IT'S ALL ABOUT AGRICULTURE AT AGCAROLINA FARM CREDIT

AgCarolina
FARM CREDIT

2015 Annual Report

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AgCarolina FARM CREDIT

FARM CREDIT 100 ESTABLISHED 1916

Message from the President & Chief Executive Officer

David W. Corum

2015 was another successful year for AgCarolina Farm Credit!

Thanks to our nearly 3,000 customer/stockholders in eastern North Carolina, AgCarolina Farm Credit had another strong year in 2015, finishing with net earnings of $22.6 million. Net loan volume ended 2015 at $1.0 billion, an increase of 4.2% over the previous year, and for the first time in history reaching the milestone of $1 billion. As a $1 billion financial institution, AgCarolina is large enough to provide quality products and services, yet small enough to care about customer service In fact, during 2015, AgCarolina's internal customer satisfaction score was 90.2%, "exceeds customer expectations," our highest score since we began tracking customer satisfaction information some 15 years ago. The Association has declared a $10.6 million patronage dividend based on 2015 earnings to be paid in April, 2016. This patronage dividend in April will be the 28th consecutive year that AgCarolina has paid a patronage dividend to its customers. Over the 28 year period, the total amount of patronage paid is $213 million! That is $213 million returned to our nearly 3,000 customer/stockholders in small towns and communities all across eastern North Carolina. You can rest assured that your Farm Credit cooperative is financially strong and is providing substantial value to stockholders.

All about Ag-riculture

The theme of this year's annual report—"All About Ag-riculture"—is a tribute to the vast and diverse number of commodities grown

or raised and other ag-related businesses owned by the farmer-members and agribusinesses we serve in eastern North Carolina! We are proud to provide loans that fit the financial needs of these member-owners and thank them for the food they put on our table and the clothes we wear.

The theme came from a special music video put together by our three summer interns: Callie Copeland of Edenton, Cara Pace of Clayton, and Clay Whitley of Bailey, with the help of some creative AgCarolina Farm Credit employees. Read more about the video on page 5.

Profiles of our Customers

You can also read brief profiles on the operations of sixteen of our farm and agribusiness customers in eastern NC. These sixteen customers were selected to represent each of our twelve branch offices, with another four customers representing our agribusiness group.

In the customer profile stories generated, six have been Farm Credit customers since before the 1980s, and one became a customer fifty years ago. Read these profiles starting on page 8.

AgCarolina Farm Credit Commodity Portfolio and Ag Facts & Figures

We annually prepare a pie chart showing the make-up of our loan portfolio showing our loan volume by the commodities grown and raised by our customers (see page 7). There have been some interesting shifts in our agricultural/farm marketplace over the years, but what stands out is the vast diversity of the commodities that make up our loan portfolio. In fact, AgCarolina has one of the most diverse commodity concentrations of any Farm Credit Association or ag lender in the United States.

The 34 counties in AgCarolina Farm Credit's marketing area could lay claim to be the richest and most diverse economy in North Carolina! When compared to the entire state's total cash receipts from farming, our area accounts for 33% of the state's $14 billion in total cash receipts, with Wayne, Johnston, and Greene counties among the state's top ten counties in this category. More interesting North Carolina ag related facts and figures are shown on page 6.

Our team at AgCarolina Farm Credit keeps it "All About Ag-riculture" in taking care of your lending needs. We look forward to serving you in the coming year and beyond.

David W. Corum
President & Chief Executive Officer

Financial Highlights

Net Loans
dollars in millions

2011	$846.3
2012	$881.3
2013	$903.3
2014	$968.6
2015	$1,009.1

Return on Assets

2011	1.35%
2012	1.81%
2013	2.97%
2014	3.06%
2015	2.20%

Permanent Capital Ratio

2011	18.46%
2012	19.85%
2013	22.96%
2014	22.35%
2015	23.00%

Net Income
dollars in millions

2011	$13
2012	$17
2013	$28
2014	$31
2015	$23

Return on Equity

2011	7.35%
2012	9.01%
2013	13.48%
2014	13.66%
2015	9.26%

Cash Patronage Refund
dollars in millions

2011	$4.5
2012	$6.4
2013	$12.5
2014	$12.0
2015	$10.6

Consolidated Five-Year Summary

of Selected Financial Data

(dollars in thousands)	2015	2014	December 31, 2013	2012	2011
Balance Sheet Data					
Cash	**$ 2,066**	$ 2,275	$ 4,040	$ 3,915	$ 3,191
Loans	**1,021,011**	980,181	916,947	895,947	859,180
Allowance for loan losses	**(11,913)**	(11,602)	(13,697)	(14,669)	(12,890)
Net loans	**1,009,098**	968,579	903,250	881,278	846,290
Investments in other Farm Credit institutions	**11,027**	10,732	10,609	10,861	13,863
Other property owned	**—**	—	403	861	1,543
Other assets	**45,439**	47,548	62,961	68,976	85,731
Total assets	**$ 1,067,630**	$ 1,029,134	$ 981,263	$ 965,891	$ 950,618
Notes payable to AgFirst Farm Credit Bank*	**$ 798,928**	$ 768,069	$ 741,353	$ 752,785	$ 744,269
Accrued interest payable and other liabilities with maturities of less than one year	**28,380**	32,307	30,315	22,159	20,783
Total liabilities	**827,308**	800,376	771,668	774,944	765,052
Capital stock and participation certificates	**35,171**	34,944	34,109	30,556	35,588
Retained earnings					
Allocated	**138,340**	126,501	110,215	96,256	86,845
Unallocated	**66,811**	67,313	65,271	64,135	63,133
Total members' equity	**240,322**	228,758	209,595	190,947	185,566
Total liabilities and members' equity	**$ 1,067,630**	$ 1,029,134	$ 981,263	$ 965,891	$ 950,618
Statement of Income Data					
Net interest income	**$ 26,996**	$ 28,825	$ 25,688	$ 24,984	$ 24,940
Provision for (reversal of allowance for) loan loss	**—**	(2,068)	(395)	3,171	6,836
Noninterest income (expense), net	**(4,348)**	(137)	1,980	(4,594)	(4,886)
Net income	**$ 22,648**	$ 30,756	$ 28,063	$ 17,219	$ 13,218
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.20%**	3.06%	2.97%	1.81%	1.35%
Total members' equity	**9.26%**	13.66%	13.48%	9.01%	7.35%
Net interest income as a percentage of average earning assets	**2.71%**	2.96%	2.81%	2.73%	2.65%
Net (chargeoffs) recoveries to average loans	**0.031%**	(0.003)%	(0.064)%	(0.157)%	(0.615)%
Total members' equity to total assets	**22.51%**	22.23%	21.36%	19.77%	19.52%
Debt to members' equity (:1)	**3.44**	3.50	3.68	4.06	4.12
Allowance for loan losses to loans	**1.17%**	1.18%	1.49%	1.64%	1.50%
Permanent capital ratio	**23.00%**	22.35%	22.96%	19.85%	18.46%
Total surplus ratio	**19.22%**	18.58%	18.58%	16.21%	14.98%
Core surplus ratio	**19.22%**	18.58%	18.58%	16.21%	14.98%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 10,643**	$ 12,031	$ 12,545	$ 6,407	$ 4,554
Nonqualified retained earnings	**11,024**	16,337	13,960	9,610	7,430

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

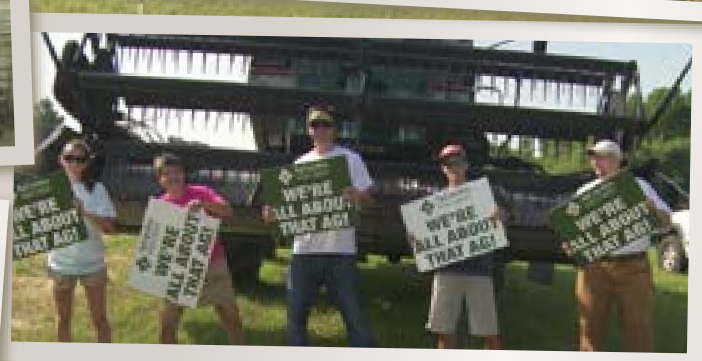
It's "All About Agriculture" at AgCarolina Farm Credit

The theme of our 2015 AgCarolina Farm Credit Annual Report—"All about that Ag-riculture" comes from a special musical video put together by our three interns this past summer: Callie Copeland of Edenton, Cara Pace of Clayton, and Clay Whitley of Bailey. The video salutes the diverse farming enterprises of the members in our 34-county region.

The trio had the creative help of other AgCarolina Farm Credit employees, crafting clever words and finding local singing talent to match a top digital 100 song. The YouTube-worthy video was shot at Cara's parent's farm in Johnston County. The Pace's diverse farming operation provided numerous farm scenes, which helped depict the diversity in eastern NC agriculture.

In 2015, AgCarolina Farm Credit's intern program, which began in 2000, included three rising seniors at NC State University, studying some facet of agricultural business. During their 10-week internship, our interns worked with loan officers and credit analysts to gain real-life experiences.

Currently, seven of our employees began their Farm Credit career as a result of having served as summer interns.



North Carolina Ag Facts & Figures

North Carolina's agricultural industry, including food, fiber, shelter and energy, contributes $78 billion to the state's economy. Agriculture accounts for more than 17 percent of the state's income and employs 16 percent of the work force.

NC ranks 8th in U.S. Total Cash Receipts

NC ranks #1 in U.S. in both Sweet Potatoes & Tobacco

NC ranks #2 in U.S. in Poultry

NC ranks #3 in U.S. in Turkeys

Three AgCarolina Farm Credit counties—Wayne, Johnston and Greene—rank in the top 10 North Carolina counties in farm cash receipts.

AgCarolina Farm Credit's 34 counties percent of commodities grown or raised in NC:

- Cotton – 76%
- Peanuts – 55.8%
- Soybeans – 54%
- Wheat – 52.8%
- Sweet potatoes – 48%
- Corn – 44.3%
- Turkeys – 30%
- Hogs – 29%
- Broilers – 18%
- Cattle/calves – 12%
- Layers – 4%

NC Statewide vs. AgCarolina Farm Credit's 34 counties

NC		AgCarolina
49,400	**Number of Farms**	10,234
$ 8.9 B	**Livestock Cash Receipts**	$2.1 B
8.4 M	**Acres of Farmland**	3.4 M

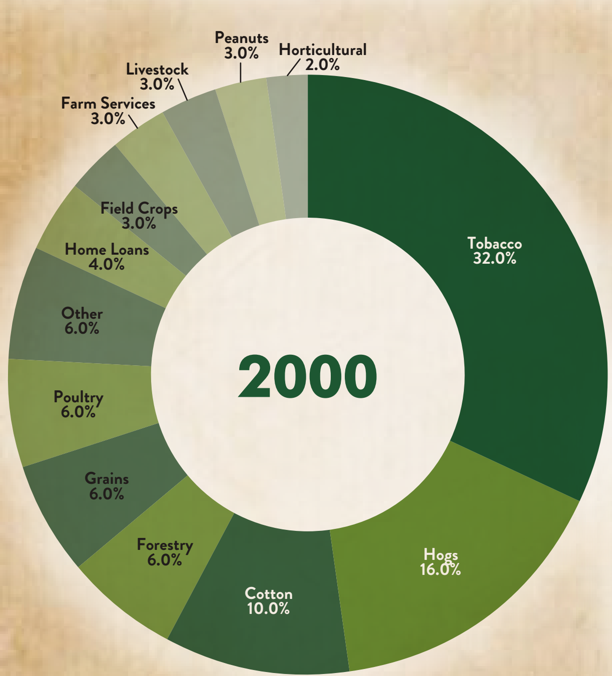
NC		AgCarolina
$ 4.3 B	**Crops Cash Receipts**	$2.3 B
170 acres	**Average Farm Size**	327 acres
$13.5 B	**Total Cash Receipts**	$4.5 B

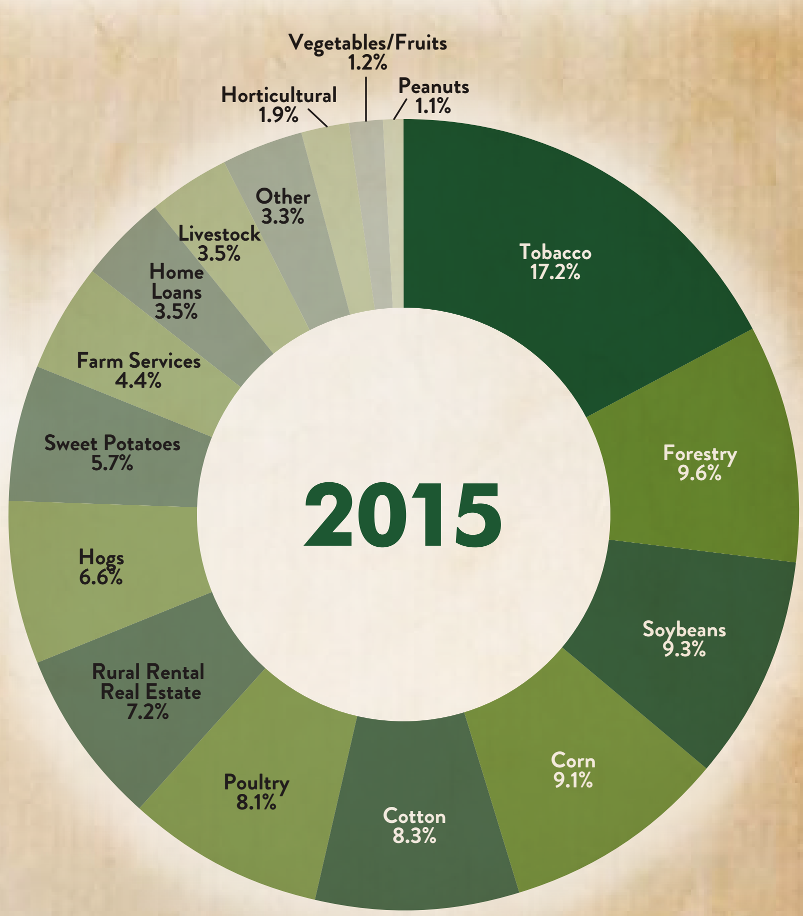
Our Commodity Loan Profile

AgCarolina Farm Credit annually prepares a pie-chart that shows the make-up of our loan portfolio. The pie-chart depicts our loan volume by the commodities produced by our members. A number of significant shifts have occurred in the agricultural/farm marketplace since 2000.

At that time, tobacco accounted for 32% of our business. In our 2015 review of our commodities, the golden leaf represented only 17.2% of our total (loans) ag business. As a result, tobacco farmers have either grown in size or exited the business and have diversified into other commodities.

There have been some other rather interesting shifts: forestry has jumped from 6% to 9.6%; sweet potatoes were in the “other” category in 2000, yet today have 5.7 % of our business. Soybeans and corn have increased to 9.3% and 9.1% respectively.





