FARM CREDIT OF THE VIRGINIAS, ACA

2015 ANNUAL REPORT

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Management

David E. Lawrence........Chief Executive Officer
Bette B. Brand........Chief Sales Officer
C. Peery Heldreth........Chief Relationship Officer
M. Kay Manchester........Director of Human Capital
David G. Sauer........Chief Financial Officer
Al P. Saufley........Chief Lending Officer

Board of Directors

Charles B. Leech, IV........Chairperson
Donna M. Brooke-Alt........Vice Chairperson
Ronald L. Bennett........Director
William J. Franklin, Jr.........Director
Bobby C. Gray........Director
Charles E. Horn, Jr.........Director
Paul M. House........Director
Melody S. Jones........Director
James F. Kinsey........Director
Milton L. McPike, Jr.........Director
Donald W. Reese........Director
Wallace W. Sanford, III........Director
Barry W. Shelor........Director
Alfred W. Stephens, Jr.........Director
Joseph W. Wampler........Director
John E. Wells........Director

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Message from the Chief Executive Officer

2015 was another very successful year for your Cooperative/Farm Credit of the Virginias Association (FCV). The FCV experienced another year of positive loan demand of almost 7 percent net loan volume compared to similar growth during the previous year. The general economy throughout your cooperative's "footprint" has continued to improve and had a positive impact on new loan demand. A primary focus for the Association's team is the best "fit" (loan product, terms, condition etc.) for the customers' lending needs. Our livestock customers enjoyed the lower cost of feed inputs, but many experienced stress dealing with the volatile prices received for their products (i.e. beef and dairy). I am not telling our customer/owners anything they do not already deal with on a daily basis. Your Association Knowledge Center was busy last year sponsoring educational sessions to help customer/owners take advantage of risk management tools. Additionally, it continued to sponsor management seminars for young and beginning farmers to include small, large, minority and veteran operations.

For the third year in a row, FCV received a "special distribution" patronage dividend from AgFirst Farm Credit Bank (AgFirst), our funding bank. The combination of our customer/owners efforts to meet their obligations, patronage dividend from AgFirst and your Association team's efforts to provide exceptional customer service, make it possible for me to report that Farm Credit of the Virginias had another successful year with $44 million net earnings. The strong earnings will allow the Cooperative to strengthen its capital position, and like the previous two years, pay a special cash patronage dividend. Once again, our customer/owners will receive a patronage check during April that reflects patronage paid from FCV footprint operations and a second cash patronage check in the early part of June that reflects your Board's decision to pay the "special distribution" received from AgFirst to its customer/owners.

Your Board of Directors and the FCV Team's top priority is to support our customers. We thank you, our customer/owners, for referring your friends and neighbors to FCV and your loyalty by continuing to use our products and services. A primary goal is to generate sufficient profits that keep the Association/Cooperative financially strong and provide value to you, our customer/owners, by paying a patronage dividend. As a result of this commitment, your Board has approved a patronage dividend on the 2015 earnings. The dividend amount approved is estimated at $15 million and will be paid 100 percent in cash. As in previous years, the customer/owners who were active borrowers during 2015 are receiving the checks.

A deeper look into certain key areas shows why your elected Board of Directors remained focused on ensuring your Cooperative is in a strong financial position and focused on meeting your lending needs during any economic environment, both now and for future generations.

- Net Income of $44 million – while less than the previous year, it decreased primarily due to the AgFirst special distribution (41 percent less than the previous year).
- Net Interest Income of $50 million – another year over year increase.
- Return on Assets of 2.62% - slight decline for consecutive years, but it exceeds the FCV business plan target.
- Permanent Capital of 20.07% - in a strong capital position.
- Patronage dividend of $15 million – once again the financial position is at a level that allows the Board to pay the "expected" patronage plus a "special" patronage.
- Net Loan Volume growth of approximately $107 million or 7 percent.
- Asset Quality continues to improve evidenced by the ratio of risk funds as a percent of risk assets is 20.9% and criticized assets as percent of risk funds decreased to 27.6%.

The results place your Association/Cooperative in a strong position to meet the lending needs of today and tomorrow's customers in our footprint.

The Board of Directors and Team are committed everyday to carry out the Cooperative's vision and mission through our core values.

<u>Our vision is</u> "Be Rural America's Lender of Choice"

<u>Our mission statement is</u> "Be an engaged partner in our rural community."

<u>Our Core Values are</u> "We want to be seen as a Team that collectively and individually is: Ethical, Passionate, Inclusive and Competent"

David E. Lawrence
Chief Executive Officer

March 10, 2016

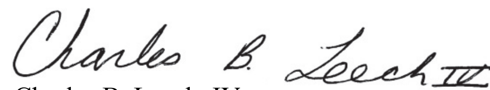
Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of the Virginias, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been audited by independent certified public accountants, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2015 Annual 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.



Charles B. Leech, IV
Chairperson of the Board

David E. Lawrence
Chief Executive Officer

David G. Sauer
Chief Financial Officer

March 10, 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, to provide 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 and 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 December 31, 2015. 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 December 31, 2015, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2015.

David E. Lawrence
Chief Executive Officer

David G. Sauer
Chief Financial Officer

March 10, 2016

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2015	2014	December 31, 2013	2012	2011
Balance Sheet Data					
Cash	**$ 2,945**	$ 6,038	$ 5,617	$ 6,368	$ 4,806
Loans	**1,692,633**	1,583,241	1,483,454	1,466,371	1,455,114
Allowance for loan losses	**(14,487)**	(12,465)	(11,878)	(9,968)	(7,754)
Net loans	**1,678,146**	1,570,776	1,471,576	1,456,403	1,447,360
Investments in other Farm Credit institutions	**24,557**	24,613	25,707	27,589	34,350
Other property owned	**4,803**	2,786	2,337	3,657	3,882
Other assets	**47,224**	50,300	55,544	45,079	49,080
Total assets	**$ 1,757,675**	$1,654,513	$1,560,781	$1,539,096	$1,539,478
Notes payable to AgFirst Farm Credit Bank*	**$ 1,354,433**	$1,275,765	$1,209,905	$1,229,830	$1,253,612
Accrued interest payable and other liabilities with maturities of less than one year	**38,464**	42,521	40,266	28,870	30,304
Total liabilities	**1,392,897**	1,318,286	1,250,171	1,258,700	1,283,916
Capital stock and participation certificates	**12,606**	13,159	17,313	17,344	17,523
Retained earnings					
Allocated	**92,568**	92,568	92,568	92,568	89,469
Unallocated	**259,626**	230,527	200,739	170,501	148,576
Accumulated other comprehensive income (loss)	**(22)**	(27)	(10)	(17)	(6)
Total members' equity	**364,778**	336,227	310,610	280,396	255,562
Total liabilities and members' equity	**$ 1,757,675**	$1,654,513	$1,560,781	$1,539,096	$1,539,478
Statement of Income Data					
Net interest income	**$ 50,072**	$ 47,859	$ 43,920	$ 41,743	$ 39,956
Provision for loan losses	**2,700**	1,200	3,450	6,000	9,600
Noninterest income (expense), net	**(3,273)**	4,129	10,768	(50)	(2,394)
Net income	**$ 44,099**	$ 50,788	$ 51,238	$ 35,693	$ 27,962
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.62%**	3.22%	3.36%	2.34%	1.82%
Total members' equity	**12.40%**	15.40%	17.04%	13.07%	11.07%
Net interest income as a percentage of average earning assets	**3.06%**	3.13%	2.98%	2.85%	2.71%
Net (chargeoffs) recoveries to average loans	**(0.041)%**	(0.040)%	(0.105)%	(0.259)%	(0.762)%
Total members' equity to total assets	**20.75%**	20.32%	19.90%	18.22%	16.60%
Debt to members' equity (:1)	**3.82**	3.92	4.02	4.49	5.02
Allowance for loan losses to loans	**0.86%**	0.79%	0.80%	0.68%	0.53%
Permanent capital ratio	**20.07%**	19.91%	19.88%	16.95%	15.08%
Total surplus ratio	**19.29%**	19.15%	18.68%	15.73%	13.85%
Core surplus ratio	**19.29%**	19.15%	18.68%	15.73%	13.85%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 15,000**	$ 21,000	$ 21,000	$ 10,565	$ 10,685
Nonqualified retained earnings	**—**	—	—	3,107	3,816

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2016.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of the Virginias, ACA, (Association) for the year ended December 31, 2015 with comparisons to the years ended December 31, 2014 and December 31, 2013. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for almost 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Virginia, West Virginia and Maryland. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, **www.farmcreditofvirginias.com**, or by calling 1-540-886-3435, extension 5020, or writing David Sauer, Farm Credit of the Virginias, P.O. Box 899, Staunton, VA 24402-0899. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of

certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2015 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

ECONOMIC CONDITIONS

The general economy continued to improve during 2015 although the pace of growth was slower than last year. The housing and real estate market grew at a more normal rate, as prices stabilized and more people entered the housing market. The unemployment rate continued to decrease during the year which was a good sign for the overall improvement in the economy. The economy was improving enough for the Federal Reserve to hike short-term interest rates in December.

Of the major agricultural commodities served by the Association, most producers experienced a favorable year although dairy farmers and livestock producers were negatively impacted by lower milk and cattle prices. The good weather in the Midwest which resulted in high grain yields and the strong U.S. dollar put pressure on grain prices. Grain prices, for the most part, declined during the year. This helped most of our farmers who use feed grain in their operations. For the second year in a row, the weather in the Association's territory was also very good during the year. As a result, there was plenty of pasture and hay for livestock. For the poultry growers in our territory, they were not impacted by the avian flu which hit growers in the Midwest. Poultry companies continued to expand production in our territory, which resulted in the Association financing the construction of poultry houses. For the forestry and timber industry, the industry continued to experience a steady demand for lumber and logs.

LOAN PORTFOLIO

The Association loan volume was $1,692,633 at December 31, 2015 compared to $1,583,241 at December 31, 2014, an increase of $109,392 or 6.91 percent. Low interest rates during the year and more individuals purchasing real estate and farms helped increase the demand for loans. The Association also experienced an increase in demand for financing of poultry houses as several poultry integrators expanded the number of

poultry houses in our territory. Another area of stronger loan demand was for cattle loans during the first half of the year. During 2015, the Association continued to participate in AgFirst's capitalized participation program although no additional loans were sold to the Bank under this program.

The Bank's capitalized participation pool program is designed to improve the Association's and Bank's capital positions. Under this program, when the Association sells a pool of loans to the Bank, the Bank maintains a separate patronage pool for these loans and pays a patronage to the Association in an amount that the Association would earn if the loans remained with the Association. Further, under this program, the Association also increased its stock investment in the Bank. While the sale of these loans impacts the loan volume of the Association, it does not materially impact its net income. As of December 31, 2015, loans sold to the Bank under this program totaled $83,651 compared to $97,426 at December 31, 2014. The decrease was primarily due to paydowns and amortization of principal.

Without the sale of these loans, loan volume would have been $1,776,284 at December 31, 2015 compared to $1,680,667 at December 31, 2014, an increase of $95,617 or 5.69 percent.

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 through numerous product types.

In the table below, classifications of FCA loan type information for 2014 and 2013 have been updated for amounts that were previously reported in the 2014 Annual Report to correct errors. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for information on these classification revisions. The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	December 31, 2015		2014 (as revised)		2013 (as revised)	
	(dollars in thousands)					
Real estate mortgage	$ 1,188,861	70.24%	$ 1,118,544	70.65%	$ 1,048,717	70.69%
Production and intermediate-term	397,512	23.48	365,400	23.07	345,125	23.27
Rural residential real estate	46,746	2.76	43,300	2.74	38,436	2.59
Processing and marketing	40,223	2.38	37,375	2.36	31,956	2.15
Farm-related business	13,756	0.81	12,659	0.80	11,658	0.79
Communication	5,419	0.32	5,964	0.38	7,562	0.51
Loans to cooperatives	116	0.01	–	–	–	–
Total	$ 1,692,633	100.00%	$ 1,583,241	100.00%	$ 1,483,454	100.00%

While we make loans and provide financial related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the loan volume by branch/state for the past three years is as follows:

Branch/State	December 31, 2015	2014	2013
Abingdon, VA	8%	8%	8%
Bedford, VA	3	3	3
Charlottesville, VA	3	3	4
Chatham, VA	3	3	4
Clarksburg, WV	2	2	2
Culpeper, VA	5	5	5
Elkins, WV	2	3	2
Gate City, VA	1	1	1
Halifax, VA	2	2	2
Harrisonburg, VA	14	13	14
Leesburg, VA	8	8	8
Lewisburg, WV	3	3	3
Lexington, VA	3	3	3
Oakland, MD	3	3	3
Orange, VA	7	7	7
Petersburg, WV	4	4	4
Ripley, WV	3	4	4
Roanoke, VA	3	3	3
Rocky Mount, VA	4	4	4
Romney, WV	2	1	1
Verona, VA	6	6	6
Warrenton, VA	5	6	6
Wytheville, VA	4	4	4
Agribusiness	5	5	5
Special Assets Group	2	2	1
Participation Loans Purchased	1	1	1
Participation Loans Sold	(6)	(7)	(8)
	100%	100%	100%

The major commodities in the Association's loan portfolio are shown below. The predominant commodities are livestock, field crops, and timber, which constitute 67 percent of the entire portfolio.

