
Farm Credit of the Virginias, ACA

FIRST QUARTER 2016

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CERTIFICATION


The undersigned certify that we have reviewed the March 31, 2016 quarterly report of Farm Credit of the Virginias, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



David E. Lawrence
Chief Executive Officer



David G. Sauer
Chief Financial Officer



Charles B. Leech, IV
Chairman of the Board

May 9, 2016

Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of March 31, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2016.



David E. Lawrence
Chief Executive Officer



David G. Sauer
Chief Financial Officer

May 9, 2016

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

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Farm Credit of the Virginias, ACA (Association) for the period ended March 31, 2016. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2015 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including livestock, timber, poultry and field crops. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat impacts the level of dependency on a given commodity.

As of March 31, 2016, the gross loan volume of the Association was \$1,698,488 compared to \$1,692,633 at December 31, 2015. Gross loan volume increased \$5,855 or 0.35 percent when compared to gross loan volume at December 31, 2015. Net loans outstanding at March 31, 2016 were \$1,683,866 as compared to \$1,678,146 at December 31, 2015. The increase in loan volume was primarily due to an increase in real estate and farm loans.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. As of March 31, 2016, nonaccrual loan volume was \$32,708 compared to \$29,553 at December 31, 2015. Nonaccrual loan volume at March 31, 2016 increased \$3,155 due to several loans being downgraded to nonaccrual status. Nonaccrual loan volume to net loan volume was 1.94% at March 31, 2016.

Other property owned totaled \$5,138 at March 31, 2016. This was an increase of \$335 when compared to December 31, 2015. The increase was primarily due to a couple of properties being acquired during the quarter.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio. Factors considered in determining the allowance for loan losses were generally based on recent historical charge-off experience adjusted for relevant environmental factors. The allowance for loan losses at March 31, 2016 was \$14,622. This was slight increase of \$135 when compared to the allowance amount at December 31, 2015.

RESULTS OF OPERATIONS

For the three months ended March 31, 2016

Net income for the three months ended March 31, 2016, totaled \$8,603 as compared to \$8,700 for the same period in 2015. This was a decrease of \$97 or 1.11 percent. The decrease in net income was primarily due to an increase in the provision for loan losses which lowered net income offset somewhat by higher net interest income and gains on other property owned.

Net interest income increased \$166 or 1.34 percent for the three months ended March 31, 2016, as compared to the same period in 2015. The increase in net interest income was primarily due to an increase in loan volume.

The provision for loan losses for the three months ended March 31, 2016 was \$500. No provision was made during the same period last year. The provision was mainly driven by higher loan volume.

Noninterest income for the three months ended March 31, 2016 totaled \$3,699 compared to \$3,603 for the same period last year. This was an increase of \$96 or 2.66 percent. The increase in noninterest income was primarily due to an increase in patronage refunds from AgFirst Bank.

Noninterest expenses for the three months ended March 31, 2016 totaled \$7,175. This was a decrease of \$134 or 1.83 percent compared to the same period of 2015. The decrease was mainly due to gains on other property owned which lowered noninterest expense. Without this gain, noninterest expense increased \$347 or 4.86 percent. The increase was mainly due to an increase in employees' salaries and benefits expenses and higher Farm Credit System insurance premium. The insurance premium increase was due to the increase in loan volume.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2016 was \$1,336,290 as compared to \$1,354,433 at December 31, 2015.

CAPITAL RESOURCES

Total members' equity at March 31, 2016 totaled \$373,365, an increase of \$8,587, as compared to \$364,778 at December 31, 2015. The increase in members' equity was primarily attributed to earnings.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2016, both the Association's total surplus ratio and core surplus ratio were 19.50 percent and the permanent capital ratio was 20.27 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

- To modernize capital requirements while ensuring that 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.
- To meet the requirements of section 939A of the Dodd-Frank Act.

On November 30, 2015, the FCA, along with four other federal agencies, published in the Federal Register a final rule to establish capital and margin requirements for covered swap entities as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). See below for further information regarding the Dodd-Frank Act.