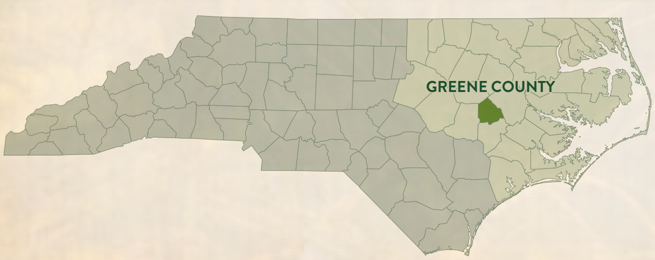
A & J Bros., LLC

The families of a Vietnamese-born married couple—Gio-An (John) Ho and Ngockhanh (Ng) Le—immigrated to the U.S. in the 1980s. Living on the West Coast then, John was a business-savvy engineer and Ng a financial analyst for a bank.

When the young couple moved from southern California to North Carolina several years ago, they started a contract broiler operation with Sanderson Farms in Lenoir County. They are one of 800 contract producers for what is now the third largest poultry processor in the U.S.

A couple of years ago, AgCarolina Farm Credit refinanced their original loan from another bank to build the twelve broiler houses (saving them a lot of money). The customers' name on the AgCarolina Farm Credit account—A & J Bros., LLC—came from their two young sons, Aiden and Jacob. The couple have since had a daughter named Zaria.

Says Ng, "Our loan officer knows our family and broiler operation well, which has been most helpful to us."



Collyn Beaman Farm

Collyn Beaman is still producing hogs on three farms near Snow Hill, where his father and long-time AgCarolina Farm Credit customer, Carson, began in 1970 with a small sow farm. Not a typical farmer's son, Collyn graduated from UNC-CH and is a pharmaceutical sales rep for Astra Zeneca, while growing hogs on the side.

Collyn took over his dad's hog operation in 1982. On that farm, he now has a wean-to-finish operation. On the other two farms, he has a 20-year-old nursery unit and a newer nursery unit built just three years ago.

Collyn built his nursery units with financing from AgCarolina Farm Credit. He has also had real estate, construction, equipment, and operating line of credit loans with AgCarolina Farm Credit for 22 years. When asked what he likes best about AgCarolina Farm Credit, he quickly says, "The patronage dividends they pay every year."

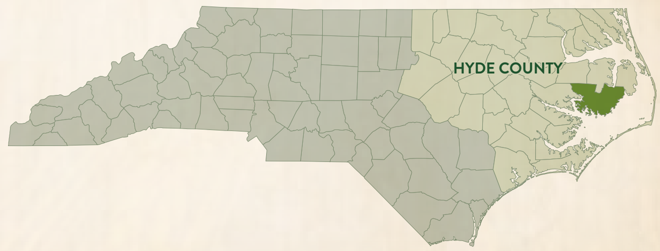
Boerema Farms

For 35 years, Boerema Farms has been tilling the deep rich soils of the blacklands in Hyde County. Edward Boerema and his brother, Dennis, started farming with their father, Gerrit, on the operation he began in 1958.

In 2003, the two brothers were joined by Ed's son, Isaac, after he graduated from Dordt College in Iowa. In 2015, the trio grew 2,350 acres of corn, wheat, and soybeans.

The Boeremas work to produce the highest yields they can in the most efficient way. To do that, they use a systematic approach that includes no- and minimum-tillage, integrated pest management and an irrigation system. "It's worked well for us in the past and continues to be our main focus," says Isaac.

Since 1979, AgCarolina Farm Credit has provided Boerema Farms with operating credit and equipment loans. About AgCarolina Farm Credit, Isaac adds, "They provide us exceptional service, knowing us and our operation."

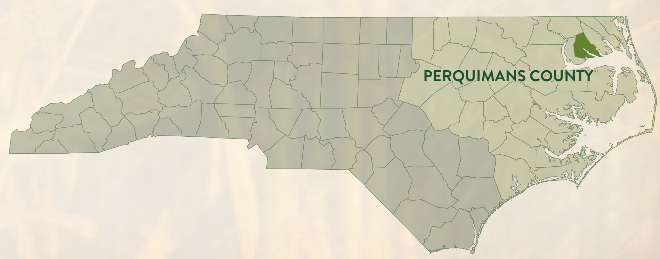


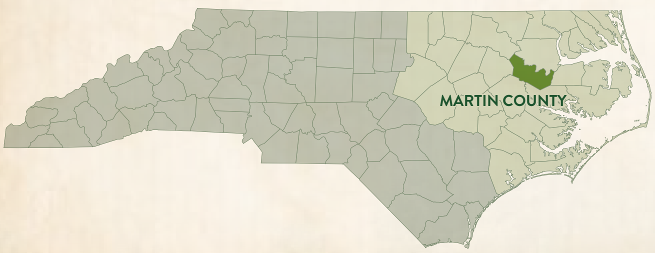
Cartwright Farms

Walter and Neal Cartwright of Perquimans County have successfully carried on their farming operation with their mother, Carolyn, since the early 90's death of their father and her husband, Walter Wallace Cartwright, Sr.

At 82 years of age, their mother is still integrally involved in their 1,500-acre farming operation, keeping excellent records for her sons. In 2015, they grew soybeans, wheat, corn and cotton. In addition to custom harvesting, Walter owns four cotton module trucks used in hauling the areas cotton to the Albermarle Cotton Gin. Neal also drives semi-trucks that are used to haul grain and feed products.

Having received AgCarolina Farm Credit loans for an operating line of credit and equipment purchases for six years, Walter and Neal like working with their knowledgeable and always available loan officer. Walter adds, "The patronage dividend program is really a big plus for both us, as well as for AgCarolina Farm Credit."



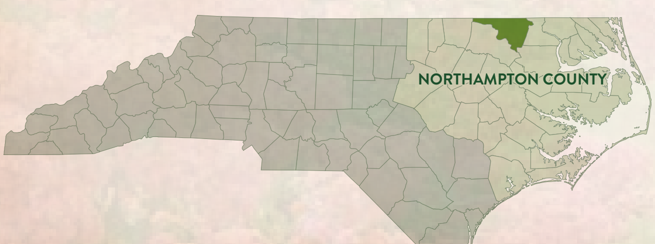


Cowin Farms

The Cowin brothers, Ben and Clayton, have been farming together in Martin County for 30 years. Their history with AgCarolina Farm Credit dates back to the operating loans their late father, Ben, received 50 years ago. In 2015, the Cowin brothers grew 180 acres of peanuts, along with cotton, tobacco, and soybeans.

For the past 18 years in a row, the Cowin brothers have been named Martin County's top peanut producers; and in 2004, they were named NC state peanut champions. Clayton also serves as president of the Martin County Farm Bureau group.

Today, they source Multi-Peril Crop Insurance (MPCI) from AgCarolina Farm Credit to cover their entire acreage. Clayton's older son is AgCarolina Farm Credit loan officer Jonathan Cowin. Of his family's half-century relationship with Farm Credit, Clayton says, "We are pleased to have had some very knowledgable loan officers with many positive experiences over all those years!"



Creekside Farms Nursery

Over a 30-year period, Northampton County brothers Hank and Paul Harrell transformed their crop consulting business into what is now Creekside Farms Nursery, a major wholesale landscaping/tree nursery business.

Paul's son, Brodie, now helps his dad and uncle (all 3 are NC State grads) run the nursery, which has grown from four acres to about 180 acres. All of their 50 to 60 different varieties of shade and flowering trees and shrubs are field-grown and sold balled and burlaped.

Creekside Farms Nursery's goal is to provide its customers with top quality flowering and shade trees at a reasonable price, delivering anywhere—mostly up on the eastern seaboard—to Long Island.

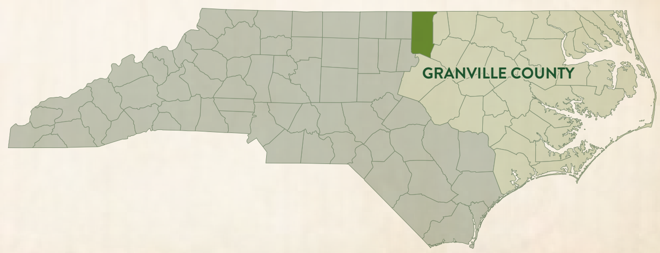
Creekside Farms Nursery has been an AgCarolina Farm Credit customer for 13 years with operating, equipment, inventory and real estate loans. "When we refinanced our loan portfolio last year, we again went with AgCarolina Farm Credit, rather than two commercial banks because the co-op had the right terms."

Paul B. Currin

Granville County cattleman Paul Currin was glad that his oldest son, Ansel, could help him grow his 140 acres of flue-cured tobacco in 2015. As a Durham fireman, Ansel works just ten days a month, allowing him time to help his dad tend the tobacco crop all season long. Paul's wife, Lynn, is also a great help on the farm/home front when Paul is working in the fields.

Paul has a herd of 100 Angus and Hereford brood cows. Following graduation from NC State's Ag Institute, he came home to farm with his father, who passed away 20 years ago.

Paul became an AgCarolina Farm Credit customer when he got a loan to purchase 220 acres of his family's farm from his siblings. Since then, Paul has had AgCarolina Farm Credit loans to buy farm equipment and for an operating line of credit. Says Paul, "I've appreciated every year getting a sizable patronage dividend check."



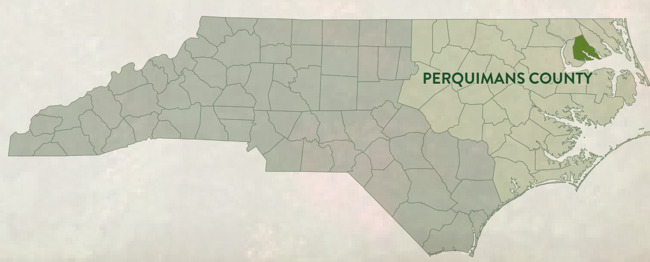
Eure Seed Farms, Inc.

Eure Seed Farms, Inc. is an innovative, fourth generation, family-owned grower and conditioner of quality certified seed that has been in operation since 1963.

When second-generation owner Garland Eure passed away, two of his son-in-laws, A.O. Roberts, III and Randy Park bought the business and continue the farming legacy today. A.O.'s wife, Carole, manages the office and accounting functions, while their oldest son, Kevin, manages the seed production plant.

Over the years, Eure Seed Farms has handled up to half a million bushels of wheat and soybeans a year, working with forty contract growers in eight eastern NC counties. In its twelve years of doing business with AgCarolina Farm Credit, Eure Seed Farms has had inventory and equipment loans for their seed processing facility and equipment. They also use the services of Farm Credit Leasing and Farm Credit ***EXPRESS***.

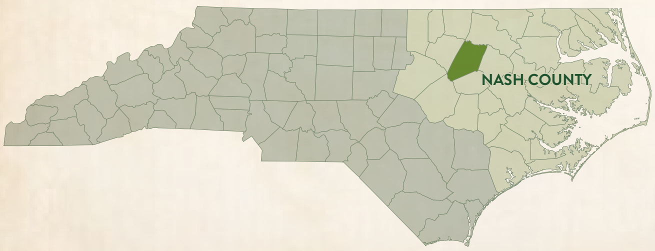
Of AgCarolina Farm Credit's Patronage Dividend program, A.O. says, "We love that it makes AgCarolina Farm Credit's interest rate very competitive with other lenders."



Fisher Farms Partnership/ Crackerjack Farm LLC

Tim and Kay Fisher began their farming operation in 1975 with a $4,000 loan from Tar Heel Farm Credit. After their daughter, Beth Fisher Taylor, and son, Scott, returned from college to work full time in the family business, the four family members formed Fisher Farms Partnership in 2000.

Today, the Fisher's 3,500-acre farming operation includes tobacco, sweet potatoes, cucumbers, strawberries, as well as cotton, corn, soybeans, wheat and a broiler operation. Having been Perdue farm-family partners since 1979, the Fishers brought in their first flock of birds in six newly constructed broiler houses built in 2015.

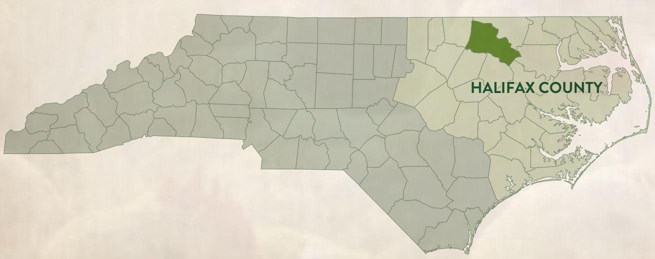


Like this most recent investment, the Fishers have worked with AgCarolina Farm Credit for over 40 years with a number of real estate and equipment loans. Kay says, "It's been a good relationship all this time, with the delivery of a patronage dividend check being the highlight of the year."

Fleming Brothers Farms, LLC

Rob and John Fleming are third generation farmers who started working on their parents' farm. Following their graduation from NC State, they started farming together in 2006 as Fleming Brothers Farms, LLC.

Today, the brothers are partners in their 1,800-acre farming operation. In 2015, Fleming Brothers Farms grew soybeans, following either wheat or triticale, and cotton. Rob and John are unique young farmers each now serving as vice president of the NC Cotton Producers Association and the NC Soybean Producers Association, respectfully. Both of them are also active members of the NC Farm Bureau.



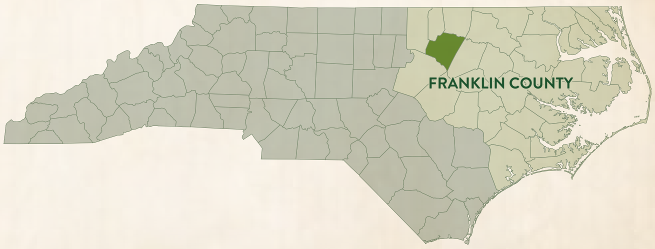
They've been AgCarolina Farm Credit members for 9 years, obtaining real estate, equipment and line of credit loans. For the past four years, the two have also been using AgCarolina Farm Credit's leasing products and Preferred Stock. While both brothers are sold on AgCarolina Farm Credit, Rob says, "We like it because AgCarolina Farm Credit works solely in the ag marketplace."

Hunt Forest Resources, LLC

Perry Hunt grew up in the low country of South Carolina surrounded by all facets of the wood products industry. Following graduation from NC State with a degree in Forest Management, Perry became a NC Registered Forester and started his career as a procurement forester for several area sawmills.

In 2004, he started Hunt Forest Resources, LLC, which spans the Carolinas and Virginia. Perry's business offers a diverse line of forest management and wood products services, from operating woodyards to procuring timber to logging and trucking. Perry currently employs a highly trained staff of 25 personnel.

Perry's experience with AgCarolina Farm Credit has included real estate, operating and equipment loans. Perry has also used AgCarolina Farm Credit leasing services. Perry says, "AgCarolina Farm Credit, a very reputable financial entity, has a great understanding of the timber industry. Because of their expertise and friendliness, AgCarolina Farm Credit has become one of my preferred lenders of choice."



