volume is attributable to several large credits that were paid down during the first six months of 2017.

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of System-wide obligations. The following schedule summarizes the Association's borrowings.

	June 30, 2017	December 31, 2016
Note payable to the bank	**$ 793,373,816**	$ 756,229,685
Accrued interest on note payable	**1,484,446**	1,344,943
Total	**$ 794,858,262**	$ 757,574,628

The Association operates under a general financing agreement (GFA) with the Bank. The current GFA is effective through September 30, 2018. The primary source of liquidity and funding for the Association is a direct loan from the Bank. The outstanding balance of $793,373,816 as of June 30, 2017, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.27 percent at June 30, 2017. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The increase in note payable to the Bank and related accrued interest payable since December 31, 2016, is due increased funding needs generated by growth in the Association's loan portfolio. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $151,209,446 at June 30, 2017. The maximum amount the Association may borrow from the Bank as of June 30, 2017, was $949,583,552 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by $7,835,445 at June 30, 2017, compared to December 31, 2016. The Association's debt as a ratio of members' equity was 4.69:1 as of June 30, 2017, compared to 4.67:1 as of December 31, 2016. Farm Credit Administration regulations require the Association to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required 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 tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations.

Significant Recent Accounting Pronouncements

Information regarding significant recent accounting pronouncements, required to be disclosed, is incorporated herein by reference to Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report.

Regulatory Matters

On March 10, 2016, the FCA approved a final rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that the institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise,
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System,
- To make System regulatory capital requirements more transparent and
- To meet the requirements of section 939A of the Dodd-Frank Act.

The final rule became effective on January 1, 2017. The Association is in compliance with the required minimum capital standards as of June 30, 2017.

Relationship With the Farm Credit Bank of Texas

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2016 Annual Report of Alabama Ag Credit, ACA more fully describe the Association's relationship with the Bank.

The Texas Farm Credit District's (District) annual and quarterly stockholder reports, as well as those of the Bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports for the Bank and the District are also available on its website at *www.farmcreditbank.com.*

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. The quarterly reports will be available on the Association's website at *www.AlabamaAgCredit.com* approximately 40 days after quarter end and can also be obtained by writing to Alabama Ag Credit, ACA, 2660 EastChase Lane, Suite 401, Montgomery, Alabama, 36117 or calling (334) 270-8687. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *Kim.Bond@AlabamaAgCredit.com*. The Association's annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

ALABAMA AG CREDIT, ACA

CONSOLIDATED BALANCE SHEET

		June 30, 2017 (unaudited)		December 31, 2016
ASSETS				
Cash	$	19,915	$	20,897
Loans		944,254,137		909,228,070
Less: allowance for loan losses		6,299,548		6,030,593
Net loans		937,954,589		903,197,477
Accrued interest receivable		8,601,422		8,298,974
Investment in and receivable from the Bank:				
Capital stock		14,615,755		14,615,755
Accrued investment patronage		378,000		38,837
Other		1,102,807		2,613,939
Other property owned, net		433,840		-
Premises and equipment, net		6,672,475		6,505,290
Other assets		714,303		450,961
Total assets	$	970,493,106	$	935,742,130
LIABILITIES				
Note payable to the Bank	$	793,373,816	$	756,229,685
Accrued interest payable		1,484,446		1,344,893
Drafts outstanding		475,151		1,464,958
Patronage distributions payable		657		7,803,784
Other liabilities		4,709,183		6,284,402
Total liabilities		800,043,253		773,127,722
MEMBERS' EQUITY				
Capital stock and participation certificates		3,976,300		3,913,875
Unallocated retained earnings		166,857,039		159,081,109
Accumulated other comprehensive income (loss)		(383,486)		(380,576)
Total members' equity		170,449,853		162,614,408
Total liabilities and members' equity	$	970,493,106	$	935,742,130

