ALABAMA FARM CREDIT, ACA

2017
Quarterly Report
Second Quarter

For the Quarter Ended June 30, 2017

REPORT OF MANAGEMENT

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

K. Ben Gore, Chief Executive Officer/President
August 9, 2017

Matthew Christjohn, Chairman, Board of Directors
August 9, 2017

Karri H. Sumrall, Chief Financial Officer/Ex. Vice President
August 9, 2017

John R. Adams, CPA, Chairman, Audit Committee
August 9, 2017

ALABAMA FARM CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Alabama Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter 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.

Significant Events:

In January 2017, the Association approved a patronage distribution to its stockholders. The Association was able to distribute $8,449,538 to its members due to strong earnings during 2016. The distribution was made in March 2017.

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 fixed, adjustable and indexed-based interest rates with loan maturities ranging up to 30 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, including nonaccrual loans, were $700,974,243 compared to $672,097,379 at December 31, 2016, reflecting an increase of 4.3 percent.

Total loans	**6/30/2017**	12/31/2016
Acceptable	**97.9**	97.9
OAEM	**1.3**	1.7
Substandard/doubtful	**0.8**	0.4
	100.0 %	100.0 %

The Association's largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 46.6 percent or $326,721,092. The industry is presently stable, with market prices for poultry showing some signs of stress due to oversupply. This has resulted in the integrators showing marginal profits thus far in 2017. Production in 2017 should remain steady as markets both in the states and overseas continue to show signs of sufficient poultry meat supplies. Overall credit quality has remained stable and the industry remained relatively consistent within the markets for the first six months of 2017. The Association has $112,136,713, or 34.3 percent of this commodity segment government guaranteed, which helps to reduce loss exposure. Poultry farm sales during 2016 were few in number, but demand remains in the market place. The Association continues to experience some isolated concerns in its portfolio as evidenced by some due date changes to better match the individual growers' batch sales. Management believes that this loan servicing is due to changes in the poultry markets where integrators are adjusting their bird size and placement dates as the market dictates.

Avian Influenza, or bird flu, continues to be a concern to the Association. In mid-March, two cases of the highly pathogenic H7 Avian Influenza were confirmed in Tennessee just north of the Association's territory. Also, three cases of the low pathogenic Avian Influenza were confirmed in North Alabama within the Association's territory, including one farm of an Association borrower. In all cases, the birds were destroyed and farms were extensively cleaned and disinfected, along with weekly testing of farms within a 6.2 mile radius of the affected farms. The State Department of Agriculture and Industries, as well as all poultry integrators, have enforced mandatory strict biosecurity measures on all farms. The state issued a stop movement order on certain poultry in Alabama (primarily backyard flocks, show and exhibition poultry). This order was lifted on April 14, 2017. The Association has implemented bio security guidelines for poultry farm inspections during high risk conditions. With the warmer summer weather the threat from the bird flu has diminished. The Association will continue to monitor any changes regarding outbreaks and any impact to the loan portfolio on an ongoing basis.

Agricultural income has continued to decline since its high in 2014. There continues to be volatility on row crop commodity prices however, the Association has not identified any negative trends on this segment of the portfolio at this time. Cattle producers are seeing a slowdown in demand with downward pressure on prices during the second quarter of 2017, due to a buildup of freezer inventories, however profits remain favorable compared to historical averages. Profits from cattle operations have had some negative impact on demand for livestock loans.

Stumpage prices for timber have decreased somewhat particularly for pine and hardwood pulpwood and to a lesser extent hardwood saw timber. All timber products which are exported particularly paper and pulp have decreased significantly in price due to the continued strength of the dollar. If the tariff on Canadian softwood lumber imports that the President announced in April 2017 remain, pine saw timber and in particular framing lumber prices could increase as much as 20 percent. The new pine lumber mill announced for Demopolis, Alabama should commence production in the third quarter of 2017. That increase in demand should help prices for pine saw timber at least within that area of West Central Alabama.

Overall land values have seen a slight improvement or remained stable in most all areas of the Association's territory based on the current economic climate. The agricultural economy, in general for the area, remained stable during the second quarter of 2017.

With a favorable lending package and steady demand, the Association anticipates steady loan growth throughout 2017. The probability of higher input costs, questions about future commodity supplies and prices, volatility in export markets and unfolding world events increase the level of financial risk in the farming sector and, likewise, the level of credit risk to those financial institutions providing credit to that sector. Given the conditions outlined herein, the quality of the loan portfolio is expected to remain constant throughout the remainder of 2017.