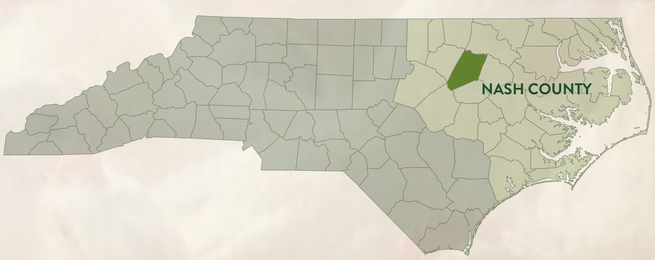
Leggett Farming Partnership

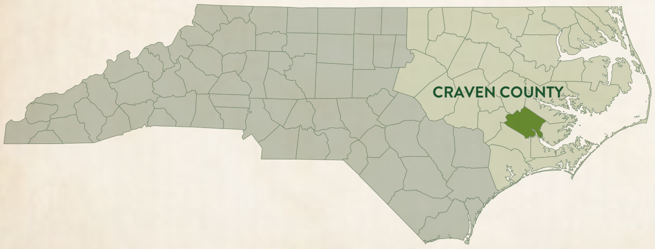
Upon graduation from NC State in 1997, Brent Leggett became farm manager for Dale C. Bone Farms. When Dale retired, Brent and his wife, Sue, established their first generation farm in 2005.

Ten years later, the young couple's operation has tripled in size to 2,500 acres of flue-cured tobacco, sweet potatoes, cotton, pickling cucumbers, soybeans, peanuts, and strawberries. While Brent serves as the farm's general manager, Sue (also an NC State graduate) keeps the farm's records, as well as managing the growth and marketing of sweet potato plantings grown in their micropropagated greenhouses.

AgCarolina Farm Credit members since 1999, the Leggett's have received equipment, construction and real estate loans. Within the past year, AgCarolina Farm Credit financed both land and construction of their new sweet potato storage facility.

Brent reports as he developed his business relationship with AgCarolina Farm Credit, "We've had a lot of positive experiences interacting with other young farmers in the state."



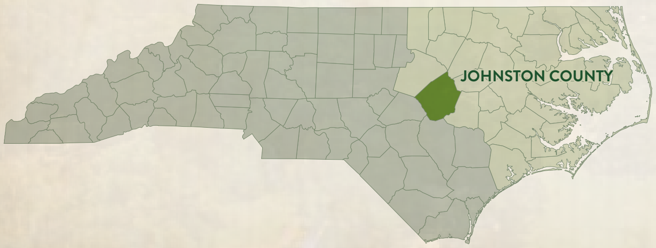


Mackilwean Turf Farm

Back in the 1980's, Craven County farmer Gene McIlwean began to diversify his 225-year old farming operation away from tobacco and row crops. First, he tried Christmas trees, then eventually settled in the 90's with a turf grass/sod business. Today, Gene's son, Kenney, heads up the business with the objective to provide full-service quality turf grasses for golf courses, sports fields, home lawns, and commercial businesses.

Trained at Craven Community College as a machinist, Kenney joined his family business 23 years ago. Today, twelve employees grow and sell six certified varieties of grasses. With over 600 acres of turf and more than 25 years experience, Mackilwean Turf Farm has become an industry leader, prepared to take on everything from a small residential patch job, on up to multi-acre commercial clients.

Over the years, AgCarolina Farm Credit has provided the Mackilwean Turf Farm with operating, equipment and real estate loans. Kenney says, "Our loan officer has learned a lot about the turf/sod business."



Pace Farms

Brothers Jerry and Joel Pace of Johnston County farm on halves as partners at Pace Farms. In 2015, they grew 850 acres of tobacco, grain sorghum, wheat and soybeans. The 2015 growing season was the first time without their father, Jerry Garfield Pace, Sr., who died last summer.

Jerry bought his first farm at 18 with a loan from the Federal Land Bank. Since then, he's financed with AgCarolina Farm Credit both large equipment and land purchases, as well as having an operating line of credit. Jerry says, "I've had very good experiences working with different loan officers over all those years. I've found that the AgCarolina Farm Credit's patronage dividend really gives them a very competitive interest rate."

The next generation of Paces all have an NC State connection. Jerry's daughters, Michelle and Cara, and Joel's son, Jordan, have been or are currently enrolled in the College of Ag and Life Sciences.

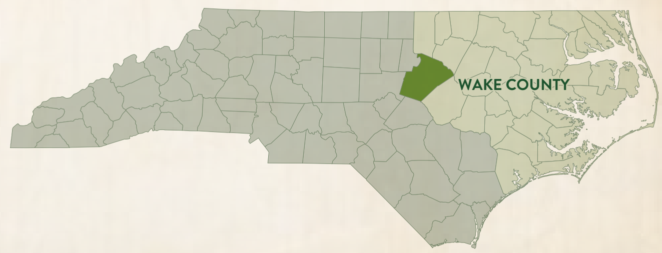
Parker Ag, Inc.— Gulfstream Produce

NC State ag grads, Ryan and Sam Parker, have transformed their Wake County family farm into an intensive produce operation. In 2015, they grew 250 acres of sweet potatoes, cabbage, bell peppers, eggplants and squash.

The innovative brothers market their produce through another family business, Gulfstream Produce, which sells to food service, retail and wholesale buyers across the U.S.

Founded in 2011, Parker Ag is co-owned by Ryan and Sam and their wives. With the help of AgCarolina Farm Credit, Parker Ag has expanded its sweet potato business by adding to its sweet potato storage capacity, and installing a new packing line to meet customer demands.

The Parkers first loan from AgCarolina Farm Credit in 2010 was to finance their home mortgages, then to lease a produce storage facility, and later, to purchase more land. Ryan says proudly, “AgCarolina Farm Credit has been great to work with and has really helped us grow our business.”

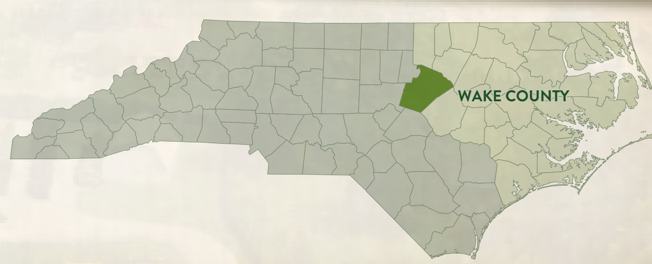


Southern Landscape Professionals, Inc.

Southern Landscape Professionals, Inc. started business in 1987 under the direction of Bill Adams, Jr., an NC State Ag Institute grad, with the assistance of his father, Billy and his sister, Sarah.

A full-service landscape, design and maintenance firm, Southern Landscape Professionals serves both residential and commercial customers. Among its six major divisions are Panther Creek Nursery and SodCo Turf Producers, who sell their products to area landscapers, garden centers and wholesale buyers. Current production in these divisions includes more than 250 acres of turf grass and large containers of ornamental trees and shrubs.

Bill’s late grandfather, Carlie Adams, started doing business with AgCarolina Farm Credit 45 years ago. Over the years, they’ve been using real estate, equipment, inventory/nursery and operating line of credit loans. Bill says, “It’s a great testimony to AgCarolina Farm Credit’s customer service, when one considers all the generations we’ve been doing business together, and doing more business than ever now.”



Board of Directors

Board of Directors (l-r): Rodney D. Smith, Lenoir County; Bundy H. Lane, Gates County; Eldridge T. Westbrook, Johnston County; Ralph G. Ellington, Vance County; B. Derek Potter, Pamlico County; Robert H. Bazemore, Jr., Outside Director; Audie M. Murphy, Greene County; Ellis W. Taylor, Board Chairman, Halifax County; Paul A. Drake, Vice Chairman, Edgecombe County; S. Stuart Pierce, Jr., Hertford County; Clifton L. Keel, III, Martin County; and Jack E. Finley, Outside Director

Senior Management

Senior Management (l-r): Matthew J. Currin, Senior Vice President and Chief Financial Officer; Linda J. Strickland, Senior Vice President – Marketing; David C. Morris, Senior Vice President and Chief Credit Officer; David W. Corum, President and Chief Executive Officer; Timothy M. Pace, Senior Vice President Branch Lending – West Region; Roy P. Robertson, Jr., Senior Vice President – Corporate Lending; and Arthur R. Spruill, Senior Vice President Branch Lending – East Region

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of AgCarolina Farm Credit, 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 cost 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 public auditors, 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 and the results of operations of the Association. The undersigned certify that we have reviewed the 2015 Annual Report of AgCarolina Farm Credit, 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.

Ellis W. Taylor
Chairman of the Board

David W. Corum
President and Chief Executive Officer

Matthew J. Currin
Senior Vice President and 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 disposition 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. This annual report does not include an attestation report of the Association's external accounting firm regarding internal control over financial reporting as none was required.

David W. Corum

David W. Corum
President and Chief Executive Officer

Matthew J. Currin

Matthew J. Currin
Senior Vice President and Chief Financial Officer

March 10, 2016

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

(dollars in thousands, except where noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of AgCarolina Farm Credit, 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" included 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 nearly 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 North Carolina. 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 extensive agricultural experience and knowledge of the market has been a contributing factor to our success.

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.AgCarolina.com*, or by calling 1-800-951-3276, or writing Matt Currin, AgCarolina Farm Credit, P.O. Box 14789, Raleigh, NC 27620. 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 is 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.

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of AgCarolina's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the AgCarolina territory.

The February 2016 USDA forecast estimates 2015 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $93.2 billion, down $34.9

billion from 2014 and down $7.8 billion from its 10-year average of $101.0 billion. The decline in net cash income in 2015 was primarily due to decreases in livestock receipts of $26.5 billion and crop receipts of $18.0 billion, partially offset by a decrease in cash expenses of $10.2 billion.

The February 2016 USDA forecast for the farm economy, as a whole, forecasts 2016 farmers' net cash income to decrease to $90.9 billion, a $2.3 billion decrease from 2015, and $10.1 billion below the 10-year average. The forecasted decrease in farmers' net cash income for 2016 is primarily due to an expected decrease in cash receipts of $9.5 billion, partially offset by a decrease in cash expenses of $3.5 billion and an increase in direct government payments of $3.3 billion. The decrease in cash receipts reflects a $7.9 billion decline in livestock receipts primarily due to decreased dairy, livestock, hog, and poultry receipts. Crop receipts are predicted to decrease modestly by $1.6 billion in 2016. Corn production is expected to increase slightly in 2016, but continued weakening in corn prices is expected to more than offset production gains, leading to an expected decline of $0.8 billion in corn receipts.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2012 to December 31, 2015:

Commodity	12/31/15	12/31/14	12/31/13	12/31/12
Hogs	$42.80	$64.30	$61.50	$62.40
Milk	$17.20	$20.40	$22.00	$20.90
Broilers	$0.47	$0.58	$0.56	$0.58
Turkeys	$0.89	$0.73	$0.69	$0.67
Corn	$3.65	$3.79	$4.41	$6.87
Soybeans	$8.76	$10.30	$13.00	$14.30
Wheat	$4.71	$6.14	$6.73	$8.30
Beef Cattle	$122.00	$164.00	$130.00	$124.00

The USDA's income outlook varies depending on farm size and commodity specialties. The USDA classifies all farms into four primary categories: small family farms (gross cash farm income (GCFI) less than $350 thousand), midsize family farms (GCFI between $350 thousand and under $1 million), large-scale family farms (GCFI of $1 million or more), and nonfamily farms (principal operator or individuals related to the operator do not own a majority of the business). Approximately 99 percent of U.S. farms are family farms and the remaining 1 percent are nonfamily farms. The family farms produce 90 percent of the value of agricultural output and the nonfamily farms produce the remaining 10 percent of agricultural output. The small family farms represent about 90 percent of all U.S. farms, hold 57 percent of farm assets and account for 22 percent of the value of production. Approximately 68 percent of production occurs on 9 percent of family farms classified as midsize or large-scale.

According to the USDA February 2016 forecast, the growth in the values of farm sector assets, debt, and equity are forecasted to moderate in 2016. The slowdown reflects the expectation of a second year of declining net farm income and stable to small reductions in farmland values. Farm sector assets are expected to decline from $2.86 trillion for 2015 to $2.82 trillion in 2016 primarily due to a decline in the value of farm real estate. In addition, most other farm assets such as crop inventories, financial assets, and livestock and poultry inventories are expected to drop in 2016. Overall, farm sector debt is estimated to increase from $364.3 billion in 2015 to $372.5 billion in 2016. Farm business equity (assets minus debt) is expected to decline to $2.44 trillion in 2016 from $2.50 trillion in 2015.

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. As a result of the decline in farm assets and continued increase in farm debt, these ratios are forecast to rise in 2016 to 13.2 percent and 15.3 percent from 10.5 percent and 11.8 percent in 2013, which was the lowest value for both measures since 1954. The USDA notes the increase in these ratios suggests a higher amount of financial stress is building in the sector relative to recent years. However, even though these measures have increased every year for the past three years, each remains low relative to historical levels. The USDA also indicated that it appears that the farm sector is well insulated from the risks associated with declining commodity prices, adverse weather, changing macroeconomic conditions, as well as fluctuations in farm asset values.

As estimated by the USDA in February 2016, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) declined to 39.6 percent at December 31, 2014 (the latest available data), as compared with 41.0 percent at December 31, 2013.

In general, agriculture, during the past several years, experienced favorable economic conditions driven by high commodity and livestock prices and increased farmland values during this period. To date, AgCarolina's financial results have remained favorable as a result of these favorable agricultural conditions. Production agriculture; however, remains a cyclical business that is heavily influenced by commodity prices and various other factors.

In an environment of less favorable economic conditions in agriculture, including extensive and extended drought conditions, and without sufficient government support programs, including USDA-sponsored crop insurance programs, AgCarolina's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general economy remain more volatile given the state of the global economy. Certain agriculture sectors, as described more fully in this *Management's Discussion and Analysis*, recently have experienced significant financial stress and could experience financial stress in the near future. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies, including GAAP, 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 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 expense. 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 future benefit obligations. The discount rate is selected by reference to Hewitt's above-median corporate bond index, actuarial analyses, and industry norms.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The diversification of the Association loan volume by type for each of the past three years is shown below.

	December 31,		
Loan Type	**2015**	**2014**	**2013**
Real estate mortgage	53.97%	57.88%	57.77%
Production and intermediate term	39.49	35.04	34.90
Loans to cooperatives	.07	.07	.12
Processing and marketing	2.18	1.86	1.80
Farm-related business	.22	.91	1.09
Energy	.01	.01	.04
Rural residential real estate	4.06	4.23	4.28
Total	100.00%	100.00%	100.00%

See Note 3, *Loans and Allowance for Loan Losses*, of the Consolidated Financial Statements, for further information concerning reclassification of loan types for all years presented.

While loans and financially related services are provided to qualified borrowers in the agricultural and rural sectors and to certain related entities, the loan portfolio is diversified.

