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*Ag Credit Agricultural Credit Association*

**THIRD QUARTER 2015**

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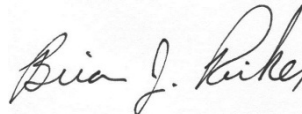
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**CERTIFICATION**

The undersigned certify that we have reviewed the September 30, 2015 quarterly report of Ag Credit Agricultural Credit Association, 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.



Brian J. Ricker  
Chief Executive Officer



Daniel E. Ebert  
Chief Financial Officer



Scott A. Schroeder  
Chairman of the Board

November 6, 2015

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*Ag Credit Agricultural Credit Association*

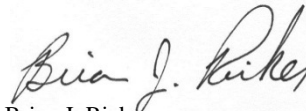
# Report on Internal Control Over Financial Reporting

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 September 30, 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 September 30, 2015, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material changes to or weaknesses in the internal control over financial reporting as of September 30, 2015.



Brian J. Ricker  
Chief Executive Officer



Daniel E. Ebert  
Chief Financial Officer

November 6, 2015

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

The following commentary reviews the financial condition and results of operations of Ag Credit Agricultural Credit Association (Association) for the nine months ended September 30, 2015. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, the Association's September 30, 2014 quarterly report and the 2014 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes Michael W. Stump, David M. Stott, Ph.D., CPA and Gary L. Baldosser. The results for the first nine months of 2015 are not necessarily indicative of results to be expected for the year.

## 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 Association's loan portfolio consists predominantly of general cash grains (primarily soybeans, corn and wheat) which constitute about 61 percent of the entire portfolio as of September 30, 2015. The Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This risk, along with the risk associated with large loans, is reduced by members' off-farm income, utilization of crop insurance, and the use of FSA, USDA, Business and Industry and Farmer Mac loan guarantees. As of September 30, 2015 the Association had \$470,669 of guaranteed loan volume, which is 28.61 percent of loans as compared to \$477,556 of guaranteed volume or 32.29 percent of the portfolio at September 30, 2014. The percent of guaranteed loans decreased primarily due to the increase in participation purchased and short-term volume. Participation purchased volume is generally not eligible for loan guarantees. Short-term volume is primarily operating volume and generally is not guaranteed. Loan guarantees reduce the potential of loss in the Association's loan portfolio and help to leverage the Association's capital.

Gross loan volume of the Association as of September 30, 2015 was \$1,644,923, an increase of \$61,135 or 3.86 percent when compared to \$1,583,788 at December 31, 2014. The increase in loan volume primarily relates to the increase in real estate mortgage, production and IT, communication, and rural residential real estate volume. From September 30, 2014 to September 30, 2015 volume increased by \$165,987 or 11.22

percent. The increase in loan volume primarily relates to increased real estate mortgage, production and IT, process and marketing, communication, and rural residential real estate volume.

Net loans outstanding at September 30, 2015 were \$1,629,637 as compared to \$1,569,774 at December 31, 2014. Net loans accounted for 94.89 percent of total assets at September 30, 2015 as compared to 94.08 percent at December 31, 2014.

The following table summarizes the Association's risk assets (accruing volume includes accrued interest receivable):

	<u>9/30/15</u>	<u>12/31/14</u>
Nonaccrual loans	\$ 9,307	\$ 11,814
Accruing restructured loans	-	-
Accruing loans 90 days or more past due	-	-
Total high risk loans	9,307	11,814
Other property owned	-	-
Total high-risk assets	\$ 9,307	\$ 11,814
<b>Ratios:</b>		
Nonaccrual loans to total loans	0.57%	0.75%
High-risk assets to total assets	0.54%	0.71%

High risk assets decreased during the first nine months of 2015 primarily as a result of payments from a large commercial entity in nonaccrual status and due to a reduction of nonaccrual loans.

There is an inherent risk in the extension of any type of credit, and accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

General portfolio credit quality showed a slight decline during the first nine months of 2015 when compared to December 31, 2014, but remains strong.

Credit administration is satisfactory.

During the first nine months of 2015 the Association recorded \$99 of charge-offs, no recoveries and \$1,371 provision for loan losses. The increase in provision for loan losses is due to loan volume growth and a slight deterioration in credit quality resulting from lower grain prices and weather conditions. These increases were offset in part by a reduction in the specific allowance associated with a large commercial account as a result of the paydown of loan balances. For the same period of 2014, the Association recorded \$21 charge-offs, no recoveries or provision for loan losses. The allowance for loan losses represented 0.93 percent and 0.88 percent of loans at September 30, 2015 and December 31, 2014, respectively.

