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*Farm Credit of Central Florida, ACA*  
**FIRST QUARTER 2016**

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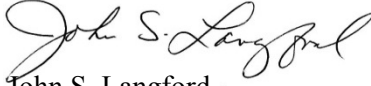
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**CERTIFICATION**

The undersigned certify that we have reviewed the March 31, 2016 quarterly report of Farm Credit of Central Florida, 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.

  
Reginald T. Holt  
Chief Executive Officer

  
D. Scott Fontenot  
Chief Financial Officer

  
John S. Langford  
Chairman of the Audit committee

May 9, 2016

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*Farm Credit of Central Florida, ACA*

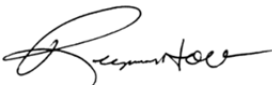
# Report on Internal Control Over Financial Reporting

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

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

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

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

  
Reginald T. Holt  
Chief Executive Officer

  
D. Scott Fontenot  
Chief Financial Officer

May 9, 2016

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

*(dollars in thousands)*

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

## **LOAN PORTFOLIO**

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

### ***March 31, 2016 compared to December 31, 2015***

Loan volume of the Association as of March 31, 2016, was \$441,222, a decrease of \$4,328 as compared to \$445,550 at December 31, 2015. Net loans outstanding at March 31, 2016, were \$435,227 as compared to \$438,747 at December 31, 2015. The Association has investment securities that are classified as held to maturity in the amount of \$23,182 at March 31, 2016, as compared to \$24,612 at December 31, 2015. Net loans and investment securities accounted for 96.74 percent of total assets at March 31, 2016, as compared to 95.75 percent of total assets at December 31, 2015.

The Association's total servicing portfolio has increased to \$909,729 as compared to \$907,378 at December 31, 2015, due in large part to new money closings exceeding run-off and liquidations. The decrease in net loan volume is primarily due to seasonal lending. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between October and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result of this normal seasonal lending activity causes net loan volume to decrease on revolving credit lines.

### ***March 31, 2016 compared to March 31, 2015***

Loan volume of the Association as of March 31, 2016, was \$441,222, an increase of \$56,164 as compared to \$385,058 at March 31, 2015. Net loans outstanding at March 31, 2016, were \$435,227 as compared to \$376,061 at March 31, 2015. The Association has investment securities that are classified as held to maturity in the amount of \$23,182 at March 31, 2016, as compared to \$29,944 at March 31, 2015. Net loans and investment securities accounted for 96.74 percent of total assets at March 31, 2016, as compared to 96.49 percent of total assets at March 31, 2015.

The Association's total servicing portfolio has increased to \$909,729 as compared to \$903,030 at March 31, 2015, due to new money closings exceeding run-off and or liquidations. Even with a decrease investments, servicing volume has maintained positive growth throughout the year.

## **ASSET QUALITY AND LOAN LOSS RESERVES**

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has declined slightly as compared to year end as a result of a small increase in Substandard-Viable assets. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 93.21% as of March 31, 2016, compared to 93.36% at December 31, 2015 and 92.03% at March 31, 2015. Substandard credit quality was 6.79% as of March 31, 2016, compared to 6.64% at December 31, 2015. The actual substandard asset volume has increased by \$444 from year-end December 31, 2015. Nonaccrual loan volume was \$8,441 at March 31, 2016, compared to \$7,106 at December 31, 2015 and \$8,060 at March 31, 2015, increases of \$1,335 and \$381, respectively. The majority of the loan assets in nonaccrual are in the nursery, citrus and cattle industries.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2016, was \$5,995 compared to \$6,803 at December 31, 2015, and \$8,997 at March 31, 2015, and is considered by management to be adequate to cover possible losses. The allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the possible losses within the entire portfolio. The current allowance for loan loss at March 31, 2016, contains \$2,543 in specific reserves and \$3,452 in general reserves, of which \$2,242 is allocated to the citrus

portfolio. The following outlines the allowance for loan loss activity as of March 31, 2016.