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	**$ 2,980,849**	**51.1%**	$ 1,354,126	25.3%
90 days past due and still accruing interest	**-**	**0.0%**	679,933	12.7%
Formally restructured	**908,205**	**15.6%**	1,243,130	23.3%
Other property owned, net	**1,941,099**	**33.3%**	2,064,392	38.7%
Total	**$ 5,830,153**	**100.0%**	$ 5,341,581	100.0%

High-risk assets increased by $488,572, or 9.1 percent, primarily due to the increase in nonaccrual loan volume, offset by a decrease in loans 90 days past due and still accruing interest and formally restructured loans. Nonaccrual loans as a percentage of total loans outstanding were 0.4 percent at June 30, 2017, compared to 0.2 percent at December 31, 2016. Since December 31, 2016, the Association has moved four loans totaling $2,134,572 to nonaccrual status due to delinquency and cash flow issues. Additionally, the Association has acquired one property totaling $448,061 and written down the value of four properties totaling $162,763 based on current appraisals or sales contracts executed. The Association has disposed of four properties during the six months ended June 30, 2017. At June 30, 2017, the Association held seven properties totaling $1,941,099, which consisted of approximately 456.3 acres of land. Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable.

Impaired loans consist of all high-risk assets except other property owned. At June 30, 2017 and December 31, 2016, loans that were considered impaired were $3,881,662 and $3,277,189, respectively, representing 0.6 percent and 0.5 percent of total loan volume, respectively. The Association recorded $952 in recoveries and no charge-offs for the quarter ended June 30, 2017, and $958 in recoveries and $41,724 in charge-offs for the same period in 2016. The Association's allowance for loan losses was 0.5 percent and 0.6 percent of total loans outstanding as of June 30, 2017, and December 31, 2016, respectively.

Counterparty risk is continually monitored by management of the Association. The Association's primary counterparty risk comes from participation loans and from the poultry integrators to which its borrowers are associated. The Association has participation loans with other Farm Credit associations and Farm Credit banks, all of which are currently performing. Additionally, because the Association's portfolio has approximately a 46.6 percent concentration in poultry, it mitigates its inherent risks with poultry and the integrators by heavy utilization of government guarantees. Also, the Association's lending territory has multiple integrators which would minimize the risk of counterparty failure or lack of performance. Management analyzes the financial position and performance of these integrators by regularly gathering updated financials and other reports that are made available to the public.

As disclosed in the Association's 2016 Annual Report, it is management's assertion that the allowance coverage is adequate based on historical losses, portfolio stress testing, risk analysis, mitigation of losses due to having first lien real estate with minimal price appreciation and having approximately $117.6 million, or 16.8 percent, of its portfolio government guaranteed at June 30, 2017. Management continuously monitors high-risk assets in an effort to reduce their impact on the Association and will continue to work with all of the Association's high-risk borrowers to receive full payment on the debt. Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural lender.

Results of Operations:

The Association had net income of $3,460,050 for the three months ended June 30, 2017, as compared to net income of $3,696,976 for the same period in 2016, reflecting a decrease of 6.4 percent. Net interest income was $5,240,878 for the three months ended June 30, 2017, compared to $5,154,949 for the same period in 2016.

	Three months ended:			
	June 30, 2017		June 30, 2016	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 679,575,025**	**$ 17,012,648**	$ 641,433,051	$ 15,846,497
Interest-bearing liabilities	**586,019,122**	**6,492,511**	551,809,180	5,607,721
Impact of capital	**$ 93,555,903**		$ 89,623,871	
Net interest income		**$ 10,520,137**		$ 10,238,776

	2017 Average Yield	2016 Average Yield
Yield on loans	**5.0%**	5.0%
Cost of interest-bearing liabilities	**2.2%**	2.0%
Interest rate spread	**2.8%**	3.0%
Net interest income as a percentage of average earning assets	**3.1%**	3.2%

	Three months ended: June 30, 2017 vs. June 30, 2016		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 939,678**	**$ 226,473**	**$ 1,166,151**
Interest expense	**346,701**	**538,089**	**884,790**
Net interest income	**$ 592,977**	**$ (311,616)**	**$ 281,361**

Net interest income for the three months ended June 30, 2017, increased by $281,361, or 2.7 percent, from the same period of 2016, primarily due to an increase in average loan volume, offset by a slight increase in interest expense. Interest expense for the three months ended June 30, 2017, increased by $884,790, or 15.8 percent, from the same period of 2016 due primarily to an increase in interest rates and average debt volume. Average loan volume for the second quarter of 2017 was $679,575,025, compared to $641,433,051 in the second quarter of 2016. The average net interest rate spread on the loan portfolio for the second quarter of 2017 was 2.8 percent, compared to 3.0 percent in the second quarter of 2016.