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## RESULTS OF OPERATIONS

### *For the three months ending September 30, 2015*

Net income for the three months ended September 30, 2015 (Q3 2015) was \$9,729, an increase of \$1,309 or 15.55 percent when compared to the net income of \$8,420 for the same period in 2014 (Q3 2014). Major changes in the components of net income when comparing Q3 2015 to Q3 2014 are identified as follows:

- Net interest income increased by \$1,173 or 11.87 percent. The increase resulted primarily from earnings on increased loan volume and an increase in earnings on the Association's own funds in loans.
- Provision for loan losses decreased by \$97 as a result of Q3 2015 reversal of provision for loan losses relating to the reduction in specific reserves previously discussed. There was no provision in Q3 2014.
- Noninterest income increased by \$303 or 11.18 percent for the following reasons:

Patronage dividends from AgFirst Farm Credit Bank (the Bank) increased by \$273 as a result of higher regular and participation sold patronage related to higher loan volume previously discussed and increased participation sold volume.

Loan fees increased by \$48 primarily due to increased fees related to new loans, loan servicing, participation purchased loans and miscellaneous fees.

Fees for financially related services (FRS) decreased by \$16 due primarily to lower multi-peril crop insurance income.

- Noninterest expense increased by \$264 or 6.32 percent primarily due to:

Salary and benefits expense increased by \$254 or 9.79 percent due to increased expenses related to scheduled salary increases, additional employees, salary related benefits, higher incentive accrual, increased pension and retirement related expenses and increased healthcare costs. These were partially offset by lower workers compensation costs.

Occupancy and equipment increased by \$7 primarily due to increased expenses for buildings and grounds maintenance, utilities and miscellaneous occupancy expenses. These were offset in part by lower equipment related costs.

Farm Credit System Insurance Corporation (FCSIC) premium expenses increased by \$65 or 25.49 percent due to increased premium rates and increased loan volume.

Guarantee fees decreased by \$100 or 39.53 percent due to a reduction in new guarantees and related fees and the timing of annual USDA guarantee fee payments in 2014 as compared to 2015.

Other operating expenses increased by \$38 or 4.44 percent due to increased expenses for travel, professional services, data processing, training, and non-property related insurance. These were offset in part by lower director, PR and printing expenses.

### *For the nine months ending September 30, 2015*

Net income for the nine months ended September 30, 2015 (YTD 2015) was \$26,643, which is an increase of \$898 or 3.49 percent when compared to the net income of \$25,745 for the same period in 2014 (YTD 2014). Major changes in the components of net income when comparing YTD 2015 to YTD 2014 are identified as follows:

- Net interest income increased by \$2,604 or 8.66 percent. The increase is a result of the same reasons previously discussed.
- The risks identified in the portfolio at September 30, 2015 and September 30, 2014 resulted in an increase in the YTD 2015 provision for loan losses (PLL) of \$1,371 for the reasons previously discussed and there were no PLL for YTD 2014.
- Noninterest income increased by \$893 or 11.35 percent primarily due to:

An \$817 increase in patronage dividends from the Bank for the reason previously discussed.

An increase of \$142 in loan fees due to the reasons previously discussed.

These were partially offset by an \$84 reduction in the net gain on sales of premises and equipment resulting from the gain on the sale of the old Tiffin branch office for YTD 2014 coupled with a small loss recorded for YTD 2015.

- Noninterest expense increased by \$1,073 or 8.68 percent primarily due to:

Salary and benefits expense increased by \$828, FCSIC insurance premium expenses increased by \$173, Occupancy and equipment increased by \$41 and guarantee fees decreased by \$540 all for the reasons previously discussed.

Net gains on other property owned (OPO) decreased by \$275 primarily due to the gain on the sale of an OPO during the first nine months of 2014 and no gains recorded YTD 2015.

- The provision for income taxes increased by \$155 due to the 2014 reversal of the accrued franchise state tax liability and

no provision in 2015 due to the State of Ohio repealing the franchise tax, which the Association previously paid. The Association is now paying under the Commercial Activities Tax (CAT).