Commodity Group	December 31, 2015		2014		2013	
	(dollars in thousands)					
Livestock	$ 639,119	38%	$ 578,400	37%	$ 547,971	37%
Field Crops	310,656	18	283,839	17	255,244	17
Timber	177,455	11	178,034	11	168,788	11
Dairy	174,089	10	161,848	11	155,025	11
Poultry	151,905	9	127,534	8	116,521	8
Rural Home	48,629	3	46,176	3	41,209	3
Tobacco	19,075	1	19,497	1	17,870	1
Other	171,705	10	187,914	12	180,826	12
Total	$ 1,692,633	100%	$ 1,583,241	100%	$ 1,483,454	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of livestock producers. Although a large percentage of the loan portfolio is concentrated in these commodities, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand for beef, prices of field grains, and international trade are some of the factors affecting the prices of these commodities. To proactively reduce overall risk exposure, the concentration of large loans has decreased over the past couple years. The agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity

concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

During 2015, the Association continued to buy and sell loan participations within the System. Loan participations provide a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which may strengthen its capital position. Activity was reduced in buying loan participations during 2015 as part of the overall risk management program.

Loan Participations:	December 31, 2015	2014	2013
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 23,204	$ 16,624	$ 20,004
Participations Sold	(93,261)	(106,193)	(121,667)
Total	$ (70,057)	$ (89,569)	$ (101,663)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2015.

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2015, the Association originated loans for resale totaling $40,837, which were all sold into the secondary market.

MISSION RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot and the Tobacco Buyout Program under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. Effective December 31, 2014, the FCA concluded each pilot program approved as part of the Investment in Rural America Bonds program. Each System institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs ended, the FCA can consider future requests on a case-by-case basis.

These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2015, 2014, and 2013, the Association did not hold any Rural America Bonds.

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers received equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allowed the quota holders and producers to assign to a "financial institution" the right to receive the contract payments (Successor-in-Interest Contracts (SIIC) so that they could obtain a lump sum or other payment. On April 4, 2005, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout). The final payment from the USDA under this program was received in the first quarter of 2015. At December 31, 2015, 2014, and 2013, the Association had $0, $0, and $2,989, respectively, in SIIC outstanding and these are classified as Other Investments on the Consolidated Balance Sheets.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral

or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- 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 facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2015	2014	2013
Acceptable & OAEM	97.04%	96.06%	95.47%
Substandard	2.94%	3.90%	4.49%
Doubtful	.02%	0.04%	0.04%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Group is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

	December 31,		
High-risk Assets	2015	2014	2013
	(dollars in thousands)		
Nonaccrual loans	$ 28,394	$ 29,329	$ 23,494
Restructured loans	1,185	873	382
Accruing loans 90 days past due	205	370	193
Total high-risk loans	29,784	30,572	24,069
Other property owned	4,803	2,786	2,337
Total high-risk assets	$ 34,587	$ 33,358	$ 26,406
Ratios			
Nonaccrual loans to total loans	1.68%	1.85%	1.58%
High-risk assets to total assets	1.97%	2.02%	1.69%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $935 or 3.19 percent in 2015. The decrease was mainly due to payments received on loans, loans being reinstated into accruing status and loans which went thru the foreclosure process and the property was acquired. Of the $28,394 in nonaccrual volume at December 31, 2015, $18,838 or 66.35 percent, compared to 63.96 percent and 43.75 percent at December 31, 2014 and 2013, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Other property owned totaled $4,803 at December 31, 2015. This was an increase of $2,017 as compared to 2014. During 2015, several loans went through the foreclosure process and were acquired by the Association. The Association actively markets these properties and several were sold during the year.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The following table presents the activity in the allowance for loan losses for the most recent three years:

	Year Ended December 31,		
Allowance for Loan Losses Activity:	2015	2014 (as revised)	2013 (as revised)
	(dollars in thousands)		
Balance at beginning of year	$ 12,465	$ 11,878	$ 9,968
Charge-offs:			
Real estate mortgage	(372)	(681)	(1,467)
Production and intermediate-term	(740)	(655)	(843)
Agribusiness	–	–	(939)
Rural residential real estate	–	(6)	(94)
Total charge-offs	(1,112)	(1,342)	(3,343)
Recoveries:			
Real estate mortgage	251	419	1,708
Production and intermediate-term	183	304	23
Agribusiness	–	5	71
Rural residential real estate	–	1	1
Total recoveries	434	729	1,803
Net (charge-offs) recoveries	(678)	(613)	(1,540)
Provision for (reversal of allowance for) loan losses	2,700	1,200	3,450
Balance at end of year	$ 14,487	$ 12,465	$ 11,878
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.041)%	(0.040)%	(0.105)%

There was a slight increase in net charge-offs for 2015 when compared to 2014.

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	2015	2014 (as revised)	2013 (as revised)
	(dollars in thousands)		
Real estate mortgage	$ 6,920	$ 5,678	$ 5,246
Production and intermediate-term	6,594	5,981	4,901
Agribusiness	613	537	1,532
Rural residential real estate	360	269	199
Communication	–	–	–
Total Allowance	$ 14,487	$ 12,465	$ 11,878

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	2015	2014	2013
Total loans	0.86%	0.79%	0.80%
Nonaccrual loans	51.02%	42.50%	50.56%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses and prior years reclassification of loan types as defined by FCA.

RESULTS OF OPERATIONS

The Association's net income was $44,099 for 2015, $50,788 for 2014, and $51,238 for 2013. The decrease in net income for 2015 compared to 2014 was mainly due to a decrease in the AgFirst patronage refund. The decrease in net income for 2014 compared to 2013 was mainly due to a decrease in the AgFirst patronage refund and higher noninterest expenses, which was offset somewhat by lower provision for loan losses and higher net interest income.

Interest income was $85,166 for 2015, $80,038 for 2014, and $77,763 for 2013. The increase in interest income for 2015 compared to 2014 was mainly due to an increase in loan volume during 2015. The increase in interest income for 2014 compared to 2013 was also primarily due to an increase in loan volume during 2014.

Net Interest Income

Net interest income was $50,072 for 2015, $47,859 for 2014 and $43,920 for 2013. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. Net interest income increased during 2015 compared to 2014 mainly due to an increase in loan volume. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/15 - 12/31/14				
Interest income	$ 5,790	$ (950)	$ 288	$ 5,128
Interest expense	2,198	717	–	2,915
Change in net interest income	$ 3,592	$ (1,667)	$ 288	$ 2,213
12/31/14 - 12/31/13				
Interest income	$ 2,866	$ (267)	$ (324)	$ 2,275
Interest expense	350	(2,014)	–	(1,664)
Change in net interest income	$ 2,516	$ 1,747	$ (324)	$ 3,939

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Noninterest Income

Total noninterest income for the period ended December 31, 2015, totaled $23,850, a decrease of $6,185 or 20.59 percent, as compared to $30,035 for 2014.

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31, 2015	2014	2013	Increase/(Decrease) 2015/2014	2014/2013
	(dollars in thousands)				
Loan fees	$ 714	$ 772	$ 736	$ (58)	$ 36
Fees for financially related services	106	121	159	(15)	(38)
Patronage refund from other Farm Credit Institutions	21,899	28,391	31,950	(6,492)	(3,559)
Gains (losses) on sales of rural home loans	914	447	692	467	(245)
Gains (losses) on sales of premises and equipment, net	38	67	49	(29)	18
Gains (losses) on other transactions	5	64	50	(59)	14
Other noninterest income	174	173	198	1	(25)
Total noninterest income	$ 23,850	$ 30,035	$ 33,834	$ (6,185)	$ (3,799)

Income from loan fees decreased during 2015 compared to 2014 mainly due to less fees such as late fees collected on loans during the year.

As anticipated, the patronage refund from other Farm Credit Institutions decreased for 2015 when compared to 2014. The patronage refund, which was from AgFirst, decreased $6,492 compared to last year. The decrease was due to AgFirst reducing its special additional patronage refund paid to the Association. For 2015, the special patronage refund was $9,205. For 2014 and 2013, special patronage refund was $15,739 and $19,052, respectively. Agfirst paid the special patronage refunds due to its strong financial position.

Income from the sales of rural home loans increased compared to last year. The increase in income was due to an increase in the volume of loans sold in 2015 compared to 2014.

Noninterest Expense

Total noninterest expense increased $1,336 or 5.18 percent for the year ended December 31, 2015, as compared to the same period for 2014.

Noninterest expense for each of the three years ended December 31 is shown in the following table:

	For the Year Ended December 31,			Increase/(Decrease)	
Noninterest Expense	**2015**	**2014**	**2013**	**2015/ 2014**	**2014/ 2013**
	(dollars in thousands)				
Salaries and employee benefits	$ 17,167	$ 16,650	$ 15,647	$ 517	$ 1,003
Occupancy and equipment	1,255	1,228	1,225	27	3
Insurance Fund premiums	1,690	1,462	1,216	228	246
(Gains) losses on other property owned, net	451	252	(991)	199	1,243
Other operating expenses	6,546	6,181	5,915	365	266
Total noninterest expense	$ 27,109	$ 25,773	$ 23,012	$ 1,336	$ 2,761

Salaries and employee benefits increased for 2015 compared to 2014 mainly due to an increase in employees' salaries. The increase in employees' salaries was primarily due to merit increases and promotions.

Insurance Fund premiums increased $228 for 2015 compared to 2014 due to higher premiums. The higher premiums were mainly due to the increase in loan volume.

Other operating expenses increased $365 for 2015 compared to 2014. The increase was primarily due to spending more money on outside professional services and other expenses.

Income Taxes

The Association recorded a provision for income taxes of $14 for the year ended December 31, 2015, as compared to a provision for income taxes of $133 for 2014 and a provision of $54 for 2013. Refer to Note 2, *Summary of Significant Accounting Policies*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/15	12/31/14	12/31/13
Return on average assets	2.62%	3.22%	3.36%
Return on average members' equity	12.40%	15.40%	17.04%
Net interest income as a percentage of average earning assets	3.06%	3.13%	2.98%
Net (charge-offs) recoveries to average loans	(0.041)%	(0.040)%	(0.105)%

Lower net income for 2015 drove the return on average assets and return on average members' equity lower when compared to last year. Net interest income as a percentage of average earning assets decreased for 2015 compared to 2014 due to lower spreads on loans.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA 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, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. 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. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2015, was $1,354,433 as compared to $1,275,765 at December 31, 2014 and $1,209,905 at December 31, 2013. The average volume of outstanding notes payable to the Bank was $1,303,176 and $1,219,842 for the years ended December 31, 2015 and 2014, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac, investments, and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association did not have any lines of credit from third party financial institutions as of December 31, 2015.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements in this annual report.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this annual report.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2015 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Members' equity at December 31, 2015, totaled $364,778, an increase of 8.49 percent compared to $336,227 at December 31, 2014. At December 31, 2014, total members' equity increased 8.25 percent from the December 31, 2013 total of $310,610. The increase was primarily attributed to the earnings of the Association offset by the cash profit-sharing distribution (patronage dividend) to the Association's member-stockholders and the retirement of C-common stock. The Association plans to distribute approximately $15 million of the 2015 net income in cash to its member-stockholders during the second quarter of 2016.