Noninterest income for the three months ended June 30, 2017 decreased by $20,800, or 3.5 percent, as compared to the same period in 2016. The decrease is primarily due to the decrease in loan fees offset by an increase in accrued patronage income from the Farm Credit Bank of Texas; based on an increase in average direct note outstanding compared to the same period in 2016. Noninterest income for the six months ended June 30, 2017 increased by $16,188, or 1.4 percent, as compared to the same period in 2016. The increase is primarily due to increase in accrued patronage income from the Farm Credit Bank of Texas, offset by a slight decrease in loan fees and gain on sale of premises and equipment, net, as compared to the same period in 2016.

Noninterest expenses for the three and six months ended June 30, 2017 increased by $37,072 and $110,124, respectively, or 1.7 and 2.6 percent, respectively, as compared to the same periods in 2016. The increase was due primarily to increases in purchased services, travel, advertising, and public and member relations. The increase was offset by decreases in loss on other property owned, net, salaries and employee benefits, and other noninterest expense. The increase in purchased services was due to the timing of billings for services provided and in increase in purchased services due to the impact of Internal Control Over Financial Reporting as compared to the same periods in 2016. The increase in travel was due to an increase in travel for additional training events as compared to the same periods in 2016. The increase in advertising and public and member relations was due to an increase in the budgeted amounts for these expense categories and the timing of the expenses incurred as compared to the same periods in 2016. The decrease in loss on other property owned, net, is due to steady property values and a decrease in expenses incurred as compared to for the same periods in 2016.

The Association's return on average assets for the six months ended June 30, 2017, was 2.1 percent compared to 2.2 percent for the same period in 2016. The Association's return on average equity for the six months ended June 30, 2017, was 13.4 percent, compared to 14.0 percent for the same period in 2016.

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 Systemwide debt obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	June 30, 2017	December 31, 2016
Note payable to the bank	**$ 607,421,650**	$ 574,372,777
Accrued interest on note payable	**1,130,322**	1,031,551
Total	**$ 608,551,972**	$ 575,404,328

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 $607,421,650 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 2.3 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 to the Association's increase in loan portfolio as a result of increased loan demand in its 27 county territory. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $93,994,061 at June 30, 2017. The maximum amount the Association may borrow from the Bank as of June 30, 2017, was $707,486,435 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, which is September 30, 2018, 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. The Association was in compliance with the GFA as of June 30, 2017.

Capital Resources:

The Association's capital position increased by $7,226,360 at June 30, 2017, compared to December 31, 2016. The Association's debt as a percentage of members' equity was 5.5:1 as of June 30, 2017, compared to 5.7:1 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.

Risk-adjusted:	Regulatory Minimums	Conservation Buffer	Total	As of June 30, 2017
Common equity tier 1 ratio	4.5%	2.5%	7.0%	16.0%
Tier 1 capital ratio	6.0%	2.5%	8.5%	16.0%
Total capital ratio	8.0%	2.5%	10.5%	16.6%
Permanent capital ratio	7.0%	0.0%	7.0%	16.1%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.0%	1.0%	5.0%	14.2%
UREE leverage ratio	1.5%	0.0%	1.5%	15.4%

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

Significant Recent Accounting Pronouncements:

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 Financial Accounting Standards Board (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." 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.