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The FCA expects to issue a final regulation in 2016. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System banks and associations.
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption.
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers.
- To comply with the requirements of section 939A of the Dodd-Frank Act.
- To modernize the investment eligibility criteria for System banks.
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the Financial Regulatory Reform section of the Association's 2015 Annual Report.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, "*Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*", in the Notes to the Financial Statements, and the 2015 Annual Report to Shareholders for recently issued accounting pronouncements.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 540-886-3435, ext. 5020, or writing David Sauer, Farm Credit of the Virginias, ACA, P.O. Box 899, Staunton, VA 24402, or accessing the website, www.farmcreditofvirginias.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of the Virginias, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2016 <i>(unaudited)</i>	December 31, 2015 <i>(audited)</i>
Assets		
Cash	\$ 963	\$ 2,945
Loans	1,698,488	1,692,633
Allowance for loan losses	(14,622)	(14,487)
Net loans	1,683,866	1,678,146
Loans held for sale	1,001	2,269
Accrued interest receivable	11,739	8,680
Investments in other Farm Credit institutions	25,273	25,330
Premises and equipment, net	8,846	8,035
Other property owned	5,138	4,803
Accounts receivable	3,475	22,239
Other assets	4,170	5,228
Total assets	\$ 1,744,471	\$ 1,757,675
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,336,290	\$ 1,354,433
Accrued interest payable	3,047	3,060
Patronage refunds payable	950	15,259
Accounts payable	1,118	2,463
Other liabilities	29,701	17,682
Total liabilities	1,371,106	1,392,897
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	12,590	12,606
Retained earnings		
Allocated	92,568	92,568
Unallocated	268,229	259,626
Accumulated other comprehensive income (loss)	(22)	(22)
Total members' equity	373,365	364,778
Total liabilities and members' equity	\$ 1,744,471	\$ 1,757,675

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

Farm Credit of the Virginias, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2016	2015
Interest Income		
Loans	\$ 21,845	\$ 20,765
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	9,259	8,345
Net interest income	12,586	12,420
Provision for loan losses	500	—
Net interest income after provision for loan losses	12,086	12,420
Noninterest Income		
Loan fees	158	123
Fees for financially related services	29	5
Patronage refunds from other Farm Credit institutions	3,281	3,222
Gains (losses) on sales of rural home loans, net	221	222
Gains (losses) on sales of premises and equipment, net	20	—
Gains (losses) on other transactions	(30)	15
Other noninterest income	20	16
Total noninterest income	3,699	3,603
Noninterest Expense		
Salaries and employee benefits	4,866	4,665
Occupancy and equipment	351	304
Insurance Fund premiums	527	402
(Gains) losses on other property owned, net	(315)	166
Other operating expenses	1,746	1,772
Total noninterest expense	7,175	7,309
Income before income taxes	8,610	8,714
Provision for income taxes	7	14
Net income	8,603	8,700
Other comprehensive income	—	—
Comprehensive income	\$ 8,603	\$ 8,700

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

Farm Credit of the Virginias, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2014	\$ 13,159	\$ 92,568	\$ 230,527	\$ (27)	\$ 336,227
Comprehensive income			8,700		8,700
Capital stock/participation certificates issued/(retired), net	34				34
Balance at March 31, 2015	\$ 13,193	\$ 92,568	\$ 239,227	\$ (27)	\$ 344,961
Balance at December 31, 2015	\$ 12,606	\$ 92,568	\$ 259,626	\$ (22)	\$ 364,778
Comprehensive income			8,603		8,603
Capital stock/participation certificates issued/(retired), net	(16)				(16)
Balance at March 31, 2016	\$ 12,590	\$ 92,568	\$ 268,229	\$ (22)	\$ 373,365

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

Farm Credit of the Virginias, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization

The accompanying financial statements include the accounts of Farm Credit of the Virginias, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period

The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent Annual Report:

- In March, 2016, the FASB issued ASU 2016-07 Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. To simplify the accounting for equity method investments, the amendments in the Update eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued an update that requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued an update that is intended to improve the recognition and measurement of financial instruments. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2015-14 Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date: In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

Accounting Standards Effective During the Period

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

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

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) – The amendment was adopted prospectively. There were no changes to the Association’s statements of financial condition or results of operations as a result of this guidance. See Note 6, *Fair Value Measurement*, for the disclosures required by this guidance.
- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement

Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the Association’s statements of financial condition or results of operations as a result of this guidance.