The geographic distribution of the loan volume by branch in the 34 county territories for the past three years is as follows:

Region	12/31/15	12/31/14	12/31/13
Greenville	16.3%	16.3%	15.8%
Smithfield	12.2	12.7	12.5
Rocky Mount	9.5	10.0	11.1
Elizabeth City	9.1	8.3	8.2
Louisburg	8.2	8.1	8.9
Swan Quarter	6.8	6.2	4.6
Williamston	6.8	6.3	5.1
La Grange	6.6	5.8	5.6
New Bern	5.4	5.3	5.1
Halifax	5.2	5.2	5.5
Raleigh	5.2	5.6	6.0
Ahoskie	3.9	3.9	4.0
Other	4.8	6.3	7.6
Total	100.0%	100.0%	100.0%

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The five predominant commodities are tobacco, forestry, cotton, corn and soybeans, which constitute 53 percent of the entire portfolio.

	Percent of Portfolio		
Commodity Group	**2015**	**2014**	**2013**
Tobacco	17%	17%	17%
Forestry	10	10	9
Corn	9	9	7
Soybeans	9	9	7
Cotton	8	9	11
Poultry	8	8	8
Rural Rental Real Estate	7	9	9
Swine	7	7	7
Sweet Potatoes	6	5	5
Farm Services	4	4	4
Livestock	4	3	3
Home Loans	3	4	4
Horticulture	2	2	3
Vegetables/Fruits	1	1	1
Peanuts	1	1	1
Other	4	2	4
Total	100%	100%	100%

As growth has continued in sweet potatoes for the Association in the past few years, this grouping was segmented independently of the commodity field crops group, where it was presented in prior years. The remainder of the field crops sector was reclassified into the other category for all years presented.

Repayment ability is closely related to the profitability of commodities produced by borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a relatively large concentration of tobacco, forestry, corn, and soybean producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified beyond a single crop or enterprise, which reduces overall risk exposure. Consumer demand, expected production, and international trade are some of the factors affecting the price of these commodities.

The Association has experienced an increase in the concentration of large loans over the past several years; however 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.

Gross loan volume as of December 31, 2015 was $1,021,011, a 4.17 percent increase from the same period in 2014. Net loan volume was $1,009,098 as of December 31, 2015, for a 4.18 percent increase from the previous year. The increase in gross and net loan volume during the reporting period is primarily attributed to new loans closed during 2015. During 2015, the Association targeted certain segments of our business with hopes of increasing market share. Continued efforts are being made to expand services, increase public knowledge of our services, and streamline current delivery of products to enhance and grow the loan portfolio.

The Association loan portfolio is significantly impacted by loan seasonality. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak balance in August and declines in the fall months as commodities are marketed and proceeds are applied to repay operating loans.

Participation loans provide a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which can strengthen the capital position.

Loan Participations	**2015**	**2014**	**2013**
Participations Purchased – FCS Institutions	$ 43,958	$ 50,706	$ 48,065
Participations Purchased – Non-FCS Institutions	151,635	158,655	169,165
Participations Sold	(279,867)	(250,142)	(223,738)
Total	$ (84,274)	$ (40,781)	$ (6,508)

The increase in participations sold is due to one large syndicated deal closed in 2015 in which the Association was the co-lead. This credit was syndicated entirely within the Farm Credit System, with the Association's entire portion being sold within the Farm Credit System.

The Association did not have any loans that were 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 also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2015, the Association had loans amounting to $473, which were 100 percent guaranteed by Farmer Mac. The Association additionally has portions of loans that are guaranteed by the Farm Service Agency. These guarantees are made for the purpose of reducing credit risk. At December 31, 2015, the balance of these guarantees was $10,679, compared to $9,438 at December 31, 2014 and $9,410 at December 31, 2013.

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. 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, December 31, 2014, and December 31, 2013, the Association had $314, $349 and $1,984, respectively, in Rural America Bonds, and they are classified as Loans on the Consolidated Balance Sheets.

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 will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows 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 may 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). At December 31, 2015 and December 31, 2014, the Association had no SIIC outstanding. As of December 31, 2013, the Association had $16,156 in SIIC outstanding and these are classified as Other Investments on the Consolidated Balance Sheets. The final USDA payments under this program were received in 2014, which satisfied all SIIC held by the Association.

Effective December 31, 2015, the FCA will conclude each pilot program approved as part of the Investment in Rural America program. Each 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 are concluding, the FCA can consider future requests on a case-by-case basis.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association, and annually reviews the investment portfolio of every Association that it funds. A typical investment securities portfolio held by a Farm Credit Association would consist of asset-backed securities and mortgage-backed securities. Due to the potential risks involved in holding such investments the Association does not hold a portfolio of investment securities. Refer to Note 2, *Summary of Significant Accounting Policies,* item H, *Investment Securities*, for further information concerning investment securities.

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 financial services 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 $1 million. 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 Farm Credit Administration 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	96.23%	96.67%	96.12%
Substandard	3.77%	3.33%	3.88%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

	December 31,		
Nonperforming Assets	**2015**	**2014**	**2013**
Nonaccrual loans	$ 15,095	$ 11,460	$ 20,182
Restructured loans	2,627	2,940	2,743
Accruing loans 90 days or more past due	–	–	200
Total nonperforming loans	17,222	14,400	23,125
Other property owned	–	–	403
Total nonperforming assets	$ 17,222	$ 14,400	$ 23,528
Ratios			
Nonaccrual loans to total loans	1.48%	1.17%	2.20%
Nonperforming assets to total loans and other property owned	1.74%	1.47%	2.56%
Nonperforming assets to capital	7.37%	6.29%	11.23%

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 increased $3,635 or 31.72 percent in 2015 and the ratio of nonaccrual loans to total loans was 1.48 percent as of December 31, 2015. The increase in nonaccrual loans during the year is primarily due to the transfer of two large relationships into nonaccrual net of liquidations and pay downs. The level of nonaccrual loans has increased in 2015 due to the declining agriculture economy.

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.

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**	**2013**
Balance at beginning of year	$ 11,602	$ 13,697	$ 14,668
Charge-offs			
Agribusiness	–	–	–
Rural Residential Real Estate	–	–	–
Real estate mortgage	(93)	(1)	(435)
Production and intermediate term	(120)	(199)	(832)
Total charge-offs	(213)	(200)	(1,267)
Recoveries			
Agribusiness	–	–	13
Rural Residential Real Estate	–	–	1
Real estate mortgage	29	57	55
Production and intermediate term	495	116	621
Total recoveries	524	173	690
Net (charge-offs) recoveries	311	(27)	(577)
Provision for loan losses	–	(2,068)	(395)
Balance at end of year	$ 11,913	$ 11,602	$ 13,697
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.031%	(0.003)%	(0.06)%

The net loan charge-offs were associated with various crops and industries. The allowance for loan losses by loan type for the most recent three years is as follows:

	December 31,		
Allowance for Loan Losses by Type	**2015**	**2014**	**2013**
Real estate mortgage	$ 7,197	$ 7,981	$ 9,745
Production and intermediate term	4,056	3,027	3,287
Agribusiness	249	238	274
Energy	1	1	3
Rural residential real estate	410	355	388
Total loans	$ 11,913	$ 11,602	$ 13,697

See Note 3, *Loans and Allowance for Loan Losses*, of the Consolidated Financial Statements, for further information concerning reclassification of loan types for all years presented.

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	December 31,		
as a Percentage of:	**2015**	**2014**	**2013**
Total loans	1.17%	1.18%	1.49%
Nonperforming loans	69.17%	80.57%	59.23%
Nonaccrual loans	78.92%	101.24%	67.87%

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.

RESULTS OF OPERATIONS

Net Income

Net income for the year ended December 31, 2015, totaled $22,648, a decrease of $8,107 or 26.36 percent, as compared to $30,756 for the same period of 2014. The decrease in net income during 2015 when compared to 2014 resulted primarily from a $2,068 decrease in reversal of allowance for loan losses, a decrease in noninterest income of $4,314, and a decrease in net interest income of $1,828. The decrease in noninterest income was mainly the result of decreased special patronage from AgFirst Farm Credit Bank in the amount of $4,015, which was offset by an increase in normal patronage of $73. Operating expense decreased by $110 as compared to 2014, which helped offset the reduced level of revenue. Major components of the changes in net income for the past two years are outlined in the following table.

Changes in Net Income:

	2014-2015	2013-2014
Net income (prior year)	$ 30,756	$ 28,063
Increase (decrease) in net income due to:		
Interest income	(1,099)	3,559
Interest expense	(729)	(422)
Net interest income	(1,828)	3,137
Provision for loan losses	(2,068)	1,673
Noninterest income	(4,315)	(881)
Noninterest expense	110	(1,234)
Provision for income taxes	(7)	(2)
Total changes in income	(8,108)	2,693
Net income	$ 22,648	$ 30,756

Net Interest Income

Net interest income was $27.0 million, $28.8 million, and $25.7 million in 2015, 2014, and 2013, respectively. 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. 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	Total
12/31/14 - 12/31/15			
Interest income	$ 1,062	$ (2,161)	$ (1,099)
Interest expense	89	640	729
Change in net interest income	$ 973	$ (2,801)	$ (1,828)
12/31/13 - 12/31/14			
Interest income	$ 2,684	$ 875	$ 3,559
Interest expense	946	(524)	422
Change in net interest income	$ 1,738	$ 1,399	$ 3,137

* *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

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	Percentage Increase/(Decrease) 2015/ 2014	2014/ 2013
Loan fees	$ 2,569	$ 2,577	$ 2,866	(0.32)%	(10.09)%
Fees for financially related services	957	1,001	841	(4.43)	19.13
Patronage refund from other Farm Credit Institutions	11,502	15,472	16,257	(25.66)	(4.83)
Gains (losses) from sales of premises and equipment, net	96	67	73	43.17	(8.81)
Gains (losses) on other Transactions	(45)	282	229	(115.85)	23.14
Other noninterest income	78	72	86	7.49	(16.28)
Total noninterest income	$ 15,157	$ 19,471	$ 20,352	(22.16)%	(4.33)%

The Patronage refund from other Farm Credit Institutions decreased as a result of a reduced amount of special patronage from AgFirst. This distribution, while still significant at $5,068, was reduced by $4,016 from the prior year. This distribution was due to an excess of capital at the Bank level that was distributed to all Associations in the district. The amount distributed to each Association was based on each institution's level of borrowing from the Bank. While significant special patronage has been provided in the past three years, the Association considers this a non-recurring event and it is not expected in future years.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2015	2014	2013	Percentage Increase/(Decrease) 2015 2014	2013/ 2012
Salaries and employee benefits	$ 13,880	$ 13,896	$ 13,020	(0.12)%	6.73%
Occupancy and equipment expense	1,127	1,075	1,039	4.81	3.50
Insurance Fund premium	999	921	722	8.43	27.61
(Gains) losses on other property owned, net	–	39	46	(100.00)	(15.22)
Other operating expense	3,491	3,676	3,546	(5.02)	3.67
Total noninterest expense	$ 19,497	$ 19,607	$ 18,373	(0.56)%	6.72%

Salaries and employee benefits decreased $16 in 2015, as compared with 2014, resulting in a decrease of 0.12 percent. The decrease is related to reduced salary expense due to decreased incentive payments, which was offset by an increase in employee benefits related to higher insurance costs for employees and retirees in 2015.

Insurance Fund premiums increased by 8.43 percent for the twelve months ended December 31, 2015, compared to the same period of 2014. The FCSIC set premiums at 13 basis points on adjusted insured debt outstanding for all twelve months of 2015, an increase from 12 basis points charged during 2014. The increase in premiums was mainly attributable the increase in the premium factor. For 2016, the FCSIC has indicated that the premium will range from 10-13 basis points based on expected System loan growth in 2016.

Occupancy and equipment expense increased by 4.81 percent and other operating expense decreased by 5.02 percent for the twelve months ended December 31, 2015. The increase in occupancy and equipment expense is due to increased equipment and facility costs related to purchases and property taxes. The decrease in other operating expense is due to general reductions in operating costs in 2015 .

Income Taxes

The Association recorded a provision for income tax in the amount of $8 for the year ended December 31, 2015, as compared to $1 provision for 2014 and no provision or benefit for 2013. Refer to Note 2, *Summary of Significant Accounting Policies,(item K - Income Taxes)*, 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:

	For the 12 Months Ended		
Key Results of Operations Comparisons	**12/31/15**	**12/31/14**	**12/31/13**
Return on average assets	2.20%	3.06%	2.97%
Return on average members' equity	9.26%	13.66%	13.48%
Net interest income as a percentage of average earning assets	2.71%	2.96%	2.79%
Net (charge-offs) recoveries to average loans	0.031%	(0.003)%	(0.06)%

The 2015 return on average assets and return on average member's equity decreased from 2014 by 86 and 440 basis points, respectively. The primary reason for the decrease was the decrease in net earnings in 2015. Net interest income as a percentage of average earning assets, or net interest margin, decreased by 25 basis points from 2014 to 2015. The decrease was primarily a result of a large amount non-recurring nonaccrual interest income realized in 2014 but not present in 2015.

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must be strong and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

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 GFA has a one year term and is renewable each year. The current agreement expires on December 31, 2015, and the Association has no reason to believe the GFA will not be renewed upon expiration. 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."

As of December 31, 2015 the Association had $250,301 in loanable funds outstanding. The Association is able to effectively deploy these funds as working capital to boost profitability and patronage refunds. Through AgFirst's direct note pricing accounting for the calculation of interest expense the Association is given an interest rate credit for loanable funds based on the prevailing average direct note rate of the Association's entire portfolio. The Association, however, had an option to lock in a portion of this interest rate credit at fixed rates through a fixed rate loanable funds lock program administered by AgFirst in previous years. The Association has certain positions locked with this program for three more years. As of December 31, 2015, $9,000 of loanable funds remained locked at fixed rates. These fixed positions are expected to mature by the end of 2017.

Total notes payable to the Bank at December 31, 2015, was $798,928 as compared to $768,380 at December 31, 2014 and $741,566 at December 31, 2013. The increase in 2015 of 3.98 percent as compared to December 31, 2014 was attributable to an increase in Association loan volume. The average volume of outstanding notes payable to the Bank was $767,536 and $763,578 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 Long-Term Standby program, investments, and preferred stock program 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 had no lines of credit outstanding 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, 90-day London Interbank Offered Rate (LIBOR), or the 30-day LIBOR rate. 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 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's 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. During 2010, the Association's Board approved use of financial parameters or guidelines to assist in capital planning and in determining the appropriate level of patronage to distribute. These patronage parameters were also included in the 2015 capital adequacy plan.

Total members' equity at December 31, 2015, increased 5.06 percent to $240,322 from the December 31, 2014, total of $228,758. At December 31, 2014, total members' equity increased 9.14 percent from the December 31, 2013 total of $209,595. The increase in both 2015 and 2014 is primarily attributed to net income earned during the respective years, offset by patronage refunds to customers. Preferred stock also increased slightly in 2015.