<b>Allowance for Loan Losses Activity:</b>	<b>YTD 2016</b>
Balance at beginning of period	\$ 6,803
Charge-offs	(6)
Recoveries	88
Provisions/(Reversals)-General	(153)
Provisions/(Reversals)-Specifics	(737)
Balance at end of period	<u>\$ 5,995</u>

The decrease in allowance for loan losses compared to December 2015 was a direct result of an allowance reversal during 2016 on one specific borrower within the fruit and vegetable industry. The reversals are due to improved asset quality since December 2015. Chargeoffs are funded through the allowance from previous and/or current increases in the provision for loan losses.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2016*

Net income for the three months ended March 31, 2016, totaled \$2,741, as compared to \$1,947 for the same period in 2015. The increase of \$794 for the period is associated directly with a larger reversal of allowance for loan loss than the prior year.

Net interest income increased \$91 for the three months ended March 31, 2016, as compared to the same period in 2015. The primary reason for the increase in net interest income is the increase in loan volume compared to the same period prior year. Net interest income for the three months ending March 31, 2016, is shown in the following table:

<b>Net Interest Income</b>	<b>For the three months ended March 31,</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ change</b>	<b>% change</b>
Investment Interest Income	\$ 142	\$ 141	\$ 1	0.71%
Loan Interest Income	4,726	4,268	458	10.73
Total Interest Income	4,868	4,409	459	10.41
Total Interest Expense	2,040	1,672	368	22.01
Net Interest Income	<u>\$ 2,828</u>	<u>\$ 2,737</u>	<u>\$ 91</u>	<u>3.32%</u>

Allowance for loan loss activity for the quarter consisted of an \$890 reversal as compared to a \$345 reversal for the same period prior year. Provisions for loan losses for the three months ending March 31, 2016 are shown in the following table:

<b>Provisions/(Reversals) for Loan Losses</b>	<b>For the three months ended March 31,</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ change</b>	<b>% change</b>
General Reserves	\$ (153)	\$ 104	\$ (257)	(247.12)%
Specific Reserves	(737)	(449)	(288)	(64.14)
Total Provisions/(Reversals)	<u>\$ (890)</u>	<u>\$ (345)</u>	<u>\$ (545)</u>	<u>(157.97)%</u>

Noninterest income for the three months ended March 31, 2016, totaled \$1,509, as compared to \$1,376 for the same period of 2015, an increase of \$133. The increase is primarily the result of the gain recognized on the sale of the Lake Wales branch location which was closed effective December 31, 2015. Noninterest income for the three months ending March 31, 2016, is shown in the following table:

<b>Noninterest Income</b>	<b>For the three months ended March 31,</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ change</b>	<b>% change</b>
Loan fees	\$ 95	\$ 70	\$ 25	35.71%
Fees for financially related services	19	4	15	375.00
Patronage refunds from other				
Farm Credit Institutions	1,253	1,286	(33)	(2.57)
Gains (losses) on sales of rural home loans, net	28	10	18	180.00
Gains (losses) on sales of premises and equipment, net	129	-	129	100.00
Gains (losses) on other transactions	(18)	4	(22)	(550.00)
Other noninterest income	3	2	1	50.00
Total noninterest income	<u>\$ 1,509</u>	<u>\$ 1,376</u>	<u>\$ 133</u>	<u>9.67%</u>

Noninterest expense for the three months ended March 31, 2016, decreased \$25 compared to the same period of 2015, primarily due to a decrease in other operating expenses offset by an increase in Insurance Fund Premium expense. Insurance Fund Premium expenses increased due to higher loan volumes coupled with an increase in the premium rate which result in higher premium expenses. The Farm Credit System Insurance Corporation (FCSIC) has set the premium to 16 basis points (compared to 13 basis points during 2015) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. Noninterest expense for the three months ending March 31, 2016 is shown in the following table:

<b>Noninterest Expense</b>	<b>For the three months ended March 31,</b>			
	<b>2016</b>	<b>2015</b>	<b>\$ change</b>	<b>% change</b>
Salary and employee benefits	\$ 1,712	\$ 1,692	\$ 20	1.18%
Occupancy and equipment	174	162	12	7.41
Insurance Fund Premium	137	97	40	41.24
(Gains) losses on other property owned, net	(1)	-	(1)	(100.00)
Other operating expenses	464	560	(96)	(17.14)
Total noninterest expense	<u>\$ 2,486</u>	<u>\$ 2,511</u>	<u>\$ (25)</u>	<u>(1.00)%</u>

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the

Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2016, was \$368,677 as compared to \$379,668 at December 31, 2015. The decrease is attributable to pay downs on loans received during the normal course of business being greater than borrowings to fund new loan advances.

## CAPITAL RESOURCES

Total members' equity at March 31, 2016, increased to \$95,300 from the December 31, 2015, total of \$92,548. The increase is primarily attributed to the increase in unallocated surplus resulting from net income.

Total capital stock and participation certificates were \$857 on March 31, 2016, compared to \$858 on December 31, 2015. This decrease is attributed to the retirement of stock and participation certificates on loans liquidated in the normal course of business.

Farm Credit Administration regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2016, the Association's total surplus ratio and core surplus ratio were 19.85 percent and 18.52 percent, respectively, and the permanent capital ratio was 20.04 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

## REGULATORY MATTERS

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

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise.
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System.
- To make System regulatory capital requirements more transparent.

- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

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

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

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

## FINANCIAL REGULATORY REFORM

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

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, or writing D. Scott Fontenot, CFO, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802, or accessing the website, [www.farmcreditfl.com](http://www.farmcreditfl.com). The Association prepares a 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.

# Farm Credit Of Central Florida, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>March 31, 2016</b>	<b>December 31, 2015</b>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>		
Cash	\$ 1,109	\$ 320
Investment securities:		
Held to maturity (fair value of \$23,655 and \$25,076, respectively)	23,182	24,612
Loans	441,222	445,550
Allowance for loan losses	(5,995)	(6,803)
Net loans	435,227	438,747
Loans held for sale	—	102
Accrued interest receivable	1,912	1,640
Investments in other Farm Credit institutions	6,552	6,598
Premises and equipment, net	754	733
Other property owned	—	16
Accounts receivable	1,857	7,683
Other assets	3,280	3,482
Total assets	<b>\$ 473,873</b>	<b>\$ 483,933</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 368,677	\$ 379,668
Accrued interest payable	687	703
Patronage refunds payable	550	4,197
Accounts payable	319	1,379
Other liabilities	8,340	5,438
Total liabilities	<b>378,573</b>	<b>391,385</b>
Commitments and contingencies (Note 8)		
<b>Members' Equity</b>		
Capital stock and participation certificates	857	858
Retained earnings		
Allocated	28,505	28,505
Unallocated	66,414	63,673
Accumulated other comprehensive income (loss)	(476)	(488)
Total members' equity	<b>95,300</b>	<b>92,548</b>
Total liabilities and members' equity	<b>\$ 473,873</b>	<b>\$ 483,933</b>

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

# Farm Credit Of Central Florida, ACA

## Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2016	2015
<b>Interest Income</b>		
Loans	\$ 4,726	\$ 4,268
Investments	142	141
Total interest income	4,868	4,409
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	2,040	1,672
Net interest income	2,828	2,737
Provision for (reversal of allowance for) loan losses	(890)	(345)
Net interest income after provision for (reversal of allowance for) loan losses	3,718	3,082
<b>Noninterest Income</b>		
Loan fees	95	70
Fees for financially related services	19	4
Patronage refunds from other Farm Credit institutions	1,253	1,286
Gains (losses) on sales of rural home loans, net	28	10
Gains (losses) on sales of premises and equipment, net	129	—
Gains (losses) on other transactions	(18)	4
Other noninterest income	3	2
Total noninterest income	1,509	1,376
<b>Noninterest Expense</b>		
Salaries and employee benefits	1,712	1,692
Occupancy and equipment	174	162
Insurance Fund premiums	137	97
(Gains) losses on other property owned, net	(1)	—
Other operating expenses	464	560
Total noninterest expense	2,486	2,511
Net income	\$ 2,741	\$ 1,947

