Colonial Farm Credit, ACA

2015 Annual Report

Board of Directors

(from the left)

Robert M. Jones, Paul W. Rogers, Jr., R. Kenneth Hatcher, Sr., Susan D. Hance-Wells, John F. Davis, L. Wayne Kirby, John N. Mills, Jr., John E. Bickford - Vice Chairman, Hugh S. Jones - Chairman, Clarke E. Fox, A. Kevin Monahan, Roberts H. Spiers, Jr., Jennifer U. Cuthbertson, Stanley O. Forbes, Sr., Duane D. Gilliam, Jeffrey W. Griffith

(not pictured - Robert R. Womack)

Leadership Team

Diane E. Schramm
Chief Financial Officer

Karen Suzanne Nicely
Director of Human Resources and Corporate Secretary

Paul B. Franklin
Chief Lending Officer

Greg B. Farmer
President and Chief Executive Officer

Ronnie G. Gill
Executive Vice President, Branch and Country Mortgage Operations

James S. Belfield
Chief Information Officer

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Core Purpose

The core purpose of Colonial Farm Credit is to assist farmers, growers, and harvesters of forestry and aquatic products, agribusinesses, and rural residents in achieving success.

Core Values

We nurture customer relationships.

We strive to exceed our customers' expectations with superior products and services.

We provide courteous and prompt assistance.

We are honest and fair with everyone.

We are good corporate citizens.

We achieve success through teamwork.

We price our products and services equitably based on cost, risk, and competition.

We return as much of our profits as possible in patronage refunds.

Farm Credit Celebrates 100 Years of Supporting Agriculture and Rural Communities

Farm Credit supports rural communities and agriculture with reliable and consistent credit, today and tomorrow.

This focus on agriculture and rural America is the reason Farm Credit was established 100 years ago, and we've been delivering on that mission ever since - helping fund America's food, fuel and fiber and supporting the thriving rural communities America's farmers call home.

While we have a national footprint serving all 50 states and Puerto Rico, our lenders are local. Each Farm Credit organization is locally owned and operated by people who live and work in the communities where they provide services. Farm Credit organizations are member-owned cooperatives, and the people who run them have a deep understanding of agriculture and forestry in their area. This expertise enables them to understand the industry sectors they finance and provide an unparalleled level of knowledge and service to their borrower-owners.

Since the creation of Farm Credit, rural enterprise has changed dramatically. From the horse-drawn plows of 1916 to today's GPS navigation systems guiding planting, fertilization and harvest, our financing has been there to help farmers raise their crops. When times were tough - through the Dust Bowl and Great Depression, World War II and multiple economic downturns - we've stayed by our borrower-owners to ensure a continued supply of food, fuel and fiber to our nation and beyond.

This history has helped us build an extraordinary depth of understanding of rural credit needs, challenges and opportunities, for agriculture overall and for individual crop sectors and livestock breeds. Today, we're with our infrastructure providers and farmers on the forefront, helping them meet evolving consumer demands and capitalize on new technologies, financing everything from robotic milking systems to hydroponic growing facilities.

Combined, Farm Credit organizations provide more than $217 billion in loans, leases and related services, which is more than a third of the credit needed by U.S. agriculture. This capital helps nearly 500,000 borrower-owners succeed and grow, today and tomorrow.

And here we'll remain, continuing our legacy of providing essential credit to help our rural communities and agriculture continue to thrive.

Message

from the Chairman of the Board and the Chief Executive Officer

Colonial Farm Credit supports rural communities and agriculture with reliable, consistent credit and financial services. Our success in meeting these objectives continued in 2015.

Loan demand was strong across all sectors for working capital, equipment, real estate, and construction. Credit quality remained very sound. Customers continued to use leasing as a tax-favored option for equipment and structure upgrades.

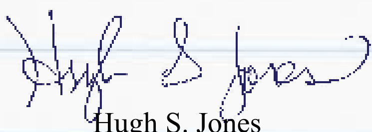
Net income was $13.8 million, slightly lower than the previous two years only because our special distribution from the AgFirst Farm Credit Bank (our funding bank) declined, as anticipated. Excellent income and loan quality, combined with a strong capital position, allowed your board of directors to approve an all-cash patronage refund of approximately $7.2 million, the equivalent of 25% of the interest earned on loan accounts during the year. This is eighteenth consecutive year we have returned a portion of our profits to stockholders and the second year at this level.

During 2016, we will continue to focus our efforts on serving the credit needs of all eligible customers, implementing our succession plan (including training and developing our future leaders) as tenured employees approach retirement, and assisting customers who have been adversely impacted by lower commodity prices and adverse weather conditions.

Your cooperative is positioned to prosper in any foreseeable environment by virtue of our strong financial position, diverse and high quality loan portfolio, sound underwriting standards, excellent employees, and exceptional governance. Our combination of competitive rates, patronage refunds, personal service, and extensive local knowledge is unmatched in the financial world.

As the Farm Credit System prepares to celebrate its centennial anniversary in 2016, we gratefully acknowledge the wisdom of our forebears in establishing a nation-wide system of farmer-owned cooperatives in 1916. These cooperatives have provided reliable and affordable credit and financial services to the agriculture and forestry industries, in both good and bad economic times, helping them to feed, clothe and house our country and much of the rest of the world.

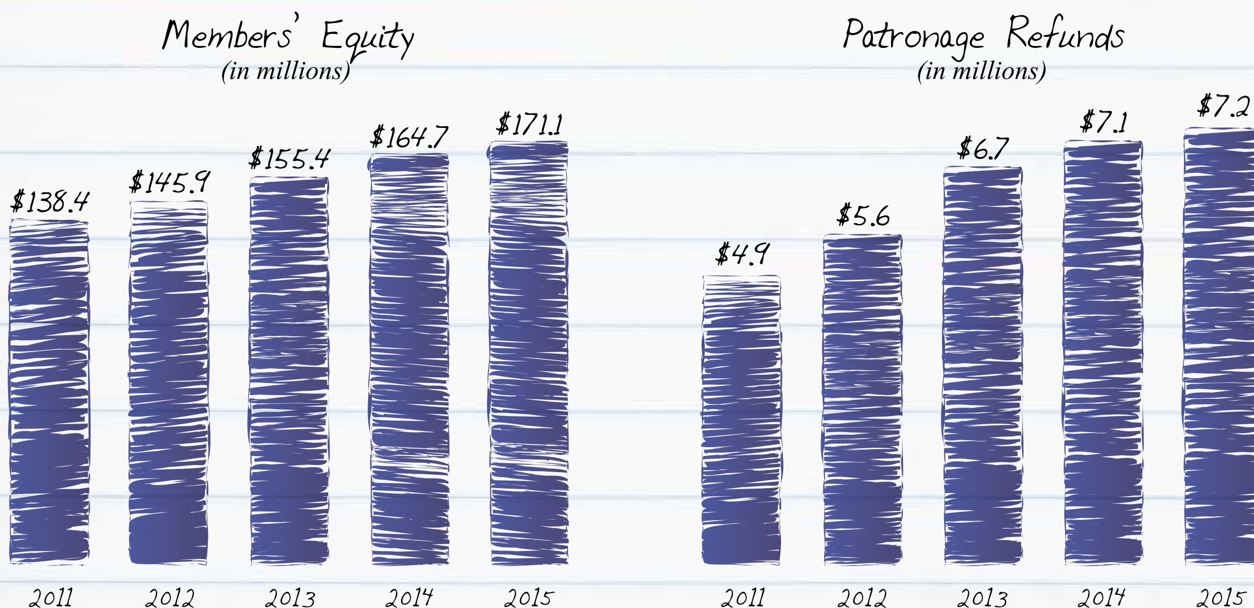
Thank you for your loyalty and support. We look forward to serving your financial needs in 2016 and beyond.



Hugh S. Jones
Chairman of the Board

Greg B. Farmer
Chief Executive Officer

March 10, 2016



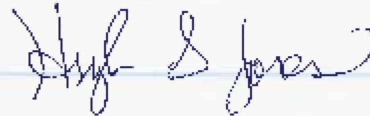
Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Colonial 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 costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

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

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



Hugh S. Jones
Chairman of the Board

Greg B. Farmer
Chief Executive Officer

Diane E. Schramm
Chief Financial Officer

March 10, 2016

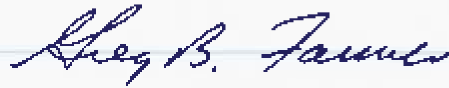
Report on Internal Control

Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2015. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2015, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2015.



Greg B. Farmer
Chief Executive Officer

Diane E. Schramm
Chief Financial Officer

March 10, 2016

Consolidated Five-Year Summary

of Selected Financial Data

(dollars in thousands)	2015	2014	December 31, 2013	2012	2011
Balance Sheet Data					
Cash	**$ 62**	$ 94	$ 90	$ 163	$ 215
Loans	**638,278**	613,608	600,983	587,959	604,880
Allowance for loan losses	**(3,762)**	(3,723)	(3,865)	(5,563)	(6,095)
Net loans	**634,516**	609,885	597,118	582,396	598,785
Investments in other Farm Credit institutions	**6,314**	6,315	6,257	6,527	8,905
Other property owned	**70**	787	1,915	2,459	4,281
Other assets	**16,395**	17,691	20,499	17,140	17,588
Total assets	**$ 657,357**	$ 634,772	$ 625,879	$ 608,685	$ 629,774
Notes payable to AgFirst Farm Credit Bank*	**$ 470,033**	$ 454,670	$ 455,836	$ 448,953	$ 478,753
Accrued interest payable and other liabilities with maturities of less than one year	**16,186**	15,406	14,689	13,816	12,663
Total liabilities	**486,219**	470,076	470,525	462,769	491,416
Capital stock and participation certificates	**4,659**	4,615	4,584	4,610	4,678
Unallocated retained earnings	**166,447**	159,909	150,678	141,323	133,984
Accumulated other comprehensive income (loss)	**32**	172	92	(17)	(304)
Total members' equity	**171,138**	164,696	155,354	145,916	138,358
Total liabilities and members' equity	**$ 657,357**	$ 634,772	$ 625,879	$ 608,685	$ 629,774
Statement of Income Data					
Net interest income	**$ 18,289**	$ 18,057	$ 17,615	$ 17,802	$ 19,624
Provision for (reversal of allowance for) loan losses	**(237)**	46	(1,199)	530	4,127
Noninterest income (expense), net	**(4,716)**	(1,717)	(2,716)	(4,266)	(5,754)
Net income	**$ 13,810**	$ 16,294	$ 16,098	$ 13,006	$ 9,743
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.18%**	2.60%	2.64%	2.15%	1.51%
Total members' equity	**8.09%**	10.06%	10.54%	8.95%	7.03%
Net interest income as a percentage of average earning assets	**2.96%**	2.96%	2.96%	3.03%	3.14%
Net (chargeoffs) recoveries to average loans	**0.045%**	(0.031)%	(0.084)%	(0.181)%	(0.790)%
Total members' equity to total assets	**26.03%**	25.95%	24.82%	23.97%	21.97%
Debt to members' equity (:1)	**2.84**	2.85	3.03	3.17	3.55
Allowance for loan losses to loans	**0.59%**	0.61%	0.64%	0.95%	1.01%
Permanent capital ratio	**25.31%**	24.39%	23.62%	22.26%	20.04%
Total surplus ratio	**24.64%**	23.69%	22.90%	21.52%	19.32%
Core surplus ratio	**24.64%**	23.69%	22.90%	21.52%	19.32%
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 7,275**	$ 7,069	$ 6,734	$ 5,646	$ 4,964

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

Management's Discussion & Analysis

of Financial Condition + Results of Operations

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Colonial 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" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for 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 eastern Virginia and southern Maryland. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

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

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.colonialfarmcredit.com***, or by calling 1-(804)-746-1252, or writing Diane E. Schramm, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

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 AgFirst'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 AgFirst District.

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, the Association'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, the Association'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. Our significant accounting policies are critical to the understanding of our results of operations and financial

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

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

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

  Management considers the following factors in determining and supporting the level 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, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

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

ECONOMIC CONDITIONS

The cycle of economic conditions shifted more in 2015 than it has over the past several years. The Federal Reserve Bank raised its Target Funds Rate for the first time since 2006 in December, remaining optimistic about the US economy amid continuing global economic fragility, low oil prices, and low inflation. Trends in the general economy for Maryland and Virginia continued to show signs of improvement. A surge of activity in the housing and real estate markets and declining unemployment rates marked progress in the Association's territory. Some agricultural industries linked to these markets, including the forestry and nursery industries, strengthened as a result. However, lower and more volatile commodity prices combined with weather related challenges reduced profitability for growers of various row crops.