The following table shows the key results of operations ratios for the nine months ended September 30, 2015 and September 30, 2014, respectively.

	9/30/2015	9/30/2014
Return on average assets	2.18%	2.33%
Return on average equity	13.80%	14.71%
Net interest margin	2.74%	2.79%
Members' equity to assets	15.52%	15.60%
Debt to members' equity (:1)	5.44	5.41

## CAPITAL RESOURCES

Total members' equity was \$266,598 at September 30, 2015 as compared to \$245,737 at December 31, 2014 for an increase of \$20,861 or 8.49 percent. The increase is due primarily to 2015 year-to-date earnings, the issuance of additional Class A Preferred Stock, Class C Stock and Participation Certificates as well as the increased nonqualified retained surplus from 2014 net income. These increases were offset in part by a reduction in allocated equities resulting from the distribution of the 2009 nonqualified allocated equities in September 2015.

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. As of September 30, 2015, the Association exceeded minimum regulatory standards for all the ratios.

The Association's capital ratios as of September 30, and the FCA minimum requirements follow:

	9/30/15	Regulatory Minimum
Permanent capital ratio	19.81%	7.00%
Total surplus ratio	18.23%	7.00%
Core surplus ratio	16.59%	3.50%

## 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 initial public comment period ended on February 16, 2015. On June 15, 2015, the Farm Credit Administration reopened the comment period from June 26 to July 10, 2015. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise.
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System.
- To make System regulatory capital requirements more transparent.
- To meet the requirements of section 939A of the Dodd-Frank Act.

## FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the Financial Regulatory Reform section of the Association's 2014 Annual Report.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, "Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements", in the Notes to the Financial Statements, and the 2014 Annual Report to Shareholders for recently issued accounting pronouncements.

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**Note:** The Association obtains funding from AgFirst Farm Credit Bank (the Bank). The Association is materially affected and shareholder investment could be materially 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](http://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 Quarterly and Annual Reports are available on the Association's website, [www.agcredit.net](http://www.agcredit.net), or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1023, or writing Daniel Ebert, Chief Financial Officer, Ag Credit, ACA, 610 W Lytle Street, Fostoria, OH 44830. 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 Association.

# Ag Credit Agricultural Credit Association

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2015 <i>(unaudited)</i>	December 31, 2014 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 2,262	\$ 4,656
Investment securities: Held to maturity (fair value of \$19,523 and \$22,945, respectively)	19,434	22,783
Loans	1,644,923	1,583,788
Allowance for loan losses	(15,286)	(14,014)
Net loans	1,629,637	1,569,774
Accrued interest receivable	30,909	20,609
Investments in other Farm Credit institutions	17,185	17,184
Premises and equipment, net	7,925	5,869
Accounts receivable	8,159	24,763
Other assets	1,911	2,908
Total assets	<b>\$ 1,717,422</b>	<b>\$ 1,668,546</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,432,576	\$ 1,390,681
Accrued interest payable	2,796	2,635
Patronage refunds payable	134	20,109
Accounts payable	1,114	1,141
Advanced conditional payments	904	560
Other liabilities	13,300	7,683
Total liabilities	<b>1,450,824</b>	<b>1,422,809</b>
Commitments and contingencies (Note 7)		
<b>Members' Equity</b>		
Capital stock and participation certificates	19,465	19,173
Retained earnings		
Allocated	151,896	157,715
Unallocated	95,237	68,849
Total members' equity	<b>266,598</b>	<b>245,737</b>
Total liabilities and members' equity	<b>\$ 1,717,422</b>	<b>\$ 1,668,546</b>