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



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**Farm Credit Of Central Florida, ACA**  
**Consolidated Statements of**  
**Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2016	2015
Net income	\$ 2,741	\$ 1,947
<b>Other comprehensive income net of tax</b>		
Employee benefit plans adjustments	<u>12</u>	<u>11</u>
Comprehensive income	<u>\$ 2,753</u>	<u>\$ 1,958</u>

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

**Farm Credit Of Central Florida, ACA**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2014	\$ 860	\$ 30,740	\$ 57,369	\$ (465)	\$ 88,504
Comprehensive income			1,947	11	1,958
Capital stock/participation certificates issued/(retired), net	(10)				(10)
Balance at March 31, 2015	\$ 850	\$ 30,740	\$ 59,316	\$ (454)	\$ 90,452
Balance at December 31, 2015	\$ 858	\$ 28,505	\$ 63,673	\$ (488)	\$ 92,548
<b>Comprehensive income</b>			<b>2,741</b>	<b>12</b>	<b>2,753</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>(1)</b>				<b>(1)</b>
<b>Balance at March 31, 2016</b>	<b>\$ 857</b>	<b>\$ 28,505</b>	<b>\$ 66,414</b>	<b>\$ (476)</b>	<b>\$ 95,300</b>

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

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## *Farm Credit of Central Florida, ACA*

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

(unaudited)

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

#### **Organization**

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

#### **Basis of Presentation**

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

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

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

#### **Significant Accounting Policies**

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

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

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

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

#### **Accounting Standards Updates (ASUs) Issued During the Period**

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

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

#### **ASUs Pending Effective Date**

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

Potential effects of ASUs issued in previous periods:

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

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

#### **Accounting Standards Effective During the Period**

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

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

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

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

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

#### **Note 2 — Loans and Allowance for Loan Losses**

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

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

A summary of loans outstanding at period end follows:

	<b>March 31, 2016</b>	<b>December 31, 2015</b>
Real estate mortgage	\$ 224,744	\$ 224,160
Production and intermediate-term	139,043	144,445
Processing and marketing	57,721	56,409
Farm-related business	8,470	8,614
Communication	5,128	5,188
Rural residential real estate	6,116	6,734
Total Loans	<u>\$ 441,222</u>	<u>\$ 445,550</u>

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

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

March 31, 2016								
Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total		
Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	
Real estate mortgage	\$ 1,267	\$ 112,212	\$ -	\$ 9,371	\$ -	\$ -	\$ 1,267	\$ 121,583
Production and intermediate-term	20,316	54,595	686	-	-	-	21,002	54,595
Processing and marketing	49,901	16,308	-	-	-	-	49,901	16,308
Farm-related business	2,441	3,432	-	-	-	-	2,441	3,432
Communication	5,141	-	-	-	-	-	5,141	-
Total	\$ 79,066	\$ 186,547	\$ 686	\$ 9,371	\$ -	\$ -	\$ 79,752	\$ 195,918

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	\$ 1,099	\$ 121,973	\$ -	\$ 9,432	\$ -	\$ -	\$ 1,099	\$ 131,405
Production and intermediate-term	18,586	93,594	343	-	-	-	18,929	93,594
Processing and marketing	48,634	11,457	-	-	-	-	48,634	11,457
Farm-related business	2,441	3,467	-	-	-	-	2,441	3,467
Communication	5,202	-	-	-	-	-	5,202	-
Total	\$ 75,962	\$ 230,491	\$ 343	\$ 9,432	\$ -	\$ -	\$ 76,305	\$ 239,923

