FARM CREDIT OF NESS CITY, FLCA

2017
2nd QUARTER
REPORT

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 Ness City, FLCA 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.

Farm Credit of Ness City's annual and quarterly reports to stockholders are available on the Association's website, FarmCreditNessCity.com or can be obtained free of charge by contacting the Association's headquarters at (785) 798-2278. Annual reports are available 75 days after year end and quarterly reports are available 40 days after each calendar quarter end. The financial condition and results of operations of CoBank, ACB (CoBank), materially affect the risk associated with stockholder investments in Farm Credit of Ness City, FLCA. Stockholders of Farm Credit of Ness City, FLCA may obtain copies of CoBank's financial statements free of charge by visiting CoBank's website, CoBank.com or by contacting us at our Ness City office located at 101 Eagle Drive, Ness City, KS 67560, or by calling us at (785) 798-2278.

NOTICE OF SIGNIFICANT OR MATERIAL EVENTS

On October 4, 2016, the Ness City, FLCA (Ness City) Board of Directors invited High Plains Farm Credit, ACA (High Plains) to a meeting to discuss a potential strategic partnership. As a result of the meeting, High Plains and Ness City entered into a joint management agreement effective January 1, 2017, with the intent to merge at a later date in 2017. The planned merger will be subject to the approval of the Farm Credit Administration, CoBank, and stockholder votes of both High Plains and Ness City. Detailed disclosure packages, including voting ballots, were mailed out to all stockholders on July 7, 2017. Stockholder meetings were held July 18th and July 19th in Grainfield, Ness City, Hays and Larned, Kansas in order to provide all stockholders an opportunity to meet with management and have their questions regarding the merger answered. Special Stockholder meetings will be held on August 9th, 2017 at the Farm Credit of Ness City office in Ness City at 8:30 AM and at the High Plains Farm Credit office in Larned at 1:00 PM to cast stockholder ballots and present the results of merger voting.

CURRENT MARKET CONDITIONS

According to the U.S. drought monitor, drought conditions in our territory are categorized as "normal" to "abnormally dry" conditions. Winter wheat harvest is nearly complete across the territory, with yields ranging from 10 to 70 bushel per acre. Hail and disease destroyed crops in some areas. Since March, all cash grain prices and soybean prices have increased, with wheat and soybeans both increasing over $1/bu. Crop insurance continues to be utilized to help manage risk in this area.

After a substantial decline in cattle prices at the end of 2015, which continued through 2016, the market appears to have stabilized into the first half of 2017. While cattlemen may not experience the profits they did prior to the decline, profits are being realized across most classes of cattle. Most producers are utilizing a risk protection program to limit risk and protect their margins. Cattle prices have increased since March 2017.

The real estate market continues to show some signs of weakening. Values have declined for most tracts of land, especially in diversified areas. Buyers continue to be traditional farmers and ranchers.

LOAN PORTFOLIO

Loans outstanding at June 30, 2017 totaled $326.8 million, a decrease of $8.8 million, or 2.63%, from loans of $335.6 million at December 31, 2016. The decrease was primarily due to scheduled payments and loan pay downs in excess of new loans and advances.

RESULTS OF OPERATIONS

We posted strong financial results for the six month period ending June 30, 2017. Net income for the six months ended June 30, 2017 was $2.8 million, a decrease of $545 thousand, or 16.14%, from the same period ended one year ago. The decrease in net income was primarily due to an increase in noninterest expense.

Net interest income for the six months ended June 30, 2017 was $4.2 million, a decrease of $86 thousand, or 2.01%, compared with June 30, 2016. Net interest income decreased as a result of a decrease in the average loan volume.

The provision for credit losses for the six months ended June 30, 2017 was $40 thousand, an increase of $40 thousand, or 100.00%, from the same period ended one year ago. The increase in provision for credit losses was a result of loan risk classification changes due to a decline of credit quality in the overall loan portfolio.

Noninterest income decreased $28 thousand during the first six months of 2017 compared with the first six months in 2016 primarily due to a $61 thousand decrease in patronage income as a result of a decrease in average loan volume. Other factors contributing to the decrease were a $19 thousand decrease in financially related services income; partially offset by a $15 thousand increase in mineral income and a $33 thousand increase in other noninterest income, which was mainly attributable to a $28 thousand gain recognized on the sale of assets in 2017.

During the first six months of 2017, noninterest expense increased $391 thousand to $2.3 million, primarily due to an increase of $356 thousand in salaries and benefits attributed to incentive program payments and Joint Management transition costs. Merger implementation costs incurred during the first six months of 2017 related to the pending merger with High Plains Farm Credit accounted for approximately $50 thousand of the increase.

CAPITAL RESOURCES

Our shareholders' equity at June 30, 2017 was $73.1 million, an increase from $72.7 million at December 31, 2016. The increase is due to net income earned year to date, partially offset by patronage declared and net stock retirements.

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 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.