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
INTEREST INCOME				
Loans	**$ 11,088,209**	$ 10,170,215	**$ 21,978,484**	$ 20,155,002
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**4,418,501**	3,803,669	**8,492,431**	7,490,957
Net interest income	**6,669,708**	6,366,546	**13,486,053**	12,664,045
PROVISION FOR LOAN LOSSES	**319,499**	91,380	**323,309**	102,054
Net interest income after provision for loan losses	**6,350,209**	6,275,166	**13,162,744**	12,561,991
NONINTEREST INCOME				
Patronage income from the Bank	**270,925**	249,325	**537,998**	497,625
Loan fees	**79,975**	64,555	**201,684**	194,331
Gain on sale of premises and equipment, net	**75,979**	2,836	**126,119**	60,950
Other noninterest income	**330**	283	**69,584**	69,097
Total noninterest income	**427,209**	316,999	**935,385**	822,003
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,916,721**	1,859,313	**3,794,012**	3,823,437
Directors' expense	**119,413**	80,596	**200,420**	214,666
Purchased services	**153,103**	98,922	**197,108**	166,238
Travel	**212,956**	176,474	**346,704**	309,756
Occupancy and equipment	**197,599**	174,402	**402,371**	377,090
Communications	**70,630**	68,344	**148,778**	137,989
Advertising	**64,655**	35,677	**128,754**	134,741
Public and member relations	**91,696**	74,497	**189,191**	164,599
Supervisory and exam expense	**68,253**	66,547	**151,462**	133,094
Insurance Fund premiums	**281,791**	282,028	**648,283**	654,163
Loss (gain) on other property owned, net	**228**	13,589	**(950)**	(63,579)
Other noninterest expense	**64,133**	70,952	**116,672**	124,907
Total noninterest expenses	**3,241,178**	3,001,341	**6,322,805**	6,177,101
NET INCOME	**3,536,240**	3,590,824	**7,775,324**	7,206,893
Other comprehensive income:				
Change in postretirement benefit plans	**(1,455)**	(18)	**(2,910)**	(36)
COMPREHENSIVE INCOME	**$ 3,534,785**	$ 3,590,806	**$ 7,772,414**	$ 7,206,857

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

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2015	$ 3,794,955	$ 151,071,753	$ (387,660)	$ 154,479,048
Net income	-	7,206,893	-	7,206,893
Other comprehensive income	-	-	(36)	(36)
Capital stock/participation certificates issued	255,510	-	-	255,510
Capital stock/participation certificates retired	(208,815)	-	-	(208,815)
Patronage refunds:				
Change in patronage declared and paid	-	4,952	-	4,952
Balance at June 30, 2016	$ 3,841,650	$ 158,283,598	$ (387,696)	$ 161,737,552
Balance at December 31, 2016	$ 3,913,875	$ 159,081,109	$ (380,576)	$ 162,614,408
Net income	-	7,775,324	-	7,775,324
Other comprehensive income	-	-	(2,910)	(2,910)
Capital stock/participation certificates issued	286,205	-	-	286,205
Capital stock/participation certificates retired	(223,780)	-	-	(223,780)
Patronage refunds:				
Change in patronage declared and paid	-	606	-	606
Balance at June 30, 2017	**$ 3,976,300**	**$ 166,857,039**	**$ (383,486)**	**$ 170,449,853**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington and Wilcox in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

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 Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with GAAP, except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by the Farm Credit Administration (FCA), associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements 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 Stockholders. 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 Stockholders. 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, 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." This 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 their financial condition or results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter and six months ended June 30, 2017, are not necessarily indicative of the results to be expected for the year ended December 31, 2017. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows:

Loan Type	**June 30, 2017**	December 31, 2016
Production agriculture:		
Real estate mortgage	**$ 794,304,643**	$ 760,406,038
Production and intermediate term	**93,170,935**	89,146,757
Agribusiness:		
Loans to cooperatives	**3,226,908**	2,616,428
Processing and marketing	**34,632,072**	39,337,878
Farm-related business	**693,943**	719,697
Communication	**2,939,906**	2,835,155
Rural residential real estate	**15,285,730**	14,166,117
Total	**$ 944,254,137**	$ 909,228,070