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

March 31, 2016				
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 5,277	\$ 61,000	\$ 158,467	\$ 224,744
Production and intermediate-term	33,406	73,111	32,526	139,043
Processing and marketing	1,701	30,963	25,057	57,721
Farm-related business	65	2,062	6,343	8,470
Communication	-	5,128	-	5,128
Rural residential real estate	723	1,527	3,866	6,116
Total Loans	\$ 41,172	\$ 173,791	\$ 226,259	\$ 441,222
Percentage	9.33%	39.39%	51.28%	100.00%

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

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

	March 31, 2016	December 31, 2015		March 31, 2016	December 31, 2015
<b>Real estate mortgage:</b>			<b>Farm-related business:</b>		
Acceptable	94.14%	92.91%	Acceptable	100.00%	100.00%
OAEM	1.00	1.01	OAEM	—	—
Substandard/doubtful/loss	4.86	6.08	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Communication:</b>		
Acceptable	85.33%	87.50%	Acceptable	100.00%	100.00%
OAEM	1.51	1.89	OAEM	—	—
Substandard/doubtful/loss	13.16	10.61	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>Rural residential real estate:</b>		
Acceptable	100.00%	100.00%	Acceptable	80.63%	82.28%
OAEM	—	—	OAEM	7.41	8.05
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	11.96	9.67
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
			<b>Total Loans:</b>		
			Acceptable	92.12%	92.11%
			OAEM	1.09	1.25
			Substandard/doubtful/loss	6.79	6.64
				<u>100.00%</u>	<u>100.00%</u>

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

March 31, 2016							
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans		Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 190	\$ 1,186	\$ 1,376	224,402	\$ 225,778	\$	—
Production and intermediate-term	635	407	1,042	138,497	139,539		—
Processing and marketing	154	—	154	57,685	57,839		—
Farm-related business	—	—	—	8,553	8,553		—
Communication	—	—	—	5,128	5,128		—
Rural residential real estate	86	237	323	5,824	6,147		—
Total	\$ 1,065	\$ 1,830	\$ 2,895	\$ 440,089	\$ 442,984	\$	—
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	\$ 561	\$ 1,270	\$ 1,831	\$ 223,243	\$ 225,074	\$	—
Production and intermediate-term	840	894	1,734	143,134	144,868		—
Processing and marketing	—	—	—	56,494	56,494		—
Farm-related business	—	—	—	8,661	8,661		—
Communication	—	—	—	5,188	5,188		—
Rural residential real estate	148	237	385	6,372	6,757		—
Total	\$ 1,549	\$ 2,401	\$ 3,950	\$ 443,092	\$ 447,042	\$	—

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

	March 31, 2016	December 31, 2015
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 2,288	\$ 2,417
Production and intermediate-term	5,857	4,391
Rural residential real estate	296	298
Total	\$ 8,441	\$ 7,106
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 2,642	\$ 2,904
Production and intermediate-term	6,096	6,169
Farm-related business	777	781
Rural residential real estate	556	564
Total	\$ 10,071	\$ 10,418
<b>Accruing loans 90 days or more past due:</b>		
Total	\$ —	\$ —
Total nonperforming loans	\$ 18,512	\$ 17,524
Other property owned	—	16
Total nonperforming assets	\$ 18,512	\$ 17,540
Nonaccrual loans as a percentage of total loans	1.91%	1.59%
Nonperforming assets as a percentage of total loans and other property owned	4.20%	3.94%
Nonperforming assets as a percentage of capital	19.42%	18.95%

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

	March 31, 2016	December 31, 2015
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 5,894	\$ 4,698
Past due	2,547	2,408
Total	8,441	7,106
<b>Impaired accrual loans:</b>		
Restructured	10,071	10,418
90 days or more past due	—	—
Total	10,071	10,418
Total impaired loans	\$ 18,512	\$ 17,524
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.