Preferred stock was $31,853 as of December 31, 2015, an increase of 0.56 percent over the December 31, 2014 level of $31,675. Preferred stock is a non-voting, at-risk Class of stock that is only available to Association stockholders. Dividends are paid quarterly on outstanding shares of preferred stock, and for the year ended December 31, 2015, $473 in dividends were declared and paid in shares of stock, as compared to $434 for the same period in 2014. The average dividend rate paid on shares of preferred stock during 2015 was 1.25 percent, which was unchanged from 2014. Member stock and participation certificates were $3,317 on December 31, 2015, compared to $3,269 on December 31, 2014. The increase is attributed to a growth in the number of loans outstanding.

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 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	23.00%	22.35%	22.96%	7.00%
Total surplus ratio	19.22%	18.58%	18.58%	7.00%
Core surplus ratio	19.22%	18.58%	18.58%	3.50%

The increase in the Association's permanent capital ratio was mainly due to reduced loan growth during 2015. The total surplus ratio and core surplus ratio for December 31, 2015 remained constant as a result of an increase in retained earnings. 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.

The Association is currently not prohibited from retiring stock or distributing earnings by statutory and regulatory restrictions, nor knows of any reason such prohibitions may apply for the foreseeable future.

See Note 7, *Members' Equity*, of 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 non-patronage sourced business the remaining consolidated net earnings are eligible for allocation to borrower\patrons. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $10,643 in 2015, $12,031 in 2014, and $12,545 in 2013.

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.

Disclosure Required
by Farm Credit Administration Regulations

(dollars in thousands, except where noted)

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.

Unincorporated Business Entities

The Association is the sole shareholder/owner of an Unincorporated Business Entity (UBE) as defined by FCA regulations. The UBE, ACF Acquisitions, LLC (ACF), is a wholly owned limited liability company organized in the state of North Carolina. ACF was organized to acquire real estate subsequent to Association foreclosure proceedings and ACF acquires and holds the Association's real estate acquired property.

In addition the UBE described above, the Association is also an owner in Ethanol Holdings, LLC, a limited liability company organized to hold a specific acquired property.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in North Carolina:

Location	Description	Form of Ownership
408 NC Hwy 561 W Ahoskie	Branch	Owned
426 McArthur Drive Elizabeth City	Vacant Building	Owned
101 Impact Boulevard Elizabeth City	Branch	Owned
100 E. First Street Greenville	Branch	Owned
419 S. King Street Halifax	Branch	Owned
7900 Hwy 70 West La Grange	Branch	Owned
1654 NC Hwy 39 N Louisburg	Branch	Owned
1309 S. Glenburnie Road New Bern	Branch	Owned
2472 Woodruff Road Rocky Mount	Branch	Owned
2850 US Hwy 70 Business East Smithfield	Branch	Owned
13191 U.S. Hwy 264 Swan Quarter	Branch	Owned
1105 Garrett Road Williamston	Branch	Owned
4000 Poole Road Raleigh	Branch/ Administrative	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 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.

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. The president and CEO and all other senior officers of the Association, together with their length of service at their present position, as well as positions held during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
David W. Corum, *President and CEO*	4 years	Director of Financial Analysis and Systems at Farm Credit Services of Mid America from 1986 to 1993. Executive Vice President and Chief Financial Officer with AgCarolina Farm Credit from 1993 to March 2012. Total of 34 years of employment in the Farm Credit System, including 23 years with AgCarolina Farm Credit.	He serves on the AgFirst/FCBT Plan Fiduciary Committee and is a member of the North Carolina State University Ag Foundation Board, and the board of the North Carolina Foundation for Soil and Water Conservation.
Matthew J. Currin *Senior Vice President and Chief Financial Officer*	4 years	Senior Vice President and Chief Financial Officer with Cape Fear Farm Credit from 2006 until 2011 and Associate with a local accounting firm from November 2011 to April 2012. A total of 11 years of employment in the Farm Credit System including four years with AgCarolina Farm Credit.	
David C. Morris, *Senior Vice President and Chief Credit Officer*	5 years	Senior Vice President of Credit Services from 2008 until 2011. Total of 37 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Roy P. Robertson, Jr., *Senior Vice President - Corporate Lending*	4 years	Senior Vice President Financial Services from 2008 until 2011 and Executive Vice President and Chief Lending Officer from 2011 to March 2012. Total of 16 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Arthur R. (Buck) Spruill, III, *Senior Vice President –Branch Lending East*	1 year	Loan officer with East Carolina Farm Credit from 1989 to 1993. Agribusiness Executive with two commercial banks from 1993 to 2013. Agribusiness Loan Officer from 2013 to 2015. Total of six years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	He is a co-owner of a closely held family farming operation and also serves as a board member of Coastal Carolina Cotton Gin, a cotton processing facility
Timothy M. Pace, *Senior Vice President –Branch Lending West*	4 years	Financial Services Officer from 1999 to 2008 and Senior Vice President Financial Services from 2008 to March 2012. Total of 17 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	
Linda J. Strickland, *Senior Vice President Marketing*	15 years	Marketing Manager and Executive Assistant prior to 1999. Total of 41 years of employment in the Farm Credit System, all with AgCarolina Farm Credit.	She serves as a board member of the North Carolina State University College of Agricultural and Life Sciences Research Foundation.

The total amount of compensation (in whole dollars) earned by the CEO and senior officers (excluding the CEO) as a group during the years ended December 31, 2015, 2014, and 2013, is presented in the following tables. The first table presented illustrates actual compensation received in cash in the form of salary and bonus.

		Received Compensation		
Name of Individual or Number in Group	Year	Salary	Bonus	Total Received Compensation (a)
David W. Corum	2015	$ 260,851	$ 74,724	$ 335,575
David W. Corum	2014	$ 246,492	$ 94,834	$ 341,326
David W. Corum	2013	$ 230,747	$ 82,925	$ 313,672
6 Officers	2015	$ 842,240	$ 216,938	$ 1,059,178
6 Officers	2014	$ 813,948	$ 286,720	$ 1,100,668
6 Officers	2013	$ 777,896	$ 248,236	$ 1,026,132

The table below discloses forms of perquisites and other noncash compensation and these items are described in detail in the subsequent paragraphs, which do not reflect actual cash compensation received by the CEO or officers presented. The total of all cash (a) and noncash (b) compensation for the CEO and officers is also presented here.

Perquisites and Noncash Compensation

Name of Individual or Number in Group	Year	Change in Pension*	Perquisites	Other	Total Perquisites and Noncash (b)	Total Received and Noncash Compensation (a+b)
David W. Corum	2015	$ 980	$ 5,359	$ 30,000	$ 36,339	$ 371,914
David W. Corum	2014	$ 444,712	$ 5,593	$ 30,000	$ 480,305	$ 821,631
David W. Corum	2013	$ 127,182	$ 4,926	$ 30,000	$ 162,108	$ 475,780
6 Officers	2015	$ 62,540	$ 23,070	$ 120,000	$ 205,610	$ 1,264,789
6 Officers	2014	$ 1,085,033	$ 24,153	$ 120,000	$ 1,229,186	$ 2,329,854
6 Officers	2013	$ (14,915)	$ 22,463	$ 120,000	$ 127,548	$ 1,153,680

** This figure is a third party actuarial determination of the change in the present value of the estimated pension cash flows for employees as of December 31, 2015. This does not represent any actual cash compensation provided to any employee but is simply a change in the calculation that is affected by a number of assumptions and inputs.*

The table below illustrates the present value of pension benefits for the CEO and other officers presented. This value represents the third party actuarial determination of the present value of the estimated pension cash flows for employees as of December 31, 2015. This does not represent any actual cash compensation provided to any employee but is simply a calculation that is affected by a number of assumptions and inputs. Actual funds received can differ based on how actual events compare to assumptions used in the calculation.

Pension Benefits Table
As of December 31, 2015

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2015
CEO:					
David W. Corum	2015	AgFirst Retirement Plan	36.42	$ 2,498,642	$ –
			Total	$ 2,498,642	$ –
Senior Officers					
4 Officers, excluding the CEO	2015	AgFirst Retirement Plan	30.58*	$ 6,527,596	$ –
2 Officers, excluding the CEO	2015	AgFirst Cash Balance Retirement Plan	5.88*	$ 13,358	$ –
			Total	$ 6,540,954	$ –

** Represents the average years of credited service for the group*

In addition to a base salary, employees earn additional compensation under a bonus or incentive plan. The Association incentive plan is designed to motivate employees to exceed business goals during the fiscal year. Each region or business unit's incentive plan is tailored to meet the specific goals of that unit. These goals typically include loan volume, financially related services income, fee income, credit quality, credit administration, net earnings, and other key measurements. All employees in good standing are included for incentive plan eligibility. The incentive bonus is earned over the twelve-month calendar year period and is normally paid in the first quarter of the following year. In addition to the year-end incentive bonus plan described above, certain employees involved in the direct lending function are eligible for a quarterly sales incentive bonus. The sales incentive bonus is paid on new loan volume generated each quarter after a threshold amount of new loan volume is met. The President and Senior Vice Presidents do not participate in the sales incentive bonus.

The amounts included under the column heading "Change in Pension" represents the amount of year over year change in the present value of senior officers' *Actuarial Value of Accumulated Benefits,* also known as the pension accumulated benefit obligation (ABO.) The ABO is an estimate of the present value of the employee's future cash flows associated with their pension, which assumes that the employee ceases to work for the company at the time the estimation is made. The ABO is unique to each participant in the plan and is calculated using a number of factors and assumptions including, but not limited to, the number of years of service in the plan, the discount rate used in the present value calculation, retirement eligibility, life expectancy of the participant, the participant's compensation basis and changes in beneficiary elections by the participant. These assumptions will almost certainly change from year to year depending on the information present at a given measurement date. The amount of the change in pension for Mr. Corum was $980 and the amount for the remaining officers presented above is $62,411.

The amounts included under the column "Perquisites" include group life insurance, spousal travel, service awards, and the unreimbursed portion of the value of the personal use of an Association provided vehicle.

The amounts included under the column heading "Other" are funds that have been invested in a nonqualified long-term deferred compensation program for certain Association employees. The program provides deferred compensation benefits to encourage focus on strategies that are in the long-term best interest of the Association and its shareholders. Under the program the funds are placed in a Trust owned by the Association. Compensation is deferred until a later date upon which the employee meets certain vesting guidelines and employment is terminated. All current and future assets used by the Association to fund this program will remain general assets of the Association until payment or distribution is made.

Amounts disclosed in the *Pension Benefits Table* represent the retirement plan(s) which CEO and other senior officers participate in and details about certain aspects of the plan(s). As illustrated, the CEO and four senior officers participate in the AgFirst Retirement Plan and two senior officers participate in the AgFirst Cash Balance Plan. The number of years of credited service for the Association's CEO is 36.42 years. The average of the four officers in the AgFirst Retirement Plan, exclusive of the CEO, is shown at 30.58 years, with a range of credited service within the plan from 16 to 43 years. The two officers who participate in the AgFirst Cash Balance Plan have an average of 5.88 years of credited service as of December 31, 2015.

The "Actuarial Present Value of Accumulated Benefits" column in the *Pension Benefits Table* represents the present value of the future cash flows related to the pension plans for the CEO and other senior officers as a group (exclusive of the CEO), also known as the ABO. The ABO is affected by a number of factors and assumptions, as described earlier. The ABO amount represents a point-in-time valuation and the actual amounts paid in retirement could be considerably less if all assumptions made in the calculation are not realized.

Disclosure of information on the total compensation paid during 2015 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

Additional Compensation Information

On March 31, 2014, the FCA published an interim final rule rescinding all requirements for nonbinding advisory votes on senior officer compensation at System banks and associations. The comment period for the interim rule ended on April 30, 2014 and the final rule became effective on June 18, 2014.

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 rule will be effective 30 days after publication in the Federal Register during which time either one or both Houses of Congress are in session. System banks and associations must comply with the rule for compensation reported in the table for the fiscal year ending 2016, and may implement the rule retroactively for the fiscal years ended 2015 and 2014. The Association applied the rule retroactively to 2014 but this application had no effect on the 2014 amounts as previously reported in the 2014 Annual Report.

Directors

The following chart details the number of meetings, other activities, current committee assignments, the current term, additional compensation paid for other activities (if applicable), and total cash compensation paid for each director (all amounts are in whole dollars):

		Days Served					
Name of Director	Year of Original Election/ Appointment	Regular Board Meetings	Other Official Activities*	Committee Assignments	Current Term**	Comp. Paid for other Activities*	Total Comp. Paid During 2015
Ellis W. Taylor, *Chairman****	2007	7	22	Credit, Executive, Governance	2015-2018	$11,000	$19,500
Paul A. Drake, *Vice Chairman****	2007	7	24	Audit, Compensation	2015-2018	12,000	20,500
Robert H. Bazemore, Jr.	2011	7	21	Audit, Compensation	2016-2019	10,500	19,000
Ralph G. Ellington, Sr.	1988	7	17	Credit	2011-2015	8,500	17,000
Jack E. Finley	2006	7	24	Audit, Compensation, Governance	2014-2017	12,000	20,500
Clifton L. Keel	2007	7	11	Compensation	2015-2018	5,500	14,000
Bundy H. Lane	2008	7	12	Credit, Governance	2016-2019	6,000	14,500
Audie M. Murphy***	2006	7	26	Executive, Governance	2014-2017	13,000	21,500
S. Stuart Pierce	2005	7	22	Audit, Compensation, Executive, Governance	2012-2016	11,000	19,500
B. Derek Potter	2009	7	15	Audit	2014-2017	7,500	16,000
Rodney D. Smith	2012	7	18	Credit	2012-2016	9,000	17,500
Eldridge T. Westbrook	2002	7	16	Credit	2012-2016	8,000	16,500
TOTAL						$114,000	$216,000

**Includes board committee meetings and other board activities other than regular board meetings, including Director training and participation in conferences.*
***Term effective dates were changed in 2013 from the Annual Meeting date to the beginning of the subsequent year after election. All directors elected in 2015 officially began their current term January 1, 2016 and will complete their current term on December 31, 2019.*
****Audie M. Murphy served as Chairman through December 31, 2015. Ellis W. Taylor served as Vice Chairman through December 31, 2015 and became Chairman effective January 1, 2016. Paul A. Drake became Vice Chairman effective January 1, 2016.*

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

The aggregate amount (in whole dollars) of reimbursement for travel, subsistence and other related expenses for all directors as a group was $103,805 for 2015, $96,203 for 2014 and $123,285 for 2013.

Subject to approval by the board, the Association may provide payment to directors of $500 per day for attendance at meetings, committee meetings, or special assignments. In addition to the per day payment, directors are paid a quarterly retainer fee of $1,250. Total compensation paid to directors as a group was $216,000. Association directors also benefited from non-cash compensation related to premiums that were paid on their behalf for accidental death and dismemberment insurance for Association related travel and business. Total non-cash compensation for directors as a group was $1,119 during 2015.

The following sets forth certain information regarding the directors of the Association who served during 2015 and their principal occupation for the past five years:

Ellis W. Taylor, *Chairman*, is a row crop farmer in Halifax County who also serves on the boards of the AgFirst Farm Credit Bank, the district Farm Credit Bank, Northampton County Farm Bureau, and Roanoke Cotton Company LLC.