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

# Ag Credit Agricultural Credit Association

## Consolidated Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
<b>Interest Income</b>				
Loans	\$ 19,285	\$ 17,586	\$ 55,923	\$ 51,308
Investments	253	222	838	668
Total interest income	<b>19,538</b>	17,808	<b>56,761</b>	51,976
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	8,482	7,925	24,082	21,901
Net interest income	11,056	9,883	32,679	30,075
Provision for (reversal of allowance for) loan losses	(97)	—	1,371	—
Net interest income after provision for (reversal of allowance for) loan losses	<b>11,153</b>	9,883	<b>31,308</b>	30,075
<b>Noninterest Income</b>				
Loan fees	148	100	422	280
Fees for financially related services	99	115	154	143
Patronage refunds from other Farm Credit institutions	2,769	2,496	8,119	7,302
Gains (losses) on sales of premises and equipment, net	(3)	(3)	(3)	81
Gains (losses) on other transactions	(2)	—	—	—
Other noninterest income	3	3	71	64
Total noninterest income	<b>3,014</b>	2,711	<b>8,763</b>	7,870
<b>Noninterest Expense</b>				
Salaries and employee benefits	2,848	2,594	8,812	7,984
Occupancy and equipment	224	217	715	674
Insurance Fund premiums	320	255	917	744
Guarantee fees	153	253	581	1,121
(Gains) losses on other property owned, net	—	—	—	(275)
Other operating expenses	893	855	2,403	2,107
Total noninterest expense	<b>4,438</b>	4,174	<b>13,428</b>	12,355
Income before income taxes	9,729	8,420	26,643	25,590
Provision (benefit) for income taxes	—	—	—	(155)
Net income	<b>\$ 9,729</b>	\$ 8,420	<b>\$ 26,643</b>	\$ 25,745
Other comprehensive income	—	—	—	—
Comprehensive income	<b>\$ 9,729</b>	\$ 8,420	<b>\$ 26,643</b>	\$ 25,745

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



**Ag Credit Agricultural Credit Association**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2013	\$ 18,956	\$ 137,127	\$ 65,209	\$ 221,292
Comprehensive income			25,745	25,745
Capital stock/participation certificates issued/(retired), net	250			250
Dividends declared/paid			(147)	(147)
Retained earnings retired		(6,787)		(6,787)
Patronage distribution adjustment		96	(317)	(221)
Balance at September 30, 2014	\$ 19,206	\$ 130,436	\$ 90,490	\$ 240,132
<b>Balance at December 31, 2014</b>	<b>\$ 19,173</b>	<b>\$ 157,715</b>	<b>\$ 68,849</b>	<b>\$ 245,737</b>
<b>Comprehensive income</b>			<b>26,643</b>	<b>26,643</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>292</b>			<b>292</b>
<b>Dividends declared/paid</b>			<b>(141)</b>	<b>(141)</b>
<b>Retained earnings retired</b>		<b>(5,677)</b>		<b>(5,677)</b>
<b>Patronage distribution adjustment</b>		<b>(142)</b>	<b>(114)</b>	<b>(256)</b>
<b>Balance at September 30, 2015</b>	<b>\$ 19,465</b>	<b>\$ 151,896</b>	<b>\$ 95,237</b>	<b>\$ 266,598</b>

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

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*Ag Credit Agricultural Credit Association*

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)  
(unaudited)

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

### ***Organization***

The accompanying financial statements include the accounts of Ag Credit Agricultural Credit Association and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2014, are contained in the 2014 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

### ***Basis of Presentation***

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

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

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

### ***Significant Accounting Policies***

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

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

financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

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

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

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

- 2015-16 Business Combinations – 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.
- 2015-15 Interest – 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.

- 2015-10 Technical Corrections and Improvements – 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.
- 2015-07 Fair Value Measurement – 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 guidance 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 will require modifications to footnote disclosures.
- Accounting Standards Update 2015-02 Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in this Update 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: 1. Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, 2. Eliminate the presumption that a general partner should consolidate a limited partnership, 3. Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, 4. 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.

#### *ASUs Pending Effective Date*

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

Potential effects of ASUs issued in previous periods:

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

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

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

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

- 2014-14 Classification of Certain Government-Guaranteed Mortgage Loans – The Association did not have a significant amount of loans that met the criteria of the guidance.
- 2014-11 Repurchase-to-Maturity Transactions – The Association did not have a significant amount of transactions that met the criteria of the guidance.

- 2014-08 Discontinued Operations – The Association has not had and does not anticipate any significant disposals.
- 2014-04 Reclassification of Consumer Mortgage Loans – The criteria of the standard were not significantly different from the Association’s policy in place at adoption. The amendment was adopted prospectively. See Note 2, *Loans and Allowance for Loan Losses*, for the additional disclosures required by this guidance.