Regulatory Matters:

On March 10, 2016, the Farm Credit Administration 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 Farm 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 quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Alabama Farm Credit, ACA, P.O. Box 639, Cullman, Alabama 35056 or calling (256) 737-7128. Copies of the Association's quarterly stockholder reports can also be requested by emailing *karri.sumrall@alabamafarmcredit.com* or can be obtained on its website at *www.alabamafarmcredit.com* 40 days after quarter end. The Association's annual stockholder report is available on its website at *www.alabamafarmcredit.com* 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 FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash	$ 231,648	$ 11,349
Loans	700,974,243	672,097,379
Less: allowance for loan losses	3,793,200	3,698,400
Net loans	697,181,043	668,398,979
Accrued interest receivable	8,081,147	7,175,856
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	11,149,925	11,149,925
Other	1,213,902	582,639
Other property owned, net	1,941,099	2,064,392
Premises and equipment, net	3,716,190	3,764,148
Other assets	1,056,686	706,638
Total assets	$ 724,571,640	$ 693,853,926
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ 607,421,650	$ 574,372,777
Accrued interest payable	1,130,434	1,031,551
Drafts outstanding	1,303,891	1,706,377
Patronage payable	473	8,449,985
Other liabilities	3,225,732	4,030,136
Total liabilities	613,082,180	589,590,826
MEMBERS' EQUITY		
Capital stock and participation certificates	2,589,590	2,518,190
Unallocated retained earnings	109,074,972	101,909,008
Accumulated other comprehensive loss	(175,102)	(164,098)
Total members' equity	111,489,460	104,263,100
Total liabilities and members' equity	$ 724,571,640	$ 693,853,926

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended June 30, 2017	Quarter Ended June 30, 2016	Six Months Ended June 30, 2017
INTEREST INCOME			
Loans	**$ 8,609,610**	$ 8,010,934	**$ 17,012,648**
INTEREST EXPENSE			
Note payable to the Farm Credit Bank of Texas	**3,368,732**	2,855,985	**6,492,511**
Net interest income	**5,240,878**	5,154,949	**10,520,137**
PROVISION FOR LOAN LOSSES	**107,748**	(157,235)	119,884
Net interest income after provision for loan losses	**5,133,130**	5,312,184	**10,400,253**
NONINTEREST INCOME			
Income from the Farm Credit Bank of Texas:			
Patronage income	**515,406**	482,716	**1,000,517**
Loan fees	**49,138**	92,443	**106,374**
Financially related services income	**3,906**	5,835	**8,350**
Gain on sale of premises and equipment, net	**150**	8,456	**225**
Other noninterest income	**50**	-	**80,548**
Total noninterest income	**568,650**	589,450	**1,196,014**
NONINTEREST EXPENSES			
Salaries and employee benefits	**1,151,281**	1,167,614	**2,404,488**
Directors' expense	**104,373**	89,956	**180,997**
Purchased services	**103,556**	49,011	**218,304**
Travel	**193,695**	111,029	**268,645**
Occupancy and equipment	**113,564**	112,695	**231,924**
Communications	**44,514**	34,614	**84,979**
Advertising	**103,642**	68,532	**172,694**
Public and member relations	**71,236**	53,666	**147,212**
Supervisory and exam expense	**46,670**	45,839	**103,567**
Insurance Fund premiums	**167,789**	171,609	**331,813**
Business insurance	**11,947**	10,817	**89,972**
Loss on other property owned, net	**57,698**	211,652	**85,569**
Other noninterest expense	**71,765**	77,624	**110,139**
Total noninterest expenses	**2,241,730**	2,204,658	**4,430,303**
NET INCOME	**3,460,050**	3,696,976	**7,165,964**
Other comprehensive loss:			
Change in postretirement benefit plans	**(5,502)**	(2,922)	**(11,004)**
COMPREHENSIVE INCOME	**$ 3,454,548**	$ 3,694,054	**$ 7,154,960**

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Loss	To Mem Equ
Balance at December 31, 2015	$ 2,415,825	$ 95,672,058	$ (251,178)	$ 97
Comprehensive income	-	7,231,852	(5,844)	7
Capital stock/participation certificates issued	169,895	-	-	
Capital stock/participation certificates retired	(119,340)	-	-	
Patronage refunds:				
Cash	-	(712)	-	
Balance at June 30, 2016	$ 2,466,380	$ 102,903,198	$ (257,022)	$ 105
Balance at December 31, 2016	$ 2,518,190	$ 101,909,008	$ (164,098)	$ 104
Comprehensive income	-	7,165,964	(11,004)	7
Capital stock/participation certificates issued	208,440	-	-	
Capital stock/participation certificates retired	(137,040)	-	-	
Balance at June 30, 2017	**$ 2,589,590**	**$ 109,074,972**	**$ (175,102)**	**$ 111**