Impaired loans:	March 31, 2016			Quarter Ended March 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,992	\$ 2,146	\$ 370	\$ 1,956	\$ 27
Production and intermediate-term	8,644	8,760	2,048	8,489	117
Farm-related business	777	773	8	763	11
Rural residential real estate	852	1,021	117	836	12
Total	\$ 12,265	\$ 12,700	\$ 2,543	\$ 12,044	\$ 167
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 2,938	\$ 3,221	\$ —	\$ 2,885	\$ 40
Production and intermediate-term	3,309	4,833	—	3,250	45
Farm-related business	—	—	—	—	—
Rural residential real estate	—	69	—	—	—
Total	\$ 6,247	\$ 8,123	\$ —	\$ 6,135	\$ 85
<b>Total:</b>					
Real estate mortgage	\$ 4,930	\$ 5,367	\$ 370	\$ 4,841	\$ 67
Production and intermediate-term	11,953	13,593	2,048	11,739	162
Farm-related business	777	773	8	763	11
Rural residential real estate	852	1,090	117	836	12
Total	\$ 18,512	\$ 20,823	\$ 2,543	\$ 18,179	\$ 252

Impaired loans:	December 31, 2015			Year Ended December 31, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 2,078	\$ 2,227	\$ 337	\$ 2,348	\$ 163
Production and intermediate-term	8,205	8,270	2,761	9,267	643
Farm related business	781	781	8	882	61
Rural residential real estate	861	1,029	92	973	67
Total	\$ 11,925	\$ 12,307	\$ 3,198	\$ 13,470	\$ 934
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,242	\$ 3,614	\$ -	\$ 3,662	\$ 254
Production and intermediate-term	2,356	3,835	-	2,662	184
Farm related business	-	-	-	-	-
Rural residential real estate	1	69	-	-	-
Total	\$ 5,599	\$ 7,518	\$ -	\$ 6,324	\$ 438
<b>Total:</b>					
Real estate mortgage	\$ 5,320	\$ 5,841	\$ 337	\$ 6,010	\$ 417
Production and intermediate-term	10,561	12,105	2,761	11,929	827
Farm related business	781	781	8	882	61
Rural residential real estate	862	1,098	92	973	67
Total	\$ 17,524	\$ 19,825	\$ 3,198	\$ 19,794	\$ 1,372

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Rural Residential Real Estate	Total
<b>Activity related to the allowance for credit losses:</b>						
Balance at December 31, 2015	\$ 2,300	\$ 4,301	\$ 48	\$ 20	\$ 134	\$ 6,803
Charge-offs	-	(6)	-	-	-	(6)
Recoveries	68	18	-	-	2	88
Provision for loan losses	(63)	(885)	26	(1)	33	(890)
Balance at March 31, 2016	\$ 2,305	\$ 3,428	\$ 74	\$ 19	\$ 169	\$ 5,995
<b>Allowance on loans evaluated for impairment:</b>						
Balance at December 31, 2014	\$ 4,994	\$ 3,387	\$ 443	\$ 20	\$ 393	\$ 9,237
Charge-offs	-	-	-	-	-	-
Recoveries	103	-	-	-	2	105
Provision for loan losses	(424)	191	(34)	2	(80)	(345)
Balance at March 31, 2015	\$ 4,673	\$ 3,578	\$ 409	\$ 22	\$ 315	\$ 8,997
<b>Recorded investment in loans evaluated for impairment:</b>						
Individually	\$ 370	\$ 2,048	\$ 8	\$ -	\$ 117	\$ 2,543
Collectively	1,935	1,380	66	19	52	3,452
Balance at March 31, 2016	\$ 2,305	\$ 3,428	\$ 74	\$ 19	\$ 169	\$ 5,995
Individually	\$ 337	\$ 2,761	\$ 8	\$ -	\$ 92	\$ 3,198
Collectively	1,963	1,540	40	20	42	3,605
Balance at December 31, 2015	\$ 2,300	\$ 4,301	\$ 48	\$ 20	\$ 134	\$ 6,803
<b>Recorded investment in loans evaluated for impairment:</b>						
Individually	\$ 5,056	\$ 12,058	\$ 780	\$ -	\$ 855	\$ 18,749
Collectively	220,722	127,481	65,612	5,128	5,292	424,235
Balance at March 31, 2016	\$ 225,778	\$ 139,539	\$ 66,392	\$ 5,128	\$ 6,147	\$ 442,984
Individually	\$ 8,482	\$ 7,994	\$ 781	\$ -	\$ 316	\$ 17,573
Collectively	216,592	136,874	64,374	5,188	6,441	429,469
Balance at December 31, 2015	\$ 225,074	\$ 144,868	\$ 65,155	\$ 5,188	\$ 6,757	\$ 447,042