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA 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	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 9,712,186	$ 17,470,749	$ -	$ -	$ 9,712,186	$ 17,470,749
Production and intermediate term	13,558,103	-	-	-	13,558,103	-
Agribusiness	37,050,442	-	-	-	37,050,442	-
Communication	2,939,906	-	-	-	2,939,906	-
Total	$ 63,260,637	$ 17,470,749	$ -	$ -	$ 63,260,637	$ 17,470,749

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted ACPs are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $12,641,566 and $15,925,764 at June 30, 2017, and December 31, 2016, respectively.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	June 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate mortgage	**$ 4,953,210**	$ 6,310,244
Production and intermediate term	**284,403**	1,129,050
Agribusiness	**33,055**	42,043
Rural residential real estate	**87,144**	90,924
Total nonaccrual loans	**5,357,812**	7,572,261
Accruing restructured loans:		
Real estate mortgage	**1,683,033**	308,599
Production and intermediate term	**56,361**	-
Total accruing restructured loans	**1,739,394**	308,599
Total nonperforming loans	**7,097,206**	7,880,860
Other property owned	**433,840**	-
Total nonperforming assets	**$ 7,531,046**	$ 7,880,860

One credit quality indicator utilized by the Association is the FCA Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- OAEM – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest 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	**98.1** %	98.0 %
OAEM	**0.7**	0.9
Substandard/doubtful	**1.2**	1.1
	100.0	100.0
Production and intermediate term		
Acceptable	**97.1**	98.3
OAEM	**2.4**	0.3
Substandard/doubtful	**0.5**	1.4
	100.0	100.0
Agribusiness		
Acceptable	**99.9**	99.9
OAEM	**-**	-
Substandard/doubtful	**0.1**	0.1
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**99.2**	99.1
OAEM	**0.2**	0.2
Substandard/doubtful	**0.6**	0.7
	100.0	100.0
Total loans		
Acceptable	**98.2**	98.1
OAEM	**0.8**	0.8
Substandard/doubtful	**1.0**	1.1
	100.0 %	100.0 %

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

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	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 2,919,915	$ 84,899	$ 3,004,814	$ 798,708,532	$ 801,713,346	$ -
Production and intermediate term	2,373	123,998	126,371	94,089,904	94,216,275	-
Loans to cooperatives	-	-	-	3,270,521	3,270,521	-
Processing and marketing	-	-	-	34,678,634	34,678,634	-
Farm-related business	-	-	-	694,376	694,376	-
Communication	-	-	-	2,940,247	2,940,247	-
Rural residential real estate	56,845	30,299	87,144	15,255,016	15,342,160	-
Total	$ 2,979,133	$ 239,196	$ 3,218,329	$ 949,637,230	$ 952,855,559	$ -

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	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 1,969,789	$ 899,739	$ 2,869,528	$ 764,432,096	$ 767,301,624	$ -
Production and intermediate term	261,212	53,414	314,626	90,111,594	90,426,220	-
Loans to cooperatives	-	-	-	2,626,595	2,626,595	-
Processing and marketing	-	-	-	39,400,602	39,400,602	-
Farm-related business	-	-	-	720,225	720,225	-
Communication	-	-	-	2,835,739	2,835,739	-
Rural residential real estate	124,317	-	124,317	14,091,721	14,216,038	-
Total	$ 2,355,318	$ 953,153	$ 3,308,471	$ 914,218,572	$ 917,527,043	$ -

Note: The recorded investment in the 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 investment.

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. TDRs are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of June 30, 2017, the total recorded investment of TDR loans was $4,783,767, including $3,044,374 classified as nonaccrual and $1,739,393 classified as accrual, with specific allowance for loan losses of $652,242. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. As of June 30, 2017, the Association had no commitments to lend funds to borrowers whose loan terms have been modified in a TDR.