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. In the table below, classifications of loan type information for 2014 and 2013 have been updated for amounts that were previously reported in the 2014 Annual Report to correct errors. See Note 3, Loans and Allowance for Loan Losses, in the Notes to the Financial Statements for information on these classification revisions.

Loan Type	December 31, 2015		2014 (as revised)		2013 (as revised)	
	(dollars in thousands)					
Real estate mortgage	$ 360,463	56.47 %	$ 349,144	56.90 %	$ 348,150	57.93 %
Production and intermediate-term	185,526	29.07	180,264	29.38	171,082	28.47
Processing and marketing	34,851	5.46	32,475	5.29	29,465	4.90
Farm-related business	13,576	2.13	12,665	2.06	12,703	2.11
Communication	2,647	0.41	2,853	0.46	1,959	0.33
Rural residential real estate	39,577	6.20	34,709	5.66	35,393	5.89
Other	1,638	0.26	1,498	0.25	2,231	0.37
Total	$ 638,278	100.00 %	$ 613,608	100.00 %	$ 600,983	100.00 %

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

The Association has a regional office in Hughesville, Maryland. All other regional offices are in the state of Virginia. The geographic distribution of the loans by regional office for the past three years is as follows:

Regional Office	December 31, 2015	2014	2013
Farmville	27.75%	27.24%	28.03%
Hughesville	9.04	8.47	8.82
Mechanicsville	28.02	29.18	28.86
Tappahannock	9.72	10.05	10.17
Windsor	25.47	25.06	24.12
	100.00%	100.00%	100.00%

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's loan portfolio are shown below. As an additional hedge against agriculture industry risk, over 55 percent of the Association's loans at December 31, 2015 were made to borrowers whose repayment capacity was highly dependent upon off-farm income.

Commodity Group	Percent of Portfolio 2015	2014	2013
Field Crops	27%	28%	25%
Timber	26	28	27
Part-time Farmers and Other	24	21	26
Livestock	17	17	16
Rural Home	6	6	6
Total	100%	100%	100%

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers, including part-time farmers. The Association's loan portfolio includes field crops such as cash grains, peanuts, tobacco, and cotton; timber products; and livestock operations including poultry, dairy, beef cattle, swine, and horses. Many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand, supply, weather, and international trade are some of the factors affecting the prices of these commodities. Even though the number and average loan size has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The increase in gross loan volume for the twelve months ended December 31, 2015, is attributed to increased demand in all sectors for working capital, equipment, real estate, and construction.

For the past few years, the Association experienced a slight shift in loan assets. While the majority of loans are real estate mortgages, there has been a gradual shift towards production and intermediate-term loans. The majority of purchased participation loans are held in the long-term portfolio. The short-term portfolio, which is comprised heavily of working capital loans, normally reaches a peak balance in late summer and rapidly declines in the fall months as commodities are marketed and proceeds are applied to these loans.

During 2015, the Association continued buying loan participations within the System on a selective basis. This provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income.

Loan Participations:	December 31, 2015	2014	2013
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 64,581	$ 60,785	$ 53,168
Participations Sold	–	–	–
Total	$ 64,581	$ 60,785	$ 53,168

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

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, the Association originated loans for resale totaling $54,867 in 2015, $38,276 in 2014, and $50,111 in 2013, which were sold into the secondary market.

MISSION RELATED INVESTMENTS

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

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers received equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also included a provision that allowed the quota holders and producers to assign to a "financial institution" the right to receive the contract payments (Successor-in-Interest Contracts (SIIC)) so that they could obtain a lump sum or other payment. On April 4, 2005, the USDA issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout). At December 31, 2015, December 31, 2014, and December 31, 2013, the Association had $0, $0, and $369, respectively, in SIIC outstanding and these are classified as Other Investments on the Consolidated Balance Sheets. The Association received its final contract payment for SIIC in January, 2014 and no longer holds any Mission Related Investments.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loans of more than $250. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

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

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible, but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

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

Credit Quality	2015	2014	2013
Acceptable & OAEM	97.45%	97.06%	96.39%
Substandard	2.55%	2.94%	3.60%
Doubtful	–%	–%	0.01%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

The Association's loan portfolio is divided into performing and high-risk categories. The high-risk assets, including accrued interest, are detailed below:

	December 31,		
High-risk Assets	**2015**	**2014**	**2013**
	(dollars in thousands)		
Nonaccrual loans	$ 7,521	$ 6,656	$ 9,309
Restructured loans	494	341	253
Accruing loans 90 days past due	–	–	–
Total high-risk loans	8,015	6,997	9,562
Other property owned	70	787	1,915
Total high-risk assets	$ 8,085	$ 7,784	$ 11,477
Ratios			
Nonaccrual loans to total loans	1.18%	1.08%	1.55%
High-risk assets to total assets	1.23%	1.23%	1.83%

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 $865 or 13 percent in 2015. This increase is not indicative of a trend in the portfolio, but the deterioration of a few isolated accounts. Of the $7,521 in nonaccrual volume at December 31, 2015, $1,364 or 18.13 percent, compared to 75.20 percent and 61 percent at December 31, 2014, and 2013, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status. This percentage decrease was in part due to the reinstatement of several nonaccrual accounts to accruing status in late 2015.

Loan restructuring is available to financially distressed borrowers who meet certain criteria. 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 determined according to generally accepted accounting principles and considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

In the table below, classifications of loan type information for 2014 and 2013 have been updated for amounts that were previously reported in the 2014 Annual Report to correct errors. See Note 3, Loans and Allowance for Loan Losses, in the Notes to the Financial Statements for information on these classification revisions. The following table presents the activity in the allowance for loan losses for the most recent three years:

Allowance for Loan Losses Activity:	Year Ended December 31, 2015	2014 (as revised)	2013 (as revised)
	(dollars in thousands)		
Balance at beginning of year	$ 3,723	$ 3,865	$ 5,563
Charge-offs:			
Real estate mortgage	(59)	(342)	(76)
Agribusiness	–	–	(498)
Rural residential real estate	–	–	(53)
Production and intermediate-term	(128)	(56)	(140)
Total charge-offs	(187)	(398)	(767)
Recoveries:			
Real estate mortgage	78	67	29
Agribusiness	–	–	75
Rural residential real estate	204	7	40
Production and intermediate-term	181	137	124
Total recoveries	463	211	268
Net (charge-offs) recoveries	276	(188)	(500)
Provision for (reversal of) loan losses	(237)	45	(1,199)
Balance at end of year	$ 3,762	$ 3,723	$ 3,865
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.045%	(0.031)%	(0.084)%

The net loan charge-offs were primarily associated with default occurring in loans that were under-collateralized. Several nonaccrual loans were fully collected during the year.
In the table below, classifications of loan type information for 2014 and 2013 have been updated for amounts that were previously reported in the 2014 Annual Report to correct errors. See Note 3, Loans and Allowance for Loan Losses, in the Notes to the Financial Statements for information on these classification revisions. The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31, 2015	2014 (as revised)	2013 (as revised)
	(dollars in thousands)		
Real estate mortgage	$ 1,477	$ 917	$ 1,134
Production and intermediate-term	1,983	2,574	2,494
Agribusiness	154	109	102
Communication	9	7	5
Energy	5	4	5
Rural residential real estate	134	112	125
Total allowance	$ 3,762	$ 3,723	$ 3,865

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

Allowance for Loan Losses as a Percentage of:	December 31, 2015	2014	2013
Total loans	0.59%	0.61%	0.64%
Nonperforming loans	46.94%	53.21%	40.42%
Nonaccrual loans	50.02%	55.94%	41.52%

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 Interest Income

Net interest income was $18,289, $18,057 and $17,615 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	Nonaccrual Income	Total
	(dollars in thousands)			
12/31/15 - 12/31/14				
Interest income	$ 388	$ 104	$ (32)	$ 460
Interest expense	(94)	355	–	261
Change in net interest income	$ 482	$ (251)	$ (32)	$ 199
12/31/14 - 12/31/13				
Interest income	$ 788	$ (924)	$ (568)	$ (704)
Interest expense	174	(752)	–	(578)
Change in net interest income	$ 614	$ (172)	$ (568)	$ (126)

* *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
	(dollars in thousands)				
Loan fees	$ 392	$ 329	$ 419	19.15%	(21.41)%
Fees for financially related services	61	66	72	(7.58)	(9.09)
Patronage refund from other Farm Credit Institutions	6,365	8,828	9,799	(27.90)	(9.91)
Gains (losses) on sales of rural home loans, net	751	717	808	4.74	(11.22)
Gains (losses) on sales of premises and equipment, net	33	46	59	(28.26)	(22.03)
Insurance Fund refund	–	–	–	–	–
Other noninterest income	267	518	266	(48.46)	94.74
Total noninterest income	$ 7,869	$ 10,504	$ 11,423	(25.09)%	(8.05)%

Income from loan fees increased in 2015, primarily due to more late fees on loans held in the portfolio and an increase in the number of loans sold on the secondary market.

The Association receives patronage refunds from the Bank based on its notes payable. In 2015, 2014, and 2013 the Association received a special patronage distribution of $2,980, $5,415, and $6,435 respectively in addition to the normal patronage of 75 basis points.

Other noninterest income decreased 48.46 percent in 2015 primarily resulting from two factors. First, fee income from leases was lower in 2015 than in 2014. Also in 2014, a reversal of a contingent liability for an anticipated loss on a secondary market loan was recognized, increasing noninterest income beyond normal levels. Similarly, the exceptional lease fee income and reversal of the contingent liability recognized in 2014 were the reasons other noninterest income was 94.74 percent higher in 2014 than 2013.

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	2014/2013
	(dollars in thousands)				
Salaries and employee benefits	$ 9,075	$ 8,933	$ 8,772	1.59%	1.83%
Occupancy and equipment	698	503	507	38.77	(0.79)
Insurance Fund premiums	582	544	451	6.99	20.67
(Gains)losses on other Property owned, net	(60)	84	772	(171.43)	(89.15)
Other operating expenses	2,282	2,147	3,625	6.29	(40.77)
Total noninterest expense	$ 12,577	$ 12,211	$ 14,127	3.00%	(13.56)%

Salaries and employee benefits increased from 2013 to 2014 and from 2014 to 2015 primarily due to merit and incentive increases and increased costs associated with employee benefit plans.

Insurance Fund premiums increased 6.99 percent for the twelve months ended December 31, 2015, compared to the same period of 2014. The Farm Credit System Insurance Corporation (FCSIC) set premiums at 13 basis points on adjusted insured debt outstanding for 2015 and 12 basis points on adjusted insured debt outstanding for 2014. In addition, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

Income Taxes

The Association recorded a provision for income taxes of $8 for the year ended December 31, 2015, as compared to a provision of $10 for 2014 and a provision of $12 for 2013. Refer to Note 2, *Summary of Significant Accounting Policies, 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:

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/15	12/31/14	12/31/13
Return on average assets	2.18%	2.60%	2.64%
Return on average members' equity	8.09%	10.06%	10.55%
Net interest income as a percentage of average earning assets	2.96%	2.96%	2.96%
Net (charge-offs) recoveries to average loans	0.045%	(0.031)%	(0.084)%

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 economy must continue the improvement shown in recent years 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 Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2015, was $470,033 as compared to $454,670 at December 31, 2014 and $455,836 at December 31, 2013. The increase of 3.33 percent compared from December 31, 2014 to December 31, 2015 was attributable to the increase in loan volume while the decrease of 0.24 percent from December 31, 2013 to December 31, 2014 was the result of an increase in retained earnings greater than loan volume growth. The average volume of outstanding notes payable to the Bank was $451,373 and $455,173 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 secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2015.

Funds Management

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

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

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

Relationship with the Bank

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

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

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

CAPITAL RESOURCES

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

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

Total members' equity at December 31, 2015, increased 3.91 percent to $171,138 from the December 31, 2014, total of $164,696. At December 31, 2014, total members' equity increased 6.01 percent from the December 31, 2013 total of $155,354. The increase was primarily attributed to net income partially offset by cash patronage.

