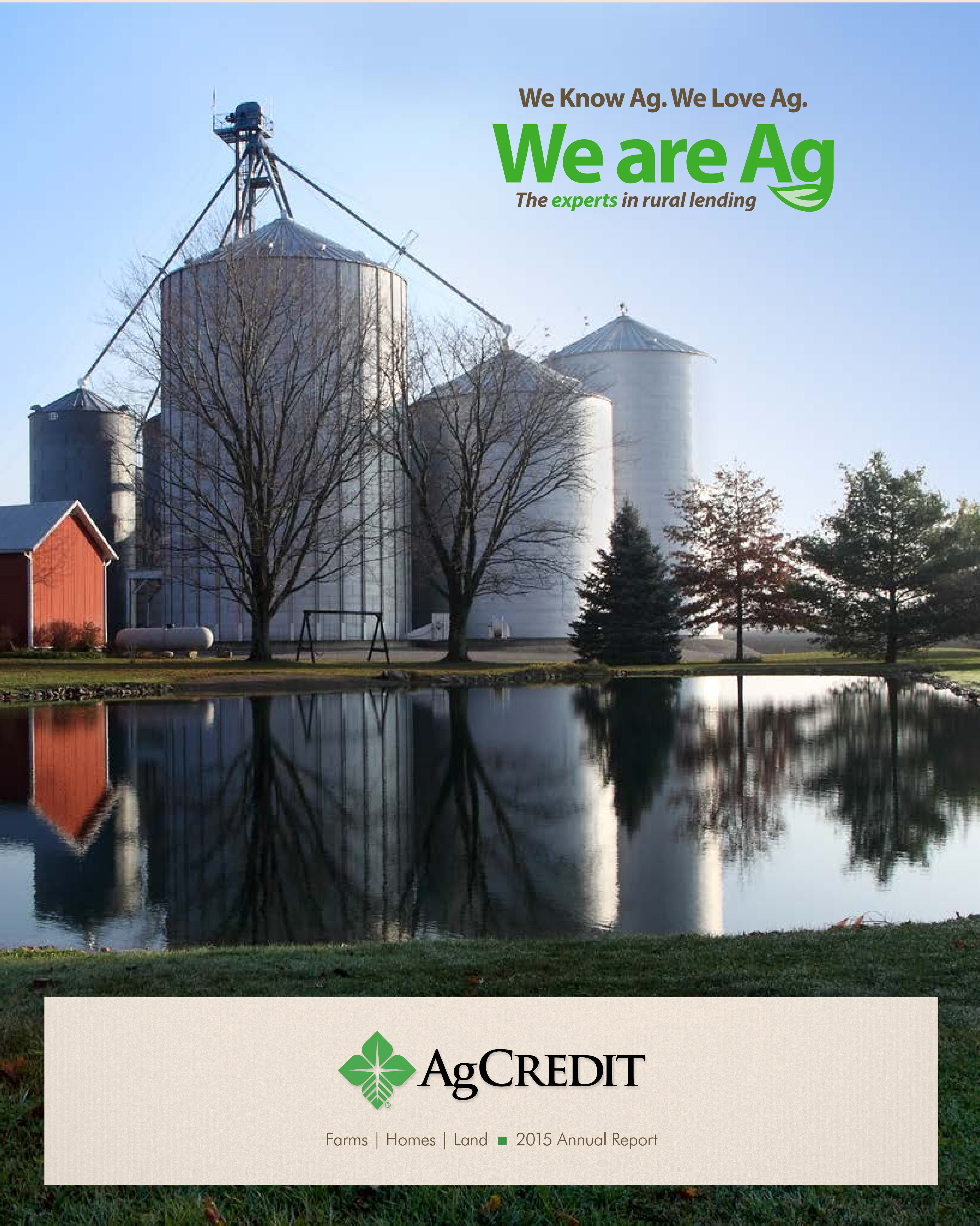


We Know Ag. We Love Ag.