Paul A. Drake, *Vice Chairman* is a row crop and livestock farmer in Edgecombe County who also serves on the boards of Edgecombe Volunteer Ag District, the N.C. Cattlemen's Association, South Edgecombe Rural Fire Department, and the board of several closely held family farming entities. He also serves as treasurer of the East Carolina Livestock Arena and is supervisor of the Edgecombe County Soil & Water Conservation Board.

Robert H. Bazemore, Jr., Outside Director, is the former Vice President of Audit Services, and previously served as the Controller and Chief Accounting Officer, of Progress Energy, Inc.

Ralph G. Ellington, Sr. is a small grain farmer and landlord in Vance County.

Jack E. Finley, Outside Director, is a former Banking Industry Senior Advisor and partner with the public accounting firm Grant Thornton, is a former managing partner of the Oklahoma City office of the public accounting firm KPMG, and serves on the board of the North Carolina Theatre and the Research Triangle Chapter of the National Association of Corporate Directors.

Clifton L. Keel is a row crop farmer in Martin County who also serves on the District Soil and Water Conservation Board.

Bundy H. Lane is a row crop and livestock farmer in Gates County who serves on the board of Gates Cotton Gin, is a Board member and officer of several closely held family farming entities, and is President of the Southeastern Reining Horse Association.

Audie M. Murphy is a row crop and poultry farmer in Greene County who also serves as secretary of the Greene Gin and Cotton Company, the Farm Bureau Board, and serves as an officer and director on several closely held family farming entities.

S. Stuart Pierce is a row crop farmer in Hertford County who also serves on the board of Producers Gin of Murfreesboro, manages Ahoskie Fertilizer Co, Inc., and is currently serving as President of the Hertford County Farm Bureau.

B. Derek Potter is a row crop farmer in Pamlico County who also serves on the board of a closely held farming corporation, the Pamlico County Soil & Water Board, the Pamlico County Voluntary Ag District and the Pamlico County Extension Advisory Committee.

Rodney D. Smith is a row crop and livestock farmer in Lenoir County who also serves on the Lenoir County Farm Bureau Board.

Eldridge T. Westbrook is a row crop and livestock farmer in Johnston County who also serves on the Board of Trustees of Johnston Community College.

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 Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

There were no matters 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 Auditor

There were no changes in or material disagreements with the independent auditor 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 auditor for the year ended December 31, 2015 were as follows (in whole dollars):

	2015
Independent Auditor	
Dixon Hughes Goodman LLP	
Audit services	$ 68,000
Nonaudit services	3,400
Total	$ 71,400

Dixon Hughes Goodman LLP audit fees were for the annual audit of the consolidated financial statements. The Association paid Dixon Hughes Goodman LLP $3,400 during 2015 for nonaudit services related to assistance with tabulation of ballots for the Association's annual Director Election.

All nonaudit service fees incurred by the Association were approved by the Board Audit Committee.

Preferred Stock Insider Transactions

The following describes transactions related to the purchase/sale of Association preferred stock by senior officers or directors who are considered Insiders which occurred during the 12 month period ended December 31, 2015. An Insider is defined to include any one or more of the following: ((1) the Association's directors, officers, employees and agents; (2) any corporation, partnership, limited liability company or other entity of which any of the Association's directors, officers, employees or agents, or nominees of any of the foregoing, are a director, officer, partner or the holder of a majority of the equity ownership of the entity; and (3) the spouse and any other person who regularly resides in the same household of any officer, director, employee or agent. (all amounts are in whole dollars)

Insider	Purchases	Sales	Balance
Ralph Ellington	$ 40,000	$ –	$ 110,325
Derek Potter	$ –	$ –	$ 127,520

Insiders listed above meet the Insider definition as described above, but may not have personally invested in preferred stock. The average dividend rate paid on shares of preferred stock during 2015 was 1.25 percent.

Consolidated Financial Statements

The consolidated financial statements, together with the report of Dixon Hughes Goodman LLP dated March 10, 2016 and the report of management, which appear in this Annual Report, are included herein.

Copies of the Association's quarterly reports are available upon request free of charge by calling 1-800-951-3276 or writing Matt Currin, AgCarolina Farm Credit, P.O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.AgCarolina.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 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 institution.

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.

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.

Young, Beginning, and Small Farmers and Ranchers Program

The Association's mission includes providing sound and constructive credit and related services to young, beginning, and small (YBS) farmers and ranchers. Annual marketing goals are established to increase market share of loans to YBS farmers and ranchers. To facilitate our lending programs, financing programs and use of government guaranteed loan programs have been adopted and implemented. Educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers have been developed or sponsored.

YBS farmers and ranchers are defined as:

Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the date the loan is originally made.

Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the date the loan is originally made.

Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

The following table outlines the loan volume (in thousands) and number of YBS loans in the loan portfolio as of December 31 for the Association.

	As of December 31, 2015	
	Number of Loans	Amount of Loans
Young	823	$124,454
Beginning	963	128,928
Small	1,836	165,419
	3,622	$418,801

The following table shows the Association's YBS loans as a percent of the total number of loans as of December 31, 2015, and comparable demographics from the 2012 Agricultural Census. The Association's percentages vary from the Census percentages because the Association's methodology uses number of loans and the Census uses number of farmers.

	Association 12/31/15 Number of Loans	2012 Ag Census Number of Farmers
Young	12.26%	4.54%
Beginning	14.35%	18.14%
Small	28.55%	77.13%

As part of the Association's YBS program, the Association has established the following mission statement, quantitative and qualitative goals, and methods to ensure credit and services are provided in a safe and sound manner. These program components are described below along with a status report of each component.

YBS Program Component	Status
Mission Statement: AgCarolina Farm Credit recognizes that young, beginning, and small farmers and ranchers face many challenges and obstacles. Our organization is dedicated to improving the future of agriculture and rural America by supporting young, beginning, and small farmers and ranchers through educational and leadership opportunities as well as providing competitive lending.	The Association is meeting its mission statement by fulfilling the credit needs of YBS farmers in the Association's territory.
Quantitative Targets: The following quantitative targets were set for 2015: • Maintain the number of loans to YBS farmers. • Maintain the level of loan volume to YBS farmers. • Maintain the number of new loans made to YBS farmers. • Maintain the amount of new loan volume to YBS farmers.	The Association did not meet all of its 2015 quantitative targets related to volume outstanding to YBS farmers. The Association did increase the number of YBS loans outstanding and was able to maintain the number and volume of new loans made to YBS farmers. The Association is undertaking efforts to identify potential YBS farmers and enhance its current marketing plan.
Qualitative Goals: The following qualitative goals were set for 2015: • Increase educational opportunities for YBS farmers. • Broaden partnering opportunities with other organizations. • Broaden YBS marketing and outreach programs. • Broaden participation and involvement in youth programs and outreach activities. • Ensure sound YBS controls through expanded reporting.	The Association met all of its qualitative goals during 2015.
Credit & Service Methods: Ensure methods are in place to make sure that credit and services offered to YBS farmers are provided in a safe and sound manner, and within the Association's risk-bearing capacity.	The Association's YBS program includes customized loan underwriting standards, loan guarantees, additional co-makers, and other credit enhancements to ensure that credit and services are provided in a safe and sound manner, and within the Association's risk-bearing capacity.

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 AgCarolina Farm Credit, 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.

Dixon Hughes Goodman LLP (DHG), the Association's independent auditor 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 DHG the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. DHG has provided to the Committee the written disclosures required by professional standards, and the Committee has discussed with DHG that firm's independence.

The Committee has also concluded that DHG's provision of non-audit services to the Association is compatible with DHG'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:

Jack E. Finley
Jack E. Finley
Chairman of the Audit Committee

Members of Audit Committee

Robert H. Bazemore, Jr.
Paul A. Drake
Jack E. Finley
S. Stuart Pierce
B. Derek Potter

March 10, 2016

Independent Auditors' Report

DHG
DIXON HUGHES GOODMAN LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members
AgCarolina Farm Credit, ACA
Raleigh, North Carolina

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

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility
Our responsibility is to express an opinion on these 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 the auditors' 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, the auditor considers internal control relevant to the entity'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 entity'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 AgCarolina Farm Credit, ACA as of December 31, 2015, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Raleigh, North Carolina

March 10, 2016

Consolidated
Balance Sheets

(dollars in thousands)	2015	December 31, 2014	2013
Assets			
Cash	**$ 2,066**	$ 2,275	$ 4,040
Loans	**1,021,011**	980,181	916,947
Allowance for loan losses	**(11,913)**	(11,602)	(13,697)
Net loans	**1,009,098**	968,579	903,250
Other investments	**—**	—	16,156
Accrued interest receivable	**13,595**	12,590	12,116
Investments in other Farm Credit institutions	**11,027**	10,732	10,609
Premises and equipment, net	**9,995**	9,650	8,748
Other property owned	**—**	—	403
Accounts receivable	**11,579**	15,501	15,807
Other assets	**10,270**	9,807	10,134
Total assets	**$ 1,067,630**	$ 1,029,134	$ 981,263
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 798,928**	$ 768,069	$ 741,353
Accrued interest payable	**1,586**	1,484	1,454
Patronage refunds payable	**10,708**	12,097	12,618
Accounts payable	**2,015**	2,608	840
Other liabilities	**14,071**	16,118	15,403
Total liabilities	**827,308**	800,376	771,668
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**35,171**	34,944	34,109
Retained earnings			
Allocated	**138,340**	126,501	110,215
Unallocated	**66,811**	67,313	65,271
Total members' equity	**240,322**	228,758	209,595
Total liabilities and members' equity	**$ 1,067,630**	$ 1,029,134	$ 981,263

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
Interest Income			
Loans	**$ 44,839**	$ 45,909	$ 41,313
Investments	**—**	30	1,067
Total interest income	**44,839**	45,939	42,380
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**17,843**	17,114	16,692
Net interest income	**26,996**	28,825	25,688
Provision for (reversal of allowance for) loan losses	**—**	(2,068)	(395)
Net interest income after provision for (reversal of allowance for) loan losses	**26,996**	30,893	26,083
Noninterest Income			
Loan fees	**2,569**	2,577	2,866
Fees for financially related services	**957**	1,001	841
Patronage refunds from other Farm Credit institutions	**11,502**	15,472	16,257
Gains (losses) on sales of premises and equipment, net	**96**	67	73
Gains (losses) on other transactions	**(45)**	282	229
Other noninterest income	**78**	72	86
Total noninterest income	**15,157**	19,471	20,352
Noninterest Expense			
Salaries and employee benefits	**13,880**	13,896	13,020
Occupancy and equipment	**1,127**	1,075	1,039
Insurance Fund premiums	**999**	921	722
(Gains) losses on other property owned, net	**—**	39	46
Other operating expenses	**3,491**	3,676	3,546
Total noninterest expense	**19,497**	19,607	18,373
Income before income taxes	**22,656**	30,757	28,062
Provision (benefit) for income taxes	**8**	1	(1)
Net income	**22,648**	30,756	28,063
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 22,648**	$ 30,756	$ 28,063

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	Total Members' Equity
Balance at December 31, 2012	$ 30,556	$ 96,256	$ 64,135	$ 190,947
Comprehensive income			28,063	28,063
Capital stock/participation certificates issued/(retired), net	3,130			3,130
Dividends declared/paid	423		(423)	—
Patronage distribution				
Cash			(12,545)	(12,545)
Nonqualified retained earnings		13,960	(13,960)	—
Patronage distribution adjustment		(1)	1	—
Balance at December 31, 2013	$ 34,109	$ 110,215	$ 65,271	$ 209,595
Comprehensive income			30,756	30,756
Capital stock/participation certificates issued/(retired), net	401			401
Dividends declared/paid	434		(434)	—
Patronage distribution				
Cash			(12,031)	(12,031)
Nonqualified retained earnings		16,337	(16,337)	—
Patronage distribution adjustment		(51)	88	37
Balance at December 31, 2014	$ 34,944	$ 126,501	$ 67,313	$ 228,758
Comprehensive income			**22,648**	**22,648**
Capital stock/participation certificates issued/(retired), net	**(246)**			**(246)**
Dividends declared/paid	**473**		**(473)**	**—**
Patronage distribution				
Cash			**(10,643)**	**(10,643)**
Nonqualified retained earnings		**11,024**	**(11,024)**	**—**
Patronage distribution adjustment		**815**	**(1,010)**	**(195)**
Balance at December 31, 2015	**$ 35,171**	**$ 138,340**	**$ 66,811**	**$ 240,322**

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	**$ 22,648**	$ 30,756	$ 28,063
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**826**	819	788
Premium amortization (discount accretion) on investments	**—**	(30)	(1,067)
Provision for (reversal of allowance for) loan losses	**—**	(2,068)	(395)
(Gains) losses on other property owned	**—**	19	31
(Gains) losses on sales of premises and equipment, net	**(96)**	(67)	(73)
(Gains) losses on other transactions	**45**	(282)	(229)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(1,005)**	(474)	1
(Increase) decrease in accounts receivable	**3,922**	306	(8,262)
(Increase) decrease in other assets	**(463)**	327	(756)
Increase (decrease) in accrued interest payable	**102**	30	(41)
Increase (decrease) in accounts payable	**(593)**	1,768	241
Increase (decrease) in other liabilities	**(2,092)**	997	2,124
Total adjustments	**646**	1,345	(7,638)
Net cash provided by (used in) operating activities	**23,294**	32,101	20,425
Cash flows from investing activities:			
Net (increase) decrease in loans	**(40,519)**	(63,261)	(22,049)
(Increase) decrease in investment in other Farm Credit institutions	**(295)**	(123)	252
Proceeds from payments received on other investments	**—**	16,186	16,186
Purchases of premises and equipment	**(1,428)**	(1,709)	(941)
Proceeds from sales of premises and equipment	**353**	55	139
Proceeds from sales of other property owned	**—**	384	899
Net cash provided by (used in) investing activities	**(41,889)**	(48,468)	(5,514)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**30,859**	26,716	(11,432)
Capital stock and participation certificates issued/(retired), net	**(246)**	401	3,130
Patronage refunds and dividends paid	**(12,227)**	(12,515)	(6,484)
Net cash provided by (used in) financing activities	**18,386**	14,602	(14,786)
Net increase (decrease) in cash	**(209)**	(1,765)	125
Cash, beginning of period	**2,275**	4,040	3,915
Cash, end of period	**$ 2,066**	$ 2,275	$ 4,040
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ —**	$ —	$ 472
Estimated cash dividends or patronage distributions declared or payable	**10,643**	12,031	12,545
Dividends declared or payable in shares of preferred stock	**473**	434	423
Supplemental information:			
Interest paid	**$ 17,741**	$ 17,084	$ 16,733
Taxes (refunded) paid, net	**(3)**	—	—

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

Notes
to the Consolidated Financial Statements
(dollars in thousands, except where noted)

Note 1 — Organization and Operations

A. **Organization:** AgCarolina Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Beaufort, Bertie, Camden, Carteret, Chowan, Craven, Currituck, Dare, Edgecombe, Franklin, Gates, Granville, Greene, Halifax, Hertford, Hyde, Johnston, Jones, Lenoir, Martin, Nash, Northampton, Onslow, Pamlico, Pasquotank, Perquimans, Pitt, Tyrrell, Vance, Wake, Warren, Washington, Wayne, and Wilson in the state of North Carolina.