Keith Kennedy
Chairman of the Board
August 4, 2017

Jeannine Mondero
Chairman of the Audit Committee
August 4, 2017

Kevin D. Swayne
President and Chief Executive Officer
August 4, 2017

Kristen Windscheffel
Chief Financial Officer
August 4, 2017

Statement of Condition

(Dollars in Thousands)

	June 30 2017 UNAUDITED	December 31 2016 AUDITED
ASSETS		
Loans	**$ 326,790**	$ 335,620
Less allowance for loan losses	**179**	154
Net loans	**326,611**	335,466
Cash	**307**	2,864
Accrued interest receivable	**5,647**	4,001
Investment in CoBank, ACB	**11,856**	11,735
Premises and equipment, net	**1,853**	1,837
Prepaid benefit expense	**349**	321
Other assets	**1,476**	2,258
Total assets	**$ 348,099**	$ 358,482
LIABILITIES		
Note payable to CoBank, ACB	**$ 271,698**	$ 284,338
Accrued interest payable	**366**	304
Accrued benefits liability	**52**	52
Reserve for unfunded commitments	**15**	-
Other liabilities	**2,912**	1,054
Total liabilities	**275,043**	285,748
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Capital stock	**713**	732
Unallocated retained earnings	**72,343**	72,002
Total shareholders' equity	**73,056**	72,734
Total liabilities and shareholders' equity	**$ 348,099**	$ 358,482

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

Statement of Comprehensive Income

(Dollars in Thousands)

UNAUDITED	For the three months ended June 30 2017	For the three months ended June 30 2016	For the six months ended June 30 2017	For the six months ended June 30 2016
INTEREST INCOME				
Loans	**$ 3,471**	$ 3,276	**$ 6,846**	$ 6,617
Total interest income	**3,471**	3,276	**6,846**	6,617
INTEREST EXPENSE				
Note payable to CoBank	**1,381**	1,150	**2,650**	2,335
Total interest expense	**1,381**	1,150	**2,650**	2,335
Net interest income	**2,090**	2,126	**4,196**	4,282
Provision for loan losses	**40**	-	**40**	-
Net interest income after provision for loan losses	**2,050**	2,126	**4,156**	4,282
NONINTEREST INCOME				
Financially related services income	**16**	16	**38**	57
Loan fees	**(8)**	3	**13**	9
Patronage refund from Farm Credit Institutions	**410**	438	**823**	884
Mineral income	**41**	33	**81**	66
Other noninterest income	**29**	-	**44**	11
Total noninterest income	**488**	490	**999**	1,027
NONINTEREST EXPENSE				
Salaries and employee benefits	**569**	423	**1,375**	1,019
Occupancy and equipment	**27**	30	**56**	57
Purchased services from AgVantis, Inc.	**162**	159	**327**	318
Farm Credit Insurance Fund premium	**94**	102	**190**	210
Merger-implementation costs	**37**	-	**50**	-
Supervisory and examination costs	**37**	31	**74**	62
Other noninterest expense	**108**	117	**251**	266
Total noninterest expense	**1,034**	862	**2,323**	1,932
Net income/Comprehensive income	**$ 1,504**	$ 1,754	**$ 2,832**	$ 3,377

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

Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

UNAUDITED	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2015	$ 747	$ 67,835	$ 68,582
Comprehensive income		3,377	3,377
Stock issued	23		23
Stock retired	(33)		(33)
Patronage distributions: Cash		(2,632)	(2,632)
Balance at June 30, 2016	$ 737	$ 68,580	$ 69,317
Balance at December 31, 2016	$ 732	$ 72,002	$ 72,734
Comprehensive income		2,832	2,832
Stock issued	13		13
Stock retired	(32)		(32)
Patronage Distributions: Cash		(2,491)	(2,491)
Balance at June 30, 2017	**$ 713**	**$ 72,343**	**$ 73,056**

The accompanying notes are an integral part of these 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 Ness City, FLCA (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	**$ 282,704**	$ 287,788
Production and intermediate-term	**18,106**	20,875
Agribusiness	**25,134**	26,079
Rural residential real estate	**846**	878
Total loans	**$ 326,790**	$ 335,620

The Association purchases or 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	
	Purchased	Sold
Real estate mortgage	$ 6,315	$ 50,798
Production and intermediate-term	18,106	-
Agribusiness	24,834	-
Total	$ 49,255	$ 50,798

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	**95.70%**	97.18%
OAEM	**2.71%**	0.84%
Substandard	**1.59%**	1.98%
Total	**100.00%**	100.00%
Production and intermediate-term		
Acceptable	**99.27%**	99.38%
Substandard	**0.73%**	0.62%
Total	**100.00%**	100.00%
Agribusiness		
Acceptable	**100.00%**	99.91%
OAEM	**0.00%**	0.09%
Total	**100.00%**	100.00%

	June 30, 2017	December 31, 2016
Rural residential real estate		
Acceptable	**100.00%**	97.19%
OAEM	**0.00%**	2.81%
Total	**100.00%**	100.00%
Total Loans		
Acceptable	**96.23%**	97.52%
OAEM	**2.35%**	0.74%
Substandard	**1.42%**	1.74%
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	**$ 2,279**	$ 2,783
Total nonaccrual loans	**$ 2,279**	$ 2,783
Total high risk assets	**$ 2,279**	$ 2,783