- 2014-15 Income Statement – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern: This amendment is effective for the annual reporting period ended December 31, 2016 and, interim and annual periods thereafter. It may require additional disclosures but will not have a material impact on the Association’s financial condition or results of operations.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Real estate mortgage	\$ 1,194,216	\$ 1,188,861
Production and intermediate-term	400,087	397,512
Loans to cooperatives	146	116
Processing and marketing	39,746	40,223
Farm-related business	14,003	13,756
Communication	5,324	5,419
Rural residential real estate	44,966	46,746
Total Loans	<u>\$ 1,698,488</u>	<u>\$ 1,692,633</u>

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

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

March 31, 2016									
Within AgFirst District		Within Farm Credit System			Outside Farm Credit System			Total	
Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 3,697	\$ 90,452	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 3,697	\$ 90,452
Production and intermediate-term	8,910	3,609	572	–	–	–	–	9,482	3,609
Processing and marketing	6,705	–	223	–	–	–	–	6,928	–
Farm-related business	932	168	22	–	–	–	–	954	168
Communication	5,341	–	–	–	–	–	–	5,341	–
Total	\$ 25,585	\$ 94,229	\$ 817	\$ –	\$ –	\$ –	\$ –	\$ 26,402	\$ 94,229

December 31, 2015									
Within AgFirst District		Within Farm Credit System			Outside Farm Credit System			Total	
Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 3,767	\$ 88,113	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 3,767	\$ 88,113
Production and intermediate-term	5,033	4,969	551	–	–	–	–	5,584	4,969
Processing and marketing	7,787	–	227	–	–	–	–	8,014	–
Farm-related business	384	179	25	–	–	–	–	409	179
Communication	5,430	–	–	–	–	–	–	5,430	–
Total	\$ 22,401	\$ 93,261	\$ 803	\$ –	\$ –	\$ –	\$ –	\$ 23,204	\$ 93,261

A significant source of liquidity for the Association is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

March 31, 2016				
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 2,934	\$ 45,068	\$ 1,146,214	\$ 1,194,216
Production and intermediate-term	181,760	167,867	50,460	400,087
Loans to cooperatives	56	–	90	146
Processing and marketing	26,409	4,483	8,854	39,746
Farm-related business	1,863	3,931	8,209	14,003
Communication	–	5,324	–	5,324
Rural residential real estate	3,307	1,221	40,438	44,966
Total Loans	\$ 216,329	\$ 227,894	\$ 1,254,265	\$ 1,698,488
Percentage	12.74%	13.42%	73.84%	100.00%

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

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

	March 31, 2016	December 31, 2015		March 31, 2016	December 31, 2015
Real estate mortgage:			Farm-related business:		
Acceptable	95.31%	95.42%	Acceptable	98.02%	97.94%
OAEM	1.81	1.84	OAEM	—	—
Substandard/doubtful/loss	2.88	2.74	Substandard/doubtful/loss	1.98	2.06
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Communication:		
Acceptable	95.00%	94.69%	Acceptable	100.00%	100.00%
OAEM	2.29	2.32	OAEM	—	—
Substandard/doubtful/loss	2.71	2.99	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:	100.00%	100.00%	Rural residential real estate:		
Acceptable	—	—	Acceptable	97.41%	97.28%
OAEM	—	—	OAEM	1.29	1.13
Substandard/doubtful/loss	100.00%	100.00%	Substandard/doubtful/loss	1.30	1.59
				100.00%	100.00%
Processing and marketing:			Total Loans:		
Acceptable	75.22%	61.10%	Acceptable	94.86%	94.52%
OAEM	13.60	27.77	OAEM	2.17	2.52
Substandard/doubtful/loss	11.18	11.13	Substandard/doubtful/loss	2.97	2.96
	100.00%	100.00%		100.00%	100.00%

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

March 31, 2016							
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans		Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 7,260	\$ 5,656	\$ 12,916	\$ 1,188,884	\$ 1,201,800	\$	—
Production and intermediate-term	1,839	5,290	7,129	396,775	403,904		—
Loans to cooperatives	—	—	—	147	147		—
Processing and marketing	—	—	—	39,819	39,819		—
Farm-related business	199	—	199	13,852	14,051		—
Communication	—	—	—	5,324	5,324		—
Rural residential real estate	630	171	801	44,381	45,182		—
Total	\$ 9,928	\$ 11,117	\$ 21,045	\$ 1,689,182	\$ 1,710,227	\$	—

December 31, 2015							
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans		Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 11,311	\$ 2,626	\$ 13,937	\$ 1,180,311	\$ 1,194,248	\$	—
Production and intermediate-term	2,726	4,653	7,379	393,224	400,603		205
Loans to cooperatives	—	—	—	116	116		—
Processing and marketing	—	—	—	40,246	40,246		—
Farm-related business	—	—	—	13,784	13,784		—
Communication	—	—	—	5,420	5,420		—
Rural residential real estate	62	244	306	46,590	46,896		—
Total	\$ 14,099	\$ 7,523	\$ 21,622	\$ 1,679,691	\$ 1,701,313	\$	205