Total capital stock and participation certificates were $12,606 on December 31, 2015, compared to $13,159 on December 31, 2014 and $17,313 on December 31, 2013. The decrease for 2015 compared to 2014 was primarily attributed to the retirement of C-common stock.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded the minimum regulatory standard for all the ratios.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2015	2014	2013	Regulatory Minimum
Permanent capital ratio	20.07%	19.91%	19.88%	7.00%
Total surplus ratio	19.29%	19.15%	18.68%	7.00%
Core surplus ratio	19.29%	19.15%	18.68%	3.50%

The capital ratios increased for 2015 compared to 2014 due to an increase in members' equity.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. See Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation

loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2015 goals were established and met.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2015	
(dollars in thousands)	Number of Loans	Amount of Loans
Young	2,599	$233,398
Beginning	3,943	$403,126
Small	11,681	$1,043,241

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2012 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The Association currently has a high penetration in the Young, Beginning, and Small farm market. As of December 31, 2015, the Association was doing business with 81 percent of the Young farmers, 34 percent of the Beginning farmers, and 18 percent of Small farmers identified by the 2012 Ag census.

The following strategies and outreach programs have been conducted which allowed the Association to meet its objectives and goals in the young, beginning, and small farmer program:

- Began in 2011, the sponsorship of the Ag Biz Planner financial training program for YBS farmers. This has continued each year through 2015 with a total of 53 participants completing the program since its inception. In 2015, sponsored trip for 8 participants to visit congress in Washington D.C.
- Began in 2014, the initiation of a Knowledge Center. This provides educational opportunities and resources for all farmers including YBS farmers.
- In 2015, initiate new "Farm Launch" program that is designed primarily for YBS farmers.
- Support of 4-H, FFA, and Young farmer organizations through sponsorships and donations.
- Sponsor and host, four, one-day, Farm Management Institute seminars; these are facilitated by nationally recognized agricultural business consultant, Dr. David Kohl. Total attendance was 200 in 2015.
- Sponsor and host, two, one-day, Dairy Management seminars. Total attendance was 150 in 2015.
- Sponsor and host, three, one-day Risk Management seminars. Total attendance was 150 in 2015.
- Support Young and Beginning farmers through many youth programs including a Youth Loan program.
- Support numerous trade shows and conferences that benefit YBS borrowers.

The Association is committed to the future success of Young, Beginning and Small farmers.

* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

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.

On September 4, 2014, the FCA published a proposed rule in the Federal Register to modify the regulatory capital requirements for System banks and associations. The initial public comment period ended on February 16, 2015. On June 15, 2015, the Farm Credit Administration reopened the comment period from June 26 to July 10, 2015. The FCA expects to issue a final regulation in 2016. The stated objectives of the proposed 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.

FINANCIAL REGULATORY REFORM

The Dodd-Frank Act was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the statutory provisions of the Dodd-Frank Act are not applicable to the Farm Credit System.

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions require, among other things, more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges or other multilateral platforms. Margin is required for these transactions. Derivative transactions that are not subject to mandatory trading and clearing requirements may be subject to minimum margin and capital requirements. The Commodity Futures Trading Commission and other federal banking regulators have exempted System institutions from certain, but not all, of these new requirements, including, for swaps with members, mandatory clearing and minimum margin for noncleared swaps.

Notwithstanding the above-mentioned exemptions from clearing and margin requirements for System institutions, counterparties of System institutions may require margin or other forms of credit support as a condition to entering into noncleared transactions because such transactions may subject these counterparties to more onerous capital, liquidity and other requirements absent such margin or credit support. Alternatively, these counterparties may pass on the capital and other costs associated with entering into transactions if insufficient margin or other credit support is not provided.

The Dodd-Frank Act requirements may make derivative transactions more costly and less attractive as risk management tools for System institutions; and thus may impact the System's funding and hedging strategies.

The Dodd-Frank Act also created a new federal agency called the Consumer Financial Protection Bureau (CFPB). The CFPB has the responsibility to regulate the offering of consumer financial products or services under federal consumer financial laws. The Farm Credit Administration retains the responsibility to oversee and enforce compliance by System institutions with relevant rules adopted by the CFPB.

In light of the foregoing, it is difficult to predict at this time the extent to which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have an impact on the System. However, it is possible they could affect funding and hedging strategies and increase funding and hedging costs.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

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Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Consolidated Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Virginia, West Virginia and Maryland:

Location	Description	Form of Ownership
106 Sangers Lane Augusta County, VA	Administrative	Owned
1237 W. Main Street Abingdon, VA	Branch	Owned
801-B Blue Ridge Ave. Bedford, VA	Branch	Rented *($1,400 per month)*
1445 E. Rio Road Suite 103 Charlottesville, VA	Branch	Rented *($2,133 per month)*
29 Military Drive Chatham, VA	Branch	Owned
I-79, Exit 115, Rt. 20 S. Clarksburg, WV	Branch	Rented *($2,510 per month)*
15574 Ira Hoffman Ln. Culpeper, VA	Branch	Owned
308 Railroad Ave. Elkins, WV	Branch	Rented *($650 per month)*
241 E. Jackson Street Gate City, VA	Branch	Owned
161 South Main St. Halifax, VA	Branch	Rented *($531 per month)*
4646 South Valley Pike. Harrisonburg, VA	Branch	Owned
406 Market Street Harrisonburg, VA	Processing Center	Owned
27 Fort Evans Rd., NE Leesburg, VA	Branch	Owned
880 North Jefferson St. Lewisburg, WV	Branch	Owned
Rt. 39 Lexington, VA	Branch	Owned
Rt. 219 North Oakland, MD	Branch	Owned
Colonial Shopping Center Orange, VA	Branch	Rented *($1,575 per month)*
106 North Main Street Petersburg, WV	Branch	Owned
Route 33 West Ripley, WV	Branch	Rented *($2,861 per month)*
38 Murray Farm Road Roanoke, VA	Branch	Owned
670 Old Franklin Turnpike Rocky Mount, VA	Branch	Owned
452 North High Street Romney, WV	Branch	Owned
1557 Commerce Road Suite 202 Verona, VA	Branch	Rented *($1,806 per month)*
516 Fauquier Road Warrenton, VA	Branch	Owned
660 Pepper's Ferry Road Wytheville, VA	Branch	Owned

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, of the Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Members' Equity*, of the Consolidated Financial Statements included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Consolidated Financial Statements included in this Annual Report.

Description of Unincorporated Business Entities

The Association holds an equity investment at December 31 2015, in the following Unincorporated Business Entity (UBE) as an equity interest holder of the limited liability company (LLC). The LLC was organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of the Operating Agreements of the respective LLC.

Entity Name	Entity Purpose
Ethanol Holdings, LLC	Manage Acquired Property

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past 5 years.

Senior Officer	Position
David E. Lawrence	*Chief Executive Officer* since 2003.
Bette B. Brand	*Chief Sales Officer* since 2005 and had previously served as a Regional Sales and Lending Manager. She currently serves on the Boards of Directors of the Virginia Agribusiness Council, Virginia Horse Council, State Fair of Virginia, Inc., and Virginia Foundation for Agriculture in the Classroom.
Dewey L. Brown	*Chief Reviewer* since 2000.
John S. Day	*Director of Lending Initiatives* since 2010 and had previously served as a Regional Sales and Lending Manager.
C. Peery Heldreth III	*Chief Relationship Officer* since 2012 and had previously served as a Regional Sales and Lending Manager.
Carolyn L. Hite	*Corporate Secretary* since 2001.
Ronald C. Leathers	*Chief Facilities and Fleet Officer* since January 2014 and had previously served as the Chief Marketing Officer since 2003.
M. Kay Manchester	*Director of Human Capital* since 2006.
David G. Sauer	*Chief Financial Officer* since 1998.
Al P. Saufley	*Chief Lending Offi*cer since 2012 and had previously served as Business Line Leader and as Director of Risk Management and Underwriting.

Compensation Overview

The Association's compensation philosophy is to pay for performance that supports the Association's short-term and long-term business strategies and enhances the member-shareholders' value in the Association. The overall compensation programs which include base salary, incentive compensation and retirement benefits, are designed to offer competitive pay opportunities to employees and enable the Association to effectively attract, retain and motivate highly qualified employees.

The compensation programs for senior officers include both fixed and variable compensation components. The mix of fixed and variable components is designed to balance the need to motivate employees and the senior management to find new business opportunities and to promote the Association's mission to ensure a safe, sound, and dependable source of credit for agriculture and rural America. The fixed component of compensation is the base salary. The variable component of compensation is an incentive program. The incentive program is designed to promote pay for performance while balancing the needs of the Association to manage risk and promote sound credit decisions. The incentive compensation is paid in two parts. Part of the incentive is paid to employees shortly after the end of the year. This part is referred to as the short-term incentive. The remaining component of the incentive is paid after the completion of three more years and this is the long-term incentive.

The Chief Executive Officer (CEO) and the Internal Audit employees do not participate in the incentive program. Instead the Board of Directors, at its discretion, may award a bonus. Historically, the Board of Directors has used the results of the senior officers' short-term and long-term incentive plan to determine the payout amount.

Base Salaries. The CEO, senior officers and all employees of the Association have a base salary as part of their compensation program. The base salary is determined based on position, responsibilities and performance. The Association strives to provide employees with base salaries that are competitive with respect to the position, as identified in compensation surveys conducted by external compensation consultants, and the need to maintain careful control of salaries and benefits expense. The Board of Directors has delegated the base salaries administration for senior officers to the CEO. The CEO's base salary is reviewed and approved by the Board of Directors.

Short-Term Incentive. The Association provides short-term incentive programs for senior officers and eligible employees. The short-term incentive programs are designed to promote new business development, increased loan volume and revenue growth, and increased Association's net income. These financial measures were selected since they align with our mission and enhance the Association's ability to pay a patronage refund to our member-stockholders. The senior officers' short-term incentive is based on the performance of the sales and lending team. Performance of the sales and lending team is based on the production of loans made during the year and the number of new customers who joined the Association. The senior officers' short term incentive is reduced if key financial business goals are below established targets. The short-term incentive programs are reviewed and approved annually by the Board of Directors.

The short-term incentive for 2015 was expensed during 2015 with the payment to be made in the first quarter of 2016.

Long-term Incentive. The Association provides a long-term incentive program for senior officers. The long-term incentive plan is designed to motivate and reward the senior officers to meet and exceed financial and performance goals of the Association. The financial and performance goals are return on equity, return on assets, loan portfolio credit quality, loan delinquency rate, and level of nonaccrual loan volume. These performance areas are weighted equally. A target goal is set for each financial and performance goal. The incentive amount is determined by the Association's performance compared to the goals. The long-term incentive for 2015 will be paid during the first quarter of 2019. The payment can be reduced if the financial and performance results for the last year, 2018, are less than the target goals in the 2015 long-term incentive program. Since the 2015 long-term incentive will be paid out after three years, it will be expensed equally over the next three years. The long-term incentive program is reviewed and approved by the Board of Directors.

Retirement benefits. The Association provides retirement benefits to the CEO, senior management and employees to offer a competitive compensation program. The CEO and senior officers participate in a defined benefit retirement plan

if hired before January 1, 2003 or a cash balance plan if hired on or after January 1, 2003. Additional information on the Association's retirement plans can be found in Note 9, *Employee Benefit Plans*, of the Consolidated Financial Statements included in this Annual Report.

Defined Contribution-Type Plans

The Association sponsors a non-qualified deferred compensation plan for certain key employees. The purpose of the non-qualified plan is to allow these employees to defer income taxes on a portion of their compensation until retirement or separation from the Association. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

Employees who choose to defer a portion of their compensation may defer part or all of their base salary, short term incentive, and long term incentive and or bonus. This is shown under the deferred compensation column in the Summary of Compensation table below.

The following Summary of Compensation table includes compensation paid to the CEO and the senior officers as a group, excluding the CEO, during the years ended December 31, 2015, 2014 and 2013:

Name of CEO	Year	Salary	Bonus Short Term	Bonus Long term	Deferred Comp.	Change in Pension Value (1)	Perq/ Other(2)	Total
David E. Lawrence, CEO	2015	$ 378,328	$ –	$ –	$ 75,666	$ (76,492)	$ 12,606	$ 390,108
David E. Lawrence, CEO	2014	$ 350,304	$ –	$ –	$ 70,061	$ 620,301	$ 16,156	$ 1,056,822
David E. Lawrence, CEO	2013	$ 350,304	$ –	$ –	$ 70,958	$ (249,343)	$ 10,510	$ 182,429

Aggregate No. of Senior Officers	Year	Salary	Short Term Incentive	Long Term Incentive	Deferred Comp.	Change in Pension Value (1)	Perq/ Other(2)	Total
9	2015	$ 1,330,272	$ 233,954	$ 150,639	$ 120,543	$ 321,015	$ 39,952	$ 2,196,375
11	2014	$ 1,350,739	$ 191,600	$ 188,361	$ 126,358	$ 1,888,292	$ 96,460	$ 3,841,810
11	2013	$ 1,403,095	$ 247,912	$ 183,815	$ 49,213	$ (77,963)	$ 50,134	$ 1,856,206

(1) The changes in pension values in 2014 as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.