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



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

		Three months ended March 31, 2016				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs	
<b>Pre-modification:</b>						
Production and intermediate-term	\$ -	\$ 429	\$ -	\$ 429		
Total	\$ -	\$ 429	\$ -	\$ 429		
<b>Post-modification:</b>						
Production and intermediate-term	\$ -	\$ 429	\$ -	\$ 429	\$ -	
Total	\$ -	\$ 429	\$ -	\$ 429	\$ -	

		Three months ended March 31, 2015				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs	
<b>Pre-modification:</b>						
Production and intermediate-term	\$ -	\$ 2,216	\$ -	\$ 2,216		
Total	\$ -	\$ 2,216	\$ -	\$ 2,216		
<b>Post-modification:</b>						
Production and intermediate-term	\$ -	\$ 2,216	\$ -	\$ 2,216	\$ -	
Total	\$ -	\$ 2,216	\$ -	\$ 2,216	\$ -	

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

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

	Three Months Ended March 31,	
	2016	2015
<b>Defaulted troubled debt restructurings:</b>		
Real estate mortgage	\$ 82	\$ -
Total	\$ 82	\$ -

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Real estate mortgage	\$ 3,538	\$ 3,858	\$ 896	\$ 954
Production and intermediate-term	7,825	7,624	1,729	1,455
Farm related business	777	781	-	-
Rural residential real estate	690	698	134	134
Total Loans	\$ 12,830	\$ 12,961	\$ 2,759	\$ 2,543
Additional commitments to lend	\$ -	\$ -		

The following table presents information as of period end:

	March 31, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ -	-
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 332	337

### Note 3 — Investments

#### Investment Securities

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

March 31, 2016					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	\$ 23,182	\$ 499	\$ (26)	\$ 23,655	2.41%

December 31, 2015					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	\$ 24,612	\$ 496	\$ (32)	\$ 25,076	1.95%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

March 31, 2016			
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 698	\$ 696	1.77%
After one year through five years	16,095	16,400	2.29
After five years through ten years	3,185	3,261	2.58
After ten years	3,204	3,298	2.98
Total	\$ 23,182	\$ 23,655	2.41%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

March 31, 2016				
Less than 12 Months		12 Months or Greater		
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
ABSs	\$ 621	\$ (2)	\$ 1,134	\$ (24)

#### December 31, 2015

Less than 12 Months		12 Months or Greater		
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
ABSs	\$ 487	\$ (3)	\$ 1,406	\$ (29)

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

#### **Investments in other Farm Credit Institutions**

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 2.29 percent of the

issued stock of the Bank as of March 31, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled \$31.0 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$72 million for the first three months of 2016. In addition, the Association had an investment of \$679 related to other Farm Credit institutions.