The following tables present additional information regarding TDRs, which includes both accrual and nonaccrual loans with TDR designation, that occurred during the three and six months ended June 30, 2017. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2017, were $3,302,610.

For the Three Months Ended June 30, 2017	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,403,553	$ 1,379,788
Production and intermediate term	54,432	56,361
Total	$ 1,457,985	$ 1,436,149

For the Six Months Ended June 30, 2017	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,403,553	$ 1,379,788
Production and intermediate term	54,432	56,361
Total	$ 1,457,985	$ 1,436,149

For the Six Months Ended June 30, 2016	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 294,900	$ 283,925
Total	$ 294,900	$ 283,925

During the three months ended June 30, 2016 there were no loans which were modified in TDR.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The predominant form of concession granted for TDR includes extension of the term and/or delayed payments. Other types of modifications include principal or accrued interest reductions and interest rate decreases, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a TDR. No loans modified in the last 12 months have subsequently defaulted as of June 30, 2017.

The following table provides information on outstanding loans restructured in TDRs at period end. These loans are included as impaired loans in the impaired loan table at June 30, 2017:

	Loans Modified as TDRs		TDRs in Nonaccrual Status	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Real estate mortgage	$ 4,567,001	$ 3,206,759	$ 2,883,969	$ 2,898,159
Production and intermediate term	216,766	164,325	160,405	164,325
Total	$ 4,783,767	$ 3,371,084	$ 3,044,374	$ 3,062,484

Additional impaired loan information is as follows:

	June 30, 2017			December 31, 2016		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$4,233,220**	**$ 4,222,775**	**$ 967,276**	$ 1,275,084	$ 1,373,203	$ 304,665
Production and intermediate term	**247,529**	**263,718**	**109,234**	843,623	843,623	375,851
Farm-related business	**33,055**	**33,055**	**5,895**	42,043	42,043	9,451
Rural residential real estate	**30,299**	**30,299**	**21,126**	30,126	30,126	21,617
Total	**$4,544,103**	**$ 4,549,847**	**$1,103,531**	$ 2,190,876	$ 2,288,995	$ 711,584
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$2,403,022**	**$ 2,655,874**	**$ -**	$ 5,343,760	$ 5,602,032	$ -
Production and intermediate term	**93,235**	**107,723**	**-**	285,428	299,916	-
Farm-related business	**-**	**-**	**-**	-	-	-
Rural residential real estate	**56,845**	**56,845**	**-**	60,798	60,798	-
Total	**$2,553,102**	**$ 2,820,442**	**$ -**	$ 5,689,986	$ 5,962,746	$ -
Total impaired loans:						
Real estate mortgage	**$6,636,242**	**$ 6,878,649**	**$ 967,276**	$ 6,618,844	$ 6,975,235	$ 304,665
Production and intermediate term	**340,764**	**371,441**	**109,234**	1,129,051	1,143,539	375,851
Farm-related business	**33,055**	**33,055**	**5,895**	42,043	42,043	9,451
Rural residential real estate	**87,144**	**87,144**	**21,126**	90,924	90,924	21,617
Total	**$7,097,205**	**$ 7,370,289**	**$1,103,531**	$ 7,880,862	$ 8,251,741	$ 711,584

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended			
	June 30, 2017		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	**$4,217,843**	**$ 15,215**	$ 884,248	$ -
Production and intermediate term	**247,791**	**818**	408,933	72
Farm-related business	**33,055**	**-**	42,043	-
Rural residential real estate	**30,168**	**-**	23,495	82
Total	**$4,528,857**	**$ 16,033**	$ 1,358,719	$ 154
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$2,470,980**	**$ 5,753**	$ 5,618,061	$ 4,409
Production and intermediate term	**112,562**	**3,498**	258,624	843
Farm-related business	**-**	**-**	-	-
Rural residential real estate	**57,587**	**-**	103,082	-
Total	**$2,641,129**	**$ 9,251**	$ 5,979,767	$ 5,252
Total impaired loans:				
Real estate mortgage	**$6,688,823**	**$ 20,968**	$ 6,502,309	$ 4,409
Production and intermediate term	**360,353**	**4,316**	667,557	915
Farm-related business	**33,055**	**-**	42,043	-
Rural residential real estate	**87,755**	**-**	126,577	82
Total	**$7,169,986**	**$ 25,284**	$ 7,338,486	$ 5,406