Total capital stock and participation certificates were $4,659 on December 31, 2015, compared to $4,615 on December 31, 2014 and $4,584 on December 31, 2013. The increases in 2014 and 2015 were related to new members.

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 standards 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	25.31%	24.39%	23.62%	7.00%
Total surplus ratio	24.64%	23.69%	22.90%	7.00%
Core surplus ratio	24.64%	23.69%	22.90%	3.50%

The increases in the Association's permanent capital ratio, total surplus ratio, and core surplus ratio for December 31, 2015 and December 31, 2014 were attributed to increases in permanent capital that exceeded the rate of growth in risk adjusted assets. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared estimated patronage distributions of $7,275 in 2015, $7,069 in 2014, and $6,734 in 2013.

The Association's Board of Directors adopted a resolution for 2015 that includes a provision to exclude interest contractually due in prior years from the basis on which patronage is factored for nonaccrual loans. This provision allows a borrower whose account(s) has been in nonaccrual status to receive patronage, on the current year's interest obligation, in the year that the account(s) returns to accruing status or is paid in full. Additionally, the resolution also allows for a separate "pool" to be established for any loans originated by the Association for which a portion of the loan is sold as a participation to another lending institution.

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

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

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

- Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

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

	As of December 31, 2015	
	Number of Loans	Amount of Loans
Young	699	$ 54,510
Beginning	1,920	178,016
Small	4,247	331,326

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

The 2012 USDA Ag census is as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory there were 13,431 reported farmers of which by definition 582 or 4.3 percent were Young, 2,557 or 19.0 percent were beginning, and 12,519 or 93.2 percent were small.

Comparatively, as of December 31, 2015, the demographics of the Association's agricultural portfolio contained 4,090 farmers, of which by definition 555 or 13.6 percent were Young, 1,621 or 39.6 percent were Beginning, and 3,222 or 78.8 percent were Small.

The Association currently has a high market share of YBS farmers within its territory. As of December 31, 2015, the Association was doing business with 95.4 percent of the Young farmers, 63.4 percent of the Beginning farmers, and 25.7 percent of the Small farmers identified by the 2012 USDA Ag census data. In spite of that large market share, the Association made 437 loans to farmers classified as Young, Beginning, or Small for $45,717 in new volume for the year ending December 31, 2015. The Association has 38 guaranteed loans for $5,118 to Young, Beginning, and Small farmers, representing 43.71 percent of the total volume of Association loans that are guaranteed.

The board-approved YBS farmer goals for the next three years are to have loans with at least 80 percent of Young farmers, at least 50 percent of Beginning farmers, and at least 30 percent of Small farmers. These goals are based on the 2012 USDA Ag census. Progress towards meeting these goals is reported quarterly to the board of directors.

The following strategies and outreach programs have been conducted, allowing the Association to meet its objectives and goals of the YBS farmer program.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations
- Sponsor seminars on farm transition planning and financial management.
- Promote FSA guaranteed loan program for YBS borrowers to allow the Association to manage risk while providing more opportunities and financing to this group
- Promote our youth loan program to provide loans to youth involved in 4H and FFA projects, primarily livestock or crop production
- Support the Colonial Agricultural Educational Foundation and Agriculture in the Classroom programs in Virginia and Maryland
- Appointment of a young farmer liaison to manage our participation with Virginia and Maryland Farm Bureaus in their young farmer programs
- Partner with neighboring Farm Credit Associations to offer the AgBiz Planner Program. This ten-module course teaches Young farmers about financial management and business planning
- Support YBS activities at Virginia Tech, Virginia State University, and University of Maryland
- Sponsorship and partnership with local farmers' markets and local food cooperatives
- The Association website, www.colonialfarmcredit.com, includes an entire section of information and resources for YBS visitors to the site
- Small farm loan program allows for a lower credit score threshold for applicants with small farms who meet other eligibility criteria

REGULATORY MATTERS

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 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 Wall Street Reform and Consumer Protection Act (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 public comment period was to have ended on January 2, 2015. However, the FCA extended the deadline to allow interested parties additional time to submit comments. The comment period ended on February 16, 2015. 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.

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 (see *Additional Disclosure Required by Farm Credit Administration Regulations section* elsewhere in this Annual Report) 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

2015, and may implement the rule retroactively for the fiscal years ended 2014 and 2013. However, retroactive application is not required. Retroactive application of the new provision requires no special permission from FCA as the rule itself contains this option. Disclosure of the change in calculation for the fiscal years to which the rule was applied retrospectively is required.

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 Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many more months or years.

The Dodd-Frank Act creates new regulators and expands the authority of the Federal Reserve Board over non-bank financial companies previously not subject to its or other bank regulators' direct jurisdiction, particularly those that are considered systemically important to the U.S. financial system. The legislation created the Financial Oversight Council, a coordinating body of financial regulators, which is designed to monitor and pinpoint systemic risks across the financial spectrum. Nevertheless, the Dodd-Frank Act largely preserves the authority of the FCA as the System's independent federal regulator by excluding System institutions from being considered non-bank financial companies and providing other exemptions and exclusions from certain of the law's provisions. Also, the rules prohibiting banking entities from engaging in proprietary trading under the so-called Volcker Rule do not apply to the debt securities issued by the System.

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges or other multilateral platforms, and margin is required for these transactions. Derivative transactions that will not be subject to mandatory trading and clearing requirements may also be subject to minimum margin and capital requirements. As required by the Dodd-Frank Act, the Commodity Futures Trading Commission (CFTC) considered and exempted System institutions from certain of these new requirements, including mandatory clearing for many of the derivative transactions entered into by System institutions.

The aforementioned margin requirements for transactions that are not cleared should not apply to swaps entered into by the banks in connection with loans to members. On January 12, 2015, the President signed the "Terrorism Risk Insurance Program Reauthorization Act of 2015" (the "TRIA Reauthorization Act") into law. Although primarily intended to renew a terrorism risk insurance program that was created in response to the September 11, 2001 attacks, the TRIA Reauthorization Act amends the Commodity Exchange Act to exempt swaps, for which a counterparty is a cooperative that qualifies for an exemption from mandatory clearing, from the Dodd-Frank Act's initial and variation margin requirements for swaps that are not cleared. As discussed above, the CFTC has established a clearing exemption for swaps entered into by cooperatives in connection with loans to members, for which all System institutions qualify. By virtue of this exemption, System Institutions should qualify for the TRIA Reauthorization Act's exemption from the Dodd-Frank Act's initial and variation margin requirements for non-cleared swaps that are entered into in connection with loans to members. The TRIA Reauthorization Act charges the CFTC with implementing the exemption from the margin requirements via the promulgation of an interim final rule, pursuant to which public comment must be sought before a final rule is issued. To date, the CFTC has not taken any action with respect to TRIA Reauthorization Act's margin exemption and thus it remains to be seen how the exemption will be implemented, including its scope and how it is to be claimed.

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.

These new 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

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, interest rates to borrowers, borrower patronage or dividends, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, concentrations of assets, and changes in patronage policies or practices, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

The association is involved in two Unincorporated Business Entities (UBE), which were organized for the purpose of acquiring and managing unusual or complex collateral associated with loans.

Ethanol Holding Company, LLC, is a Delaware Limited Liability Company. The entity was organized for stated purpose of acquiring, holding, managing, preserving and, if appropriate, operating the assets of BFE Operating Company, LLC, Buffalo Lakes Energy, LLC and Pioneer Trail Energy, LLC (the "BFE Entities") and Ethanol Holding Company Minnesota Sub, LLC and Ethanol Holding Company Nebraska Sub, LLC, until such time as such assets may be sold or otherwise disposed of pursuant to the terms of the Operating Agreement of Ethanol Holding Company, LLC.

CBF Holdings, LLC is a North Carolina limited liability company. Subject to and upon the terms of the Operating Agreement, the purpose of CBF Holdings, LLC was to acquire, maintain, operate in an idle mode, market, and re-sell the Purchased Assets (an ethanol plant) and to engage in such activities as may be approved by the Majority Interest (collectively, the "Business"), in each case subject to any limitations of the Act or the Applicable Laws of any jurisdiction in which the Company transacts business. The Company shall be authorized to engage in any and all other activities related to the foregoing.

Description of Property

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

Location	Description	Form of Ownership
7104 Mechanicsville Tnpk. Mechanicsville, VA	Administrative/ Regional Office	Owned
135 Queen Street Tappahannock, VA	Regional Office	Owned
18639 Eltham Road West Point, VA	Office	Owned
428 E. Main Street Waverly, VA	Office	Owned
11295 Windsor Boulevard Windsor, VA	Regional Office	Owned
1700-A S. Main Street Farmville, VA	Regional Office	Owned
201 E. Danville Street South Hill, VA	Office	Owned
22323 E. Main Street Courtland, VA	Office	Rented (1) ($980 per month)
7431 Leonardtown Road Hughesville, MD	Regional Office	Rented (2) ($3,549 per month)
13915 Boydton Plank Road Ste B Dinwiddie, VA	Office	Rented (3) ($800 per month)
22776 Timberlake Road Ste A Lynchburg, VA	Office	Rented (4) ($1,260 per month)
135 Hanbury Road Ste C - 2 Chesapeake, VA	Office	Rented (5) ($1,504 per month)
3064 River Road West Ste E Goochland, VA	Office	Rented (6) ($615 per month)

(1) 1 year lease terminating on February 28, 2016.
(2) 3 year lease terminating on May 31, 2016.
(3) 2 year lease terminating on August 31, 2017.
(4) 5 year lease terminating on February 28, 2019.
(5) 3 year lease terminating on July 31, 2017.
(6) 2 year lease terminating on January 31, 2016.

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 12 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 and their business experience for the past five years:

Senior Officer	Position
Greg B. Farmer	***President and Chief Executive Officer*** since April 2000. Serves as a director and chairman of the finance committee for the Virginia Foundation for Agriculture in the Classroom (provides youth agricultural education) and director for the Friends of Hanover Country Club, LLC (golf course finance investment) and Hanover Country Club, Inc. (country club).
Diane E. Schramm	***Chief Financial Officer and Treasurer*** since August 2013. Previously served as Senior Accountant. Serves as a member of the finance committee for the Virginia Foundation for Agriculture in the Classroom (provides youth agricultural education).
Ronnie G. Gill	***Executive Vice President, Branch and Country Mortgage Operations*** since October 2012. Previously served as Regional Lending Manager. Serves as Treasurer for the Virginia Grain Producers Association (promotion and marketing of grain). He also serves as a director for the Northern Neck Farm Museum (antique farm museum), the Virginia Tech College of Agriculture and Life Sciences Alumni Organization (support of college and alumni enrichment), and the Virginia Advisory Committee for Career and Technical Education (makes career and technical education recommendations to the Virginia Board of Education).
Paul B. Franklin	***Chief Lending Officer*** since February 2007. Serves as a director for the Hanover Arts and Activities Center (non-profit community organization) and for the Virginia Agribusiness Council (advocates for the business interests of the diversified industry of agricultural and forestry).
James S. Belfield	***Chief Information Officer*** since April 2000. Serves as a President of the Virginia Cooperative Council.
Karen Suzanne Nicely	***Director of Human Resources and Corporate Secretary*** since October 2003.

The total amount of compensation earned by the CEO and all senior officers and other highly compensated employees as a group during the years ended December 31, 2015, 2014, and 2013, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value	Perq/ Other**	Total
Greg B. Farmer	2015	$ 287,499	$ 63,451	$ –	$ (39,999)	$ 8,329	$ 319,279
Greg B. Farmer	2014	$ 276,766	$ 61,010	$ –	$ 483,162	$ 6,503	$ 827,441
Greg B. Farmer	2013	$ 270,015	$ 59,522	$ –	$ (147,578) (a)	$ 6,473	$ 188,432
6	2015	$ 777,782	$ 157,110	$ –	$ 213,435	$ 10,873	$ 1,159,201
6	2014	$ 743,090	$ 149,594	$ –	$ 1,078,966	$ –	$ 1,971,650
8	2013	$ 814,696	$ 250,674	$ –	$ (67,289) (b)	$ 5,638	$ 1,003,719

** 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. System banks and associations must comply with the rule for compensation reported in the table for the fiscal year ending 2015, and could implement the rule retroactively for the fiscal years ended 2014 and 2013. The Association applied the rule retroactively to 2014 and 2013 resulting in minor changes from values previously reported in the 2013 Annual Report.*

***Includes travel incentives, group life insurance, automobile compensation spousal travel, relocation and tuition reimbursement. It also includes amounts contributed by the Association on behalf of the senior officer to a defined contribution plan unless the plan is made available to all employees on the same basis.*

(a) Amount revised from $(144,984) presented in 2013 Annual Report to reflect an updated value.