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

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

## Note 2 — Loans and Allowance for Loan Losses

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of

A summary of loans outstanding at period end follows:

	September 30, 2015	December 31, 2014
Real estate mortgage	\$ 971,662	\$ 920,405
Production and intermediate-term	507,142	501,857
Processing and marketing	20,693	19,648
Farm-related business	16,113	16,315
Communication	2,450	–
Rural residential real estate	124,138	122,099
Lease receivables	1,795	2,534
Other (including Mission Related)	930	930
Total loans	<u>\$ 1,644,923</u>	<u>\$ 1,583,788</u>

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

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

	September 30, 2015							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 1,138	\$ 14,500	\$ –	\$ 715	\$ 5,610	\$ –	\$ 6,748	\$ 15,215
Production and intermediate-term	9,319	90,400	996	971	8,267	–	18,582	91,371
Processing and marketing	12,144	–	534	–	–	–	12,678	–
Farm-related business	1,102	–	–	–	–	–	1,102	–
Communication	2,458	–	–	–	–	–	2,458	–
Other (including Mission Related)	–	371	–	–	1,300	–	1,300	371
Total	<u>\$ 26,161</u>	<u>\$ 105,271</u>	<u>\$ 1,530</u>	<u>\$ 1,686</u>	<u>\$ 15,177</u>	<u>\$ –</u>	<u>\$ 42,868</u>	<u>\$ 106,957</u>

	December 31, 2014							
	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	\$ 283	\$ 11,692	\$ –	\$ 748	\$ 6,011	\$ –	\$ 6,294	\$ 12,440
Production and intermediate-term	6,443	88,845	1,078	369	2,732	–	10,253	89,214
Processing and marketing	9,949	–	801	–	–	–	10,750	–
Lease receivables	–	–	258	–	–	–	258	–
Other (including Mission Related)	–	371	–	–	1,300	–	1,300	371
Total	<u>\$ 16,675</u>	<u>\$ 100,908</u>	<u>\$ 2,137</u>	<u>\$ 1,117</u>	<u>\$ 10,043</u>	<u>\$ –</u>	<u>\$ 28,855</u>	<u>\$ 102,025</u>

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:

	September 30, 2015			
	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 20,169	\$ 60,255	\$ 891,238	\$ 971,662
Production and intermediate-term	201,120	225,748	80,274	507,142
Processing and marketing	–	10,594	10,099	20,693
Farm-related business	2,542	3,121	10,450	16,113
Communication	–	2,450	–	2,450
Rural residential real estate	366	3,549	120,223	124,138
Lease receivables	317	1,250	228	1,795
Other (including Mission Related)	930	–	–	930
Total loans	\$ 225,444	\$ 306,967	\$ 1,112,512	\$ 1,644,923
Percentage	13.71%	18.66%	67.63%	100.00%

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

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

	September 30, 2015	December 31, 2014		September 30, 2015	December 31, 2014
<b>Real estate mortgage:</b>			<b>Rural residential real estate:</b>		
Acceptable	98.36%	98.42%	Acceptable	91.40%	98.85%
OAEM	1.09	1.32	OAEM	7.83	0.44
Substandard/doubtful/loss	0.55	0.26	Substandard/doubtful/loss	0.77	0.71
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Lease receivables:</b>		
Acceptable	94.56%	96.27%	Acceptable	100.00%	100.00%
OAEM	3.09	2.01	OAEM	–	–
Substandard/doubtful/loss	2.35	1.72	Substandard/doubtful/loss	–	–
	100.00%	100.00%		100.00%	100.00%
<b>Processing and marketing:</b>			<b>Other (including Mission Related):</b>		
Acceptable	100.00%	100.00%	Acceptable	100.00%	100.00%
OAEM	–	–	OAEM	–	–
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	–	–
	100.00%	100.00%		100.00%	100.00%
<b>Farm-related business:</b>			<b>Total loans:</b>		
Acceptable	97.10%	96.92%	Acceptable	96.69%	97.78%
OAEM	0.17	0.31	OAEM	2.18	1.44
Substandard/doubtful/loss	2.73	2.77	Substandard/doubtful/loss	1.13	0.78
	100.00%	100.00%		100.00%	100.00%
<b>Communication:</b>					
Acceptable	100.00%	–%			
OAEM	–	–			
Substandard/doubtful/loss	–	–			
	100.00%	–%			

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

	September 30, 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	\$ 1,300	\$ 151	\$ 1,451	\$ 991,814	\$ 993,265	\$ –
Production and intermediate-term	1,392	21	1,413	514,095	515,508	–
Processing and marketing	–	–	–	20,734	20,734	–
Farm-related business	–	331	331	15,987	16,318	–
Communication	–	–	–	2,451	2,451	–
Rural residential real estate	129	81	210	124,354	124,564	–
Lease receivables	–	–	–	1,795	1,795	–
Other (including Mission Related)	–	–	–	930	930	–
Total	\$ 2,821	\$ 584	\$ 3,405	\$ 1,672,160	\$ 1,675,565	\$ –