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

ALABAMA FARM CREDIT, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Alabama Farm 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 Blount, Calhoun, Cherokee, Clay, Cleburne, Colbert, Cullman, DeKalb, Etowah, Fayette, Franklin, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, Randolph, Shelby, St. Clair, Talladega, Walker and Winston 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 requires 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 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 Financial Accounting Standards Board (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 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 Amount**	December 31, 2016 Amount
Production agriculture:		
Real estate mortgage	**$ 601,305,112**	$ 590,832,751
Production and intermediate term	**62,624,330**	49,357,303
Agribusiness:		
Processing and marketing	**22,646,290**	17,260,248
Farm-related business	**624,180**	928,968
Rural residential real estate	**11,737,954**	11,584,572
Communication	**1,974,512**	1,991,970
Energy	**61,865**	141,567
Total	**$ 700,974,243**	$ 672,097,379

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

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 23,270,470	$ -	$ -	$ -	$ 23,270,470	$ -
Production and intermediate term	5,098,761	-	-	-	5,098,761	-
Communication	1,974,512	-	-	-	1,974,512	-
Real estate mortgage	759,083	-	-	-	759,083	-
Energy	61,865	-	-	-	61,865	-
Total	$ 31,164,691	$ -	$ -	$ -	$ 31,164,691	$ -

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 advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $25,308,924 and $22,825,313 at June 30, 2017, and December 31, 2016, respectively.

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
Nonaccrual loans:		
Real estate mortgage	**$ 2,976,702**	$ 1,349,979
Production and intermediate term	**4,147**	4,147
Total nonaccrual loans	**2,980,849**	1,354,126
Accruing restructured loans:		
Real estate mortgage	**908,205**	1,243,130
Total accruing restructured loans	**908,205**	1,243,130
Accruing loans 90 days or more past due:		
Production and intermediate term	**-**	679,933
Total accruing loans 90 days or more past due	**-**	679,933
Total nonperforming loans	**3,889,054**	3,277,189
Other property owned	**1,941,099**	2,064,392
Total nonperforming assets	**$ 5,830,153**	$ 5,341,581

One credit quality indicator utilized by the Association is the Farm Credit Administration 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;
- Other assets especially mentioned (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	**97.8** %	97.8 %
OAEM	**1.3**	1.7
Substandard/doubtful	**0.9**	0.5
	100.0	100.0
Production and intermediate term		
Acceptable	**98.2**	98.0
OAEM	**1.7**	1.8
Substandard/doubtful	**0.1**	0.1
	100.0	99.9
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Energy and water/waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Communication		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**97.9**	97.9
OAEM	**1.3**	1.7
Substandard/doubtful	**0.8**	0.4
	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	**$ 4,336,153**	**$2,373,481**	**$ 6,709,634**	**$ 601,698,994**	**608,408,628**	**$ -**
Production and intermediate term	**-**	**4,147**	**4,147**	**63,522,246**	**63,526,393**	**-**
Processing and marketing	**-**	**-**	**-**	**22,683,160**	**22,683,160**	**-**
Rural residential real estate	**-**	**-**	**-**	**11,774,449**	**11,774,449**	**-**
Communication	**-**	**-**	**-**	**1,974,692**	**1,974,692**	**-**
Farm-related business	**-**	**-**	**-**	**625,873**	**625,873**	**-**
Energy	**-**	**-**	**-**	**62,195**	**62,195**	**-**
Total	**$ 4,336,153**	**$2,377,628**	**$ 6,713,781**	**$ 702,341,609**	**$709,055,390**	**$ -**

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	$ 4,930,125	$ 466,251	$ 5,396,376	$ 591,753,387	$ 597,149,763	$ -
Production and intermediate term	180,525	679,933	860,458	49,294,713	50,155,171	679,933
Processing and marketing	-	-	-	17,282,180	17,282,180	-
Rural residential real estate	-	-	-	11,619,886	11,619,886	-
Communication	-	-	-	1,993,338	1,993,338	-
Farm-related business	-	-	-	930,738	930,738	-
Energy	-	-	-	142,159	142,159	-
Total	$ 5,110,650	$ 1,146,184	$ 6,256,834	$ 673,016,401	$ 679,273,235	$ 679,933

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 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. Troubled debt restructurings 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 troubled debt restructured loans was $908,205, all of which was classified as accrual. Troubled debt restructurings are analyzed for allowance for loan losses using the specific analysis method. No specific allowance for loan losses were recorded for troubled debt restructurings as of June 30, 2017. There were no commitments to lend funds to borrowers whose loans have been modified in a troubled debt restructuring at June 30, 2017 or December 31, 2016.