(2) The Perquisites/Other amount disclosed in the above chart include group life insurance, automobile compensation, severance pay, and spousal expense reimbursements for attendance at Association meetings.

Pension Benefits for the year ended December 31, 2015,

Pension Benefits Table
As of December 31, 2015

Name of CEO	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2015
David E. Lawrence, CEO	2015	AgFirst Retirement Plan	34	$ 3,051,042	$ –
				$ 3,051,042	$ –
Aggregate No. of Senior Officers					
9	2015	AgFirst Retirement Plan	*	$ 8,952,366	$ –
				$ 8,952,366	$ –

The disclosure of information on the total compensation paid during 2015 to any senior officer as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures". The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. The Association was required to comply with the rule for compensation reported in the table for fiscal year 2015, and could implement the rule retroactively for the 2014 and 2013. The Association chose not implement the rule retroactively for 2014 and 2013.

Employee Travel Reimbursement

All employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Defined Benefit-Type Plans

The Association sponsors a non-qualified defined benefit supplemental executive retirement plan for Donald L. Shiflet, retired CEO. The purpose of the non-qualified plan is to provide benefits that supplement the qualified defined benefit plan in which the Association's employees participate. For Mr.

Shiflet, compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit in the qualified defined benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

Directors

The following chart details the current term of each director and total cash compensation paid for 2015:

DIRECTOR	CURRENT TERM	TOTAL COMPENSATION PAID DURING 2015
Charles B. Leech, IV, **Chairperson**	2012-2015	$ 17,800
Donna M. Brooke-Alt, **Vice Chairperson**	2014-2017	15,875
Melody S. Jones, **Chairperson of Audit Committee**	2015-2018	15,700
Ronald L. Bennett	2014-2017	13,050
William J. Franklin, Jr.	2015-2018	13,850
Bobby C. Gray	2015-2018	13,775
Charles E. Horn, Jr.	2015	17,175
Paul M. House	2013-2016	12,900
James F. Kinsey	2014-2017	12,300
Milton L. McPike, Jr.	2013-2016	12,550
Donald W. Reese	2014-2017	14,400
Wallace W. Sanford, III	2015-2018	12,000
Barry W. Shelor	2013-2016	13,750
Alfred W. Stephens, Jr.	2013-2016	14,800
Joseph W. Wampler	2013-2016	13,200
John E. Wells	2012-2015	15,000
		$ 228,125

The following represents certain information regarding the directors of the Association, including their principal occupation for the past five years:

Charles B. Leech, IV, Chairperson, is an owner-operator of the family's dairy farm. He serves as a director on the Virginia State Dairymen's Association Board and on the Rockbridge Farmers' Cooperative Board.

Donna M. Brooke-Alt, ***Vice Chairperson***, is President of Brookedale Farms, LLC and also owns/operates a greenhouse, event building and Agri-tainment operation. She serves on the Mineral County FSA Board and the Mineral County Family Resource Network Board. Ms. Brooke-Alt also serves on the Potomac State College Ag Advisory Committee.

Ronald L. Bennett operates a dairy farm. He serves on the Alleghany County Farm Bureau Board and on the Rockbridge/Alleghany/Bath FSA Committee.

William J. Franklin, Jr., is a livestock producer in Scott County, Va. He also produces hay and corn for his 145 beef cows. Mr. Franklin is employed off the farm at Scott County Telephone Cooperative where he serves as the Chief Executive Officer. He serves on the Carolina-Virginia's Telephone Membership Association Board; the TECO Board of the National Telecommunications Cooperative Association; IRIS which is a Tennessee LLC regional network provider; and LIT which is a Virginia LLC regional network provider. Mr. Franklin also serves on the National Rural Broadband Association's Membership Committee.

Bobby C. Gray operates a diversified farm operation which includes raising dairy heifers, a beef cow herd, growing corn and hay on 1200 acres in Washington County, VA. Mr. Gray serves on the Advisory Committee for the Washington County School System.

Charles E. Horn, Jr. owns and operates a poultry operation and raises replacement dairy heifers. Mr. Horn is currently serving as chairman of the Augusta Petroleum Cooperative Board which is a part of Southern States Cooperative.

Paul M. House is president of Kettle Wind Farm, LLC, a dairy, grain, and sod farm. He is also a shareholder in Dutchland Farm Inc., a family dairy farm. In 2015 he served on the AgFirst Farm Credit Bank Board.

Melody S. Jones is an outside director and is chairperson of the Audit Committee. She is a self-employed sole practitioner Certified Public Accountant. She serves on the BC Bank, Inc. as Board chairperson. Ms. Jones also serves as treasurer for the Barbour County Chamber of Commerce and as director for the Barbour County Office for Economic Development.

James F. Kinsey is owner/manager of Kinsey's Oak Front Farms which is a 200 head seed stock Angus farm. He is also a member of the West Virginia Cattlemen's Association, West Virginia Farm Bureau, West Virginia Angus Association and American Angus Association.

Milton L. McPike, Jr. is an outside director. He is the Project Manager Cooked Meats for Cargill, Inc in Wichita, Kansas.

Donald W. Reese is a partner in Reese's Farm Fresh Produce, a retail produce operation and a partner and manager of Reese Farms, Inc., a family owned vegetable farm. He also teaches agriculture at Halifax County High School.

Wallace W. Sanford, III, is a dairy and beef farmer in partnership with his family. He serves on the Maryland-Virginia Milk Producers Board and is director for Battlefield DHIA. Mr. Sanford serves as director for the Orange Madison Coop and is a director for the Virginia State Dairymen Association.

Barry W. Shelor operates a dairy farm. He serves on the Board of Directors for Shelor's Dairy, Inc. and Mountain Meadows Dairy, LLC. Mr. Shelor also serves on the Patrick County Farm Bureau Board as vice president.

Alfred W. Stephens, Jr. is a dairy and beef cow/calf farmer and has a small produce business. He serves as secretary-treasurer on the Wythe/Bland DHIA.

Joseph W. Wampler is a general livestock and poultry farmer.

John E. Wells is a full-time beef farmer. He is a member of the West Virginia Cattlemen's Association, Wirt County Farm Bureau, and is vice president of the Jackson County Calf Pool Cooperative and serves on the AgFirst Farm Credit Council Board. Mr. Wells also serves as director for the Wirt County Group, Inc.

Subject to approval by the board, the Association may allow directors honorarium of $400 for attendance at meetings, committee meetings, or special assignments, and $100 for telephone conferences. In addition to the honoraria, the board chairperson was paid a quarterly retainer fee of $1,500, the audit committee chairperson was paid a quarterly retainer fee of $1,375 and the directors were paid a quarterly retainer fee of $1,250.

The following chart details the number of meetings, other activities and additional compensation paid for other activities (if applicable) for each director:

	Days Served			
Name of Director	**Regular Board Meetings**	**Other Official Activities***	**Committee Assignments**	**Compensation Paid For Other Activities****
Charles B. Leech, IV, **Chairperson**	14	17	Governance Committee and Chairperson of Compensation Committee	$ 6,200
Donna M. Brooke-Alt, **Vice Chairperson**	14	13	Compensation Committee and Governance Committee	4,600
Melody S. Jones, **Chairperson of Audit Committee**	14	13	Chairperson of Audit Committee	3,400
Ronald L. Bennett	14	5	Audit Committee	2,000
William J. Franklin, Jr.	14	4	Compensation Committee and Chairperson of Governance Committee	1,300
Bobby C. Gray	14	4	Audit Committee	1,600
Charles E. Horn, Jr.	14	16	Risk Management Committee	6,400
Paul M. House**	13	6	Compensation Committee and Governance Committee	2,100
James F. Kinsey	13	2	Audit Committee	800
Milton L. McPike, Jr.	14	2	Chairperson of Risk Management Committee	800
Donald W. Reese	14	8	Chairperson of Communication Advocacy Program/Sales Committee	3,200
Wallace W. Sanford, III	12	5	Risk Management Committee	2,000
Barry W. Shelor	14	7	Compensation Committee and Governance Committee	2,500
Alfred W. Stephens, Jr.	14	8	Communication Advocacy Program/Sales Committee	3,200
Joseph W. Wampler	14	6	Risk Management Committee	2,400
John E. Wells	14	7	Communication Advocacy Program/Sales Committee	2,800
				$ 45,300

** Includes board committee meetings and other board activities other than regular board meetings.*

*** Does not include days served or compensation for days on the AgFirst Board of Directors.*

Directors and senior officers are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $156,047 for 2015, $169,302 for 2014, and $193,897 for 2013.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Notes to the Consolidated Financial Statements in this Annual Report.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2015, between the Association and senior officers or directors, their immediate family members or any organizations with which they are

affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association, for the year ended December 31, 2015.

Involvement in Certain Legal Proceedings

There were no other transactions which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Certified Public Accountants

There were no changes in or material disagreements with our independent certified public accountants on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees incurred by the Association for services rendered by its independent certified public accountants for the year ended December 31, 2015 were as follows:

(dollars in thousands)	2015
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP Audit services	$ 75
Total	$ 75

Audit fees were for the annual audit of the consolidated financial statements.

Consolidated Financial Statements

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 10, 2016, and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-540-886-3435, extension 5020, or writing David Sauer, Farm Credit of the Virginias, P.O. Box 899, Staunton, VA 24402-0899 or accessing the web site, **www.farmcreditofvirginias.com**. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report which is available on the Association's website within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this annual report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank'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 by going to AgFirst's web site at ***www.agfirst.com.*** The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of the Virginias, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent certified public accountants for 2015, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 *(Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2015. The foregoing report is provided by the following independent directors, who constitute the Committee:

Melody S. Jones
Chairperson of the Audit Committee

Members of Audit Committee

Ronald L. Bennett
Bobby C. Gray
James F. Kinsey

March 10, 2016

Report of Independent Certified Public Accountants

To the Board of Directors and Members of
Farm Credit of the Virginias, ACA

We have audited the accompanying consolidated financial statements of Farm Credit of the Virginias, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2015, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Certified Public Accountants' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit of the Virginias, ACA and its subsidiaries at December 31, 2015, 2014 and 2013 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 10, 2016

PricewaterhouseCoopers LLP, 401 E. Las Olas Blvd, Suite 1800, Fort Lauderdale, FL 33301
T: (954)764-7111, F: (954)525-4453, www.pwc.com/us

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2015	2014	2013
Assets			
Cash	**$ 2,945**	$ 6,038	$ 5,617
Loans	**1,692,633**	1,583,241	1,483,454
Allowance for loan losses	**(14,487)**	(12,465)	(11,878)
Net loans	**1,678,146**	1,570,776	1,471,576
Loans held for sale	**2,269**	1,077	722
Other investments	**—**	—	2,989
Accrued interest receivable	**8,680**	7,854	7,508
Investments in other Farm Credit institutions	**24,557**	24,613	25,707
Premises and equipment, net	**8,035**	8,092	7,754
Other property owned	**4,803**	2,786	2,337
Accounts receivable	**22,239**	28,685	31,362
Other assets	**6,001**	4,592	5,209
Total assets	**$ 1,757,675**	$ 1,654,513	$ 1,560,781
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,354,433**	$ 1,275,765	$ 1,209,905
Accrued interest payable	**3,060**	2,809	2,858
Patronage refunds payable	**15,259**	21,209	21,161
Accounts payable	**2,463**	2,074	3,617
Other liabilities	**17,682**	16,429	12,630
Total liabilities	**1,392,897**	1,318,286	1,250,171
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**12,606**	13,159	17,313
Retained earnings			
Allocated	**92,568**	92,568	92,568
Unallocated	**259,626**	230,527	200,739
Accumulated other comprehensive income (loss)	**(22)**	(27)	(10)
Total members' equity	**364,778**	336,227	310,610
Total liabilities and members' equity	**$ 1,757,675**	$ 1,654,513	$ 1,560,781