We are Ag

The experts in rural lending

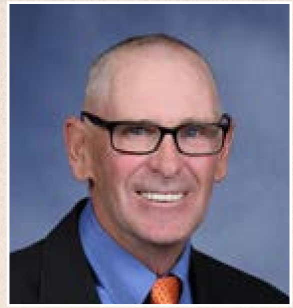
AgCredit

Farms | Homes | Land ■ 2015 Annual Report

BOARD OF DIRECTORS

Scott A. Schroeder
Chairman, Region 1

Gary L. Baldosser
Vice Chairman, Region 5



Charles L. Bostdorff
Region 2

David J. Conrad
Region 8

Deborah L. Johlin-Bach
Region 4

S. Jerry Layman
Region 3

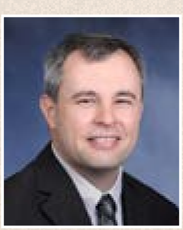
Daniel C. Rengert
Outside Director

Dr. David M. Stott
Outside Director

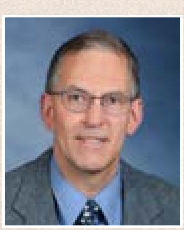
Michael W. Stump
Region 7

Mike A. Thiel
Region 6

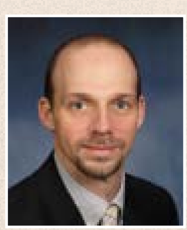
MANAGEMENT TEAM



Brian J. Ricker
President & Chief Executive Officer

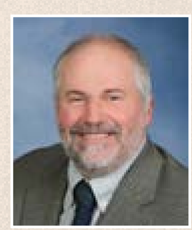


Daniel E. Ebert
Chief Financial Officer & Secretary/Treasurer



Pierce R. Hodnette
Chief Credit Officer

John J. Hunter
Corporate Counsel



P. Mark Pepple
Vice President Corporate Services

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Our Sales Philosophy

To help our customers choose a product or service that is right for them and is in their best interest.

Our Mission Statement

A cooperative lender who returns profits to its borrowers and is dedicated to serving our rural community. We focus on building, nurturing and maintaining lifetime relationships for our customers' and employees' success.

Our Core Values

We will:

Treat our customers and prospects as we would like to be treated.

Conduct ourselves professionally with unyielding integrity.

Meet new challenges objectively with a positive mental attitude.

Focus on building, nurturing and maintaining genuine relationships with our Stockholders.

Exceed our customers' expectations and produce what we promise.

MESSAGE

from the Chairman of the Board and the Chief Executive Officer

We are pleased to report Ag Credit experienced another successful year in 2015. Financial highlights are summarized below and include excellent results in all areas including earnings, loan growth, credit quality and member equity.

- Net Income of $47.4 million
- Accruing Loans of $1.7 billion
- Return on Assets of 2.86%
- Return on Equity of 18.02%
- Permanent Capital of 19.85%
- Net Worth of $268.9 million
- Profit sharing dividend of $18.4 million
- Credit Quality of 98.64% acceptable or special mention

Your cooperative continues to be one of the most efficient, dependable and financially sound lenders in agriculture. Our members will share in their association's success through a return of $18.4 million in profit sharing. This marks the 29th consecutive year profits have been distributed to our members. The profit sharing for the second consecutive year will be paid 100 percent in cash.

We received a significant special cash distribution for the third consecutive year from our funding bank, AgFirst, totaling $9 million. The special distribution demonstrates the rewards of cooperative membership and shows how the success of our funding bank helps all Ag Credit members.

Those in the grain sector are beginning to feel the weight of reduced economic expectations as a result of lower grain prices and diminished yields from the extreme rain events in areas of Ohio last summer. Challenging times can bring opportunity and a reason to manage your cooperative in a way so financial security is maintained and members continue to be its first priority.

Even with the challenges in agriculture, our mission to serve agriculture and our rural communities has never been stronger. In 2015 we initiated a new loan program called AgStart featuring loans with lower costs, extended terms, reduced down payments and assistance with loan fees to our Young, Beginning, Small (YBS) Farmers. Whether the operation is a young family member in a multi-generation farming operation, a military veteran who would like to connect with agriculture, or a beginning farmer who wants to own a farm, the AgStart program offers dependable, constructive financing. We launched the program upon the recommendation of Ag Credit team members who work directly with many YBS farmers. There are specific challenges when starting a new business and our new AgStart program helps us further our mission of serving our rural communities. See additional information on the AgStart program within this annual report.

This annual report is the kickoff of our new Ag Credit logo. We are excited about our new logo and the branding opportunities it provides. Our logo now includes the BioStar, a symbol designed to portray the Farm Credit System as a strong, unified, national credit system ready to meet the needs of a changing and competitive financial industry. The BioStar is a living symbol of progress and commitment consisting of several visual elements: three leaves, a root system and a star. The leaves represent the system entities, the roots represent the grass-roots support of our member-borrowers and the star represents light and direction. The new logo implementation will continue throughout 2016.