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). There were no trouble debt restructurings during the six months ended June 30, 2017. Loans formally restructured prior to January 1, 2017 totaled $908,205.

The following table presents information regarding loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Troubled debt restructurings that subsequently defaulted:	Recorded Investment at June 30, 2017	Recorded Investment at December 31, 2016
Real estate mortgage	$ -	$ 215,901
Total	$ -	$ 215,901

The predominant form of concession granted for troubled debt restructuring includes the extension of terms due to cash flow constrictions enabling the borrower to fund the original payment amount. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the Association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

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

	Loans Modified as TDRs	
	June 30, 2017	December 31, 2016
Real estate mortgage	$ 908,205	$ 1,243,130
Total	$ 908,205	$ 1,243,130

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	**$ 332,673**	**$ 332,673**	**$ 1,850**	$ -	$ -	$ -
Production and intermediate term	**4,147**	**4,147**	**4,147**	4,147	4,147	4,147
Total	**$ 336,820**	**$ 336,820**	**$ 5,997**	$ 4,147	$ 4,147	$ 4,147
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$3,544,842**	**$ 3,555,045**	**$ -**	$ 2,593,109	$ 2,586,767	$ -
Production and intermediate term	**-**	**-**	**-**	679,933	652,239	-
Total	**$3,544,842**	**$ 3,555,045**	**$ -**	$ 3,273,042	$ 3,239,006	$ -
Total impaired loans:						
Real estate mortgage	**$3,877,515**	**$ 3,887,718**	**$ 1,850**	$ 2,593,109	$ 2,586,767	$ -
Production and intermediate term	**4,147**	**4,147**	**4,147**	684,080	656,386	4,147
Total	**$3,881,662**	**$ 3,891,865**	**$ 5,997**	$ 3,277,189	$ 3,243,153	$ 4,147

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2017		June 30, 2016		**June 30, 2017**		June 30, 2016	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ 296,809**	**$ -**	$ -	$ -	**$ 148,405**	**$ -**	$ 144,791	$ -
Production and intermediate term	**4,147**	**-**	-	-	**4,147**	**-**	7,911	-
Rural residential real estate	**-**	**-**	-	-	**-**	**-**	-	-
Total	**$ 300,956**	**$ -**	$ -	$ -	**$ 152,552**	**$ -**	$ 152,702	$ -
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$3,502,577**	**$ 8,217**	$2,148,094	$ 12,521	**$3,376,275**	**$ 32,891**	$ 1,998,205	$ 25,184
Production and intermediate term	**-**	**-**	-	-	**-**	**-**	987	-
Rural residential real estate	**-**	**-**	-	-	**738**	**-**	-	-
Total	**$3,502,577**	**$ 8,217**	$2,148,094	$ 12,521	**$3,377,013**	**$ 32,891**	$ 1,999,192	$ 25,184
Total impaired loans:								
Real estate mortgage	**$3,799,386**	**$ 8,217**	$2,148,094	$ 12,521	**$3,524,680**	**$ 32,891**	$ 2,142,996	$ 25,184
Production and intermediate term	**4,147**	**-**	-	-	**4,147**	**-**	8,898	-
Rural residential real estate	**-**	**-**	-	-	**738**	**-**	-	-
Total	**$3,803,533**	**$ 8,217**	$2,148,094	$ 12,521	**$3,529,565**	**$ 32,891**	$ 2,151,894	$ 25,184