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

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2015	2014	2013
Interest Income			
Loans	**$ 85,166**	$ 80,033	$ 77,618
Investments	**—**	5	145
Total interest income	**85,166**	80,038	77,763
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**35,094**	32,179	33,843
Net interest income	**50,072**	47,859	43,920
Provision for loan losses	**2,700**	1,200	3,450
Net interest income after provision for loan losses	**47,372**	46,659	40,470
Noninterest Income			
Loan fees	**714**	772	736
Fees for financially related services	**106**	121	159
Patronage refunds from other Farm Credit institutions	**21,899**	28,391	31,950
Gains (losses) on sales of rural home loans, net	**914**	447	692
Gains (losses) on sales of premises and equipment, net	**38**	67	49
Gains (losses) on other transactions	**5**	64	50
Other noninterest income	**174**	173	198
Total noninterest income	**23,850**	30,035	33,834
Noninterest Expense			
Salaries and employee benefits	**17,167**	16,650	15,647
Occupancy and equipment	**1,255**	1,228	1,225
Insurance Fund premiums	**1,690**	1,462	1,216
(Gains) losses on other property owned, net	**451**	252	(991)
Other operating expenses	**6,546**	6,181	5,915
Total noninterest expense	**27,109**	25,773	23,012
Income before income taxes	**44,113**	50,921	51,292
Provision (benefit) for income taxes	**14**	133	54
Net income	**$ 44,099**	$ 50,788	$ 51,238

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2015	2014	2013
Net income	**$ 44,099**	$ 50,788	$ 51,238
Other comprehensive income net of tax			
Employee benefit plans adjustments	**5**	(17)	7
Comprehensive income	**$ 44,104**	$ 50,771	$ 51,245

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2012	$ 17,344	$ 92,568	$ 170,501	$ (17)	$ 280,396
Comprehensive income			51,238	7	51,245
Capital stock/participation certificates issued/(retired), net	(31)				(31)
Patronage distribution					
Cash			(21,000)		(21,000)
Balance at December 31, 2013	$ 17,313	$ 92,568	$ 200,739	$ (10)	$ 310,610
Comprehensive income			50,788	(17)	50,771
Capital stock/participation certificates issued/(retired), net	(4,154)				(4,154)
Patronage distribution					
Cash			(21,000)		(21,000)
Balance at December 31, 2014	**$ 13,159**	**$ 92,568**	**$ 230,527**	**$ (27)**	**$ 336,227**
Comprehensive income			**44,099**	**5**	**44,104**
Capital stock/participation certificates issued/(retired), net	**(553)**				**(553)**
Patronage distribution					
Cash			**(15,000)**		**(15,000)**
Balance at December 31, 2015	**$ 12,606**	**$ 92,568**	**$ 259,626**	**$ (22)**	**$ 364,778**

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2015	2014	2013
Cash flows from operating activities:			
Net income	**$ 44,099**	$ 50,788	$ 51,238
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**774**	810	791
Amortization (accretion) of net deferred loan costs (fees)	**274**	(367)	(715)
Premium amortization (discount accretion) on investments	**—**	(5)	(145)
Provision for loan losses	**2,700**	1,200	3,450
(Gains) losses on other property owned	**294**	166	(1,192)
(Gains) losses on sales of premises and equipment, net	**(38)**	(67)	(49)
(Gains) losses on sales of rural home loans, net	**(914)**	(447)	(692)
(Gains) losses on other transactions	**(5)**	(64)	(50)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(40,837)**	(26,896)	(40,618)
Proceeds from sales of loans held for sale, net	**40,559**	26,988	42,746
(Increase) decrease in accrued interest receivable	**(826)**	(346)	(68)
(Increase) decrease in accounts receivable	**6,446**	2,677	(14,433)
(Increase) decrease in other assets	**(1,409)**	617	(375)
Increase (decrease) in accrued interest payable	**251**	(49)	(66)
Increase (decrease) in accounts payable	**389**	(1,543)	798
Increase (decrease) in other liabilities	**1,274**	3,846	63
Total adjustments	**8,932**	6,520	(10,555)
Net cash provided by (used in) operating activities	**53,031**	57,308	40,683
Cash flows from investing activities:			
Net (increase) decrease in loans	**(113,725)**	(101,381)	(22,293)
(Increase) decrease in investment in other Farm Credit institutions	**56**	1,094	1,882
Proceeds from payments received on other investments	**—**	2,994	2,994
Purchases of premises and equipment	**(719)**	(1,153)	(685)
Proceeds from sales of premises and equipment	**40**	72	69
Proceeds from sales of other property owned	**1,059**	733	7,064
Net cash provided by (used in) investing activities	**(113,289)**	(97,641)	(10,969)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**78,668**	65,860	(19,925)
Capital stock and participation certificates issued/(retired), net	**(553)**	(4,154)	(31)
Patronage refunds and dividends paid	**(20,950)**	(20,952)	(10,509)
Net cash provided by (used in) financing activities	**57,165**	40,754	(30,465)
Net increase (decrease) in cash	**(3,093)**	421	(751)
Cash, beginning of period	**6,038**	5,617	6,368
Cash, end of period	**$ 2,945**	$ 6,038	$ 5,617
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ 3,381**	$ 1,348	$ 4,385
Estimated cash dividends or patronage distributions declared or payable	**15,000**	21,000	21,000
Employee benefit plans adjustments (Note 9)	**(5)**	17	(7)
Supplemental information:			
Interest paid	**$ 34,843**	$ 32,228	$ 33,909
Taxes (refunded) paid, net	**—**	172	50

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of the Virginias, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in forty-six counties in the state of Virginia, forty-eight counties in the state of West Virginia, and two counties in the state of Maryland as follows:

Virginia: Counties of Albemarle, Alleghany, Arlington, Augusta, Bath, Bedford, Bland, Botetourt, Buchanan, Carroll, Craig, Culpeper, Dickenson, Fairfax, Fauquier, Floyd, Franklin, Giles, Grayson, Greene, Halifax, Henry, Highland, Lee, Loudoun, Madison, Montgomery, Nelson, Orange, Patrick, Pittsylvania, Prince William, Pulaski, Rappahannock, Roanoke, Rockbridge, Rockingham, Russell, Scott, Smyth, Spotsylvania, Stafford, Tazewell, Washington, Wise, and Wythe;

West Virginia: Counties of Barbour, Boone, Braxton, Cabell, Calhoun, Clay, Doodridge, Fayette, Gilmer, Grant, Greenbrier, Hampshire, Hardy, Harrison, Jackson, Kanawha, Lewis, Lincoln, Logan, Marion, Mason, McDowell, Mercer, Mineral, Mingo, Monongalia, Monroe, Nicholas, Pendleton, Pleasants, Pocahontas, Preston, Putnam, Raleigh, Randolph, Ritchie, Roane, Summers, Taylor, Tucker, Tyler, Upshur, Wayne, Webster, Wetzel, Wirt, Wood, and Wyoming; and

Maryland: Counties of Allegany and Garrett.

The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year end, the AgFirst District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity and financial services that can be offered by the Association, and the persons eligible to borrow.

The Associations borrow from the Bank and in turn may originate and service short- and intermediate-term loans to their members, as well as, long-term real estate mortgage loans.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a lending agreement between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying

index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as: accounting, human resources, information systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

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

A. **Cash:** Cash represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

   Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

   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 and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

   Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

   When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

   Loans are charged-off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

   In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

   The allowance for loan losses is maintained 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. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association considers the following factors, among others, when determining the allowance for loan losses:

- Credit risk classifications,
- Collateral values,
- Risk concentrations,
- Weather related conditions,
- Current production and economic conditions, and
- Prior loan loss experience.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date, which excludes loans included under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Association uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the 14 categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans originated and intended for sale are carried at the lower of cost or fair value.

   Generally, only home loans that are to be sold on the secondary mortgage market through various lenders are held for sale.

D. **Other Property Owned:** Other property owned, consisting of real estate, personal property and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) from Other Property Owned, Net in the Consolidated Statements of Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

   From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-downs of property held for sale are recorded as other non-interest expense.

F. **Investments:** The Association may hold investments as described below.

   Other Investments
   Other investments include Tobacco Buyout Successor-in-Interest Contracts (SIIC), which qualify as Mission Related Investments under FCA regulations. Under the SIIC, the tobacco quota holders and producers could sell their rights to receive SIIC contract payments to a third party. The successor purchases the entire contract and all related rights and obligations associated with the contract. These investments in SIIC are purchased at a discount. Contract payments are made by the United States Department of Agriculture (USDA) in equal annual payments. Interest income is recognized from the accretion of discounts using the effective interest method.

As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the consolidated statements of comprehensive income and the balance of these investments, totaling $1,358, is included in Other Assets on the accompanying consolidated balance sheet as of December 31, 2015.

Investment in Other Farm Credit Institutions
The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock, as presented on the consolidated Balance Sheet as Investments in Other Farm Credit Institutions. Accounting for this investment is on the cost plus allocated equities basis.

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as Other Liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** The Association participates in District and multi-District sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan.

Multi-Employer Defined Benefit Plans
Substantially all employees hired before November 4, 2014 may participate in either the AgFirst Farm Credit Retirement Plan or the AgFirst Farm Credit Cash Balance Retirement Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer under FASB accounting guidance. The Plans are noncontributory and include eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of the Plans are allocated to each participating entity by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plan participants. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Association's Consolidated Balance Sheets.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Certain charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

Since the foregoing plans are multi-employer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations.

Additional information for the above may be found in Note 9 and the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

Single Employer Defined Benefit Plans
The Association also sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

Defined Contribution Plans
Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

Additional information for the above may be found in Note 9 and the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state, and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock, or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank on an accrual basis.

K. **Valuation Methodologies:** FASB guidance defines fair value 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. This guidance also 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. It prescribes three levels of inputs that may be used to measure fair value.

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

Level 2 inputs to the valuation methodology 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 to the valuation methodology 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 a third-party valuation or internal model pricing.

The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Please see further discussion in Note 8.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

M. **Accounting Standards Updates (ASUs):** In February, 2016, the FASB issued ASU 2016-02 Leases (Topic 842). The Update is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, the

new ASU will require both types of leases to be recognized on the balance sheet. The Update also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The accounting by organizations that own the assets leased by the lessee—also known as lessor accounting—will remain largely unchanged from current guidance. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The amendments are effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other organizations, the ASU on leases will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application will be permitted for all organizations. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In January, 2016, the FASB issued Accounting Standards Update (ASU) 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments are intended to improve the recognition and measurement of financial instruments. The Update affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities. The new guidance makes targeted improvements to existing GAAP by requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements, eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities, eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The ASU is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In September, 2015, the FASB issued ASU 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this Update with earlier application permitted for financial statements that have not been issued. Application of this guidance is not expected to have an impact on the Association's financial condition or results of operations.

In August, 2015, the FASB issued ASU 2015-15 Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. The update adds Securities and Exchange Commission (SEC) paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force (EITF) meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements.

In August, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The Update defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The ASU reflects decisions reached by the FASB at its meeting on July 9, 2015.

In June, 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements (numerous Topics). The amendments in the Update represent changes to make minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments were effective upon the issuance of the Update.

In May, 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Topic 820 permits a reporting entity, as a practical expedient, to measure the fair value of certain

investments using the net asset value per share of the investment. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. To address diversity in practice related to how certain investments measured at net asset value with future redemption dates are categorized, the amendments in this Update remove the requirement to categorize investments for which fair values are measured using the net asset value per share practical expedient. It also limits disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Earlier application is permitted. The Update is to be applied retrospectively to all periods presented. Application of this guidance is not expected to have an impact on the Association's financial condition or results of operations, but may require modifications to footnote disclosures.

In April, 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the Update, debt issuance costs were required to be presented in the balance sheet as a deferred charge (asset). The recognition and measurement guidance for debt issuance costs are not affected by the amendments. For public business entities, these amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted for financial statements that have not been previously issued. The Association elected early adoption of this ASU. The required reclassifications from Other Assets to Systemwide Bonds Payable for the three years presented did not result in significant changes in the statements of financial condition or results of operations.

In February, 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, eliminate the presumption that a general partner should consolidate a limited partnership, affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. Application of this guidance is not expected to have an impact on the Association's financial condition or results of operations.

In January, 2015, the FASB issued ASU 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The Update eliminates the concept of extraordinary items. Currently, if an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently is being retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Association elected early adoption of this ASU. Retrospective application of the guidance did not result in any changes to the statements of financial condition or results of operations for the three years presented.

In November, 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. Under GAAP, features such as conversion rights, redemption rights, dividend payment preferences, and others that are included in instruments issued in the form of shares may qualify as derivatives. If so, the shares issued are considered hybrid financial instruments. To determine the proper accounting for hybrid financial instruments, investors and issuers in the instruments must determine whether the nature of the host contract containing the feature is more akin to debt or equity as well as whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to the host contract. The purpose of the Update is to eliminate diversity in accounting for hybrid financial instruments by both issuers and investors. When evaluating the host contract to determine whether it is more akin to debt or equity, the reporting entity should consider all relevant terms and features of the contract, including the embedded derivative feature that is being evaluated for separation. The amendments in this Update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In August, 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The Update is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. The Update provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments in this Update apply to all companies and not-for-profit organizations and become effective in the annual period ending after December 15, 2016, with early application permitted. It is expected that adoption will not have a material impact on the Association's financial condition or results of operations.