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

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa. A significant decrease in the discount rate assumption from the prior year caused the pension values to increase considerably at December 31, 2014.

Also at December 31, 2014, the life expectancy actuarial assumption was updated to reflect recent mortality studies indicating longer life spans. This change further increased pension values as the benefit payments are expected to be made for a longer time span.

In addition, the assumptions used for the Cash Balance Plan values were updated to reflect expected payouts in two years in conjunction with the plan termination. See Note 9, Employee Benefit Plans, for further information. The acceleration of expected payments significantly increased the pension values for those individuals in the Cash Balance Plan.

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

Prior to the end of each fiscal year the Board reviews the appropriateness of an incentive plan for all Association employees for the following year. In addition to a base salary, employees and senior officers can earn additional compensation under an incentive plan. The Association's 2015 incentive plan was designed to motivate employees to exceed the business plan goals during the fiscal year and covered all non-Country Mortgage Unit staff members employed as of December 31, 2015. A separate incentive plan is in place for appraisal personnel. The plan focused on meeting target earnings, patronage distribution, credit administration, credit quality, and customer service goals. The plan allowed for both individual and group incentives based on performance criteria. Allowable incentives ranged up to 22 percent of base pay at the end of the plan year for senior officers, and up to 19 percent of base pay in effect at the end of the plan year for other employees depending upon their position. Also, all employees are eligible to receive awards based upon 1) years of service or 2) exceptional performance as defined in the plan. Bonuses and incentives are shown in the year earned and are paid in the first quarter of the subsequent year.

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

The compensation plan for the CEO and other senior officers is approved annually by the Compensation Committee, guided by the following policy objective:

To provide a comprehensive compensation plan that assists management in attracting and retaining professional, motivated, customer-oriented employees, and which appropriately rewards employees taking into consideration competition, local-market compensation levels, expertise, experience and contributions (individual and team) to the association's success. These objectives will be accomplished by:

- Utilizing the AgFirst District salary and grade schedules, as well as other market data and studies, for grade placement, merit increases and salary level.
- Participating in AgFirst District benefit plans, as well as offering other benefits as deemed appropriate by the board.
- Utilizing a combination of salary, variable pay, benefits and special awards.
- Tying compensation to the achievement of business plan objectives and individual goals, and emphasizing balance among the four primary critical performance areas: asset growth, asset quality, earnings and human resources.
- Providing an honest and objective performance appraisal review to each employee at least annually.

The CEO and other senior officers participate in the identical compensation, retirement, incentive and benefit plans, with the exception of the CEO's supplemental non-qualified retirement plan, as described below.

Senior officers are paid a competitive, market-based salary commensurate with their tenure, expertise and education. Salary ranges for each position are adjusted periodically based on compensation studies. Senior officers are eligible for an annual salary increase based on merit, as determined by an annual performance appraisal review documenting individual performance relative to individual goals and business plan objectives for the calendar year. The CEO's performance evaluation and any merit increase are approved by the board of directors in December, upon recommendation from the Compensation Committee. The CEO prepares and approves the annual performance appraisal review and determines merit increases for other senior officers in February. Merit increases for all senior officers are effective February 1, and generally fall within ranges approved annually by the Compensation Committee. These ranges are differentiated by individual performance rating and current salary relative to the salary range midpoint. Merit increases are typically not granted once an employee reaches the mid-point of the salary range, which is considered the "market value" of the job. Salary ranges are adjusted annually based on market studies.

The Association's salary plan for senior officers (including annual merit increases) provides a base compensation plan that is market-driven, allowing for the attraction and retention of professional managers to implement the Association's strategic and annual business plans. Attracting and retaining high quality employees is critical to the Association's long-term success, including the goal of filling mid-level management and senior officer positions from within. A low rate of senior officer turnover is critical in achieving our mission and providing stable leadership and strong financial performance. Overall senior officer salaries are controlled by the Compensation Committee's approval of salary ranges and merit increase ranges.

Senior officers participate in an incentive compensation plan. The objectives of this plan are to:

- Ensure compensation structure is consistent with the Association's core purpose, core values and strategic business plan,
- Focus decisions and actions on key operating objectives that will provide long-term financial growth and stability to the Association,
- Provide competitive compensation packages in order to attract, motivate, reward and retain superior employees,
- Provide flexibility to management in assigning workload to maximize allocation of resources and expertise,
- Reinforce a sales culture,
- Emphasize teamwork, and

- Respond to an increasingly significant practice of goal oriented cash incentives among financial institutions.

This incentive plan contains several Association-level performance measures which must be met before a payout under either of the two components described below is possible, including: payment of a patronage refund, compliance with funding bank loan agreement covenants, not being under a regulatory enforcement action, and minimum credit management, credit quality and customer service measures. Payments under either component are based upon performance for the previous calendar year and are made during the first quarter, after the annual external audit is finalized.

The incentive plan contains a profit sharing component. In order to receive payment under this component, the senior officer must receive an "effective" overall annual performance rating, and the Association's core earnings must be equal to or greater than budget. Payout is in increments from 3 percent up to a maximum of 7 percent of year-end salary, depending upon the level of core earnings relative to budget.

The incentive plan also contains an individual performance incentive component, whereby the senior officer can earn up to an additional 15 percent of year-end salary if his/her annual performance rating falls into the highest quadrant ("highly effective"). The level of incentive paid to the CEO, if any, is approved by the board of directors upon recommendation from the Compensation Committee. Payments to other senior officers are determined by the CEO.

Incentive-based compensation for senior officers is reasonable and proportionate to the services performed and results achieved, and it is structured to prevent undue risk to the Association, by virtue of:

- The plan's structure which prevents payout if the Association is experiencing financial or credit problems, doesn't pay a patronage to customers, is not adequately serving its customers or is under a regulatory enforcement action,
- Senior officers having to achieve at least "effective" overall performance ratings to receive payment, and
- The total maximum payment for senior officers being a modest 22 percent of salary, with actual payout level determined by both individual and overall Association performance.

Senior officers participate in one of two qualified retirement plans, depending upon their original date of employment. Both retirement plans vest after five years of continuous creditable service.

A defined benefit plan is provided those officers employed prior to January 1, 2003. Benefits are determined based on years of service times highest consecutive thirty-six month average salary times 2 percent. Full benefit payments are payable upon retirement at age 65, or at age 62 with 10 years of service. Additionally, unreduced benefits are payable based on the "rule of 85", provided the officer is at least 55 years of age and his/her age plus years of service total at least 85.

Senior officers employed between January 1, 2003 and December 31, 2014, participate in a defined contribution retirement plan. The Association contributed 3 percent of salary annually for the first five years of employment, 4 percent of salary annually for the second five years of employment and 5 percent of salary annually thereafter. Annual investment yield is based on U.S. Treasury note yields. This plan was frozen effective December 31, 2014 and was replaced with a nonelective employer contribution of 3 percent of total compensation into the 401(k) savings plan for all senior officers employed after December 31, 2002.

The Association sponsors a non-qualified, defined-benefit, supplemental executive retirement plan for the CEO. The purpose of the non-qualified plan is to provide benefits that supplement the IRS limitations imposed on the qualified defined-benefit plan in which the Association's employees participate. For eligible key employees, compensation in excess of the 401(a)(17) limit and benefits in excess of the 415(b) limit in the qualified defined-benefit plan will be made up through the non-qualified plan. As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association.

This plan does not expand the CEO's total compensation or the Association's expenses, but serves only to make him "whole" considering IRS payment limitations on the qualified retirement plan.

The total accumulated pension benefits for the CEO and all senior officers as a group as of December 31, 2015, are as follows:

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:					
Greg B. Farmer	2015	AgFirst Retirement Plan	40	$ 2,983,333	$ –
Greg B. Farmer	2015	Supplemental Executive Retirement Plan	40	274,503	–
				$ 3,257,836	$ –
Senior Officers and Highly Compensated Employees:					
6 Officers, excluding the CEO	2015	AgFirst Retirement Plan	24*	$ 4,739,136	$ –
				$ 4,739,245	$ –

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

Senior officers may also participate in a 401(k) savings plan, with the level of Association matching contributions determined by date of employment. For officers employed before January 1, 2003, the Association matches employee contributions 50 percent up to 6 percent of salary. For those hired after December 31, 2002, the Association matches employee contributions 100 percent up to 6 percent of salary. Various investment options are available for these funds, and vesting is immediate.

Market-based retirement and tax advantaged savings plans for senior officers are critical components to a competitive overall compensation plan. Such a plan is necessary for the attraction and retention of professionals capable of effectively implementing the Association's strategic and annual business plans. Association financial risk is mitigated by adjusting provisions when necessary to control costs and remain competitive, such as was done for employees hired after December 31, 2002, and subsequent changes to the defined contribution retirement plan and 401(k) savings plan.

Senior officers participate in various other benefits which are also offered to all employees, such as: medical insurance; annual, holiday and sick leave; life and disability insurance; and, milestone service awards. Additionally, senior officers are reimbursed for out-of-pocket travel, lodging and subsistence costs. A copy of the reimbursement policy is available upon request.

The Association's strong performance during 2015 in the areas of earnings, credit quality, loan growth, capital, liquidity and audit results supported payouts from both components of the incentive plan described above near the maximum levels. Virtually all business plan objectives and goals were met or exceeded. Further, the individual and team performance of the CEO and other senior officers were consistent with the level of these incentive payments and with their overall compensation.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, and total cash compensation paid:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION	TOTAL COMP. PAID DURING 2015
Hugh S. Jones, ***Chairman***	2003	2017	$12,100
John E. Bickford ***Vice-Chairman*** *Appointed Stockholder Director*	2014	2018	6,600
Jennifer U. Cuthbertson, *Appointed Director*	2007	2017	9,300
John F. Davis	2005	2016	8,200
Stanley O. Forbes, Sr., *Appointed Director*	1996	2019	9,000
Clarke E. Fox	1997	2017	12,200
Duane D. Gilliam	2011	2019	4,200
Jeffrey W. Griffith	2014	2016	5,600
Susan D. Hance-Wells	2004	2018	8,000
Robert M. Jones	2013	2017	6,400
R. Kenneth Hatcher, Sr.	2008	2016	10,400
L. Wayne Kirby	2005	2016	8,800
John N. Mills, Jr.	1996	2019	12,700
A. Kevin Monahan	2011	2019	6,000
Forrest C. Nuckols**	1998	2015	4,200
Paul W. Rogers, Jr.	1988	2018	10,100
Robert H. Spiers, Jr.	1988	2018	7,800
Robert R. Womack	2014	2018	6,000
			$147,600

*** Forrest C. Nuckols retired in August 2015.*

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

Mr. Hugh S. Jones, Chairman of the Board, Compensation Committee, and Executive Committee, is president, majority owner, and operator of Richlands Dairy Farm, Inc. Mr. Jones also serves as a director and member of the steering committee of the Virginia Tech Southern Virginia Research Station (agricultural research) and as a director of the Nottoway Planning Commission (county planning).

Mr. John E. Bickford, Vice Chairman of the Board and Chairman of the Governance Committee, is a consulting forester involved in timber management, timber sales, and timber evaluations for non-industrial landowners. He owns Bickford Timber and Land Management, Inc., a timber consulting and management business. He also serves as a licensed real estate agent for Cox and Company Real Estate

and Insurance and as Chairman of Buckingham County Planning Commission.

Mrs. Jennifer U. Cuthbertson, Audit Committee Chairman, is a watermelon, pumpkin, goat, cattle, wheat, corn, soybean, grain sorghum, timber and hay farmer, and a tax advisor for H&R Block. Mrs. Cuthbertson was a business analyst for Southern States Cooperative (agricultural supply cooperative) until May 2009.

Mr. John F. Davis is a retired farmer and self-employed farm consultant for Mill Creek Farms, LLC.