A summary of changes in the allowance for loan losses and period end recorded investment in loans, including accrued interest, 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	$ 3,589,912	$ 81,225	$ 29,049	$ 2,441	$ -	$ 8,873	$ 3,711,500
Recoveries	952	-	-	-	-	-	952
Provision for loan losses	67,898	39,179	1,414	(6)	(1,663)	926	107,748
Other	(1,590)	(24,451)	(2,908)	-	1,679	270	(27,000)
Balance at June 30, 2017	$ 3,657,172	$ 95,953	$ 27,555	$ 2,435	$ 16	$ 10,069	$ 3,793,200
Balance at December 31, 2016	$ 3,602,704	$ 56,603	$ 27,088	$ 2,450	$ 313	$ 9,241	$ 3,698,399
Recoveries	1,916	-	-	-	-	-	1,916
Provision for loan losses	54,142	63,801	3,375	(15)	(1,976)	558	119,885
Other	(1,590)	(24,451)	(2,908)	-	1,679	270	(27,000)
Balance at June 30, 2017	$ 3,657,172	$ 95,953	$ 27,555	$ 2,435	$ 16	$ 10,069	$ 3,793,200
Ending Balance:							
Individually evaluated for impairment	$ 1,850	$ 4,147	$ -	$ -	$ -	$ -	$ 5,997
Collectively evaluated for impairment	3,655,322	91,806	27,555	2,435	16	10,069	3,787,203
Balance at June 30, 2017	$ 3,657,172	$ 95,953	$ 27,555	$ 2,435	$ 16	$ 10,069	$ 3,793,200
Balance at March 31, 2016	$ 3,635,237	$ 83,335	$ 24,495	$ 2,550	$ 597	$ 11,755	$ 3,757,969
Charge-offs	(15,580)	(26,144)	-	-	-	-	(41,724)
Recoveries	958	-	-	-	-	-	958
Provision for loan losses	(163,426)	(940)	6,534	(1)	(123)	721	(157,235)
Other	719	(2,983)	(3,552)	-	6	-	(5,810)
Balance at June 30, 2016	$ 3,457,908	$ 53,268	$ 27,477	$ 2,549	$ 480	$ 12,476	$ 3,554,158
Balance at December 31, 2015	$ 3,683,029	$ 63,667	$ 20,193	$ 2,550	$ 681	$ 11,364	$ 3,781,484
Charge-offs	(34,047)	(60,718)	-	-	-	-	(94,765)
Recoveries	1,853	-	-	-	-	-	1,853
Provision for loan losses	(194,811)	57,039	4,246	(1)	(1,014)	1,112	(133,429)
Other	1,884	(6,720)	3,038	-	813	-	(985)
Balance at June 30, 2016	$ 3,457,908	$ 53,268	$ 27,477	$ 2,549	$ 480	$ 12,476	$ 3,554,158
Ending Balance:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	3,457,908	53,268	27,477	2,549	480	12,476	3,554,158
Balance at June 30, 2016	$ 3,457,908	$ 53,268	$ 27,477	$ 2,549	$ 480	$ 12,476	$ 3,554,158

	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	$ 608,408,628	$ 63,526,393	$ 23,309,033	$ 1,974,692	$ 62,195	$ 11,774,449	$ 709,055,390
Individually evaluated for impairment	$ 332,673	$ 4,147	$ -	$ -	$ -	$ -	$ 336,820
Collectively evaluated for impairment	$ 608,075,953	$ 63,522,246	$ 23,309,034	$ 1,974,692	$ 62,195	$ 11,774,449	$ 708,718,569
Ending Balance at June 30, 2016	$ 571,185,081	$ 52,650,418	$ 19,836,710	$ 2,343,790	$ 288,345	$ 14,426,947	$ 660,731,291
Individually evaluated for impairment	$ 2,861,375	$ -	$ -	$ -	$ -	$ -	$ 2,861,375
Collectively evaluated for impairment	$ 568,323,706	$ 52,650,418	$ 19,836,710	$ 2,343,790	$ 288,345	$ 14,426,947	$ 657,869,916

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 and lease portfolios; 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.

Risk-adjusted:	**Regulatory Minimums**	**Conservation Buffer**	**Total**	**As of June 30, 2017**
Common equity tier 1 ratio	4.5%	2.5%	7.0%	16.0%
Tier 1 capital ratio	6.0%	2.5%	8.5%	16.0%
Total capital ratio	8.0%	2.5%	10.5%	16.6%
Permanent capital ratio	7.0%	0.0%	7.0%	16.1%
Non-risk-adjusted:				
Tier 1 leverage ratio	4.0%	1.0%	5.0%	14.2%
UREE leverage ratio	1.5%	0.0%	1.5%	15.4%

*The 2.5 percent 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.