	For the Six Months Ended			
	June 30, 2017		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	**$3,846,519**	**$ 15,215**	$ 2,541,928	$ 5,294
Production and intermediate term	**221,811**	**818**	248,783	72
Farm-related business	**37,499**	**-**	46,109	-
Rural residential real estate	**30,147**	**-**	11,748	82
Total	**$4,135,976**	**$ 16,033**	$ 2,848,568	$ 5,448
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$2,531,047**	**$ 13,864**	$ 4,603,446	$ 8,651
Production and intermediate term	**128,389**	**4,391**	193,266	843
Farm-related business	**-**	**-**	-	-
Rural residential real estate	**58,584**	**-**	111,907	88
Total	**$2,718,020**	**$ 18,255**	$ 4,908,619	$ 9,582
Total impaired loans:				
Real estate mortgage	**$6,377,566**	**$ 29,079**	$ 7,145,374	$ 13,945
Production and intermediate term	**350,200**	**5,209**	442,049	915
Farm-related business	**37,499**	**-**	46,109	-
Rural residential real estate	**88,731**	**-**	123,655	170
Total	**$6,853,996**	**$ 34,288**	$ 7,757,187	$ 15,030

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at March 31, 2017	$ 5,677,554	$ 248,699	$ 72,585	$ 3,657	$ -	$ 42,223	$ 6,044,718
Charge-offs	(59,213)	-	-	-	-	-	(59,213)
Recoveries	1,699	-	-	-	-	-	1,699
Provision for loan losses	279,326	40,625	(2,594)	(14)	-	2,156	319,499
Other	5,042	(1,137)	(11,221)	-	-	161	(7,155)
Balance at June 30, 2017	$ 5,904,408	$ 288,187	$ 58,770	$ 3,643	$ -	$ 44,540	$ 6,299,548
Balance at December 31, 2016	$ 5,396,080	$ 520,729	$ 67,499	$ 3,514	$ -	$ 42,771	$ 6,030,593
Charge-offs	(59,213)	-	-	-	-	-	(59,213)
Recoveries	3,398	-	-	-	-	-	3,398
Provision for loan losses	558,416	(237,619)	1,090	(28)	-	1,450	323,309
Other	5,727	5,077	(9,819)	157	-	319	1,461
Balance at June 30, 2017	$ 5,904,408	$ 288,187	$ 58,770	$ 3,643	$ -	$ 44,540	$ 6,299,548
Ending Balance:							
Individually evaluated for impairment	$ 1,209,471	$ 113,429	$ 5,895	$ -	$ -	$ 21,126	$ 1,349,921
Collectively evaluated for impairment	4,694,937	174,758	52,875	3,643	-	23,414	4,949,627
Balance at June 30, 2017	$ 5,904,408	$ 288,187	$ 58,770	$ 3,643	$ -	$ 44,540	$ 6,299,548
Balance at March 31, 2016	$ 5,120,444	$ 177,475	$ 71,752	$ 1,200	$ 964	$ 23,629	$ 5,395,464
Charge-offs	(49,253)	-	-	-	-	-	(49,253)
Recoveries	5,894	434	-	-	-	-	6,328
Provision for loan losses	(226,972)	301,264	(10,225)	2,402	(46)	24,957	91,380
Other	59	3,628	(143)	(217)	(29)	47	3,345
Balance at June 30, 2016	$ 4,850,172	$ 482,801	$ 61,384	$ 3,385	$ 889	$ 48,633	$ 5,447,264
Balance at December 31, 2015	$ 5,113,387	$ 183,005	$ 58,299	$ 1,230	$ 1,014	$ 24,142	$ 5,381,077
Charge-offs	(49,481)	(4,116)	-	-	-	-	(53,597)
Recoveries	13,421	434	-	-	-	-	13,855
Provision for loan losses	(227,306)	301,544	1,116	2,372	(78)	24,406	102,054
Other	151	1,934	1,969	(217)	(47)	85	3,875
Balance at June 30, 2016	$ 4,850,172	$ 482,801	$ 61,384	$ 3,385	$ 889	$ 48,633	$ 5,447,264
Ending Balance:							
Individually evaluated for impairment	$ 416,859	$ 344,954	$ 9,451	$ -	$ -	$ 24,345	$ 795,609
Collectively evaluated for impairment	4,433,313	137,847	51,933	3,385	889	24,288	4,651,655
Balance at June 30, 2016	$ 4,850,172	$ 482,801	$ 61,384	$ 3,385	$ 889	$ 48,633	$ 5,447,264