Mr. Stanley O. Forbes, Sr. retired from Federal Agricultural Mortgage Association in April 1994 (vice president in charge of agricultural finance) and was employed from March 1998 to March 1999 by Statesman Financial Corporation (senior credit officer, financial services). Mr. Forbes serves on the board of the Virginia Foundation for Agriculture in the Classroom (provides youth agricultural education).

Mr. Clarke E. Fox, Legislative Committee Chairman, serves as President of Foxhill Farms, Inc., a peanut, cotton, corn, soybean, watermelon, and timber farm. Mr. Fox also serves as a president of the Virginia Peanut Growers Association (promotes peanut industry) and as a director of the Virginia/Carolina Peanut Promotions (promotes peanut industry).

Mr. Duane D. Gilliam is president, treasurer, co-owner, and manager of Lynchburg Livestock Market, Inc., president and owner of Cedar Rock Farms LLC (cattle farms in central Virginia), and co-owner of Falling River Properties, LLC (land, timber, and cattle). Mr. Gilliam also owns an interest Metcalf, Gilliam, Fariss, LLC (real estate).

Mr. Jeffrey W. Griffith is a grain, hay, and vegetable farmer. He serves as vice president of the Anne Arundel County Farm Bureau (agriculture, insurance, service, and lobbying organization) and is a member of Future Farmers of America Alumni (promoting FFA), Maryland Soybean Board (administering checkoff), and Anne Arundel Agricultural Preservation Advisory Board (advises county on agricultural matters).

Mrs. Susan D. Hance-Wells is a hay, grain, and beef cattle farmer, owner of Battle Creek, LLC, and is also involved in horse breeding and boarding. She serves as Chairman of the Calvert County Board of Appeals (zoning and critical area of regulation appeals), as Chairman of the Calvert County Farm Bureau (agriculture, insurance, service, and lobbying organization), as honorary director of the Calvert Farmland Trust (promotes agricultural land preservation, and as a director of Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education).

Mr. R. Kenneth Hatcher, Sr., is a beef cattle and grain farmer and also constructs residential properties. He operated Hatcher's Dairy, Inc. (dairy farm) until 2008.

Mr. Robert M. Jones is the owner of Poor House Dairy Farm. Director and management positions or affiliations with other organizations include: chairman of the board of Farmers' Cooperative (ag production products), board member of Cooperative Milk Producers (milk marketing), member and past president of Prince Edward Farm Bureau (agriculture, insurance, service and lobbying organization), board member of Prince Edward County Board of Supervisors and Prince Edward County Planning Commission.

Mr. L. Wayne Kirby is a row crop farmer and owner of Creamfield Farm LLC, a production manager for a local grain farm, and a commissioned agent for Helena Chemical Company (agricultural chemical sales and consultation). Mr. Kirby serves as a director of the Virginia Grain Producers Association, Inc. (promotion and marketing of grain), a director of the Virginia Agribusiness Council (industry lobbying organization), and on the Virginia Board of Agriculture and Consumer Services (promotes Virginia agriculture interests).

Mr. John N. Mills, Jr., is a partner in John N. Mills & Sons family farm business (growing and marketing corn, wheat, barley, soybean, and beef cattle). He serves as a director of the Virginia Identity Preserved Grains (small grain promotion and marketing) and the King William County Farm Bureau (agriculture insurance, service, and lobbying organization). He is also a partner in H&F LLC, which is a partner in York River Mitigation Bank (wetlands mitigation development).

Mr. A. Kevin Monahan is a row crop, beef cattle, and timber farmer and owner of Monahan Farms, LLC and Bowling Green Farms, LLC. Mr. Monahan also serves on the board of the Surry County, Virginia, Planning Commission (county planning) and the Waverly Ruritan Club (community service organization), and the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education).

Mr. Forrest C. Nuckols is President of Eastview Farm, Inc. (dairy farm that sells breeding stock and hay). He is also a partner in AP Nuckols & Sons (timber sales and management). He served as director of the Colonial Agricultural Educational Foundation (provides funding for college scholarships and other youth education) until August 2015 and is a member of the Hanover County, Virginia, Agricultural and Forestal District Advisory Committee (agriculture and timber land management).

Mr. Paul W. Rogers, Jr., is a partner of Rogers Farms Partnership, a cotton, grain, timber, and peanut farm and owner of Paul W. Rogers, Jr., LLC. Mr. Rogers serves as a director for the Peanut Standards Board (promotes peanuts). Mr. Rogers also serves as Chairman of the AgFirst District Advisory Committee (makes recommendations to AgFirst Farm Credit Bank Board on association and district matters).

Mr. Robert H. Spiers, Jr. is a flue tobacco, corn, wheat, milo, and soybean farmer, owning and managing Spiers Farm LLC. He serves on the board of the AgFirst Farm Credit Bank (agricultural cooperative discount bank), the AgFirst District Farm Credit Council (legislative lobbying), the national Farm Credit Council (industry legislative lobbying), Dinwiddie County Farm Bureau (agriculture insurance, service, and lobbying organization), the Virginia Flue-Cured Tobacco Board (governs use of Virginia tobacco check off funds), the Virginia Tobacco Region Revitalization Commission (promotes economic development in Virginia's tobacco region), the Tobacco Associates Inc. Board (promotes export of

tobacco), and the Farm Credit Benefits Alliance Plan Sponsor Committee (governs AgFirst and Texas Farm Credit Districts employee benefits programs).

Mr. Robert R. Womack is owner and operator of Woodville Farm, Inc., a poultry and beef cattle farm. He is vice president of Buckingham Cattleman Association (breed promotion and marketing).

In accordance with board policy, the Association pays directors honoraria ranging from $200 to $600, for attendance at meetings, committee meetings, conference call meetings, or special assignments. Directors are paid a monthly retainer fee of $150, except for the chairman of the board who receives $375 and the chairmen of the Audit, Legislative, and Governance committees who receive $225. Total compensation paid to directors as a group was $147,600 for 2015. No director received more than $7,000 in non-cash compensation during the year.

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

	Days Served			
Name of Director	**Regular Board Meetings**	**Committee Meetings**	**Committees***	**Committee Compensation**
Hugh S. Jones	5	–	Executive	–
Chairman		1	Compensation	600
		2	Governance	1,200
		8	Other Activities	2,800
John E Bickford	5	–	Executive	–
Vice-Chairman		1	Compensation	600
Appointed Stockholder		1	Governance	600
Director		3	Other Activities	600
Jennifer U. Cuthbertson,	5	–	Executive	–
Appointed Director		4	Audit	2,400
		1	Governance	600
		3	Other Activities	600
John F. Davis	5	4	Audit	2,400
		5	Other Activities	1,000
Stanley O. Forbes, Sr.,	5	4	Audit	2,400
Appointed Director		1	Compensation	600
		1	Governance	600
		3	Other Activities	600
Clarke E. Fox	5	–	Executive	–
		3	Audit	1,800
		1	Compensation	600
		–	Governance	–
		13	Other Activities	5,000
Duane D. Gilliam	3	1	Governance	600
		–	Other Activities	–
Jeffery W. Griffith	5	4	Other Activities	800
Susan D. Hance-Wells	5	2	Governance	1,200
		4	Other Activities	2,000
R. Kenneth Hatcher, Sr.	5	–	Executive	–
		3	Audit	1,800
		2	Governance	1,200
		7	Other Activities	2,600
Robert M. Jones	4	5	Other Activities	2,200
L. Wayne Kirby	5	–	Executive	–
		1	Compensation	600
		1	Governance	600
		8	Other Activities	2,800
John N. Mills, Jr.	5	–	Executive	–
		1	Compensation	600
		2	Governance	1,200
		14	Other Activities	5,200
A. Kevin Monahan	5	1	Governance	600
		3	Other Activities	600
Forrest C. Nuckols	3	1	Governance	600
		3	Other Activities	600
Paul W. Rogers, Jr.	5	2	Governance	1,200
		10	Other Activities	3,200
Robert H. Spiers, Jr.**	5	4	Audit	2,400
		1	Compensation	600
Robert R. Womack	4	3	Other Activities	1,800

**Some may be same day meeting(s) with no additional compensation*

***Days of service disclosed for Mr. Spiers as a member of the Colonial Farm Credit board do not reflect activities in his capacity as an AgFirst Farm Credit Bank board member. For further information related to specific duties and days served in those positions, please see the AgFirst Farm Credit Bank 2015 Annual Report at www.agfirst.com.*

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $47,160 for 2015, $52,957 for 2014, and $61,771 for 2013.

Transactions with Senior Officers and Directors

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

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2015, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2015.

Involvement in Certain Legal Proceedings

There were no other 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 Certified Public Accountants

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

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

	2015
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP	
Audit services	$ 86,789
Total	$ 86,789

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

Consolidated Financial Statements

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

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling (804) 746-1252, writing Diane E. Schramm, Chief Financial Officer, Colonial Farm Credit, ACA, 7104 Mechanicsville Turnpike, Mechanicsville, VA 23111, or accessing the website, ***www.colonialfarmcredit.com.*** The Association prepares an electronic version of the Annual Report which is available on the Association's website within 75 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.

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

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

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's website 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 and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report, which is available on the Bank's website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the

Audit Committee

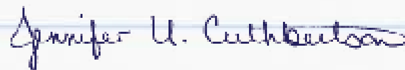
The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Colonial Farm Credit, ACA (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association 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.

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

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

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



Jennifer U. Cuthbertson
Chairman of the Audit Committee

Members of Audit Committee

John F. Davis
Stanley O. Forbes, Sr.
Clarke E. Fox
R. Kenneth Hatcher, Sr.
Robert H. Spiers, Jr.

March 10, 2016

Report of Independent Certified Public Accountants

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Certified Public Accountants' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 10, 2016

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

Consolidated

Balance Sheets

(dollars in thousands)	2015	December 31, 2014	2013
Assets			
Cash	**$ 62**	$ 94	$ 90
Loans	**638,278**	613,608	600,983
Allowance for loan losses	**(3,762)**	(3,723)	(3,865)
Net loans	**634,516**	609,885	597,118
Loans held for sale	**1,308**	240	1,679
Other investments	**—**	—	369
Accrued interest receivable	**4,602**	4,325	3,986
Investments in other Farm Credit institutions	**6,314**	6,315	6,257
Premises and equipment, net	**1,558**	1,677	1,764
Other property owned	**70**	787	1,915
Accounts receivable	**6,437**	8,914	9,589
Other assets	**2,490**	2,535	3,112
Total assets	**$ 657,357**	$ 634,772	$ 625,879
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 470,033**	$ 454,670	$ 455,836
Accrued interest payable	**1,013**	961	990
Patronage refunds payable	**7,352**	7,155	6,809
Accounts payable	**1,449**	1,541	1,306
Other liabilities	**6,372**	5,749	5,584
Total liabilities	**486,219**	470,076	470,525
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**4,659**	4,615	4,584
Unallocated retained earnings	**166,447**	159,909	150,678
Accumulated other comprehensive income	**32**	172	92
Total members' equity	**171,138**	164,696	155,354
Total liabilities and members' equity	**$ 657,357**	$ 634,772	$ 625,879

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

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2015	2014	2013
Interest Income			
Loans	**$ 29,782**	$ 29,289	$ 29,406
Investments	**—**	1	20
Total interest income	**29,782**	29,290	29,426
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**11,493**	11,233	11,811
Net interest income	**18,289**	18,057	17,615
Provision for (reversal of allowance for) loan losses	**(237)**	46	(1,199)
Net interest income after provision for (reversal of allowance for) loan losses	**18,526**	18,011	18,814
Noninterest Income			
Loan fees	**392**	329	419
Fees for financially related services	**61**	66	72
Lease income	**111**	218	87
Patronage refunds from other Farm Credit institutions	**6,365**	8,828	9,799
Gains (losses) on sales of rural home loans, net	**751**	717	808
Gains (losses) on sales of premises and equipment, net	**33**	46	59
Gains (losses) on other transactions	**—**	147	(7)
Other noninterest income	**156**	153	186
Total noninterest income	**7,869**	10,504	11,423
Noninterest Expense			
Salaries and employee benefits	**9,075**	8,933	8,772
Occupancy and equipment	**698**	503	507
Insurance Fund premiums	**582**	544	451
(Gains) losses on other property owned, net	**(60)**	84	772
Other operating expenses	**2,282**	2,147	3,625
Total noninterest expense	**12,577**	12,211	14,127
Income before income taxes	**13,818**	16,304	16,110
Provision for income taxes	**8**	10	12
Net income	**$ 13,810**	$ 16,294	$ 16,098