In 2016, the Farm Credit System will celebrate 100 years of service to the rural communities we serve. The anniversary signifies we are here for the long haul. This means managing your association in a way that looks at the big picture and not just at short term gains. Serving others and giving back to our community is in our heritage and rural roots. In 2015, we had the opportunity to give back and invest more than $185,000 in programs that supported youth, young farmers, and the fight against hunger and poverty in our local communities.

We are proud to serve this cooperative and are grateful for the support and guidance from our board and management team. We have 127 talented and committed employees and 10 dedicated directors who work very hard to meet our Association's goals and objectives. As a member owned lending cooperative, we understand the pride and emotion that comes with farming as well as the hardship one experiences when adverse weather, disease, commodity markets or other disasters occur. Thank you for supporting Ag Credit and trusting us to be your financial partner. We are proud to guide, direct and manage your cooperative.

Have a safe, healthy and profitable 2016!

Scott A. Schroeder
Chairman of the Board

Brian J. Ricker
President & 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 Ag Credit Agricultural Credit Association (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 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.

Scott A. Schroeder
Chairman of the Board

Brian J. Ricker
Chief Executive Officer

Daniel E. Ebert
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.

Brian J. Ricker

Brian J. Ricker
Chief Executive Officer

Daniel E. Ebert

Daniel E. Ebert
Chief Financial Officer

March 10, 2016


FINANCED BY
CREDIT

CONSOLIDATED FIVE-YEAR SUMMARY

of Selected Financial Data

(dollars in thousands)	2015	2014	December 31, 2013	2012	2011
Balance Sheet Data					
Cash	**$ 4,080**	$ 4,656	$ 4,573	$ 4,551	$ 2,308
Investment securities	**19,193**	22,783	13,363	11,063	7,277
Loans	**1,716,490**	1,583,788	1,473,459	1,378,826	1,250,075
Allowance for loan losses	**(13,858)**	(14,014)	(15,434)	(17,577)	(10,917)
Net loans	**1,702,632**	1,569,774	1,458,025	1,361,249	1,239,158
Investments in other Farm Credit institutions	**18,798**	17,184	15,901	14,668	17,037
Other property owned	**60**	—	763	53	40
Other assets	**57,153**	54,149	52,117	34,359	31,883
Total assets	**$ 1,801,916**	$1,668,546	$1,544,742	$1,425,943	$1,297,703
Notes payable to AgFirst Farm Credit Bank*	**$ 1,500,003**	$1,390,681	$1,293,962	$1,203,825	$1,089,419
Accrued interest payable and other liabilities with maturities of less than one year	**33,021**	32,128	29,488	22,015	20,845
Total liabilities	**1,533,024**	1,422,809	1,323,450	1,225,840	1,110,264
Capital stock and participation certificates	**19,505**	19,173	18,956	18,285	17,577
Retained earnings					
Allocated	**177,063**	157,715	137,127	119,997	109,753
Unallocated	**72,324**	68,849	65,209	61,821	60,109
Total members' equity	**268,892**	245,737	221,292	200,103	187,439
Total liabilities and members' equity	**$ 1,801,916**	$1,668,546	$1,544,742	$1,425,943	$1,297,703
Statement of Income Data					
Net interest income	**$ 43,961**	$ 40,836	$ 37,072	$ 35,348	$ 32,937
Provision for (reversal of allowance for) loan losses	**(57)**	(1,393)	5,472	7,123	4,758
Noninterest income (expense), net	**3,400**	9,252	10,866	(399)	(1,230)
Net income	**$ 47,418**	$ 51,481	$ 42,466	$ 27,826	$ 26,949
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.86%**	3.43%	3.06%	2.17%	2.26%
Total members' equity	**18.02%**	21.50%	19.61%	13.88%	14.60%
Net interest income as a percentage of average earning assets	**2.72%**	2.79%	2.74%	2.84%	2.85%
Net (chargeoffs) recoveries to average loans	**(0.006)%**	(0.002)%	(0.568)%	(0.037)%	(0.247)%
Total members' equity to total assets	**14.92%**	14.73%	14.33%	14.03%	14.44%
Debt to members' equity (:1)	**5.70**	5.79	5.98	6.13	5.92
Allowance for loan losses to loans	**0.81%**	0.88%	1.05%	1.27%	0.87%
Permanent capital ratio	**19.85%**	20.95%	20.28%	19.36%	18.93%
Total surplus ratio	**18.32%**	19.23%	18.46%	17.39%	17.00%
Core surplus ratio	**17.05%**	17.71%	16.73%	15.25%	14.72%
Net Income Distribution					
Cash dividends declared/paid	**$ 188**	$ 196	$ 191	$ 198	$ 253
Estimated patronage refunds:					
Cash	**$ 18,474**	$ 20,034	$ 13,688	$ 9,166	$ 7,994
Nonqualified allocated retained earnings	**—**	—	9,719	5,003	5,919
Nonqualified retained earnings	**25,167**	27,294	15,272	11,672	10,993