In August, 2014, the FASB issued ASU 2014-14, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. There was diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. The amendments require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1. The loan has a government guarantee that is not separable from the loan before foreclosure; 2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; 3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this Update were effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Adoption did not have a material impact on the Association's financial condition or results of operations.

In June, 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, which changed the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also required enhanced disclosures about repurchase agreements and other similar transactions. The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements such that, these transactions would all be accounted for as secured borrowings. The accounting changes in this Update were effective for public companies for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale was effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings was required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Earlier application for a public company was prohibited. The adoption did not have a material impact on the Association's financial condition or results of operations.

In May 2014, the FASB, responsible for U.S. Generally Accepted Accounting Principles (U.S. GAAP), and the International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS), jointly issued converged standards on the recognition of revenue from contracts with customers. ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and IFRS 15 "Revenue from Contracts with Customers" are intended to improve the financial reporting of revenue and comparability of the top line in financial statements globally and supersede substantially all previous revenue recognition guidance. The core principle of the new standards is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Because of the pervasive nature of the new guidance, the boards have established a joint transition resource group in order to aid transition to the new standard. For public entities reporting under U.S. GAAP, the amendments in the Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The amendments are to be applied retrospectively. The Association has identified ancillary revenues that will be affected by this Update. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

In April, 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this Update change the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or

a group of components of an entity is required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Public business entities should apply the amendments prospectively to both of the following: 1. All disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years, 2. All business activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Adoption of this guidance did not have a material impact on the Association's financial condition or results of operations.

In March 2014, the FASB issued ASU 2014-06, Technical Corrections and Improvements Related to Glossary Terms (Master Glossary). The amendments in this Update relate to glossary terms, cover a wide range of Topics in the Codification and were presented in four sections: Deletion of Master Glossary Terms, Addition of Master Glossary Term Links, Duplicate Master Glossary Terms, and Other Technical Corrections Related to Glossary Terms. These amendments did not have transition guidance and were effective upon issuance for both public entities and nonpublic entities.

In January 2014, the FASB issued ASU 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The objective of the amendments in this Update was to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments were effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Entities may elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. This guidance was adopted prospectively and did not have a material impact on the Association's financial condition or results of operations, but resulted in additional disclosures (see Note 3, *Loans and Allowance for Loan Losses*).

Note 3 — Loans and Allowance for Loan Losses

Prior to issuance of this 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. Upon further examination, management determined that the errors in loan category designation occurred as the controls designed around verification of loan data input did not adequately consider verification of this data field.

Management has evaluated the impact of these errors on the loan footnote disclosures, presented herein, and has concluded that these errors did not, individually or in the aggregate, result in a material misstatement of the Association's previously issued consolidated financial statements. Additionally, because these errors did not result in any out-of-period adjustment, there is no cumulative effect to be reflected in the 2015 financial statements. However, management concluded that a revision of FCA loan type information within the loan footnote for all years presented in the 2015 Annual Report is appropriate. As such, the revisions for these corrections are reflected in the financial information of the applicable prior periods and will be reflected in future issuances containing such financial information. These corrections of loan type information had no impact on the Association's financial position, results of operations, or regulatory capital ratios and resulted in no changes to the Balance Sheets, Statements of Income, Statements of Comprehensive Income, Statements of Changes in Shareholders' Equity, or Statements of Cash Flows for December 31, 2015 or as previously reported for December 31, 2014 and 2013. The revisions affected certain line items in the tabular disclosures within this footnote, but did not affect total participations, loan loss allowances or related provisions, impaired loans, nonperforming assets, charge-offs and recoveries, troubled debt restructurings, maturity, credit quality or aging presented herein.

The following tables present the effect of these revisions of the disclosure of the summary of loans outstanding, by FCA loan type, as of December 31, 2014 and 2013. All of the tabular disclosures included in this footnote were impacted by these errors and have also been revised to reflect these new loan classifications as adjusted.

	December 31, 2014		
(dollars in thousands)	**As Previously Reported**	**Adjustment**	**As Revised**
Real estate mortgage	$ 1,093,553	$ 25,080	$ 1,118,633
Production and intermediate-term	391,188	(25,880)	365,308
Loans to cooperatives	–		
Processing and marketing	37,375	–	37,375
Farm-related business	12,659	–	12,659
Communication	5,964	–	5,964
Rural residential real estate	42,502	800	43,302
Total Loans	$ 1,583,241	$ –	$ 1,583,241

(dollars in thousands)	December 31, 2013 As Previously Reported	Adjustment	As Revised
Real estate mortgage	$ 1,023,966	$ 24,751	$ 1,048,717
Production and intermediate-term	370,738	(25,613)	345,125
Loans to cooperatives	–		
Processing and marketing	31,956	–	31,956
Farm-related business	11,658	–	11,658
Communication	7,562	–	7,562
Rural residential real estate	37,574	862	38,436
Total Loans	$ 1,483,454	$ –	$ 1,483,454

For a description of the Association's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2 subsection B above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. 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.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2 subsection B above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The Association's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans — generally to purchase farm real estate, refinance existing mortgages, construct various facilities used in agricultural operations, or purchase other rural residential/lifestyle real estate for both full-time and part-time farmers. In addition, credit for other agricultural purposes and family needs is available to full-time and part-time farmers. Real estate mortgage loans generally have maturities ranging from five to thirty years and must be secured by first liens on the real estate. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — generally for operating funds, equipment and other purposes. Eligible financing needs include operating inputs (such as labor, feed, fertilizer, and repairs), livestock, family living expenses, income taxes, debt payments on machinery or equipment, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically less than 12 months. Intermediate-term loans typically finance depreciable capital assets of a farm or ranch. Examples of the uses of intermediate-term loans are to purchase or refinance farm machinery, vehicles, equipment, breeding livestock, or farm buildings, to make improvements, or to provide working capital. Intermediate-term loans are made for a specific term, generally 10 years or less. These loans may be made on a secured or unsecured basis, but are normally secured.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, energy, and water and waste disposal.
- Processing and marketing loans — for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans must be secured by a first lien on the property, except that it may be secured by a second lien if the institution also holds the first lien on the property.
- Communication loans — primarily to finance rural communication companies.
- Energy loans — primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — primarily to finance water and waste disposal systems serving rural areas.

- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.

- Lease receivables — the net investment for all finance leases (such as direct financing leases, leveraged leases, and sales-type leases) where the Association is the lessor.

- Other (including Mission Related) — In addition to making loans to accomplish the System's Congressionally mandated mission to finance agriculture and rural America, the Association may make investments in rural America to address the diverse needs of agriculture and rural communities across the country. The FCA approves these investments on a program or a case-by-case basis. Examples of investment programs that the FCA will consider include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2015	2014 (as revised)	2013 (as revised)
Real estate mortgage	$ 1,188,861	$ 1,118,633	$ 1,048,717
Production and intermediate-term	397,512	365,308	345,125
Loans to cooperatives	116	–	–
Processing and marketing	40,223	37,375	31,956
Farm-related business	13,756	12,659	11,658
Communication	5,419	5,964	7,562
Rural residential real estate	46,746	43,302	38,436
Total Loans	$ 1,692,633	$ 1,583,241	$ 1,483,454

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

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

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

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
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

December 31, 2014 (as revised)	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
Real estate mortgage	$ –	$ 102,167	$ –	$ –	$ –	$ –	$ –	$ 102,167
Production and intermediate-term	3,296	3,803	570	–	–	–	3,866	3,803
Processing and marketing	6,745	–	–	–	–	–	6,745	–
Farm-related business	–	223	39	–	–	–	39	223
Communication	5,974	–	–	–	–	–	5,974	–
Total	$ 16,015	$ 106,193	$ 609	$ –	$ –	$ –	$ 16,624	$ 106,193

	December 31, 2013 (as revised)							
	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
Real estate mortgage	$ –	$ 113,022	$ –	$ –	$ –	$ –	$ –	$ 113,022
Production and intermediate-term	6,881	8,367	588	–	–	–	7,469	8,367
Processing and marketing	3,373	–	–	–	–	–	3,373	–
Farm-related business	1,578	278	–	–	–	–	1,578	278
Communication	7,584	–	–	–	–	–	7,584	–
Total	$ 19,416	$ 121,667	$ 588	$ –	$ –	$ –	$ 20,004	$ 121,667

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 the latest period end:

	December 31, 2015			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 4,768	$ 51,102	$ 1,132,991	$ 1,188,861
Production and intermediate-term	178,394	157,026	62,092	397,512
Loans to cooperatives	49	–	67	116
Processing and marketing	25,660	4,507	10,056	40,223
Farm-related business	2,147	5,054	6,555	13,756
Communication	–	5,419	–	5,419
Rural residential real estate	3,865	1,206	41,675	46,746
Total Loans	$ 214,883	$ 224,314	$ 1,253,436	$ 1,692,633
Percentage	12.70%	13.25%	74.05%	100.00%

The recorded investment in a 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.

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

	December 31,		
	2015	2014 (as revised)	2013 (as revised)
Real estate mortgage:			
Acceptable	95.42%	94.17%	93.16%
OAEM	1.84	2.21	3.12
Substandard/doubtful/loss	2.74	3.62	3.72
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	94.69%	93.32%	90.04%
OAEM	2.32	2.62	5.11
Substandard/doubtful/loss	2.99	4.06	4.85
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Processing and marketing:			
Acceptable	61.10%	67.39%	69.21%
OAEM	27.77	17.42	9.03
Substandard/doubtful/loss	11.13	15.19	21.76
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	97.94%	97.65%	71.81%
OAEM	–	–	–
Substandard/doubtful/loss	2.06	2.35	28.19
	100.00%	100.00%	100.00%

	December 31,		
	2015	2014 (as revised)	2013 (as revised)
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Energy and water/waste disposal:			
Acceptable	–%	–%	100.00%
OAEM–	–	–	–
Substandard/doubtful/loss	–	–	–
	–%	–%	100.00%
Rural residential real estate:			
Acceptable	97.28%	96.05%	95.30%
OAEM	1.13	1.39	1.54
Substandard/doubtful/loss	1.59	2.56	3.16
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	94.52%	93.44%	91.84%
OAEM	2.52	2.62	3.63
Substandard/doubtful/loss	2.96	3.94	4.53
	100.00%	100.00%	100.00%

The following tables provide an age analysis of past due loans and related accrued interest as of:

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

December 31, 2014 (as revised)	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	$ 7,468	$ 4,713	$ 12,181	$ 1,111,318	$ 1,123,499	$ –
Production and intermediate-term	2,855	3,319	6,174	361,911	368,085	370
Processing and marketing	–	–	–	37,419	37,419	–
Farm-related business	39	299	338	12,345	12,683	–
Communication	–	–	–	5,965	5,965	–
Rural residential real estate	980	245	1,225	42,219	43,444	–
Total	$ 11,342	$ 8,576	$ 19,918	$ 1,571,177	$ 1,591,095	$ 370

December 31, 2013 (as revised)	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	$ 8,025	$ 5,613	$ 13,638	$ 1,039,796	$ 1,053,434	$ 193
Production and intermediate-term	2,691	5,426	8,117	339,611	347,728	–
Processing and marketing	–	–	–	31,994	31,994	–
Farm-related business	–	–	–	11,674	11,674	–
Communication	–	–	–	7,562	7,562	–
Rural residential real estate	924	81	1,005	37,565	38,570	–
Total	$ 11,640	$ 11,120	$ 22,760	$ 1,468,202	$ 1,490,962	$ 193

Nonperforming assets (including related accrued interest) and related credit quality statistics at period end were as follows:

	December 31,		
	2015	2014 (as revised)	2013 (as revised)
Nonaccrual loans:			
Real estate mortgage	$ 15,888	$ 19,670	$ 13,035
Production and intermediate-term	9,332	6,014	6,413
Farm-related business	2,765	3,046	3,291
Rural residential real estate	409	599	755
Total	$ 28,394	$ 29,329	$ 23,494
Accruing restructured loans:			
Real estate mortgage	$ 1,099	$ 375	$ 382
Production and intermediate-term	86	498	–
Total	$ 1,185	$ 873	$ 382
Accruing loans 90 days or more past due:			
Real estate mortgage	$ –	$ –	$ 193
Production and intermediate-term	205	370	–
Total	$ 205	$ 370	$ 193
Performing impaired loans:			
Real estate mortgage	$ 2,364	$ 2,399	$ –
Production and intermediate-term	1,975	2,095	–
Processing and marketing	4,481	5,684	6,100
Total	$ 8,820	$ 10,178	$ 6,100
Total nonperforming loans	$ 38,604	$ 40,750	$ 30,169
Other property owned	4,803	2,786	2,337
Total nonperforming assets	$ 43,407	$ 43,536	$ 32,506
Nonaccrual loans as a percentage of total loans	1.68%	1.85%	1.58%
Nonperforming assets as a percentage of total loans and other property owned	2.56%	2.74%	2.19%
Nonperforming assets as a percentage of capital	11.90%	12.95%	10.47%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31,		
	2015	2014	2013
Impaired nonaccrual loans:			
Current as to principal and interest	$ 18,838	$ 18,758	$ 10,278
Past due	9,556	10,571	13,216
Total	$ 28,394	$ 29,329	$ 23,494
Impaired accrual loans:			
Performing	8,820	10,178	6,100
Restructured	1,185	873	382
90 days or more past due	205	370	193
Total	10,210	11,421	6,675
Total impaired loans	$ 38,604	$ 40,750	$ 30,169
Additional commitments to lend	$ 354	$ 45	$ 506

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

	December 31, 2015			Year Ended December 31, 2015	
Impaired loans:	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 impaired loans:					
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

	December 31, 2014 (as revised)			Year Ended December 31, 2014 (as revised)	
Impaired loans:	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	$ 9,724	$ 10,028	$ 1,291	$ 8,338	$ 519
Production and intermediate-term	5,296	5,822	1,547	4,542	282
Processing and marketing	–	–	–	–	–
Farm-related business	3,046	3,494	187	2,611	162
Rural residential real estate	143	163	15	123	8
Total	$ 18,209	$ 19,507	$ 3,040	$ 15,614	$ 971
With no related allowance for credit losses:					
Real estate mortgage	$ 12,720	$ 15,188	$ –	$ 10,906	$ 679
Production and intermediate-term	3,681	5,738	–	3,156	197
Processing and marketing	5,684	5,684	–	4,874	303
Farm-related business	–	–	–	–	–
Rural residential real estate	456	636	–	391	24
Total	$ 22,541	$ 27,246	$ –	$ 19,327	$ 1,203
Total impaired loans:					
Real estate mortgage	$ 22,444	$ 25,216	$ 1,291	$ 19,244	$ 1,198
Production and intermediate-term	8,977	11,560	1,547	7,698	479
Processing and marketing	5,684	5,684	–	4,874	303
Farm-related business	3,046	3,494	187	2,611	162
Rural residential real estate	599	799	15	514	32
Total	$ 40,750	$ 46,753	$ 3,040	$ 34,941	$ 2,174

Impaired loans:	December 31, 2013 (as revised) Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2013 (as revised) Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 3,074	$ 3,154	$ 840	$ 3,286	$ 165
Production and intermediate-term	2,931	3,116	1,355	3,133	158
Processing and marketing	6,100	6,099	950	6,520	329
Farm-related business	3,291	3,604	261	3,518	177
Rural residential real estate	221	267	20	237	12
Total	$ 15,617	$ 16,240	$ 3,426	$ 16,694	$ 841
With no related allowance for credit losses:					
Real estate mortgage	$ 10,536	$ 13,140	$ –	$ 11,264	$ 567
Production and intermediate-term	3,482	5,930	–	3,723	188
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	534	670	–	570	29
Total	$ 14,552	$ 19,740	$ –	$ 15,557	$ 784
Total impaired loans:					
Real estate mortgage	$ 13,610	$ 16,294	$ 840	$ 14,550	$ 732
Production and intermediate-term	6,413	9,046	1,355	6,856	346
Processing and marketing	6,100	6,099	950	6,520	329
Farm-related business	3,291	3,604	261	3,518	177
Rural residential real estate	755	937	20	807	41
Total	$ 30,169	$ 35,980	$ 3,426	$ 32,251	$ 1,625

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

	Year Ended December 31, 2015	2014	2013
Interest income which would have been recognized under the original loan terms	$ 3,866	$ 3,541	$ 3,173
Less: interest income recognized	2,464	2,083	1,563
Foregone interest income	$ 1,402	$ 1,458	$ 1,610

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows (activity for the years ending December 31, 2014 and 2013 and balances as of December 31, 2014, 2013, and 2012 are presented as revised):

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2014	$ 5,678	$ 5,981	$ 537	$ –	$ –	$ 269	$ 12,465
Charge-offs	(372)	(740)	–	–	–	–	(1,112)
Recoveries	251	183	–	–	–	–	434
Provision for loan losses	1,363	1,170	76	–	–	91	2,700
Balance at December 31, 2015	$ 6,920	$ 6,594	$ 613	$ –	$ –	$ 360	$ 14,487
Balance at December 31, 2013	$ 5,246	$ 4,901	$ 1,532	$ –	$ –	$ 199	$ 11,878
Charge-offs	(681)	(655)	–	–	–	(6)	(1,342)
Recoveries	419	304	5	–	–	1	729
Provision for loan losses	694	1,431	(1,000)	–	–	75	1,200
Balance at December 31, 2014	$ 5,678	$ 5,981	$ 537	$ –	$ –	$ 269	$ 12,465
Balance at December 31, 2012	$ 3,494	$ 4,593	$ 1,684	$ –	$ –	$ 197	$ 9,968
Charge-offs	(1,467)	(843)	(939)	–	–	(94)	(3,343)
Recoveries	1,708	23	71	–	–	1	1,803
Provision for loan losses	1,511	1,128	716	–	–	95	3,450
Balance at December 31, 2013	$ 5,246	$ 4,901	$ 1,532	$ –	$ –	$ 199	$ 11,878
Allowance on loans evaluated for impairment:							
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
Individually	$ 1,291	$ 1,547	$ 187	$ –	$ –	$ 15	$ 3,040
Collectively	4,387	4,434	350	–	–	254	9,425
Balance at December 31, 2014	$ 5,678	$ 5,981	$ 537	$ –	$ –	$ 269	$ 12,465
Individually	$ 840	$ 1,355	$ 1,211	$ –	$ –	$ 20	$ 3,426
Collectively	4,406	3,546	321	–	–	179	8,452
Balance at December 31, 2013	$ 5,246	$ 4,901	$ 1,532	$ –	$ –	$ 199	$ 11,878
Recorded investment in loans evaluated for impairment:							
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
Individually	$ 22,069	$ 8,932	$ 8,729	$ –	$ –	$ 600	$ 40,330
Collectively	1,101,430	359,153	41,373	5,965	–	42,844	1,550,765
Balance at December 31, 2014	$ 1,123,499	$ 368,085	$ 50,102	$ 5,965	$ –	$ 43,444	$ 1,591,095
Individually	$ 14,170	$ 6,414	$ 9,391	$ –	$ –	$ 871	$ 30,846
Collectively	1,039,264	341,314	34,277	7,562	–	37,699	1,460,116
Balance at December 31, 2013	$ 1,053,434	$ 347,728	$ 43,668	$ 7,562	$ –	$ 38,570	$ 1,490,962

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $48,726, $50,875, and $58,135 at December 31, 2015, 2014, and 2013, respectively. Fees paid for such guarantee commitments totaled $76, $110, and $146 for 2015, 2014, and 2013, respectively. These amounts are classified as noninterest expense.

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.

	Year Ended December 31, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 2,400	$ 427	$ –	$ 2,827	
Production and intermediate-term	400	3,717	–	4,117	
Total	$ 2,800	$ 4,144	$ –	$ 6,944	
Post-modification:					
Real estate mortgage	$ 2,460	$ 427	$ –	$ 2,887	$ –
Production and intermediate-term	400	3,717	–	4,117	–
Total	$ 2,860	$ 4,144	$ –	$ 7,004	$ –

	Year Ended December 31, 2014 (as revised)				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ –	$ –	$ –	
Rural residential real estate	297	797	–	1,094	
Total	$ 297	$ 797	$ –	$ 1,094	
Post-modification:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Rural residential real estate	297	797	–	1,094	–
Total	$ 297	$ 797	$ –	$ 1,094	$ –

	Year Ended December 31, 2013 (as revised)				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 520	$ 378	$ –	$ 898	
Production and intermediate-term	–	50	–	50	
Total	$ 520	$ 428	$ –	$ 948	
Post-modification:					
Real estate mortgage	$ 520	$ 378	$ –	$ 898	$ –
Production and intermediate-term	–	50	–	50	–
Total	$ 520	$ 428	$ –	$ 948	$ –

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.

	Year Ended December 31,		
Defaulted troubled debt restructurings	**2015**	**2014 (as revised)**	**2013 (as revised)**
Real estate mortgage	$ 405	$ –	$ –
Production and intermediate-term	1,586	–	–
Total	$ 1,991	$ –	$ –

The following table provides information at each 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		
	December 31,			December 31,		
	2015	2014 (as revised)	2013 (as revised)	2015	2014 (as revised)	2013 (as revised)
Real estate mortgage	$ 2,016	$ 873	$ 955	$ 917	$ 498	$ 573
Production and intermediate-term	3,978	1,050	28	3,892	553	28
Farm related business	2,765	3,046	3,291	2,765	3,046	3,291
Rural residential real estate	35	41	46	35	41	46
Total Loans	$ 8,794	$ 5,010	$ 4,320	$ 7,609	$ 4,138	$ 3,938
Additional commitments to lend	$ –	$ –	$ –			

The following table presents information as of period end:

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

Note 4 — Investments

Investments in Other Farm Credit Institutions
Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. Accounting for this investment is on the cost plus allocated equities basis.

The Association's investment in the Bank totaled $24,557 for 2015, $24,613 for 2014 and $25,707 for 2013. The Association owns 9.58 percent of the issued stock of the Bank as of December 31, 2015 net of any reciprocal investment. As of that date, the Bank's assets totaled $30.6 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $337 million for 2015. In addition, the Association had no investments related to other Farm Credit institutions at December 31, 2015.

Other Investments
On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota, and provided an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers received 10 equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also included a provision that allowed the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that the quota holder or producer could obtain a lump sum or other payment. On April 4, 2005, the USDA issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions were "financial institutions" within the meaning of the Tobacco Act and were, therefore, eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout had significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal was to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

For the years ended December 31, 2015, 2014 and 2013, the Association held Tobacco Buyout SIIC of $0, $0 and $2,989, respectively, net of discount. Final payments to financial institutions under SIIC arrangements occurred in January 2014.

Note 5 — Real Estate and Other Property

Premises and Equipment
Premises and equipment consists of the following:

	December 31,		
	2015	2014	2013
Land	$ 3,584	$ 3,402	$ 2,901
Buildings and improvements	6,556	6,550	6,428
Furniture and equipment	5,158	4,875	4,684
	15,298	14,827	14,013
Less: accumulated depreciation	7,263	6,735	6,259
Total	$ 8,035	$ 8,092	$ 7,754

Other Property Owned
Net (gains) losses on other property owned consist of the following:

	December 31,		
	2015	2014	2013
(Gains) losses on sale, net	$ –	$ (21)	$ (1,411)
Carrying value unrealized (gains) losses	294	187	219
Operating (income) expense, net	157	86	201
(Gains) losses on other property owned, net	$ 451	$ 252	$ (991)

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. Deferred gains totaled $156, $167, and $167 at December 31, 2015, 2014, and 2013, respectively.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank
Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2015, the Association's notes payable were within the specified limitations.

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 and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan, based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA, which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon an agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 1.56 percent for LIBOR-based loans and 1.64 percent for Prime-based loans, and the weighted average remaining maturities were 3.4 years and 8.9 years, respectively, at December 31, 2015. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.06 percent, and the weighted average remaining maturity was 11.6 years at December 31, 2015. The weighted-average interest rate on all interest-bearing notes payable was 2.75 percent and the weighted-average remaining maturity was 10.1 years at December 31, 2015. Variable rate and fixed rate notes payable represent approximately -0.80 percent and 100.80 percent, respectively, of total notes payable at December 31, 2015. The variable rate percentage was negative due to variable rate credits that exceeded variable rate borrowings. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C Common Stock for agricultural loans or Participation Certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be a minimum of 2 percent of the loan amount or $1 thousand, or such higher amount as determined by the Board. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. **Regulatory Capitalization Requirements and Restrictions:** FCA regulations require that certain minimum standards for capital be achieved and maintained. These standards are measured based on capital as a percentage of risk-adjusted assets and off-balance-sheet commitments and surplus levels as a percentage of risk-adjusted assets.