#### **Note 4 — Debt**

##### **Notes Payable to AgFirst Farm Credit Bank**

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

#### **Note 5 — Members' Equity**

##### **Accumulated Other Comprehensive Income (AOCI)**

	Changes in Accumulated Other Comprehensive income by Component (a)	
	For the Three Months Ended March 31,	
	2016	2015
<b>Employee Benefit Plans:</b>		
Balance at beginning of period	\$ (488)	\$ (465)
Other comprehensive income before reclassifications	—	—
Amounts reclassified from AOCI	12	11
Net current period other comprehensive income	12	11
Balance at end of period	\$ (476)	\$ (454)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)		
	For the Three Months Ended March 31,		
	2016	2015	Income Statement Line Item
<b>Defined Benefit Pension Plans:</b>			
Periodic pension costs	\$ (12)	\$ (11)	See Note 7.
Net amounts reclassified	\$ (12)	\$ (11)	

(a) Amounts in parentheses indicate debits to AOCI.

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

#### **Note 6 — Fair Value Measurement**

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

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement

date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

The classifications within the fair value hierarchy are as follows:

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

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be

corroborated, for substantially the full term of the asset or liability.

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

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

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

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

At or for the Three Months Ended March 31, 2016

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 406	\$ 406	\$ -	\$ -	\$ 406	
Recurring Assets	\$ 406	\$ 406	\$ -	\$ -	\$ 406	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 15,969	\$ -	\$ -	\$ 15,969	\$ 15,969	\$ 737
Other property owned	-	-	-	-	-	1
Nonrecurring Assets	\$ 15,969	\$ -	\$ -	\$ 15,969	\$ 15,969	\$ 738
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 1,109	\$ 1,109	\$ -	\$ -	\$ 1,109	
Investment securities, held-to-maturity	23,182	-	23,655	-	23,655	
Loans	419,258	-	-	416,820	416,820	
Other Financial Assets	\$ 443,549	\$ 1,109	\$ 23,655	\$ 416,820	\$ 441,584	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 368,677	\$ -	\$ -	\$ 368,292	\$ 368,292	
Other Financial Liabilities	\$ 368,677	\$ -	\$ -	\$ 368,292	\$ 368,292	

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
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 326	\$ 326	\$ -	\$ -	\$ 326	
Recurring Assets	\$ 326	\$ 326	\$ -	\$ -	\$ 326	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 14,326	\$ -	\$ -	\$ 14,326	\$ 14,326	\$ 740
Other property owned	16	-	-	18	18	-
Nonrecurring Assets	\$ 14,342	\$ -	\$ -	\$ 14,344	\$ 14,344	\$ 740
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 320	\$ 320	\$ -	\$ -	\$ 320	
Investment securities, held-to-maturity	24,612	-	25,076	-	25,076	
Loans	424,523	-	-	421,770	421,770	
Other Financial Assets	\$ 449,455	\$ 320	\$ 25,076	\$ 421,770	\$ 447,166	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 379,668	\$ -	\$ -	\$ 377,561	\$ 377,561	
Other Financial Liabilities	\$ 379,668	\$ -	\$ -	\$ 377,561	\$ 377,561	

## SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

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

### Inputs to Valuation Techniques

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

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

#### Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 15,969	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

#### Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

## Note 7 — Employee Benefit Plans

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

	For the three months ended March 31,	
	2016	2015
Pension	\$ 289	\$ 288
401(k)	111	112
Other postretirement benefits	61	81
Total	\$ 461	\$ 481

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

	Actual YTD Through 3/31/16	Projected Contributions For Remainder of 2016	Projected Total Contributions 2016
Pension	\$ 5	\$ 583	\$ 588
Other postretirement benefits	35	110	145
Total	\$ 40	\$ 693	\$ 733

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

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contributions necessary before the next plan measurement date of December 31, 2016.

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

**Note 8 — Commitments and Contingent Liabilities**

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

**Note 9 — Subsequent Events**

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