**December 31, 2014**

	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Recorded Investment 90 Days or More Past Due and Accruing Interest</b>
Real estate mortgage	\$ 1,556	\$ -	\$ 1,556	\$ 932,608	\$ 934,164	\$ -
Production and intermediate-term	560	-	560	507,515	508,075	-
Processing and marketing	-	-	-	19,696	19,696	-
Farm-related business	-	331	331	16,113	16,444	-
Rural residential real estate	789	-	789	121,676	122,465	-
Lease receivables	-	-	-	2,534	2,534	-
Other (including Mission Related)	-	-	-	930	930	-
Total	\$ 2,905	\$ 331	\$ 3,236	\$ 1,601,072	\$ 1,604,308	\$ -

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

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 1,489	\$ 1,666
Production and intermediate-term	7,406	9,817
Farm-related business	331	331
Rural residential real estate	81	-
Total	\$ 9,307	\$ 11,814
<b>Accruing restructured loans:</b>		
Total	\$ -	\$ -
<b>Accruing loans 90 days or more past due:</b>		
Total	\$ -	\$ -
Total nonperforming loans	\$ 9,307	\$ 11,814
Other property owned	-	-
Total nonperforming assets	\$ 9,307	\$ 11,814
Nonaccrual loans as a percentage of total loans	0.57%	0.75%
Nonperforming assets as a percentage of total loans and other property owned	0.57%	0.75%
Nonperforming assets as a percentage of capital	3.49%	4.81%

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

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 8,649	\$ 11,214
Past due	658	600
Total	9,307	11,814
<b>Impaired accrual loans:</b>		
Restructured	-	-
90 days or more past due	-	-
Total	-	-
Total impaired loans	\$ 9,307	\$ 11,814

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

Impaired loans	September 30, 2015			Quarter Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>							
Real estate mortgage	\$ 357	\$ 442	\$ 130	\$ 371	\$ 1	\$ 451	\$ 1
Production and intermediate-term	4,788	5,415	608	4,977	5	6,051	6
Farm-related business	331	401	188	344	—	418	—
Rural residential real estate	81	81	35	84	—	102	—
Total	\$ 5,557	\$ 6,339	\$ 961	\$ 5,776	\$ 6	\$ 7,022	\$ 7
<b>With no related allowance for credit losses:</b>							
Real estate mortgage	\$ 1,132	\$ 1,426	\$ —	\$ 1,177	\$ 1	\$ 1,431	\$ 1
Production and intermediate-term	2,618	11,700	—	2,720	3	3,307	3
Total	\$ 3,750	\$ 13,126	\$ —	\$ 3,897	\$ 4	\$ 4,738	\$ 4
<b>Total:</b>							
Real estate mortgage	\$ 1,489	\$ 1,868	\$ 130	\$ 1,548	\$ 2	\$ 1,882	\$ 2
Production and intermediate-term	7,406	17,115	608	7,697	8	9,358	9
Farm-related business	331	401	188	344	—	418	—
Rural residential real estate	81	81	35	84	—	102	—
Total	\$ 9,307	\$ 19,465	\$ 961	\$ 9,673	\$ 10	\$ 11,760	\$ 11

Impaired loans	December 31, 2014			Year Ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 368	\$ 419	\$ 71	\$ 432	\$ 6
Production and intermediate-term	6,002	6,307	2,123	7,055	98
Farm-related business	331	401	183	389	5
Total	\$ 6,701	\$ 7,127	\$ 2,377	\$ 7,876	\$ 109
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,298	\$ 1,532	\$ —	\$ 1,526	\$ 21
Production and intermediate-term	3,815	12,666	—	4,484	63
Total	\$ 5,113	\$ 14,198	\$ —	\$ 6,010	\$ 84
<b>Total:</b>					
Real estate mortgage	\$ 1,666	\$ 1,951	\$ 71	\$ 1,958	\$ 27
Production and intermediate-term	9,817	18,973	2,123	11,539	161
Farm-related business	331	401	183	389	5
Rural residential real estate	—	—	—	—	—
Total	\$ 11,814	\$ 21,325	\$ 2,377	\$ 13,886	\$ 193

Commitments to lend additional funds to debtors whose loans were classified as impaired at September 30, 2015 totaled \$0.