   Failure to meet the capital requirements can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met.

   The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2015	2014	2013	Regulatory Minimum
Permanent capital ratio	20.07%	19.91%	19.88%	7.00%
Total surplus ratio	19.29%	19.15%	18.68%	7.00%
Core surplus ratio	19.29%	19.15%	18.68%	3.50%

   An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers

and is not aware of any proposed action under this regulation.

There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

C. **Description of Equities:** The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A and C Common Stock, Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The Association had the following shares outstanding at December 31, 2015:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
A Common/Voting	No	2,377,297	$ 11,887
Participation Certificates/Nonvoting	No	143,810	719
Total Capital Stock and Participation Certificates		2,521,107	$ 12,606

At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board provided that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2015, allocated members' equity consisted of $92,568 of nonqualified retained surplus.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

The patronage distributions accrued at year-end are based on estimates. The actual amounts distributed may vary from these estimates. Differences are reflected as distribution adjustments in the Consolidated Statements of Changes in Members' Equity.

Dividends

Dividends may be paid on stock and participation certificates as determined by the Board's resolution. Dividends may not be paid on common stock and participation certificates during any fiscal year with respect to which the Association has obligated itself to distribute earnings on a patronage basis pursuant to the bylaws. The rate of dividend paid on Class D Preferred Stock for any fiscal year may not be less than the rate of dividend paid on common stock or participation certificates for such year. All dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Transfer

Common stocks and participation certificates may be transferred to persons or entities eligible to purchase or hold such equities under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

1. Nonqualified allocated members equity beginning with the most recent allocation
2. Qualified allocated members equity beginning with the most recent allocation
3. Classes A and C Common Stock and Participation Certificates
4. Class D Preferred Stock

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

1. Holders of Class D Preferred Stock until an amount equal to the aggregate par value of shares of Class D Preferred Stock then outstanding has been distributed to the holders;
2. Holders of Class A Stock, Class C Stock, and Participation Certificates pro rata in proportion to the number of shares or units each such class of stock and participation certificates then outstanding until an amount equal to the aggregate par value (or face value) of such shares or units has been distributed to the holders;
3. Holders of Allocated Surplus to the extent evidenced by qualified written notices of allocation, pro rata, on the basis of the oldest allocations first, until an amount equal to the total account has been distributed to such holders;
4. Holders of Allocated Surplus to the extent evidenced by nonqualified written notice of allocation, pro rata, on the basis of the oldest allocations first, until an amount equal the total account has been distributed to such holders;
5. Any remaining assets of the Association after such distributions shall be distributed to Patrons, past and present, in proportion to which the aggregate patronage of each such Patron bears to the total patronage of all such parties insofar as practicable, unless as otherwise provided by law.

D. **Accumulated Other Comprehensive Income (AOCI):**

Changes in Accumulated Other Comprehensive Income by Component *(a)*

	For the years ended December 31,		
	2015	**2014**	**2013**
Employee Benefit Plans:			
Balance at beginning of period	$ (27)	$ (10)	$ (17)
Other comprehensive income before reclassifications	4	(17)	7
Amounts reclassified from AOCI	1	–	–
Net current period OCI	5	(17)	7
Balance at end of period	$ (22)	$ (27)	$ (10)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	Year to Date			
	2015	**2014**	**2013**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ (1)	$ –	$ –	See Note 9.
Amounts reclassified	$ (1)	$ –	$ –	

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

Note 8 — 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.

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a

requirement of borrowing from the Bank and is carried at cost plus allocated equities.

The classifications within the fair value hierarchy (See Note 2) are as follows:

Level 1
Assets held in trust funds, related to deferred compensation plans, and assets held in mutual funds, related to the Association's Corporate Giving Fund, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2
The Association had no Level 2 assets and liabilities measured at fair value on a recurring basis.

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. 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.

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

For other investments, which consist of Tobacco Buyout SIIC, fair value is determined by discounting the expected future cash flows using prevailing rates for similar assets.

There were no Level 3 assets and 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 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	

	At or for the Year ended December 31, 2014					
	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	$ 1,224	$ 1,224	$ –	$ –	$ 1,224	
Recurring Assets	$ 1,224	$ 1,224	$ –	$ –	$ 1,224	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 37,710	$ –	$ –	$ 37,710	$ 37,710	$ (226)
Other property owned	2,786	–	–	3,073	3,073	(166)
Nonrecurring Assets	$ 40,496	$ –	$ –	$ 40,783	$ 40,783	$ (392)
Other Financial Instruments						
Assets:						
Cash	$ 6,038	$ 6,038	$ –	$ –	$ 6,038	
Loans	1,534,143	–	–	1,540,271	1,540,271	
Other Financial Assets	$ 1,540,181	$ 6,038	$ –	$ 1,540,271	$ 1,546,309	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,275,765	$ –	$ –	$ 1,264,974	$ 1,264,974	
Other Financial Liabilities	$ 1,275,765	$ –	$ –	$ 1,264,974	$ 1,264,974	

	At or for the Year ended December 31, 2013					
	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	$ 1,083	$ 1,083	$ –	$ –	$ 1,083	
Recurring Assets	$ 1,083	1,083	$ –	$ –	$ 1,083	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 26,743	$ –	$ –	$ 26,743	$ 26,743	$ (181)
Other property owned	2,337	–	–	2,571	2,571	1,192
Nonrecurring Assets	$ 29,080	$ –	$ –	$ 29,314	$ 29,314	$ 1,011
Other Financial Instruments						
Assets:						
Cash	$ 5,617	$ 5,617	$ –	$ –	$ 5,617	
Loans	1,445,555	–	–	1,424,610	1,424,610	
Other investments	2,989	–	–	2,992	2,992	
Other Financial Assets	$ 1,454,161	$ 5,617	$ –	$ 1,427,602	$ 1,433,219	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,209,905	$ –	$ –	$ 1,182,134	$ 1,182,134	
Other Financial Liabilities	$ 1,209,905	$ –	$ –	$ 1,182,134	$ 1,182,134	

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	$ 39,649	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			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
Other investments	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates Probability of default Loss severity

Note 9 — Employee Benefit Plans

The Association participates in four District sponsored benefit plans. These plans include two multi-employer defined benefit pension plans, the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP Plan) and the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB Plan). In addition, the Association participates in a multi-employer defined benefit other postretirement employee benefits plan (OPEB Plan), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan and a defined contribution 401(k) plan. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

1. Assets contributed to multi-employer plans by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multi-employer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

In November 2014, the AgFirst Plan Sponsor Committee approved and executed amendments to the CB Plan that included the following changes:

1. The CB Plan was closed to new participants effective as of December 31, 2014. Based on the plan's eligibility provisions, this change affected employees hired on or after November 4, 2014.
2. Employer contributions were discontinued effective as of January 1, 2015.
3. All participants who were not already fully vested in the CB Plan became fully vested as of December 31, 2014.
4. The CB Plan was terminated effective as of December 31, 2015 and has been submitted to the Internal Revenue Service for review.

As a result of the termination of the CB Plan, vested benefits will be distributed to participants after receipt of a favorable determination letter from the Internal Revenue Service. Participants will continue to receive interest credits to their hypothetical cash balance accounts following the termination of the plan through the month immediately preceding the month in which the vested benefits are distributed from the plan.

Curtailment accounting, as prescribed in ASC 715 "Compensation – Retirement Benefits", was initiated upon execution of the plan amendments and did not have a material impact on the Association's financial condition or results of operations.

Beginning on January 1, 2015, for participants in the CB Plan and eligible employees hired on or after November 4, 2014, additional employer contributions are be made to the 401(k) Plan equal to 3.00 percent of the participants' eligible compensation.

The Association's participation in the multi-employer defined benefit plans for the annual period ended December 31 is outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Association's respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
AgFirst Farm Credit Retirement Plan	85.73%	84.56%	89.47%	$3,874	$2,613	$3,513	6.71%	6.88%	6.98%
AgFirst Farm Credit Cash Balance Retirement Plan	102.72%	100.07%	95.06%	$–	$300	$104	0.00%	6.03%	5.86%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$386	$431	$410	5.68%	5.57%	5.91%

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required to be filed. As such, the following information is neither available for nor applicable to the plans:

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number

2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association hired before November 4, 2014 are eligible to participate in either the FAP Plan or the CB Plan. These two plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003 through November 3, 2014, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. Prior to January 1, 2015, when employer contributions were discontinued as discussed above, the employer contribution into the CB Plan was based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $3,462 for 2015, $3,672 for 2014, and $3,517 for 2013. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $1,152 for 2015, $689 for 2014, and $656 for 2013. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $634, $431, and $391 for the years ended December 31, 2015, 2014, and 2013, respectively. Beginning in 2015, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2015, 2014, and 2013, $5, $(17) and $7, respectively, has been recognized as a net credit, net debit and net credit to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of $118 and a net under-funded status of $118 at December 31, 2015. Net periodic pension cost was $6, $6, and $5 for 2015, 2014, and 2013, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2015 included a discount rate of 4.60 percent.

Additional information can be found in Note 9 of the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2015 amounted to $8,326. During 2015, $2,885 of new loans were made and repayments totaled $3,546. In the opinion of management, none of these loans outstanding at December 31, 2015 involved more than a normal risk of collectability.

Note 11 — Commitments and Contingencies

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.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2015, $209,101 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2015, standby letters of credit outstanding totaled $514 with expiration dates ranging from January 1, 2016 to January 1, 2017. The maximum potential amount of future payments that may be required under these guarantees was $514.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2015	2014	2013
Current:			
Federal	$ 4	$ 113	$ 45
State	10	20	9
	14	133	54
Deferred:			
Federal	–	–	–
State	–	–	–
	–	–	–
Total provision (benefit) for income taxes	$ 14	$ 133	$ 54

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2015	2014	2013
Federal tax at statutory rate	$ 15,440	$ 17,822	$ 17,952
State tax, net	4	6	11
Patronage distributions	(5,250)	(7,350)	(7,350)
Tax-exempt FLCA earnings	(10,408)	(10,813)	(11,103)
Change in valuation allowance	273	431	765
Other	(45)	37	(221)
Provision (benefit) for income taxes	$ 14	$ 133	$ 54

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2015	2014	2013
Deferred income tax assets:			
Allowance for loan losses	$ 2,668	$ 2,526	$ 2,458
Other property owned valuation allowance	–	–	47
Annual leave	521	494	457
Nonaccrual loan interest	598	496	510
Pensions and other postretirement benefits	4,044	3,689	3,533
Deferred incentive	300	207	164
Gross deferred tax assets	8,131	7,412	7,169
Less: valuation allowance	(6,463)	(6,190)	(5,759)
Gross deferred tax assets, net of valuation allowance	1,668	1,222	1,410
Deferred income tax liabilities:			
Loan origination fees	(382)	(231)	(169)
Pensions and other postretirement benefits	(1,080)	(919)	(1,214)
Depreciation	(206)	(72)	(27)
Gross deferred tax liability	(1,668)	(1,222)	(1,410)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2015, deferred income taxes have not been provided by the Association on approximately $1.6 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $6,463, $6,190, and $5,759 as of December 31, 2015, 2014 and 2013, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2015 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2012 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 12,420	$ 12,371	$ 12,360	$ 12,921	$ 50,072
Provision for (reversal of allowance for) loan losses	–	1,000	1,000	700	2,700
Noninterest income (expense), net	(3,720)	(3,340)	(2,756)	6,543	(3,273)
Net income (loss)	$ 8,700	$ 8,031	$ 8,604	$ 18,764	$ 44,099

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 11,893	$ 11,751	$ 11,853	$ 12,362	$ 47,859
Provision for (reversal of allowance for) loan losses	–	1,200	–	–	1,200
Noninterest income (expense), net	(3,353)	(3,059)	(2,451)	12,992	4,129
Net income (loss)	$ 8,540	$ 7,492	$ 9,402	$ 25,354	$ 50,788

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 10,733	$ 11,170	$ 10,996	$ 11,017	$ 43,916
Provision for (reversal of allowance for) loan losses	500	1,100	1,000	850	3,450
Noninterest income (expense), net	(2,256)	(943)	(1,579)	15,550	10,772
Net income (loss)	$ 7,977	$ 9,127	$ 8,417	$ 25,717	$ 51,238

Note 14 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 10, 2016, which was the date the financial statements were issued.