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:							
Ending Balance at June 30, 2017	$ 801,713,346	$ 94,216,275	$ 38,643,531	$ 2,940,247	$ -	$ 15,342,160	$ 952,855,559
Individually evaluated for impairment	$ 9,256,692	$ 467,409	$ 33,055	$ -	$ -	$ 87,144	$ 9,844,300
Collectively evaluated for impairment	$ 792,456,654	$ 93,748,866	$ 38,610,476	$ 2,940,247	$ -	$ 15,255,016	$ 943,011,259
Ending Balance at December 31, 2016	$ 767,301,624	$ 90,426,220	$ 42,747,422	$ 2,835,739	$ -	$ 14,216,038	$ 917,527,043
Individually evaluated for impairment	$ 8,878,531	$ 1,253,048	$ 42,043	$ -	$ -	$ 90,924	$ 10,264,546
Collectively evaluated for impairment	$ 758,423,093	$ 89,173,172	$ 42,705,379	$ 2,835,739	$ -	$ 14,125,114	$ 907,262,497

NOTE 3 — CAPITAL

The Association’s board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association’s permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan portfolio; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

Regulatory Capitalization Requirements

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 earnings equivalents (UREE) leverage ratio. The permanent capital ratio continues to remain in effect.

The Association’s ratios were as follows:

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer***	**Total**	**As of June 30, 2017**
Common equity tier 1 ratio	4.50%	2.50%	7.00%	16.28%
Tier 1 capital ratio	6.00%	2.50%	8.50%	16.28%
Total capital ratio	8.00%	2.50%	10.50%	16.92%
Permanent capital ratio	7.00%	0.00%	7.00%	16.38%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.00%	1.00%	5.00%	16.32%
UREE leverage ratio	1.50%	0.00%	1.50%	17.44%

*The 2.5% capital conservation buffer for the risk-adjusted ratios will be phased in over a three year period ending on December 31, 2019.

Risk-adjusted assets have been defined by FCA Regulations as the Statement of Condition 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 impact 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

Risk-adjusted assets is calculated differently for the permanent capital ratio (referred herein as PCR risk-adjusted assets) compared to the other risk-based capital ratios. The primary difference is the deduction of the allowance for loan losses from risk-adjusted assets for the permanent capital ratio.

The ratios are based on a three-month average daily balance in accordance with FCA regulations and are calculated as follows:

- Common equity tier 1 ratio is 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 allocated investments in other System institutions, and the amount of purchased investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Tier 1 capital ratio is common equity tier 1 plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.

- Total capital is tier 1 capital plus other required borrower stock held for a minimum of 5 years, allocated equities 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 and reserve for credit losses under certain limitations, less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.

- Permanent capital ratio (PCR) is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred subject to certain limitations, less certain allocated and purchased investments in other System institutions, divided by PCR risk-adjusted assets.