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Rural Residential Real Estate	Lease Receivables	Other	Total
<b>Activity related to the allowance for credit losses:</b>								
Balance at June 30, 2015	\$ 2,800	\$ 11,211	\$ 402	\$ 11	\$ 953	\$ 3	\$ 4	\$ 15,384
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	(1)	-	-	(1)
Provision for loan losses	137	(215)	(36)	-	16	1	-	(97)
Balance at September 30, 2015	\$ 2,937	\$ 10,996	\$ 366	\$ 11	\$ 968	\$ 4	\$ 4	\$ 15,286
Balance at December 31, 2014	\$ 2,510	\$ 10,226	\$ 351	\$ -	\$ 918	\$ 5	\$ 4	\$ 14,014
Charge-offs	-	(99)	-	-	-	-	-	(99)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	427	869	15	11	50	(1)	-	1,371
Balance at September 30, 2015	\$ 2,937	\$ 10,996	\$ 366	\$ 11	\$ 968	\$ 4	\$ 4	\$ 15,286
Balance at June 30, 2014	\$ 2,679	\$ 11,056	\$ 370	\$ -	\$ 1,302	\$ 6	\$ -	\$ 15,413
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	(150)	217	(15)	-	(51)	(1)	-	-
Balance at September 30, 2014	\$ 2,529	\$ 11,273	\$ 355	\$ -	\$ 1,251	\$ 5	\$ -	\$ 15,413
Balance at December 31, 2013	\$ 2,459	\$ 11,393	\$ 429	\$ -	\$ 1,147	\$ 6	\$ -	\$ 15,434
Charge-offs	-	-	-	-	(21)	-	-	(21)
Recoveries	-	-	-	-	-	-	-	-
Provision for loan losses	70	(120)	(74)	-	125	(1)	-	-
Balance at September 30, 2014	\$ 2,529	\$ 11,273	\$ 355	\$ -	\$ 1,251	\$ 5	\$ -	\$ 15,413
<b>Allowance on loans evaluated for impairment:</b>								
Individually	\$ 130	\$ 608	\$ 188	\$ -	\$ 35	\$ -	\$ -	\$ 961
Collectively	2,807	10,388	178	11	933	4	4	14,325
Balance at September 30, 2015	\$ 2,937	\$ 10,996	\$ 366	\$ 11	\$ 968	\$ 4	\$ 4	\$ 15,286
Individually	\$ 71	\$ 2,123	\$ 183	\$ -	\$ -	\$ -	\$ -	\$ 2,377
Collectively	2,439	8,103	168	-	918	5	4	11,637
Balance at December 31, 2014	\$ 2,510	\$ 10,226	\$ 351	\$ -	\$ 918	\$ 5	\$ 4	\$ 14,014
<b>Recorded investment in loans evaluated for impairment:</b>								
Individually	\$ 1,489	\$ 7,406	\$ 331	\$ -	\$ 81	\$ -	\$ -	\$ 9,307
Collectively	991,776	508,102	36,721	2,451	124,483	1,795	930	1,666,258
Balance at September 30, 2015	\$ 993,265	\$ 515,508	\$ 37,052	\$ 2,451	\$ 124,564	\$ 1,795	\$ 930	\$ 1,675,565
Individually	\$ 1,666	\$ 9,817	\$ 331	\$ -	\$ -	\$ -	\$ -	\$ 11,814
Collectively	932,498	498,258	35,809	-	122,465	2,534	930	1,592,494
Balance at December 31, 2014	\$ 934,164	\$ 508,075	\$ 36,140	\$ -	\$ 122,465	\$ 2,534	\$ 930	\$ 1,604,308

\*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. There were no TDRs that occurred during the three and nine month periods ended September 30, 2015 or September 30, 2014.