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


Keepin' It Rural
AG CREDIT

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

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for 99 years. The System's mission is to support rural communities and agriculture with reliable, consistent credit and financial services, today and tomorrow. 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 the north central and northwest portion of Ohio. 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, knowledge of the market, operation as a true cooperative and lifetime relationships with our members.

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.agcredit.net***, or by calling 1-800-837-3678, extension 1023, or writing Dan Ebert, Chief Financial Officer at 610 W. Lytle St, Fostoria, OH 44830. 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 Report 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. The intent of words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms is 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 changes in the United States and abroad;
- Economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- Weather, disease, and other climatic or biological conditions that impact agricultural productivity and income;
- Changes in governmental support of the agricultural industry and the Farm Credit System, a government-sponsored enterprise;
- Investor and rating-agency reactions to events involving other government-sponsored enterprises and financial institutions; and
- Actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK AND ECONOMIC CONDITIONS

2015 saw the continuation of a significant downward trend in the profitability for much of the agricultural industry of Northwest (NW) Ohio. Commodity markets were less volatile than recent years but, in general, experienced the continuation of a deflationary commodity trend with metals, oil and row crops experiencing significantly lower prices compared to recent historical highs. Corn and soybeans are the primary commodities raised within the eighteen counties comprising the Association's chartered territory. Within the Association's loan portfolio, these two commodities, along with related landlords, account for approximately 70% of the total volume. As the primary components of livestock feed, these two commodities also play a significant role in the profitability of the Association's livestock portfolio.

Many agricultural economists note the period from approximately 2007 through 2013 as constituting a "Super Cycle" for agriculture in general, but more specifically for cash grain producers. Increases in grain prices to historical highs outpaced production costs leading to very profitable years for many producers. These abnormally large profit margins fueled significant capital expenditures to update equipment lines, build farm buildings and purchase real estate. Cash rents increased rapidly as competition for additional rented acres intensified and land values also spiraled upwards as demand exceeded the available supply.

During 2014 the first indications that the "Super Cycle" was ending appeared. Corn and soybean prices decreased significantly while input costs were very slow to respond with a corresponding downward trend. This led to significantly reduced profit margins, especially for any producers that experienced yield reducing weather events. During 2015 we saw the demise of the "Super Cycle" intensify as crop prices saw further erosion and input costs again failed to show much of a decrease, further eroding profit margins. Producer balance sheets that had seen significant strengthening during the "Super Cycle" are now showing signs of deterioration, especially within the working capital segment. This deterioration is leading to some signs of stress within Ag Credit's loan portfolio and bears watching during 2016.

The following table, showing annual average prices for a number of commodities within Ag Credit's portfolio, provides further insight into the discussion of the Super Cycle and its apparent demise.

U.S. Annual Average Commodity Prices Received

Year	Corn	Soybeans	Wheat	Milk	Beef	Hogs
2000	1.86	4.73	2.57	12.33	72.03	43.35
2001	1.89	4.43	2.83	14.93	75.07	43.78
2002	2.13	4.93	3.41	12.10	70.13	33.87
2003	2.27	6.08	3.45	12.51	84.57	38.04
2004	2.47	7.56	3.57	16.04	89.67	51.68
2005	1.96	5.96	3.36	15.15	95.18	50.03
2006	2.28	5.65	4.04	12.90	92.39	46.85
2007	3.39	7.75	5.76	19.13	95.39	47.36
2008	4.78	11.32	8.01	18.32	94.39	48.39
2009	3.75	10.05	5.29	12.81	85.36	42.27
2010	3.83	9.97	5.12	16.29	97.18	55.27
2011	6.01	12.52	7.44	20.14	117.17	66.98
2012	6.67	13.95	7.60	18.57	126.25	64.67
2013	6.15	14.07	7.32	20.03	126.83	67.36
2014	4.11	12.48	6.34	23.98	154.33	77.10
2015	3.71	9.57	5.33	17.07	151.73	54.94

2015 information available through November only

Cash grains:

The lower prices for corn, soybeans and wheat, coupled with limited reduction in input costs, led to further reduction in the profitability for these commodities in 2015. Current price expectations for 2016 are for a continuation of prices more in line with 2015's than those experienced during the banner years of 2008 - 2013. Input costs have slowly begun to decline but currently remain stubbornly high relative to income expectations. Cash rents in particular have been slow to react to the lower crop prices. This is due in part to significant real estate tax increases that occurred within the state of Ohio over the past several years resulting in reluctance by landlords to reduce their cash rents until the real estate taxes show some downward trend as well. Current projected profit margins are marginal at best and many producers may face negative margins unless they have above trend-line yields or can determine ways to reduce their input costs significantly without reducing yield potential.

Livestock:

Livestock producers were initially negatively impacted by the "Super Cycle". Increases in grain prices led to higher input costs for feed. At the same time, consumer demand for meat was reduced as the U.S. was in the throes of the "Great Recession" and consumers reduced discretionary spending. The low profit levels eventually led to decreased meat production and as the U.S. and World economies began to recover increased demand led to significant improvement in livestock prices resulting in a return to profitable levels for most producers. When grain prices declined in 2014 it further enhanced profits within the livestock sector leading to record margins for many producers. While the continued reduction in grain prices during 2015 remained a positive influence on potential livestock profits, prices of end products was significantly lower and led to much lower profit margins as 2015 came to a close. Prospects for profits in 2016 currently appear to be marginal as exports have diminished due to: a downturn in the economies of several major importers of U.S. meats; the impacts of a strong dollar; and increased supplies of meats and poultry products worldwide.

Dairy:

The dairy industry continues to experience significant upward and downward cycles of prices from year to year. High grain prices during the "Super Cycle" pressured profit margins and then, similar to meats, led to a period in much of 2014 where record milk prices resulted in very profitable margins. Unfortunately, the high prices eroded fairly quickly during 2015 leading to profit margins approaching the breakeven or loss categories for many producers. Expectations for 2016 remain guarded as milk prices continue to hover around breakeven levels and projections remain somewhat pessimistic, again due to a general negative supply / demand balance as world production levels have exceeded demand as the economic recovery has moderated and fears of at least a mild world recession are voiced by many economists.

Land Values:

During the "Super Cycle" time period land values had a strong upwards trend. Land values appeared to peak sometime during 2014. Despite the significantly reduced grain prices and resultant decreased profit margins seen in 2014 and 2015, land values held up remarkably well. While there is anecdotal evidence prices are in a decline such as an occasional "no sale" at auctions due to bids unacceptable to the sellers, there has been no well-defined downward trend established. This unexpected strength in land values may be attributable to the very strong balance sheets of producers after the positive impact of the "Super Cycle" years. However, models based upon current profit margins indicate it is only a matter of time before land values will enter into a correction phase.

General Economy:

On a brighter note, the general economic conditions within the eighteen county chartered Association territory continued to improve. Unemployment, which peaked around 13 percent in June of 2009, continued to decline slightly during 2015 and was around 4.6 percent as of November 2015. This level of unemployment is similar to the levels experienced during the years leading up to the "Great Recession" which began in 2008, and lower than the long term historical average of 7.37 percent for the time period 1970-2015. The significant downtrend in oil prices initially had a positive impact on the general economy as it generally bolstered consumer confidence. More recently, however, continued declines in the price of oil, coupled with concerns about the strength of the economies of many countries around the world, especially China's, has led to a slump in stock prices creating concerns over what 2016 may bring.

The nursery, greenhouse, and other consumer related industries continued to see more favorable profit margins during 2015 as the stronger general economy resulted in increased demand for a supply that had been downsized due to several years of significantly reduced profit margins. While many producers have seen a welcomed improvement in their financial positions, the industry would not fare favorably if there were another significant downturn in the U.S. economy during 2016 as many have limited ability to weather additional adversity.

Interest Rates:

In December of 2015 the Federal Reserve initiated a ¼ percent rate hike, the first such rate adjustment since December 2008. The Fed indicated further rate hikes could be expected if the economy continues to show signs of improvement. Whether the U.S. and World economies will support further rate hikes will remain a key question throughout 2016. Higher interest rates could have a significant impact on agricultural producers as increased interest costs, coupled with lower profit margins typically lead to lower land values. Lower land values in turn would have a negative impact on most producers' balance sheets as equity in real estate is a key portion of both individual balance sheets and the composite balance sheet of agriculture. Such a decrease in equity and borrowing capacity would coincide with the increased borrowing needs associated with lower liquidity that has resulted from the past two years of reduced returns, potentially creating stress to the Association's loan portfolio.