- Tier 1 leverage ratio is tier 1 capital, including regulatory deductions, divided by average assets less regulatory deductions subject to tier 1 capital.

- UREE leverage ratio is unallocated retained earnings, paid-in capital, 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 subject to tier 1 capital.

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

An additional component of equity is accumulated other comprehensive income. The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in “Salaries and employee benefits” in the Consolidated Statement of Comprehensive Income.

The following table summarizes the changes in accumulated other comprehensive income (loss) for the six months ended June 30:

	2017	2016
Accumulated other comprehensive income (loss) at January 1	**$(380,576)**	$ (387,660)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(11,532)**	(11,532)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**8,622**	11,496
Other comprehensive income (loss), net of tax	**(2,910)**	(36)
Accumulated other comprehensive income at June 30	**$ (383,486)**	$ (387,696)

NOTE 4 — INCOME TAXES

Alabama Ag Credit, ACA and its PCA subsidiary, Alabama Ag Credit, PCA (Associations) are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. The Association has recorded a full valuation allowance against its deferred tax asset as of June 30, 2017 based on management's estimate that it is more likely than not that the deferred tax asset will not be realized. For the three and six months ended June 30, 2017 and 2016, the Associations had no taxable income. The subsidiary, Alabama Ag Credit, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 5 — FAIR VALUE MEASUREMENTS

FASB 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 13 to the 2016 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

June 30, 2017	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 58,149**	**$ -**	**$ -**	**$ 58,149**

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 41,835	$ -	$ -	$ 41,835

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

June 30, 2017	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$4,964,395**	**$4,964,395**
Other property owned	**-**	**-**	**488,070**	**488,070**

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 2,946,422	$ 2,946,422
Other property owned	-	-	-	-

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Information About Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for 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 take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 13 to the 2016 Annual Report to Stockholders, authoritative 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 represent a brief summary of the valuation techniques used for the Association's assets and liabilities.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were 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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value 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.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy. As of June 30, 2017, other property owned, net is reported at $433,840 in the consolidated balance sheet.

NOTE 6 — EMPLOYEE BENEFIT PLANS

Employee Retirement Plans: As discussed in Note 2 and Note 11 to the 2016 Annual Report to Stockholders, employees of the Association participate in either the District's defined benefit pension plan (DB Plan) or the District's defined contribution plan (DC Plan).

The structure of the DB Plan is characterized as multi-employer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The annual contribution is paid in January of each year, and amortized into expense on a monthly basis; unamortized contributions are included in "Other Assets" in the consolidated balance sheet. The following table represents DB contributions made, amounts amortized into expense, and the remaining unamortized contributions amounts as of June 30:

	2017	2016
DB contribution	**$ 433,840**	$ 577,997
YTD amortization	**216,920**	288,999
Net periodic benefit cost	**$ 216,920**	$ 288,998

Association contributions to the DC Plan are expensed as incurred. For the six months ended June 30, 2017 and 2016, the Association recognized pension costs for the DC Plan of $147,459 and $141,857, respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Contributions to the 401(k) plan are expensed as incurred. The Association's contributions to the 401(k) plan were $110,595 and $109,816 for the six months ended June 30, 2017 and 2016, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer, and consequently, the liability for these benefits is included in the consolidated balance sheet. The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the six months ended June 30:

	Other Benefits	
	2017	2016
Service cost	**$ 29,938**	$ 30,684
Interest cost	**60,446**	59,524
Expected return on plan assets	**-**	-
Amortization of prior service credits	**(11,532)**	(11,532)
Amortization of net actuarial loss	**8,622**	11,496
Net periodic benefit cost	**$ 87,474**	$ 90,172

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2017, was $2,720,921 and is included in "Other Liabilities" in the balance sheet.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 8 — SUBSEQUENT EVENTS

The Association has evaluated subsequent events through August 7, 2017 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 7, 2017.