(dollars in thousands)	Common equity tier 1 ratio	Tier 1 capital ratio	Regulatory capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**107,125,363**	**107,125,363**	**107,125,363**	**107,125,363**
Paid-in capital	**-**	**-**	**-**	**-**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**2,571,741**	**2,571,741**	**2,571,741**	**2,571,741**
Allowance for loan losses and reserve for credit losses subject to certain limitations	**-**	**-**	**3,746,261**	**-**
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(11,149,925)**	**(11,149,925)**	**(11,149,925)**	**(11,149,925)**
Other regulatory required deductions	**-**	**-**	**-**	**-**
	98,547,179	98,547,179	102,293,440	98,547,179
Denominator:				
Risk-adjusted assets excluding allowance	**628,006,281**	**628,006,281**	**628,006,281**	**628,006,281**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(11,149,925)**	**(11,149,925)**	**(11,149,925)**	**(11,149,925)**
Allowance for loan losses	**-**	**-**	**-**	**(3,713,661)**
	616,856,356	616,856,356	616,856,356	613,142,695

(dollars in thousands)	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**107,125,363**	**107,125,363**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**2,571,741**	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(11,149,925)**	-
Other regulatory required deductions	-	-
	98,547,179	**107,125,363**
Denominator:		
Total Assets	**707,590,990**	**707,590,990**
Regulatory Adjustments and Deductions:		
Regulatory deductions included in tier 1 capital	**(11,149,925)**	**(11,149,925)**
	696,441,065	696,441,065

An additional component of equity is accumulated other comprehensive loss, which is reported net of taxes, is as follows:

June 30, 2017	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ (175,102)**	**$ -**	**$ (175,102)**
Total	**$ (175,102)**	**$ -**	**$ (175,102)**

June 30, 2016	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (257,022)	$ -	$ (257,022)
Total	$ (257,022)	$ -	$ (257,022)

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. Amortization of prior service credits and of actuarial 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 loss for the three months ended June 30:

	2017	2016
Accumulated other comprehensive income (loss) at January 1	**$ (164,098)**	$ (251,178)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(12,406)**	(12,406)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**1,402**	6,562
Other comprehensive income (loss), net of tax	**(11,004)**	(5,844)
Accumulated other comprehensive income at June 30	**$ (175,102)**	$ (257,022)

In January 2017, the Association approved a patronage distribution to its stockholders. The Association was able to distribute $8,449,538 to its members due to strong earnings during 2016. The distribution was made in March 2017.

NOTE 4 — INCOME TAXES:

Alabama Farm Credit, ACA conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Alabama Farm Credit, ACA operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Alabama Farm Credit, ACA can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. 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’s valuation allowance was $1,486,374 as of the quarter ended June 30, 2017 for no available tax benefit as of that point in time.

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	**$ 48,326**	**$ -**	**$ -**	**$ 48,326**
Total assets	**$ 48,326**	**$ -**	**$ -**	**$ 48,326**

December 31, 2016	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 33,673	$ -	$ -	$ 33,673
Total assets	$ 33,673	$ -	$ -	$ 33,673

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**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$2,980,849**	**$2,980,849**	**$ -**
Other property owned	**-**	**-**	**1,997,354**	**1,997,354**	**(85,569)**

December 31, 2016	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ -	$ -	$ -	$ -	$ -
Other property owned	-	-	2,123,843	2,123,843	(428,078)

*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.

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. For a more complete description, see Notes to the 2016 Annual Report to Stockholders.

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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

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.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended June 30:

	Other Benefits	
	2017	2016
Service cost	**$ 14,034**	$ 13,934
Interest cost	**40,631**	42,233
Amortization of prior service (credits) costs	**(12,406)**	(12,406)
Amortization of net actuarial (gain) loss	**1,402**	6,562
Net periodic benefit cost	**$ 43,661**	$ 50,323

The Association previously disclosed in its financial statements for the year ended December 31, 2016, that it expected to contribute $55,427 to the District's nonpension other post-retirement benefit in 2017. As of June 30, 2017, $27,170 of contributions have been made. The Association presently anticipates contributing an additional $27,714 to fund the District's nonpension other post-retirement benefit pension plan in 2017 for a total of $54,884.

Contributions to District Defined Benefit Pension Plan

The structure of the district's defined benefit pension plan is characterized as multiemployer 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 Association previously disclosed in its financial statements for the year ended December 31, 2016 that it expected to contribute $439,953 to the District's defined benefit pension plan in 2017. The Association contributed the entire amount in January 2017 and as of June 30, 2017, has amortized $220,002 of expense to salaries and benefits. The Association presently does not anticipate additional contributions to fund the defined benefit pension plan in 2017.

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 9, 2017 which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 9, 2017.