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 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	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Real estate mortgage	\$ 1,247	\$ 1,398	\$ 1,247	\$ 1,398
Production and intermediate-term	7,376	9,802	7,376	9,802
Total Loans	\$ 8,623	\$ 11,200	\$ 8,623	\$ 11,200
Additional commitments to lend	\$ -	\$ 2,500		



The following table presents information as of period end:

	September 30, 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 3 — Investments

#### Investment Securities

The Association's investments consist of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a RAB ineligible if its investment rating, based on the internal 14-point probability of default scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At September 30, 2015, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

	September 30, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 19,434	\$ 299	\$ (210)	\$ 19,523	5.04%

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	\$ 22,783	\$ 337	\$ (175)	\$ 22,945	5.07%

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

	September 30, 2015		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-
After one year through five years	-	-	-
After five years through ten years	2,311	2,380	5.13
After ten years	17,123	17,143	5.03
Total	\$ 19,434	\$ 19,523	5.04%

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

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

an investment is measured from the date the impairment was first identified.

	September 30, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ 10,571	\$ (210)	\$ -	\$ -

	December 31, 2014			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	\$ 9,852	\$ (35)	\$ 3,587	\$ (140)

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

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

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing

of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

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

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

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

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owns 6.86 percent of the issued stock of the Bank as of September 30, 2015 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.0 billion and shareholders' equity totaled \$2.4 billion. The Bank's earnings were \$254 million for the first nine months of 2015. In addition, the Association has an investment of \$10 related to other Farm Credit institutions.

#### **Note 4 — Debt**

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

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

#### **Note 5— Fair Value Measurement**

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Nine Months Ended September 30, 2015						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 60	\$ 60	\$ –	\$ –	\$ 60	
Recurring Assets	\$ 60	\$ 60	\$ –	\$ –	\$ 60	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 8,346	\$ –	\$ –	\$ 8,346	\$ 8,346	\$ 1,318
Other property owned	–	–	–	–	–	–
Nonrecurring Assets	\$ 8,346	\$ –	\$ –	\$ 8,346	\$ 8,346	\$ 1,318
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 2,262	\$ 2,262	\$ –	\$ –	\$ 2,262	
Investment securities, held-to-maturity	19,434	–	–	19,523	19,523	
Loans	1,621,291	–	–	1,595,142	1,595,142	
Other Financial Assets	\$ 1,642,987	\$ 2,262	\$ –	\$ 1,614,665	\$ 1,616,927	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,432,576	\$ –	\$ –	\$ 1,413,233	\$ 1,413,233	
Other Financial Liabilities	\$ 1,432,576	\$ –	\$ –	\$ 1,413,233	\$ 1,413,233	

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
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Liabilities:</b>						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 9,437	\$ –	\$ –	\$ 9,437	\$ 9,437	\$ 2,435
Other property owned	–	–	–	–	–	263
Nonrecurring Assets	\$ 9,437	\$ –	\$ –	\$ 9,437	\$ 9,437	\$ 2,698
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 4,656	\$ 4,656	\$ –	\$ –	\$ 4,656	
Investment securities, held-to-maturity	22,783	–	–	22,945	22,945	
Loans	1,560,337	–	–	1,531,249	1,531,249	
Other Financial Assets	\$ 1,587,776	\$ 4,656	\$ –	\$ 1,554,194	\$ 1,558,850	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,390,681	\$ –	\$ –	\$ 1,362,239	\$ 1,362,239	
Other Financial Liabilities	\$ 1,390,681	\$ –	\$ –	\$ 1,362,239	\$ 1,362,239	

## 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.

### Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change

in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

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

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

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 8,346	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
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

### Note 6 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Pension	\$ 371	\$ 349	\$ 1,112	\$ 1,048
401(k)	129	103	387	304
Other postretirement benefits	143	88	429	263
Total	\$ 643	\$ 540	\$ 1,928	\$ 1,615

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

	Actual YTD Through 9/30/15	Projected Contributions For Remainder of 2015	Projected Total Contributions 2015
Pension	\$ —	\$ 2,068	\$ 2,068
Other postretirement benefits	166	58	224
Total	\$ 166	\$ 2,126	\$ 2,292

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

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contributions necessary before the next plan measurement date of December 31, 2015.

Further details regarding employee benefit plans are contained in the 2014 Annual Report to Shareholders, including a discussion of benefit plan changes related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan.

#### **Note 7 — Commitments and Contingent Liabilities**

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

#### **Note 8 — Subsequent Events**

The Association evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through November 6, 2015, which was the date the financial statements were issued.

On October 19, 2015, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2016. The Association will receive approximately \$9,057 which will be recorded in October 2015 as patronage refunds from other Farm Credit institutions.