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 (the Bank) 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 members' equity as previously reported.

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

B. **Loans and Allowance for Loan Losses:** Long-term real estate mortgage loans generally have original maturities ranging from 5 to 40 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs.

Loans are generally placed in nonaccrual status 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 concessions to the borrower such as a modification to the contractual terms of the loan, the loan is classified as a restructured loan. 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 a valuation account used to reasonably estimate loan and lease losses existing 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 uses a two-dimensional loan rating model based on an 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 probability of default 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.

The credit risk classification 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 allowance for loan losses is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, and prior loan loss experience. It is based on estimates, appraisals, and evaluations of loans which, by their nature, contain elements of uncertainty and imprecision. The possibility exists that changes in the economy and its impact on borrower repayment capacity will cause these estimates, appraisals, and evaluations to change.

The level of allowance for loan losses is generally based on recent charge-off experience adjusted for relevant environmental factors. The Association considers the following factors when adjusting the historical charge-offs experience:

- Changes in credit quality,
- Changes in delinquencies,
- Changes in credit risk classifications,
- Changes in collateral values,
- Changes in risk concentrations,
- Changes in lending practices and loan review,
- Changes in staff experience,
- Changes in charge off trends,
- Changes in loan growth, and
- Changes in economic conditions.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. 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 shall remain 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.

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 or, as practically expedient, at 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 to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered 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 reflects management's best estimate of probable losses incurred as of the balance sheet date adjusted for other relevant factors reflecting the current environment.

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated probable 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 for loan losses reversals and loan charge-offs.

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.

As of December 31, 2015 there were no loans 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 Comprehensive 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. In an SIIC arrangement, the tobacco quota holders and producers may sell their rights to receive Tobacco Buyout contract payments to a third party. The successor purchases the entire contract and all related rights and obligations associated with the contract. These investments 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. Contract payments to financial institutions under SIIC arrangements ended in January 2014.

As discussed in Note 9, 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 gains (losses) on other transactions on the Consolidated Statements of Comprehensive Income and the balance of these investments, totaling $2,018, 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.

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. **Accounts Receivable:** The Association records patronage refunds from the Bank on an accrual basis. Patronage refunds due from the Bank for the years ended December 31, 2015, December 31, 2014, and December 31, 2013 of $11,466, $15,410, and $15,699, respectively, are reflected in Accounts Receivable on the Consolidated Balance Sheet.

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 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	$ 409,597	$ 157,708	$ 567,305
Production and intermediate-term	518,104	(174,669)	343,435
Loans to cooperatives	684	–	684
Processing and marketing	15,043	3,185	18,228
Farm-related business	8,546	335	8,881
Energy and water/waste disposal	139	(34)	105
Rural residential real estate	28,068	13,475	41,543
Total Loans	$ 980,181	$ –	$ 980,181

	December 31, 2013		
(dollars in thousands)	As Previously Reported	Adjustment	As Revised
Real estate mortgage	$ 386,534	$ 143,247	$ 529,781
Production and intermediate-term	479,895	(159,832)	320,063
Loans to cooperatives	1,075	–	1,075
Processing and marketing	14,275	2,222	16,497
Farm-related business	8,028	1,968	9,996
Energy and water/waste disposal	335	–	335
Rural residential real estate	26,805	12,395	39,200
Total Loans	$ 916,947	$ –	$ 916,947

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 — 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	$ 551,018	$ 567,305	$ 529,781
Production and intermediate-term	403,230	343,435	320,063
Loans to cooperatives	745	684	1,075
Processing and marketing	22,221	18,228	16,497
Farm-related business	2,262	8,881	9,996
Energy and water/waste disposal	72	105	335
Rural residential real estate	41,463	41,543	39,200
Total Loans	$ 1,021,011	$ 980,181	$ 916,947

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	$ 3,457	$ 40,211	$ –	$ 8,851	$ –	$ –	$ 3,457	$ 49,062
Production and intermediate-term	17,234	213,731	3,685	8,417	151,635	–	172,554	222,148
Loans to cooperatives	521	–	–	–	–	–	521	–
Processing and marketing	16,894	8,657	481	–	–	–	17,375	8,657
Farm-related business	1,686	–	–	–	–	–	1,686	–
Total	$ 39,792	$ 262,599	$ 4,166	$ 17,268	$ 151,635	$ –	$ 195,593	$ 279,867

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	$ 8,326	$ 30,578	$ –	$ 1,757	$ –	$ –	$ 8,326	$ 32,335
Production and intermediate-term	20,575	69,565	3,500	138,273	151,795	–	175,870	207,838
Loans to cooperatives	578	–	–	–	–	–	578	–
Processing and marketing	14,244	9,969	641	–	6,860	–	21,745	9,969
Farm-related business	2,842	–	–	–	–	–	2,842	–
Total	$ 46,565	$ 110,112	$ 4,141	$ 140,030	$ 158,655	$ –	$ 209,361	$ 250,142

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	$ 8,773	$ 21,134	$ –	$ 1,976	$ –	$ –	$ 8,773	$ 23,110
Production and intermediate-term	18,833	53,419	2,556	138,612	164,049	–	185,438	192,031
Loans to cooperatives	1,017	–	–	–	–	–	1,017	–
Processing and marketing	13,504	8,597	801	–	5,116	–	19,421	8,597
Farm-related business	2,246	–	–	–	–	–	2,246	–
Energy and water/waste disposal	335	–	–	–	–	–	335	–
Total	$ 44,708	$ 83,150	$ 3,357	$ 140,588	$ 169,165	$ –	$ 217,230	$ 223,738

A significant source of liquidity for the Association is the repayment of loans. The following table presents the contractual maturity distribution of loans by loan type at 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	$ 28,331	$ 123,298	$ 399,389	$ 551,018
Production and intermediate term	181,498	160,851	60,881	403,230
Loans to cooperatives	150	595	–	745
Processing and marketing	1,274	11,428	9,519	22,221
Farm-related business	216	1,589	457	2,262
Energy and water/waste disposal	–	72	–	72
Rural residential real estate	209	5,004	36,250	41,463
Total Loans	$ 211,678	$ 302,837	$ 506,496	$ 1,021,011
Percentage	20.73%	29.66%	49.61%	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	89.30%	91.58%	88.11%
OAEM	5.70	3.82	6.24
Substandard/doubtful/loss	5.00	4.60	5.65
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	90.83%	93.66%	94.48%
OAEM	7.13	4.62	4.11
Substandard/doubtful/loss	2.04	1.72	1.41
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	98.53%
OAEM	–	–	1.47
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	99.19%	98.71%	98.00%
OAEM	0.81	1.29	2.00
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31, 2015	2014 (as revised)	2013 (as revised)
Farm-related business:			
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%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	96.84%	95.76%	94.90%
OAEM	1.67	2.63	2.14
Substandard/doubtful/loss	1.49	1.61	2.96
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	90.12%	92.70%	90.94%
OAEM	6.11	3.97	5.18
Substandard/doubtful/loss	3.77	3.33	3.88
	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	$ 4,178	$ 1,697	$ 5,875	$ 552,659	$ 558,534	$ –
Production and intermediate-term	1,269	349	1,618	407,390	409,008	–
Loans to cooperatives	–	–	–	747	747	–
Processing and marketing	–	–	–	22,312	22,312	–
Farm-related business	–	–	–	2,275	2,275	–
Energy and water/waste disposal	–	–	–	72	72	–
Rural residential real estate	132	135	267	41,391	41,658	–
Total	$ 5,579	$ 2,181	$ 7,760	$ 1,026,846	$ 1,034,606	$ –

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	$ 1,742	$ 688	$ 2,430	$ 572,727	$ 575,157	$ –
Production and intermediate-term	911	1,093	2,004	345,760	347,764	–
Loans to cooperatives	–	–	–	684	684	–
Processing and marketing	–	–	–	18,302	18,302	–
Farm-related business	–	–	–	9,033	9,033	–
Energy and water/waste disposal	–	–	–	105	105	–
Rural residential real estate	677	–	677	41,049	41,726	–
Total	$ 3,330	$ 1,781	$ 5,111	$ 987,660	$ 992,771	$ –

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	$ 1,813	$ 4,422	$ 6,235	$ 530,979	$ 537,214	$ –
Production and intermediate-term	719	1,690	2,409	321,914	324,323	200
Loans to cooperatives	–	–	–	1,076	1,076	–
Processing and marketing	–	–	–	16,575	16,575	–
Farm-related business	–	–	–	10,157	10,157	–
Energy and water/waste disposal	–	–	–	335	335	–
Rural residential real estate	214	–	214	39,169	39,383	–
Total	$ 2,746	$ 6,112	$ 8,858	$ 920,205	$ 929,063	$ 200

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

	December 31, 2015	2014 (as revised)	2013 (as revised)
Nonaccrual loans:			
Real estate mortgage	$ 13,180	$ 9,667	$ 15,988
Production and intermediate-term	1,425	1,262	3,559
Rural residential real estate	490	531	635
Total	$ 15,095	$ 11,460	$ 20,182
Accruing restructured loans:			
Real estate mortgage	$ 2,627	$ 2,940	$ 2,743
Production and intermediate-term	–	–	–
Total	$ 2,627	$ 2,940	$ 2,743
Accruing loans 90 days or more past due:			
Real estate mortgage	$ –	$ –	$ –
Production and intermediate-term	–	–	200
Total	$ –	$ –	$ 200
Total nonperforming loans	$ 17,722	$ 14,400	$ 23,125
Other property owned	–	–	403
Total Nonperforming assets	$ 17,722	$ 14,400	$ 23,528
Nonaccrual loans as a percentage of total loans	1.48%	1.17%	2.20%
Nonperforming assets as a percentage of total loans and other property owned	1.74	1.47%	2.56%
Nonperforming assets as a percentage of capital	7.37%	6.29%	11.23%

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	$ 8,847	$ 8,722	$ 13,736
Past due	6,248	2,738	6,446
Total	15,095	11,460	20,182
Impaired accrual loans:			
Restructured	2,627	2,940	2,743
90 days or more past due	–	–	200
Total	2,627	2,940	2,943
Total impaired loans	$ 17,722	$ 14,400	$ 23,125
Additional commitments to lend	$ –	$ –	$ –

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	$ 4,967	$ 6,127	$ 1,702	$ 4,368	$ 149
Production and intermediate-term	169	300	32	149	5
Rural residential real estate	–	–	–	–	–
Total	$ 5,136	$ 6,427	$ 1,734	4,517	154
With no related allowance for credit losses:					
Real estate mortgage	$ 10,841	$ 13,663	$ –	$ 9,535	$ 324
Production and intermediate-term	1,255	3,090	–	1,104	37
Rural residential real estate	490	809	–	431	15
Total	$ 12,586	$ 17,562	$ –	11,070	376
Total:					
Real estate mortgage	$ 15,808	$ 19,790	$ 1,702	$ 13,903	$ 473
Production and intermediate-term	1,424	3,390	32	1,253	42
Rural residential real estate	490	809	–	431	15
Total	$ 17,722	$ 23,989	$ 1,734	$ 15,587	$ 530

Impaired loans:	December 31, 2014 (as revised) Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2014 (as revised) Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 7,124	$ 8,590	$ 3,093	$ 9,576	$ 1,205
Production and intermediate-term	91	295	72	123	15
Rural residential real estate	–	–	–	–	–
Total	$ 7,215	$ 8,885	$ 3,165	$ 9,699	$ 1,220
With no related allowance for credit losses:					
Real estate mortgage	$ 5,483	$ 7,431	$ –	$ 7,370	$ 927
Production and intermediate-term	1,171	3,216	–	1,574	198
Rural residential real estate	531	776	–	714	90
Total	$ 7,185	$ 11,423	$ –	$ 9,658	$ 1,215
Total:					
Real estate mortgage	$ 12,607	$ 16,022	$ 3,093	$ 16,947	$ 2,132
Production and intermediate-term	1,262	3,510	72	1,696	213
Rural residential real estate	531	776	–	714	90
Total	$ 14,400	$ 20,308	$ 3,165	$ 19,357	$ 2,435

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	$ 9,079	$ 10,521	$ 4,450	$ 10,990	$ 327
Production and intermediate-term	200	446	90	242	7
Rural residential real estate	–	–	–	–	–
Total	$ 9,279	$ 10,967	$ 4,540	$ 11,232	$ 334
With no related allowance for credit losses:					
Real estate mortgage	$ 9,651	$ 11,963	$ –	$ 11,684	$ 347
Production and intermediate-term	3.360	5,707	–	4,309	128
Rural residential real estate	635	841	–	769	23
Total	$ 13,646	$ 18,511	$ –	$ 16,762	$ 498
Total:					
Real estate mortgage	$ 18,730	$ 22,484	$ 4,450	$ 22,674	$ 674
Production and intermediate-term	3,560	6,153	90	4,551	135
Rural residential real estate	635	841	–	769	23
Total	$ 22,925	$ 29,478	$ 4,540	$ 27,994	$ 832

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	$ 1,360	$ 3,236	$ 2,156
Less: interest income recognized	528	2,435	830
Foregone interest income	$ 832	$ 801	$ 1,326

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	$ 7,981	$ 3,027	$ 238	$ –	$ 1	$ 355	$ 11,602
Charge-offs	(93)	(119)	–	–	–	–	(212)
Recoveries	29	494	–	–	–	–	523
Provision for loan losses	(720)	654	11	–	–	55	–
Balance at December 31, 2015	$ 7,197	$ 4,056	$ 249	$ –	$ 1	$ 410	$ 11,913
Balance at December 31, 2013	$ 9,745	$ 3,286	$ 274	$ –	$ 3	$ 389	$ 13,697
Charge-offs	(1)	(199)	–	–	–	–	(200)
Recoveries	57	116	–	–	–	–	173
Provision for loan losses	(1,820)	(176)	(36)	–	(2)	(34)	(2,068)
Balance at December 31, 2014	$ 7,981	$ 3,027	$ 238	$ –	$ 1	$ 355	$ 11,602
Balance at December 31, 2012	$ 9,908	$ 4,166	$ 222	$ 13	$ –	$ 359	$ 14,668
Charge-offs	(435)	(831)	–	–	–	–	(1,266)
Recoveries	55	621	13	–	–	1	690
Provision for loan losses	217	(494)	(137)	(13)	3	29	(395)
Loan type reclassification	–	(176)	176	–	–	–	–
Balance at December 31, 2013	$ 9,745	$ 3,286	$ 274	$ –	$ 3	$ 389	$ 13,697
Allowance on loans evaluated for impairment:							
Individually	$ 1,702	$ 32	$ –	$ –	$ –	$ –	$ 1,734
Collectively	5,495	4,024	249	–	1	410	10,179
Balance at December 31, 2015	$ 7,197	$ 4,056	$ 249	$ –	$ 1	$ 410	$ 11,913
Individually	$ 3,093	$ 72	$ –	$ –	$ –	$ –	$ 3,165
Collectively	4,888	2,955	238	–	1	355	8,437
Balance at December 31, 2014	$ 7,981	$ 3,027	$ 238	$ –	$ 1	$ 355	$ 11,602
Individually	$ 4,450	$ 90	$ –	$ –	$ –	$ –	$ 4,540
Collectively	5,295	3,196	274	–	3	389	9,157
Balance at December 31, 2013	$ 9,745	$ 3,286	$ 274	$ –	$ 3	$ 389	$ 13,697
Recorded investment in loans evaluated for impairment:							
Individually	$ 15,620	$ 1,696	$ –	$ –	$ –	$ 406	$ 17,722
Collectively	542,915	407,312	25,333	–	72	41,252	1,016,884
Balance at December 31, 2015	$ 558,535	$ 409,008	$ 25,333	$ –	$ 72	$ 41,658	$ 1,034,606
Individually	$ 12,877	$ 1,523	$ –	$ –	$ –	$ –	$ 14,400
Collectively	562,280	346.241	28,019	–	105	41,726	978,371
Balance at December 31, 2014	$ 575,157	$ 347,764	$ 28,019	$ –	$ 105	$ 41,726	$ 992,771
Individually	$ 19,196	$ 3,593	$ –	$ –	$ –	$ 136	$ 22,925
Collectively	518,018	320,730	27,808	–	335	39,247	906,138
Balance at December 31, 2013	$ 537,214	$ 324,323	$ 27,808	$ –	$ 335	$ 39,383	$ 929,063

**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 $11,152, $9,979, and $10,007 at December 31, 2015, 2014, and 2013, respectively. Fees paid for such guarantee commitments totaled $2, $0, and $3 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. There were no new TDRs for the years ended December 31, 2015, 2014, and 2013.