Nonperforming assets (including the recorded investment for loans) and related credit quality statistics at period end were as follows:

	March 31, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	\$ 19,770	\$ 15,888
Production and intermediate-term	9,912	9,332
Farm-related business	2,698	2,765
Rural residential real estate	328	409
Total	<u>\$ 32,708</u>	<u>\$ 28,394</u>
Accruing restructured loans:		
Real estate mortgage	\$ 1,117	\$ 1,099
Production and intermediate-term	548	86
Total	<u>\$ 1,665</u>	<u>\$ 1,185</u>
Accruing loans 90 days or more past due:		
Production and intermediate-term	\$ -	\$ 205
Total	<u>\$ -</u>	<u>\$ 205</u>
Performing impaired loans:		
Real estate mortgage	\$ 2,303	\$ 2,364
Production and intermediate-term	1,241	1,975
Processing and marketing	4,450	4,481
Total	<u>\$ 7,994</u>	<u>\$ 8,820</u>
Total nonperforming loans	\$ 42,367	\$ 38,604
Other property owned	5,138	4,803
Total nonperforming assets	<u>\$ 47,505</u>	<u>\$ 43,407</u>
Nonaccrual loans as a percentage of total loans	1.93%	1.68%
Nonperforming assets as a percentage of total loans and other property owned	2.79%	2.56%
Nonperforming assets as a percentage of capital	<u>12.72%</u>	<u>11.90%</u>

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

	March 31, 2016	December 31, 2015
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 19,374	\$ 18,838
Past due	13,334	9,556
Total	<u>32,708</u>	<u>28,394</u>
Impaired accrual loans:		
Performing	7,994	8,820
Restructured	1,665	1,185
90 days or more past due	-	205
Total	<u>9,659</u>	<u>10,210</u>
Total impaired loans	\$ 42,367	\$ 38,604
Additional commitments to lend	\$ 197	\$ 354

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

Impaired loans:	March 31, 2016			Quarter Ended March 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 10,005	\$ 10,494	\$ 2,242	\$ 9,228	\$ 80
Production and intermediate-term	7,996	8,359	1,523	7,376	65
Processing and marketing	—	—	—	—	—
Farm-related business	2,698	3,338	163	2,488	22
Rural residential real estate	151	220	32	139	1
Total	\$ 20,850	\$ 22,411	\$ 3,960	\$ 19,231	\$ 168
With no related allowance for credit losses:					
Real estate mortgage	\$ 13,185	\$ 15,409	\$ —	\$ 12,161	\$ 107
Production and intermediate-term	3,705	5,610	—	3,417	29
Processing and marketing	4,450	4,434	—	4,104	36
Farm-related business	—	—	—	—	—
Rural residential real estate	177	318	—	164	2
Total	\$ 21,517	\$ 25,771	\$ —	\$ 19,846	\$ 174
Total:					
Real estate mortgage	\$ 23,190	\$ 25,903	\$ 2,242	\$ 21,389	\$ 187
Production and intermediate-term	11,701	13,969	1,523	10,793	94
Processing and marketing	4,450	4,434	—	4,104	36
Farm-related business	2,698	3,338	163	2,488	22
Rural residential real estate	328	538	32	303	3
Total	\$ 42,367	\$ 48,182	\$ 3,960	\$ 39,077	\$ 342

Impaired loans:	December 31, 2015			Year Ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 10,132	\$ 10,831	\$ 2,308	\$ 9,983	\$ 651
Production and intermediate-term	8,374	8,746	1,744	8,251	538
Processing and marketing	—	—	—	—	—
Farm-related business	2,765	3,359	163	2,724	178
Rural residential real estate	221	298	60	218	14
Total	\$ 21,492	\$ 23,234	\$ 4,275	\$ 21,176	\$ 1,381
With no related allowance for credit losses:					
Real estate mortgage	\$ 9,219	\$ 10,628	\$ —	\$ 9,085	\$ 593
Production and intermediate-term	3,224	5,420	—	3,176	207
Processing and marketing	4,481	4,484	—	4,415	288
Farm-related business	—	—	—	—	—
Rural residential real estate	188	293	—	185	12
Total	\$ 17,112	\$ 20,825	\$ —	\$ 16,861	\$ 1,100
Total:					
Real estate mortgage	\$ 19,351	\$ 21,459	\$ 2,308	\$ 19,068	\$ 1,244
Production and intermediate-term	11,598	14,166	1,744	11,427	745
Processing and marketing	4,481	4,484	—	4,415	288
Farm-related business	2,765	3,359	163	2,724	178
Rural residential real estate	409	591	60	403	26
Total	\$ 38,604	\$ 44,059	\$ 4,275	\$ 38,037	\$ 2,481