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

Consolidated Statements of

Comprehensive Income

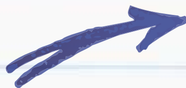
(dollars in thousands)	For the year ended December 31, 2015	2014	2013
Net income	**$ 13,810**	$ 16,294	$ 16,098
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(140)**	80	109
Comprehensive income	**$ 13,670**	$ 16,374	$ 16,207

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	Unallocated Retained Earnings	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2012	$ 4,610	$ 141,323	$ (17)	$ 145,916
Comprehensive income		16,098	109	16,207
Capital stock/participation certificates issued/(retired), net	(26)			(26)
Patronage distribution				
Cash		(6,734)		(6,734)
Patronage distribution adjustment		(9)		(9)
Balance at December 31, 2013	$ 4,584	$ 150,678	$ 92	$ 155,354
Comprehensive income		16,294	80	16,374
Capital stock/participation certificates issued/(retired), net	31			31
Patronage distribution				
Cash		(7,069)		(7,069)
Patronage distribution adjustment		6		6
Balance at December 31, 2014	$ 4,615	$ 159,909	$ 172	$ 164,696
Comprehensive income		**13,810**	**(140)**	**13,670**
Capital stock/participation certificates issued/(retired), net	**44**			**44**
Patronage distribution				
Cash		**(7,275)**		**(7,275)**
Patronage distribution adjustment		**3**		**3**
Balance at December 31, 2015	**$ 4,659**	**$ 166,447**	**$ 32**	**$ 171,138**



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	**$ 13,810**	$ 16,294	$ 16,098
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**226**	250	231
Amortization (accretion) of net deferred loan costs (fees)	**197**	126	76
Premium amortization (discount accretion) on investments	**—**	(1)	(20)
Provision for (reversal of allowance for) loan losses	**(237)**	46	(1,199)
(Gains) losses on other property owned	**(74)**	(8)	690
(Gains) losses on sales of premises and equipment, net	**(33)**	(46)	(59)
(Gains) losses on sales of rural home loans, net	**(751)**	(717)	(808)
(Gains) losses on other transactions	**—**	(147)	7
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(32,671)**	(27,466)	(36,117)
Proceeds from sales of loans held for sale, net	**32,354**	29,622	38,201
(Increase) decrease in accrued interest receivable	**(277)**	(339)	86
(Increase) decrease in accounts receivable	**2,477**	675	(5,230)
(Increase) decrease in other assets	**45**	577	123
Increase (decrease) in accrued interest payable	**52**	(29)	(41)
Increase (decrease) in accounts payable	**(92)**	235	735
Increase (decrease) in other liabilities	**491**	377	(820)
Total adjustments	**1,707**	3,155	(4,145)
Net cash provided by (used in) operating activities	**15,517**	19,449	11,953
Cash flows from investing activities:			
Net (increase) decrease in loans	**(24,183)**	(13,663)	(14,780)
(Increase) decrease in investment in other Farm Credit institutions	**1**	(58)	270
Proceeds from payments received on other investments	**—**	370	370
Purchases of premises and equipment	**(108)**	(165)	(198)
Proceeds from sales of premises and equipment	**34**	48	62
Proceeds from sales of other property owned	**375**	1,875	1,035
Net cash provided by (used in) investing activities	**(23,881)**	(11,593)	(13,241)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**15,363**	(1,166)	6,883
Capital stock and participation certificates issued/(retired), net	**44**	31	(26)
Patronage refunds and dividends paid	**(7,075)**	(6,717)	(5,642)
Net cash provided by (used in) financing activities	**8,332**	(7,852)	1,215
Net increase (decrease) in cash	**(32)**	4	(73)
Cash, beginning of period	**94**	90	163
Cash, end of period	**$ 62**	$ 94	$ 90
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ 729**	$ 190	$ —
Receipt of property in settlement of loans	**321**	914	1,181
Estimated cash dividends or patronage distributions declared or payable	**7,275**	7,069	6,734
Employee benefit plans adjustments (Note 9)	**140**	(80)	(109)
Supplemental information:			
Interest paid	**$ 11,441**	$ 11,262	$ 11,852
Taxes (refunded) paid, net	**—**	5	4

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

Notes

to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Colonial Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Amelia, Amherst, Appomattox, Brunswick, Buckingham, Campbell, Caroline, Charles City, Charlotte, Chesterfield, Cumberland, Dinwiddie, Essex, Fluvanna, Gloucester, Goochland, Greensville, Hanover, Henrico, Isle of Wight, King and Queen, King George, King William, James City, Lancaster, Louisa, Lunenburg, Mathews, Mecklenburg, Middlesex, New Kent, Northumberland, Nottoway, Powhatan, Prince Edward, Prince George, Richmond, Southampton, Surry, Sussex, Westmoreland, York, and the cities of Chesapeake, Newport News, Suffolk and Virginia Beach in the state of Virginia and the counties of Anne Arundel, Calvert, Charles, Prince George's and Saint Mary's in the state of Maryland.

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

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

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year end, the 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 General Financing Agreement (GFA) between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as: accounting, human resources, information systems, and marketing. The costs of these support services are included in the cost of the Direct Note,

or in some cases billed directly to certain Associations that use a specific service.

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant

judgment about when a loss has been incurred and the amount of that loss.

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

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

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

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

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

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

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

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

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

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

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

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

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

   As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the Consolidated Statements of Comprehensive Income and the

balance of these investments, totaling $943, is included in Other Assets on the accompanying Consolidated Balance Sheet as of December 31, 2015.

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

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

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

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

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

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

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

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

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

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

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

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

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

The ACA holding company and the PCA subsidiary are subject to federal, state, and certain other income taxes.

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

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

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

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

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value which are discussed in Note 8.

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.

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

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

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

M. **Accounting Standards Updates (ASUs):** In February, 2016, the FASB issued ASU 2016-02 Leases (Topic 842). The Update is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, the new ASU will require both types of leases to be recognized on the balance sheet. The Update also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The accounting by organizations that

own the assets leased by the lessee—also known as lessor accounting—will remain largely unchanged from current guidance. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The amendments are effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other organizations, the ASU on leases will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application will be permitted for all organizations. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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

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

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

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

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

In May, 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Topic 820 permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

Prior to issuance of this 2015 Annual Report, management identified errors in classification of the loan portfolio among the various FCA loan type categories that are used to report disaggregated loan information in footnote disclosures. Upon further examination, management determined that the errors in loan category designation occurred as the controls designed around verification of loan data input did not adequately consider verification of this data field.

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

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

	December 31, 2014		
(dollars in thousands)	As Previously Reported	Adjustment	As Revised
Real estate mortgage	$ 384,845	$ (35,701)	$ 349,144
Production and intermediate-term	158,212	22,052	180,264
Loans to cooperatives	67	(15)	52
Processing and marketing	32,859	(384)	32,475
Farm-related business	9,656	3,009	12,665
Communication	2,853	–	2,853
Energy and water/waste disposal	1,446	–	1,446
Rural residential real estate	23,670	11,039	34,709
Total Loans	$ 613,608	$ –	$ 613,608

(dollars in thousands)	December 31, 2013 As Previously Reported	Adjustment	As Revised
Real estate mortgage	$ 386,812	$ (38,662)	$ 348,150
Production and intermediate-term	147,607	23,475	171,082
Loans to cooperatives	397	–	397
Processing and marketing	29,280	185	29,465
Farm-related business	9,879	2,824	12,703
Communication	1,959	–	1,959
Energy and water/waste disposal	1,834	–	1,834
Rural residential real estate	23,215	12,178	35,393
Total Loans	$ 600,983	$ –	$ 600,983

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	$ 360,463	$ 349,144	$ 348,150
Production and intermediate-term	185,526	180,264	171,082
Loans to cooperatives	77	52	397
Processing and marketing	34,851	32,475	29,465
Farm-related business	13,576	12,665	12,703
Communication	2,647	2,853	1,959
Energy and water/waste disposal	1,561	1,446	1,834
Rural residential real estate	39,577	34,709	35,393
Total Loans	$ 638,278	$ 613,608	$ 600,983

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	$ 4,973	$ –	$ –	$ –	$ –	$ –	$ 4,973	$ –
Production and intermediate-term	20,031	–	1,031	–	–	–	21,062	–
Loans to cooperatives	82	–	–	–	–	–	82	–
Processing and marketing	28,973	–	–	–	–	–	28,973	–
Farm-related business	5,268	–	–	–	–	–	5,268	–
Communication	2,652	–	–	–	–	–	2,652	–
Energy and water/waste disposal	1,571	–	–	–	–	–	1,571	–
Total	$ 63,550	$ –	$ 1,031	$ –	$ –	$ –	$ 64,581	$ –

	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	$ 4,719	$ –	$ –	$ –	$ –	$ –	$ 4,719	$ –
Production and intermediate-term	19,850	–	1,152	–	–	–	21,002	–
Processing and marketing	25,152	–	–	–	–	–	25,152	–
Farm-related business	5,544	–	–	–	–	–	5,544	–
Communication	2,857	–	–	–	–	–	2,857	–
Other	1,511	–	–	–	–	–	1,511	–
Total	$ 59,633	$ –	$ 1,152	$ –	$ –	$ –	$ 60,785	$ –

	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	$ 4,903	$ –	$ –	$ –	$ –	$ –	$ 4,903	$ –
Production and intermediate-term	18,229	–	–	–	–	–	18,229	–
Processing and marketing	21,221	–	118	–	–	–	21,339	–
Farm-related business	4,476	–	–	–	–	–	4,476	–
Communication	1,967	–	–	–	–	–	1,967	–
Other	2,254	–	–	–	–	–	2,254	–
Total	$ 53,050	$ –	$ 118	$ –	$ –	$ –	$ 53,168	$ –

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:

	December 31, 2015			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 3,999	$ 31,530	$ 324,934	$ 360,463
Production and intermediate-term	95,155	73,090	17,281	185,526
Loans to cooperatives	–	77	–	77
Processing and marketing	3,683	13,931	17,237	34,851
Farm-related business	2,095	7,890	3,591	13,576
Communication	1,197	1,450	–	2,647
Energy and water/waste disposal	–	1,561	–	1,561
Rural residential real estate	13,994	5,192	20,391	39,577
Total Loans	$ 120,123	$ 134,721	$ 383,434	$ 638,278
Percentage	18.82%	21.11%	60.07%	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	94.83%	94.46%	93.43%
OAEM	2.36	2.46	2.59
Substandard/doubtful/loss	2.81	3.08	3.98
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	93.13%	92.79%	89.50%
OAEM	4.25	3.88	6.85
Substandard/doubtful/loss	2.62	3.33	3.65
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	(6.24)%	(5.15)%	100.00%
OAEM	–	105.15	–
Substandard/doubtful/loss	106.24	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	99.76%	99.12%	98.90%
OAEM	0.24	0.26	0.30
Substandard/doubtful/loss	–	0.62	0.80
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	99.15%	98.99%	98.92%
OAEM	–	–	–
Substandard/doubtful/loss	0.85	1.01	1.08
	100.00%	100.00%	100.00%

	December 31,		
	2015	2014 (as revised)	2013 (as revised)
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Energy and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	96.70%	96.46%	95.97%
OAEM	0.62	0.72	0.59
Substandard/doubtful/loss	2.68	2.82	3.44
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	94.83%	94.45%	92.89%
OAEM	2.62	2.61	3.50
Substandard/doubtful/loss	2.55	2.94	3.61
	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	$ 3,112	$ 1,849	$ 4,961	$ 358,024	$ 362,985	$ –
Production and intermediate-term	2,283	2,024	4,307	183,041	187,348	–
Loans to cooperatives	–	–	–	77	77	–
Processing and marketing	–	–	–	34,912	34,912	–
Farm-related business	–	–	–	13,621	13,621	–
Communication	–	–	–	2,647	2,647	–
Energy and water/waste disposal	–	–	–	1,562	1,562	–
Rural residential real estate	295	10	305	39,423	39,728	–
Total	$ 5,690	$ 3,883	$ 9,573	$ 633,307	$ 642,880	$ –