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.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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	$ 10,230	$ 10,959	$ 11,397	$ 7,603	$ 8,020	$ 8,654
Production and intermediate-term	136	166	197	136	165	197
Total Loans	$ 10,366	$ 11,125	$ 11,594	$ 7,739	$ 8,185	$ 8,851
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	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ –

Note 4 — Investments

Investments in other Farm Credit Institutions

Investments in Other Farm Credit 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 $10,915, $10,620, and $10,501 at December 31, 2015, 2014, and 2013, respectively. The Association owns 4.26 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 (audited by another firm) and shareholders' equity totaled $2.3 billion (audited by another firm). The Bank's earnings were $337 million (audited by another firm) for 2015. In addition, the Association had an investment of $112 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 they 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 $16,156 respectively, net of discount. Final payments to financial institutions under SIIC arrangements were received in January 2014.

Note 5 — Premises and Equipment and Other Property Owned

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2015	2014	2013
Land	$ 2,076	$ 2,114	$ 1,921
Buildings and improvements	9,590	9,012	8,137
Furniture and equipment	3,995	4,020	3,835
	15,661	15,146	13,893
Less: accumulated depreciation	5,666	5,496	5,184
Total	$ 9,995	$ 9,650	$ 8,709

Other Property Owned

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

	December 31,		
	2015	2014	2013
(Gains) losses on sale, net	$ –	$ (27)	$ (21)
Carrying value unrealized (gains) losses	–	46	52
Operating (income) expense, net	–	20	15
(Gains) losses on other property owned, net	$ –	$ 39	$ 46

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. There were no deferred gains at December 31, 2015, 2014, and 2013.

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 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 and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon 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 1.72 percent for Prime-based loans, and the weighted average remaining maturities were 2.0 years and 2.8 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 2.71 percent, and the weighted average remaining maturity was 9.1 years at December 31, 2015. The weighted-average interest rate on all interest-bearing notes payable was 2.39 percent and the weighted-average remaining maturity was 7.1 years at December 31, 2015. Variable rate and fixed rate notes payable represent approximately 6.81 percent and 93.19 percent, respectively, of total notes payable at December 31, 2015. 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 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 in an amount equal to the lesser of $1 thousand or two percent of the amount of the loan. 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 does not always make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation, the total balance of which would not exceed $3,317, representing the total outstanding value of capital stock and participation certificates at December 31, 2015.

   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.

   The Association provides customers, through its Preferred Stock Program, the ability to purchase Class A Preferred Stock (Preferred Stock) at the Preferred Stock's par value of five dollars per share to holders of any class of Association common stock or participation certificates. The minimum initial subscription of Preferred Stock is two hundred shares for a total of one thousand dollars. Preferred Stock is a non-voting class of stock that pays a quarterly dividend based on dividend rates set in advance by the Board of Directors. All dividends are paid in shares of stock at par value at the end of the record date, normally each quarter end, provided that holders have a Preferred Stock outstanding balance at the time of the record date. Holders of Preferred Stock must also have an outstanding loan with the Association, and upon loan payoff must retire all shares of Preferred Stock within 90 days.

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	23.00%	22.35%	22.96%	7.00%
Total surplus ratio	19.22%	18.58%	18.58%	7.00%
Core surplus ratio	19.22%	18.58%	18.58%	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 A and Class D Preferred Stock, Class E and Class C Common Stock, Class C 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 Preferred/Nonvoting	No	6,370,668	$ 31,853
C Common/Voting	No	597,375	2,987
C Participation Certificates/Nonvoting	No	66,103	331
Total Capital Stock and Participation Certificates		7,034,146	$ 35,171

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. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

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 may 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.

Qualified allocated equities shall be retired for a cash distribution 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 no qualified surplus and $138,340 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 patronage-sourced 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 and leases 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.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Classes E and C Common Stock or participation certificates for such year. The rate of dividends on Classes E and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. During 2015 stock dividends of $473 were declared and distributed on Class A Preferred Stock.

All qualified and nonqualified surplus may only be retired at the discretion of the Board. 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.

Transfer

Classes A and D Preferred, Classes E, and C Common Stock, and Class C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

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:

a) ***First***, to allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

b) ***Second***, to allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

c) ***Third***, to Class C Common Stock, Class E Common Stock, and Class C Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;

d) ***Fourth***, to Class D Preferred Stock issued and outstanding, if any; and

e) ***Fifth***, to Class A Preferred Stock issued and outstanding, if any.

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:

a) ***First,*** to the holders of Class A Preferred Stock, if any, pro rata, until an amount equal to the aggregate par value of all shares then issued and outstanding, plus declared but unpaid dividends, has been distributed to such holders;

b) ***Second,*** to the holders of Class D Preferred Stock, if any, pro rata, until an amount equal to the aggregate par value of all such shares then issued and outstanding has been distributed to such holders;

c) ***Third,*** to the holders of Class C Common Stock, Class E Common Stock, and Class C Participation Certificates pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;

d) ***Fourth,*** to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

e) ***Fifth,*** to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and

f) ***Sixth,*** insofar as is practicable, all unallocated surplus issued after January 1, 1995, shall be distributed to patrons of the Association from the period beginning January 1, 1995 through the date of liquidation.

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 and accounts receivable, 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 Mutual funds	$ 2,018	$ 2,018	$ –	$ –	$ 2,018	
Recurring Assets	$ 2,018	$ 2,018	$ –	$ –	$ 2,018	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans*	$ 3,962	$ –	$ –	$ 3,962	$ 3,962	$ 1,742
Nonrecurring Assets	$ 3,962	$ –	$ –	$ 3,962	$ 3,962	$ 1,742
Other Financial Instruments						
Assets:						
Cash	$ 2,066	$ 2,066	$ –	$ –	$ 2,066	
Loans	1,005,136	–	–	1,000,218	1,000,218	
Accounts receivable	11,579	11,579	–	–	11,579	
Other Financial Assets	$ 1,018,781	$ 13,645	$ –	$ 1,000,218	$ 1,013,863	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 798,928	$ –	$ –	$ 798,115	$ 798,115	
Other Financial Liabilities	$ 798,928	$ –	$ –	$ 798,115	$ 798,115	

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 Mutual funds	$ 1,943	$ 1,943	$ –	$ –	$ 1,943	
Recurring Assets	$ 1,943	$ 1,943	$ –	$ –	$ 1,943	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans**	$ 4,050	$ –	$ –	$ 4,050	$ 4,050	$ 1,348
Other property owned	–	–	–	–	–	(19)
Nonrecurring Assets	$ 4,050	$ –	$ –	$ 4,050	$ 4,050	$ 1,329
Other Financial Instruments						
Assets:						
Cash	$ 2,275	$ 2,275	$ –	$ –	$ 2,275	
Loans	964,529	–	–	950,047	950,047	
Accounts receivable	15,501	15,501	–	–	15,501	
Other Financial Assets	$ 982,305	$ 17,776	$ –	$ 950,047	$ 967,823	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 768,069	$ –	$ –	$ 759,085	$ 759,085	
Other Financial Liabilities	$ 768,069	$ –	$ –	$ 759,085	$ 759,085	

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 Mutual funds	$ 2,025	$ 2,025	$ –	$ –	$ 2,025	
Recurring Assets	$ 2,025	$ 2,025	$ –	$ –	$ 2,025	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans***	$ 6,100	$ –	$ –	$ 6,100	$ 6,100	$ 599
Other property owned	403	–	–	449	449	(31)
Nonrecurring Assets	$ 6,503	$ –	$ –	$ 6,549	$ 6,549	$ 568
Other Financial Instruments						
Assets:						
Cash	$ 4,040	$ 4,040	$ –	$ –	$ 4,040	
Loans	897,150	–	–	880,104	880,104	
Other investments	16,156	–	–	16,177	16,177	
Accounts receivable	15,807	15,807	–	–	15,807	
Other Financial Assets	$ 933,153	$ 19,847	$ –	$ 896,281	$ 916,128	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 741,353	$ –	$ –	$ 727,283	$ 727,283	
Other Financial Liabilities	$ 741,353	$ –	$ –	$ 727,283	$ 727,283	

**Carrying value of impaired loans is the balance of loans with a related specific reserve ($5,136) less related specific reserves ($1,734) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($560).*

***Carrying value of impaired loans is the balance of loans with a related specific reserve ($7,215) less related specific reserves ($3,165) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($0).*

****Carrying value of impaired loans is the balance of loans with a related specific reserve ($9,279) less related specific reserves ($4,540) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($1,361).*

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	$ 3,962	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*
			Collateral Discounts	10-50%

** 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 forecast Probability of default Loss severity
Other investments	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Accounts receivable	Carrying value	Par/Principal
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 9 — Employee Benefit Plans

The Association participates in four District sponsored benefit plans. These plans include two multiemployer 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 multiemployer defined benefit other postretirement 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 multiemployer plans are different from single-employer plans in the following aspects:

1. Assets contributed to multiemployer 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 multiemployer plans, the Association may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

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.

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 made to the

401(k) Plan equal to 3.00 percent of the participants' eligible compensation.

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.

The Association's participation in the multiemployer defined benefit plans for the annual periods ended December 31 are 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%	$3,020	$2,211	$2,745	5.23%	5.82%	5.46%
AgFirst Farm Credit Cash Balance Retirement Plan	102.72%	100.07%	95.06%	$–	$196	$72	0.00%	3.93%	4.07%

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%	$338	$360	$357	4.96%	4.65%	5.14%

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 not available for 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 $2,600 for 2015, $2,760 for 2014, and $2,702 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. At December 31, 2015, 2014, and 2013 the Association had a prepaid retirement expense of $6,128, $5,708, and $6,062, respectively.

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 $754 for 2015, $462 for 2014, and $451 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. At December 31, 2015, 2014, and 2013 the Association had liabilities for postretirement benefits other than pensions of $7,509, $7,093, and $6,991, respectively.

The Association also participates in a defined contribution Districtwide 401(k) plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. This 401(k) plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee 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 $568, $437, and $386 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.

The Association sponsors a nonqualified long-term deferred compensation program for certain Association employees. The program provides deferred compensation benefits to encourage focus on strategies that are in the long-term best interest of the Association and its shareholders. Under the program the funds are set up in a Trust owned by the Association. Compensation is deferred until a later date upon which the employee meets certain vesting guidelines, employment is terminated, or by Board approval. All current and future assets used by the Association to fund this program will remain general assets of the Association until payment or distribution is made. Employer contributions to this plan were $180, $180, and $170 for the years ended December 31, 2015, 2014, and 2013, respectively. At December 31, 2015, 2014, and 2013, the Association had a deferred compensation liability related to this plan of $1,867, $1,813 and $1,925 included within Other Liabilities on the Consolidated Balance Sheets.

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 $22,029. During 2015, $12,266 of new loans were made and repayments totaled $12,501. 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, $197,126 of commitments to extend credit and $21 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 $742 with expiration dates ranging from January 2, 2016 to June 20, 2019. The maximum potential amount of future payments that may be required under these guarantees was $742.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2015	2014	2013
Current:			
Federal	$ 3	$ –	$ (1)
State	5	1	–
Total Current	8	1	(1)
Deferred:			
Federal	–	–	–
State	–	–	–
Total Deferred	–	–	–
Total provision (benefit) for income taxes	$ 8	$ 1	$ (1)

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	$ 7,930	$ 10,765	$ 9,822
State tax, net	–	2	–
Effect of non-taxable FLCA subsidiary	(4,470)	(6,084)	(5,329)
Patronage distributions	(3,725)	(4,211)	(4,391)
Change in deferred tax asset valuation allowance	302	(517)	(25)
Other	(29)	46	(78)
Provision (benefit) for income taxes	$ 8	$ 1	$ (1)

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

	December 31,		
	2015	2014	2013
Deferred income tax assets:			
Allowance for loan losses	$ 2,287	$ 2,171	$ 2,504
Nonaccrual loan interest	1,123	942	1,121
Gross deferred tax assets	3,410	3,113	3,625
Less: valuation allowance	(3,410)	(3,109)	(3,625)
Gross deferred tax assets, net of valuation allowance	–	4	–
Deferred income tax liabilities:			
Other	–	4	–
Gross deferred tax asset (liability)	–	–	–
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2015, deferred income taxes have not been provided by the Association on approximately $5.5 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 $3,410, $3,109, and $3,625 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	$ 6,438	$ 6,657	$ 7,118	$ 6,783	$ 26,996
Provision for loan losses	–	–	–	–	–
Noninterest income (expense), net and taxes	(2,367)	(2,387)	(2,070)	2,476	(4,348)
Net income	$ 4,071	$ 4,270	$ 5,048	$ 9,259	$ 22,648

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,599	$ 6,788	$ 7,383	$ 8,055	$ 28,825
Provision for loan losses	75	(158)	(38)	(1,947)	(2,068)
Noninterest income (expense), net and taxes	(2,219)	(2,048)	(1,984)	6,114	(137)
Net income	$ 4,305	$ 4,898	$ 5,437	$ 16,116	$ 30,756

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 6,044	$ 6,118	$ 6,623	$ 6,782	$ 25,567
Provision for loan losses	95	–	87	(577)	(395)
Noninterest income (expense), net and taxes	(1,694)	(1456)	(1,891)	7,142	2,101
Net income	$ 4,255	$ 4,662	$ 4,645	$ 14,501	$ 28,063

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.

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