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows. Prior to issuance of the Association's 2015 Annual Report, management identified errors in classification of the loan portfolio among the various FCA loan type categories that are used to report disaggregated loan information in footnote disclosures. As discussed in Note 3, *Loans and Allowance for Loan Losses*, of the Association's 2015 Annual Report, FCA loan type classifications prior to December 31, 2015 have been revised as necessary to reflect these loan type classifications, as adjusted. In the table below, activity for the quarter ended March 31, 2015 is presented as revised.

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2015	\$ 6,920	\$ 6,594	\$ 613	\$ -	\$ 360	\$ 14,487
Charge-offs	(37)	(312)	-	-	(45)	(394)
Recoveries	4	25	-	-	-	29
Provision for loan losses	73	316	60	-	51	500
Balance at March 31, 2016	\$ 6,960	\$ 6,623	\$ 673	\$ -	\$ 366	\$ 14,622
Balance at December 31, 2014	\$ 5,678	\$ 5,981	\$ 537	\$ -	\$ 269	\$ 12,465
Charge-offs	-	(108)	-	-	-	(108)
Recoveries	9	88	-	-	-	97
Provision for loan losses	(54)	104	(33)	-	(17)	-
Balance at March 31, 2015	\$ 5,633	\$ 6,065	\$ 504	\$ -	\$ 252	\$ 12,454
Allowance on loans evaluated for impairment:						
Individually	\$ 2,242	\$ 1,523	\$ 163	\$ -	\$ 32	\$ 3,960
Collectively	4,718	5,100	510	-	334	10,662
Balance at March 31, 2016	\$ 6,960	\$ 6,623	\$ 673	\$ -	\$ 366	\$ 14,622
Individually	\$ 2,308	\$ 1,744	\$ 163	\$ -	\$ 60	\$ 4,275
Collectively	4,612	4,850	450	-	300	10,212
Balance at December 31, 2015	\$ 6,920	\$ 6,594	\$ 613	\$ -	\$ 360	\$ 14,487
Recorded investment in loans evaluated for impairment:						
Individually	\$ 23,053	\$ 11,703	\$ 7,150	\$ -	\$ 328	\$ 42,234
Collectively	1,178,747	392,201	46,867	5,324	44,854	1,667,993
Balance at March 31, 2016	\$ 1,201,800	\$ 403,904	\$ 54,017	\$ 5,324	\$ 45,182	\$ 1,710,227
Individually	\$ 19,351	\$ 11,598	\$ 7,246	\$ -	\$ 409	\$ 38,604
Collectively	1,174,897	389,005	46,900	5,420	46,487	1,662,709
Balance at December 31, 2015	\$ 1,194,248	\$ 400,603	\$ 54,146	\$ 5,420	\$ 46,896	\$ 1,701,313

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented.

Three months ended March 31, 2016					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ -	\$ 72	\$ -	\$ 72	
Production and intermediate-term	225	322	-	547	
Total	\$ 225	\$ 394	\$ -	\$ 619	
Post-modification:					
Real estate mortgage	\$ -	\$ 72	\$ -	\$ 72	\$ -
Production and intermediate-term	225	322	-	547	-
Total	\$ 225	\$ 394	\$ -	\$ 619	\$ -
Three months ended March 31, 2015					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ -	\$ 837	\$ -	\$ 837	
Total	\$ -	\$ 837	\$ -	\$ 837	
Post-modification:					
Production and intermediate-term	\$ -	\$ 837	\$ -	\$ 837	\$ -
Total	\$ -	\$ 837	\$ -	\$ 837	\$ -

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

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

	Three Months Ended March 31,	
	2016	2015
Production and intermediate-term	\$ —	\$ 1,084
Total	\$ —	\$ 1,084

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Real estate mortgage	\$ 2,411	\$ 2,016	\$ 1,294	\$ 917
Production and intermediate-term	4,472	3,978	3,924	3,892
Farm related business	2,698	2,765	2,698	2,765
Rural residential real estate	34	35	34	35
Total Loans	\$ 9,615	\$ 8,794	\$ 7,950	\$ 7,609
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