There were no accruing restructured, loans 90 days or more past due, or other property owned 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	**$ 2,279**	**$ 2,249**	**$ -**	$ 2,783	$ 2,723	$ -
Total	**$ 2,279**	**$ 2,249**	**$ -**	$ 2,783	$ 2,723	$ -

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 the period 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 no related allowance for credit losses:				
Real estate mortgage	**$ 2,352**	**$ 4**	$ 593	$ 3
Total	**$ 2,352**	**$ 4**	$ 593	$ 3

	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 no related allowance for credit losses:				
Real estate mortgage	**$ 2,340**	**$ 7**	$ 455	$ 3
Total	**$ 2,340**	**$ 7**	$ 455	$ 3

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	$ 40	$ 1,771	$ 1,811	$ 286,350	$ 288,161	$ -
Production and intermediate-term	133	-	133	18,116	18,249	-
Agribusiness	-	-	-	25,176	25,176	-
Rural residential real estate	-	-	-	851	851	-
Total	$ 173	$ 1,771	$ 1,944	$ 330,493	$ 332,437	$ -

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	$ 335	$ 2,436	$ 2,771	$ 288,816	$ 291,587	$ -
Production and intermediate-term	-	-	-	21,010	21,010	-
Agribusiness	-	-	-	26,144	26,144	-
Rural residential real estate	-	-	-	880	880	-
Total	$ 335	$ 2,436	$ 2,771	$ 336,850	$ 339,621	$ -

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	Balance at June 30, 2017
Real estate mortgage	$ 70	$ -	$ -	$ 15	$ 85
Production and intermediate-term	40	-	-	7	47
Agribusiness	44	-	-	3	47
Total	$ 154	$ -	$ -	$ 25	$ 179

	Balance at December 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses	Balance at June 30, 2017
Real estate mortgage	$ 79	$ -	$ -	$ 6	$ 85
Production and intermediate-term	33	-	-	14	47
Agribusiness	42	-	-	5	47
Total	$ 154	$ -	$ -	$ 25	$ 179

	Balance at March 31, 2016	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2016
Real estate mortgage	$ 65	$ -	$ -	$ (5)	$ 60
Production and intermediate-term	24	-	-	4	28
Agribusiness	43	-	-	1	44
Total	$ 132	$ -	$ -	$ -	$ 132

	Balance at December 31, 2015	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversals)	Balance at June 30, 2016
Real estate mortgage	$ 65	$ -	$ -	$ (5)	$ 60
Production and intermediate-term	24	-	-	4	28
Agribusiness	43	-	-	1	44
Total	$ 132	$ -	$ -	$ -	$ 132

The Association maintains a separate reserve for unfunded commitments, which is included in Liabilities on the Association's Statement of Condition. The related provision for the reserve for unfunded commitments is included as part of the provision for credit losses on the 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	**$ -**	$ -	**$ -**	$ -
Provision for unfunded commitments	**15**	-	**15**	-
Total	**$ 15**	$ -	**$ 15**	$ -

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	$ -	$ 85	$ 2,279	$ 285,882
Production and intermediate-term	-	47	-	18,249
Agribusiness	-	47	-	25,176
Rural residential real estate	-	-	-	851
Total	$ -	$ 179	$ 2,279	$ 330,158

	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	$ -	$ 79	$ 2,783	$ 288,804
Production and intermediate-term	-	33	-	21,010
Agribusiness	-	42	-	26,144
Rural residential real estate	-	-	-	880
Total	$ -	$ 154	$ 2,783	$ 336,838

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 Association recorded no TDRs during the six months ended June 30, 2017.

The Association had no TDRs within the previous 12 months and for which there were subsequent payment defaults during the period.

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	17.88%	4.5%	2.5%*	7.0%
Tier 1 capital ratio	17.88%	6.0%	2.5%*	8.5%
Total capital ratio	17.93%	8.0%	2.5%*	10.5%
Permanent capital ratio	17.90%	7.0%	–	7.0%
Non-risk-adjusted:				
Tier 1 leverage ratio	18.01%	4.0%	1.0%	5.0%
Unallocated retained earnings and equivalents leverage ratio	20.60%	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.

In April 2017, a patronage distribution of $2,491 was declared. Patronage was subsequently paid out in May 2017 and June 2017.

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.

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

	Fair Value Measurement Using			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets held in nonqualified benefits trusts				
June 30, 2017	**$ 252**	**$ –**	**$ –**	**$ 252**
December 31, 2016	$ 80	$ –	$ –	$ 80

During the first six months of 2017, the Association recorded no transfers in or out of Levels 1, 2, or 3. The Association had no liabilities measured at fair value on a recurring basis at June 30, 2017 or December 31, 2016.

The Association had no assets or 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.

Assets Held in Non-Qualified 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.

NOTE 5 - 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.