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	$ 3,744	$ 578	$ 4,322	$ 347,317	$ 351,639	$ –
Production and intermediate-term	1,382	54	1,436	180,405	181,841	–
Processing and marketing	201	–	201	32,340	32,541	–
Farm-related business	138	–	138	12,565	12,703	–
Communication	–	–	–	2,853	2,853	–
Rural residential real estate	223	10	233	34,624	34,857	–
Other	–	–	–	1,499	1,499	–
Total	$ 5,688	$ 642	$ 6,330	$ 611,603	$ 617,933	$ –

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	$ 2,669	$ 2,111	$ 4,780	$ 345,695	$ 350,475	$ –
Production and intermediate-term	1,013	387	1,400	171,105	172,505	–
Processing and marketing	235	–	235	29,298	29,533	–
Farm-related business	1	–	1	12,733	12,734	–
Communication	–	–	–	1,959	1,959	–
Rural residential real estate	66	244	310	35,220	35,530	–
Other	–	–	–	2,233	2,233	–
Total	$ 3,984	$ 2,742	$ 6,726	$ 598,243	$ 604,969	$ –

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	$ 3,860	$ 2,600	$ 4,349
Production and intermediate-term	3,484	3,661	4,354
Rural residential real estate	177	395	606
Total	$ 7,521	$ 6,656	$ 9,309
Accruing restructured loans:			
Real estate mortgage	$ 211	$ 125	$ –
Production and intermediate-term	218	216	253
Rural residential real estate	65	–	–
Total	$ 494	$ 341	$ 253
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 8,015	$ 6,997	$ 9,562
Other property owned	70	787	1,915
Total nonperforming assets	$ 8,085	$ 7,784	$ 11,477
Nonaccrual loans as a percentage of total loans	1.18%	1.08%	1.55%
Nonperforming assets as a percentage of total loans and other property owned	1.26%	1.27%	1.90%
Nonperforming assets as a percentage of capital	4.72%	4.73%	7.39%

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	$ 1,364	$ 5,005	$ 5,696
Past due	6,157	1,651	3,613
Total	7,521	6,656	9,309
Impaired accrual loans:			
Restructured	494	341	253
90 days or more past due	–	–	–
Total	494	341	253
Total impaired loans	$ 8,015	$ 6,997	$ 9,562
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	$ 1,272	$ 1,254	$ 246	$ 1,180	$ 41
Production and intermediate-term	3,215	4,003	1,342	2,981	103
Rural residential real estate	–	–	–	–	–
Total	$ 4,487	$ 5,257	$ 1,588	$ 4,161	$ 144
With no related allowance for credit losses:					
Real estate mortgage	$ 2,799	$ 3,758	$ –	$ 2,596	$ 89
Production and intermediate-term	487	1,117	–	452	15
Rural residential real estate	242	474	–	224	8
Total	$ 3,528	$ 5,349	$ –	$ 3,272	$ 112
Total impaired loans:					
Real estate mortgage	$ 4,071	$ 5,012	$ 246	$ 3,776	$ 130
Production and intermediate-term	3,702	5,120	1,342	3,433	118
Rural residential real estate	242	474	–	224	8
Total	$ 8,015	$ 10,606	$ 1,588	$ 7,433	$ 256

	December 31, 2014 (as revised)			Year Ended December 31, 2014 (as revised)	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 307	$ 460	$ 22	$ 431	$ 13
Production and intermediate-term	3,328	3,868	2,104	4,677	137
Rural residential real estate	70	77	23	99	3
Total	$ 3,705	$ 4,405	$ 2,149	$ 5,207	$ 153
With no related allowance for credit losses:					
Real estate mortgage	$ 2,418	$ 3,346	$ –	$ 3,399	$ 100
Production and intermediate-term	549	1,242	–	773	22
Rural residential real estate	325	828	–	456	13
Total	$ 3,292	$ 5,416	$ –	$ 4,628	$ 135
Total impaired loans:					
Real estate mortgage	$ 2,725	$ 3,806	$ 22	$ 3,830	$ 113
Production and intermediate-term	3,877	5,110	2,104	5,450	159
Rural residential real estate	395	905	23	555	16
Total	$ 6,997	$ 9,821	$ 2,149	$ 9,835	$ 288

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	$ 1,173	$ 1,207	$ 254	$ 1,597	$ 105
Production and intermediate-term	3,429	3,824	2,053	4,671	307
Processing and marketing	–	–	–	–	–
Rural residential real estate	83	86	36	113	7
Other	–	–	–	–	–
Total	$ 4,685	$ 5,117	$ 2,343	$ 6,381	$ 419
With no related allowance for credit losses:					
Real estate mortgage	$ 3,176	$ 4,085	$ –	$ 4,327	$ 284
Production and intermediate-term	1,178	2,037	–	1,605	106
Processing and marketing	–	149	–	–	–
Rural residential real estate	523	1,237	–	712	47
Other	–	32	–	–	–
Total	$ 4,877	$ 7,540	$ –	$ 6,644	$ 437
Total impaired loans:					
Real estate mortgage	$ 4,349	$ 5,292	$ 254	$ 5,924	$ 389
Production and intermediate-term	4,607	5,861	2053	6,276	413
Processing and marketing	–	149	–	–	–
Rural residential real estate	606	1,323	36	825	54
Other	–	32	–	–	–
Total	$ 9,562	$ 12,657	$ 2,343	$ 13,025	$ 856

Unpaid principal balance represents the contractual principal balance of the loan.

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	$ 685	$ 815	$ 1,466
Less: interest income recognized	257	288	856
Foregone interest income	$ 428	$ 527	$ 610

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2014	$ 1,012	$ 2,507	$ 109	$ 7	$ 4	$ 84	$ 3,723
Charge-offs	(59)	(128)	–	–	–	–	(187)
Recoveries	78	181	–	–	–	204	463
Provision for loan losses	446	(577)	45	2	1	(154)	(237)
Balance at December 31, 2015	$ 1,477	$ 1,983	$ 154	$ 9	$ 5	$ 134	$ 3,762
Balance at December 31, 2013	$ 1,134	$ 2,494	$ 102	$ 5	$ 5	$ 125	$ 3,865
Charge-offs	(342)	(56)	–	–	–	–	(398)
Recoveries	67	137	–	–	–	7	211
Provision for loan losses	58	(1)	7	2	(1)	(20)	45
Balance at December 31, 2014	$ 917	$ 2,574	$ 109	$ 7	$ 4	$ 112	$ 3,723
Balance at December 31, 2012	$ 1,169	$ 3,728	$ 539	$ –	$ –	$ 127	$ 5,563
Charge-offs	(76)	(140)	(498)	–	–	(53)	(767)
Recoveries	29	124	75	–	–	40	268
Provision for loan losses	12	(1,218)	(14)	5	5	11	(1,199)
Balance at December 31, 2013	$ 1,134	$ 2,494	$ 102	$ 5	$ 5	$ 125	$ 3,865
Allowance on loans evaluated for impairment:							
Individually	$ 246	$ 1,342	$ –	$ –	$ –	$ –	$ 1,588
Collectively	1,231	641	154	9	5	134	2,174
Balance at December 31, 2015	$ 1,477	$ 1,983	$ 154	$ 9	$ 5	$ 134	$ 3,762
Individually	$ 22	$ 2,104	$ –	$ –	$ –	$ 23	$ 2,149
Collectively	895	470	109	7	4	89	1,574
Balance at December 31, 2014	$ 917	$ 2,574	$ 109	$ 7	$ 4	$ 112	$ 3,723
Individually	$ 254	$ 2,053	$ –	$ –	$ –	$ 36	$ 2,343
Collectively	880	441	102	5	5	89	1,522
Balance at December 31, 2013	$ 1,134	$ 2,494	$ 102	$ 5	$ 5	$ 125	$ 3,865
Recorded investment in loans evaluated for impairment:							
Individually	$ 4,071	$ 3,702	$ –	$ –	$ –	$ 242	$ 8,015
Collectively	358,914	183,646	48,609	2,648	1,562	39,486	634,865
Balance at December 31, 2015	$ 362,985	$ 187,348	$ 48,609	$ 2,648	$ 1,562	$ 39,728	$ 642,880
Individually	$ 2,725	$ 3,877	$ –	$ –	$ –	$ 395	$ 6,997
Collectively	348,914	177,964	45,296	2,853	1,447	34,462	610,936
Balance at December 31, 2014	$ 351,639	$ 181,841	$ 45,296	$ 2,853	$ 1,447	$ 34,857	$ 617,933
Individually	$ 4,349	$ 4,607	$ –	$ –	$ –	$ 606	$ 9,562
Collectively	346,125	167,898	42,666	1,959	1,834	34,925	595,407
Balance at December 31, 2013	$ 350,474	$ 172,505	$ 42,666	$ 1,959	$ 1,834	$ 35,531	$ 604,969

**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.

	Year Ended December 31, 2015				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 322	$ –	$ 322	
Production and intermediate-term	–	0	–	–	
Total	$ –	$ 322	$ –	$ 322	
Post-modification:					
Real estate mortgage	$ –	$ 303	$ –	$ 303	$ –
Production and intermediate-term	–	1	–	1	(28)
Total	$ –	$ 304	$ –	$ 304	$ (28)

	Year Ended December 31, 2014 (as revised)				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 399	$ –	$ 399	
Production and intermediate-term	–	4	19	23	
Rural Residential Real Estate	–	114	–	114	
Total	$ –	$ 517	$ 19	$ 536	
Post-modification:					
Real estate mortgage	$ –	$ 414	$ –	$ 414	$ –
Production and intermediate-term	–	4	20	24	–
Rural Residential Real Estate	–	119	–	119	–
Total	$ –	$ 537	$ 20	$ 557	$ –

	Year Ended December 31, 2013 (as revised)				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 82	$ 154	$ –	$ 236	
Production and intermediate-term	–	388	–	388	
Total	$ 82	$ 542	$ –	$ 624	
Post-modification:					
Real estate mortgage	$ 81	$ 154	$ –	$ 235	$ –
Production and intermediate-term	–	389	–	389	–
Total	$ 81	$ 543	$ –	$ 624	$ –

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 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	$ 933	$ 648	$ 241	$ 722	$ 523	$ 241
Production and intermediate-term	3,182	3,779	4,185	2,964	3,563	3,932
Rural residential real estate	208	190	92	143	190	92
Total Loans	$ 4,323	$ 4,617	$ 4,518	$ 3,829	$ 4,276	$ 4,265
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 System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. Accounting for this investment is on the cost plus allocated equities basis.

The Association's investment in the Bank totaled $6,314 for 2015, $6,315 for 2014 and $6,257 for 2013. The Association owns 2.46 percent of the issued stock of the Bank as of December 31, 2015, net of any reciprocal investment. As of that date, the Bank's assets totaled $30.6 billion and

shareholders' equity totaled $2.3 billion. The Bank's earnings were $337 million for 2015. In addition, the Association had no investment 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 $369, respectively, net of discount. Final payments to financial institutions occurred in January 2014.

Note 5 — Real Estate and Other Property

Premises and Equipment
Premises and equipment consists of the following:

	December 31,		
	2015	2014	2013
Land	$ 460	$ 460	$ 460
Buildings and improvements	2,186	2,186	2,186
Furniture and equipment	2,124	2,130	2,079
	4,770	4,776	4,725
Less: accumulated depreciation	3,212	3,099	2,961
Total	$ 1,558	$ 1,677	$ 1,764

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

	December 31,		
	2015	2014	2013
(Gains) losses on sale, net	$ (16)	$ (361)	$ (12)
Carrying value unrealized (gains) losses	(58)	353	702
Operating (income) expense, net	14	92	82
(Gains) losses on other property owned, net	$ (60)	$ 84	$ 772

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. Deferred gains totaled $7, $15, and $0 at December 31, 2015, 2014, and 2013, respectively.

Note 6 — Debt

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

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

The weighted average interest rates on the variable rate advances were 1.56 percent for LIBOR-based loans and 1.61 percent for Prime-based loans, and the weighted average remaining maturities were 2.0 years and 1.4 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 2.94 percent, and the weighted average remaining maturity was 10.7 years at December 31, 2015. The weighted-average interest rate on all interest-bearing notes payable was 2.61 percent and the weighted-average remaining maturity was 8.5 years at December 31, 2015. Variable rate and fixed rate notes payable represent approximately 2.45 percent and 97.55 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 B 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 $1 thousand or two percent of the loan amount, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

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

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

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

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

	2015	2014	2013	Regulatory Minimum
Permanent capital ratio	25.31%	24.39%	23.62%	7.00%
Total surplus ratio	24.64%	23.69%	22.90%	7.00%
Core surplus ratio	24.64%	23.69%	22.90%	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 C Preferred Stock, Classes A, B, and D Common Stock, Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

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

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
B Common/Voting	No	822,566	$ 4,113
Participation Certificates/Nonvoting	No	109,290	546
Total Capital Stock and Participation Certificates		931,856	$ 4,659

Protected common stock and participation certificates are retired at par or face value in the normal course of business. 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 will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

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

earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met.