	March 31, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 45	\$ 93
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ —	\$ 233

Note 3 — Investments

Investment in Other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 9.49 percent of the issued stock of the Bank as of March 31, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled \$31.0 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$72 million for the first three months of 2016. In addition, the Association had \$895 in investment related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive income by Component (a)	
	2016	2015
Employee Benefit Plans:		
Balance at beginning of period	\$ (22)	\$ (27)
Other comprehensive income before reclassifications	—	—
Amounts reclassified from AOCI	—	—
Net current period other comprehensive income	—	—
Balance at end of period	\$ (22)	\$ (27)

Reclassifications Out of Accumulated Other Comprehensive Income (b)			
For the Three Months Ended			
March 31,			
	2016	2015	Income Statement Line Item
Defined Benefit Pension Plans:			
Periodic pension costs	\$ —	\$ —	See Note 7.
Net amounts reclassified	\$ —	\$ —	

(a) Amounts in parentheses indicate debits to AOCI.

(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

There were no Level 3 assets or liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

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

At or for the Three Months Ended March 31, 2016									
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings			
Recurring Measurements									
Assets:									
Assets held in Trust funds	\$ 1,487	\$ 1,487	\$ —	\$ —	\$ 1,487				
Recurring Assets	\$ 1,487	\$ 1,487	\$ —	\$ —	\$ 1,487				
Liabilities:									
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —				
Nonrecurring Measurements									
Assets:									
Impaired loans	\$ 38,407	\$ —	\$ —	\$ 38,407	\$ 38,407	\$ (49)			
Other property owned	5,138	—	—	5,695	5,695	321			
Nonrecurring Assets	\$ 43,545	\$ —	\$ —	\$ 44,102	\$ 44,102	\$ 272			
Other Financial Instruments									
Assets:									
Cash	\$ 963	\$ 963	\$ —	\$ —	\$ 963				
Loans	1,646,460	—	—	1,651,183	1,651,183				
Other Financial Assets	\$ 1,647,423	\$ 963	\$ —	\$ 1,651,183	\$ 1,652,146				
Liabilities:									
Notes payable to AgFirst Farm Credit Bank	\$ 1,336,290	\$ —	\$ —	\$ 1,338,923	\$ 1,338,923				
Other Financial Liabilities	\$ 1,336,290	\$ —	\$ —	\$ 1,338,923	\$ 1,338,923				

At or for the Year Ended December 31, 2015

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	\$ 1,358	\$ 1,358	\$ -	\$ -	\$ 1,358	
Recurring Assets	\$ 1,358	\$ 1,358	\$ -	\$ -	\$ 1,358	
Liabilities:						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 34,329	\$ -	\$ -	\$ 34,329	\$ 34,329	\$ (1,914)
Other property owned	4,803	-	-	5,320	5,320	(294)
Nonrecurring Assets	\$ 39,132	\$ -	\$ -	\$ 39,649	\$ 39,649	\$ (2,208)
Other Financial Instruments						
Assets:						
Cash	\$ 2,945	\$ 2,945	\$ -	\$ -	\$ 2,945	
Loans	1,646,086	-	-	1,644,803	1,644,803	
Other Financial Assets	\$ 1,649,031	\$ 2,945	\$ -	\$ 1,644,803	\$ 1,647,748	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,354,433	\$ -	\$ -	\$ 1,347,654	\$ 1,347,654	
Other Financial Liabilities	\$ 1,354,433	\$ -	\$ -	\$ 1,347,654	\$ 1,347,654	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 44,102	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

* Ranges for this type of input are not useful because each collateral property is unique.

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

Note 7 — Employee Benefit Plans

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

	For the three months ended March 31,	
	2016	2015
Pension	\$ 879	\$ 867
401(k)	237	221
Other postretirement benefits	218	288
Total	\$ 1,334	\$ 1,376

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

	Actual YTD Through 3/31/16	Projected Contributions For Remainder of 2016	Projected Total Contributions 2016
	Pension	\$ 2	\$ 1,908
Other postretirement benefits	105	329	434
Total	\$ 107	\$ 2,237	\$ 2,344

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2016.

Further details regarding employee benefit plans are contained in the 2015 Annual Report to Shareholders, including a discussion of benefit plan changes related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan.

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 9, 2016, which was the date the financial statements were issued.