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 Class C Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class C Preferred Stock for any fiscal year may not be less than the rate of dividend paid on Classes A, B, and D Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, and D 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. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Patronage Distributions

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

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

Transfer

Class C Preferred, Classes A, B, and D Common Stocks, and 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:

1. Classes A, B, and D Common Stock and Participation Certificates
2. Class C Preferred Stock

Liquidation

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

1. Class C Preferred Stock
2. Classes A, B, and D Common Stock and Participation Certificates
3. Holders of allocated retained earnings pro rata, until an amount equal to the total account has been distributed.

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

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

	For the years ended December 31,		
	2015	**2014**	**2013**
Employee Benefit Plans:			
Balance at beginning of period	$ 172	$ 92	$ (17)
Other comprehensive income before reclassifications	(7)	134	85
Amounts reclassified from AOCI	(133)	(54)	24
Net current period OCI	(140)	80	109
Balance at end of period	$ 32	$ 172	$ 92

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

	2015	**2014**	**2013**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ 133	$ 54	$ (24)	See Note 9.
Amounts reclassified	$ 133	$ 54	$ (24)	

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

Note 8 — Fair Value Measurement

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities.

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

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

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

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

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

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

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

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

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

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

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

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

	At or for the Year ended December 31, 2015					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in trust funds	$ 943	$ 943	$ –	$ –	$ 943	
Recurring Assets	$ 943	$ 943	$ –	$ –	$ 943	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 6,427	$ –	$ –	$ 6,427	$ 6,427	$ 836
Other property owned	70	–	–	80	80	74
Nonrecurring Assets	$ 6,497	$ –	$ –	$ 6,507	$ 6,507	$ 910
Other Financial Instruments						
Assets:						
Cash	$ 62	$ 62	$ –	$ –	$ 62	
Loans	629,397	–	–	625,799	625,799	
Other Financial Assets	$ 629,459	$ 62	$ –	$ 625,799	$ 625,861	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 470,033	$ –	$ –	$ 467,146	$ 467,146	
Other Financial Liabilities	$ 470,033	$ –	$ –	$ 467,146	$ 467,146	

	At or for the Year ended December 31, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in trust funds	$ 957	$ 957	$ –	$ –	$ 957	
Recurring Assets	$ 957	$ 957	$ –	$ –	$ 957	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 4,848	$ –	$ –	$ 4,848	$ 4,848	$ 6
Other property owned	787	–	–	902	902	8
Nonrecurring Assets	$ 5,635	$ –	$ –	$ 5,750	$ 5,750	$ 14
Other Financial Instruments						
Assets:						
Cash	$ 94	$ 94	$ –	$ –	$ 94	
Loans	605,277	–	–	601,584	601,584	
Other Financial Assets	$ 605,371	$ 94	$ –	$ 601,584	$ 601,678	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 454,670	$ –	$ –	$ 448,998	$ 448,998	
Other Financial Liabilities	$ 454,670	$ –	$ –	$ 448,998	$ 448,998	

	At or for the Year ended December 31, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in trust funds	$ 924	$ 924	$ –	$ –	$ 924	
Recurring Assets	$ 924	$ 924	$ –	$ –	$ 924	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 7,219	$ –	$ –	$ 7,219	$ 7,219	$ (761)
Other property owned	1,915	–	–	2,108	2,108	(690)
Nonrecurring Assets	$ 9,134	$ –	$ –	$ 9,327	$ 9,327	$ (1,451)
Other Financial Instruments						
Assets:						
Cash	$ 90	$ 90	$ –	$ –	$ 90	
Loans	591,578	–	–	580,713	580,713	
Other investments	369	–	–	370	370	
Other Financial Assets	$ 592,037	$ 90	$ –	$ 581,083	$ 581,173	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 455,836	$ –	$ –	$ 443,602	$ 443,602	
Other Financial Liabilities	$ 455,836	$ –	$ –	$ 443,602	$ 443,602	

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 estimate.

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	$ 6,507	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 9 — Employee Benefit Plans

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

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

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

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

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

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

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

The Association's participation in the multi-employer defined benefit plans for the annual 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%	$2,421	$1,588	$2,033	4.19%	4.18%	4.04%
AgFirst Farm Credit Cash Balance Retirement Plan	102.72%	100.07%	95.06%	$–	$171	$62	0.00%	3.44%	3.51%

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%	$279	$297	$277	4.10%	3.84%	3.99%

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

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

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

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

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

Substantially all employees of the Association hired before November 4, 2014 are eligible to participate in either the FAP Plan or the CB Plan. These two plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003 through November 3, 2014, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. Prior to January 1, 2015, when employer contributions were discontinued as discussed above, the employer contribution into the CB Plan was based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $2,254 for 2015, $2,435 for 2014, and $2,324 for 2013. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $628 for 2015, $379 for 2014, and $333 for 2013. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $315, $215, and $205 for the years ended December 31, 2015, 2014, and 2013, respectively. Beginning in 2015, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2015, 2014, and 2013, $(140), $80, and $109, respectively, has been recognized as a net debit, net credit, and net credit, respectively, to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of $417 and a net under-funded status of $417 at December 31, 2015. Net periodic pension cost was $(107), $(18), and $61 for 2015, 2014, and 2013, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2015 included a discount rate of 4.60 percent and a rate of compensation increase of 4.50 percent.

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

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2015 amounted to $11,931. During 2015, $5,840 of new loans were made and repayments totaled $6,409. 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, $138,833 of commitments to extend credit and no commercial letters of credit were outstanding. A related reserve for unfunded commitments in the row crop segment of $229 was established.

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 $1,091 with expiration dates ranging from January 1, 2016 to August 1, 2020. The maximum potential amount of future payments that may be required under these guarantees was $1,091.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2015	2014	2013
Current:			
Federal	$ 6	$ 7	$ 8
State	2	3	4
	8	10	12
Deferred:			
Federal	–	–	–
State	–	–	–
Total provision (benefit) for income taxes	$ 8	$ 10	$ 12

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	$ 4,836	$ 5,707	$ 5,639
State tax, net	2	2	1
Patronage distributions	(2,546)	(2,474)	(2,357)
Tax-exempt FLCA earnings	(2,355)	(3,187)	(3,206)
Changes in tax law/rates	(9)	(9)	(7)
Change in deferred tax asset valuation allowance	81	(40)	(57)
Other	(1)	11	(1)
Provision (benefit) for income taxes	$ 8	$ 10	$ 12

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

	December 31,		
	2015	2014	2013
Deferred income tax assets:			
Allowance for loan losses	$ 593	$ 338	$ 322
Other property owned writedown	–	8	38
Nonaccrual loan interest	99	120	136
Gross deferred tax assets	692	466	496
Less: valuation allowance	(530)	(448)	(488)
Gross deferred tax assets, net of valuation allowance	162	18	8
Deferred income tax liabilities:			
Depreciation	(162)	(18)	(8)
Gross deferred tax liability	(162)	(18)	(8)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2015, deferred income taxes have not been provided by the Association on approximately $0.9 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 $530, $448, and $488 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)

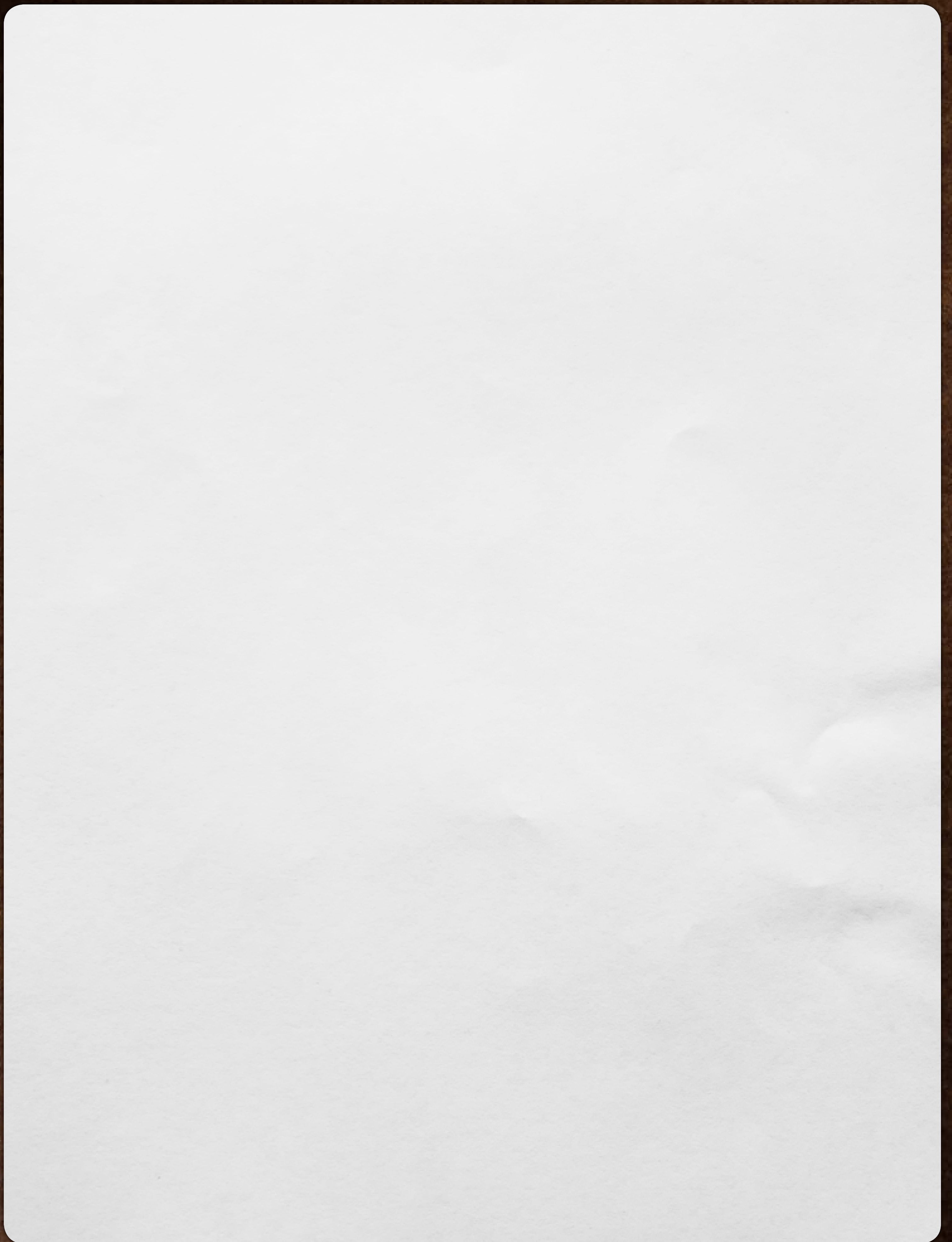
	2015				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,397	$ 4,444	$ 4,649	$ 4,799	$ 18,289
Provision for (reversal of allowance for) loan losses	(26)	(58)	356	(509)	(237)
Noninterest income (expense), net	(1,813)	(1,866)	(1,757)	720	(4,716)
Net income (loss)	$ 2,610	$ 2,636	$ 2,536	$ 6,028	$ 13,810

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,368	$ 4,356	$ 4,531	$ 4,802	$ 18,057
Provision for (reversal of allowance for) loan losses	48	251	(43)	(210)	46
Noninterest income (expense), net	(1,791)	(1,481)	(1,775)	3,330	(1,717)
Net income (loss)	$ 2,529	$ 2,624	$ 2,799	$ 8,342	$ 16,294

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,120	$ 4,272	$ 4,299	$ 4,924	$ 17, 615
Provision for (reversal of allowance for) loan losses	(314)	45	(157)	(773)	(1,199)
Noninterest income (expense), net	(1,664)	(1,679)	(1,801)	2,428	(2,716)
Net income (loss)	$ 2,770	$ 2,548	$ 2,655	$ 8,125	$ 16,098

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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