While the Association's credit quality showed some minor deterioration during 2015, it remains at a historically strong level. Non-earning assets again decreased and continue to remain at manageable levels as a percentage of total assets. Management continues to believe the Association is well positioned financially to deal with the level of difficulties our members may encounter. Expectations are for the Association to see additional, but manageable reductions in credit quality in 2016, as the impacts of the reduced profitability within the cash grain sector begin to impact the overall net worth, liquidity and repayment capacity of this segment of our loan portfolio. Each individual producer's ability to work through this period of reduced profitability will be dependent upon how well they positioned themselves during the "Super Cycle" for the inevitable downturn. Crop insurance and the government farm program continue to provide some measure of a safety net, albeit at lower levels than the recent past.

The Association will continue to emphasize loans to young, beginning, small and minority farmers as part of our business plan to meet the generational transfer needs of our stockholders. Please refer to the Young, Beginning and Small (YBS) Farmers and Ranchers Program discussion later in this section of the Annual Report.

The Association continues to utilize FSA, USDA, and Business & Industry guaranteed loans, as well as Farmer Mac standby commitments as credit enhancements to assist the Association in leveraging its capital, mitigating its commodity (cash grain) concentration risk, and reducing the Association's potential risk of loss on loans. Furthermore, they enhance the potential for profitability and reduce risk exposure, ultimately returning more value to our member stockholders. We will continue to emphasize their use during 2016 as one of our strategies for risk management.

The Association's cooperative structure, relationship lending philosophy, referrals from our membership, and our long-term commitment to agriculture will continue to be focal points for the Association. By operating as a true cooperative, returning a portion of our earnings to our stockholders in the form of cash patronage refunds, we continue to obtain new business. The Association remains very competitive and has continued to maintain or increase our market share. Our stockholders understand the advantage of doing business with their cooperative, recognizing the reduced net borrowing costs resulting from the sharing of their cooperative's profits. We continue to look for ways to streamline our credit delivery systems, expand our services, and tell the cooperative story to return added value to our stockholder base and meet the challenges presented by competition from other lending sources.

As we move forward during 2016 the prudent management of risk at all levels, whether it is at the individual borrower level or at the portfolio level, remains a focal point for the Association. The Board and Management of Ag Credit recognizes the increased risk associated with the end of the "Super Cycle" and the inevitable negative downtrend that is now occurring. Agriculture continues to be susceptible to shocks from a variety of sources, including, but not limited to:

- weather-related or other environmental shocks,
- market volatility,
- rising interest rates,
- geopolitical risks,
- a continued decline in commodity prices,
- high input costs,
- the strengthening of the U.S. dollar.

Any of these factors individually or in combination could have a negative impact on the earnings capacity of our borrowers and result in a significant reduction in land values.

Because the worldwide agricultural sector is primarily commodity driven, agricultural prices can be dramatically influenced by external shocks as well as supply and demand changes. External shocks affecting one area of the United States, a particular part of the world, or specific commodities may significantly affect other commodities or producers in other locations. Price uncertainty due to market fluctuations is particularly severe in export markets. Now that the "Super Cycle" has ended, lending entities must remain diligent in developing and enforcing sound underwriting principles and establishing effective risk management and control procedures. Because agriculture is vulnerable to sharp shifts in commodity prices and operating costs, this level of volatility warrants implementation of strong risk-mitigation strategies. As a result of this increased risk, the Association continues to place a strong emphasis on the borrower's cash flow and repayment capacity, and does not place undue reliance on collateral. The Association maintains a strong emphasis on developing a thorough knowledge of the agricultural sector and a deep understanding of individual borrowers and their businesses. This helps establish appropriate loan structures and repayment plans based on the local agricultural base and individual customer's credit needs.

The Association recognizes it is a single industry lender highly concentrated in and dependent upon two government-supported commodities (corn and soybeans). These commodities have a significant impact on the financial results of its borrowers and hence the Association. Therefore, the Association continues to stress:

- the use of crop insurance by our borrowers to reduce production and pricing risk,
- the use of governmental guarantees to reduce the credit risk within our portfolio,
- the prudent management of capital to ensure the ability to meet the ongoing financing needs of our borrowers,
- the use of sound, fundamental loan underwriting and servicing practices.

Capital preservation, enhanced risk management, and a heightened awareness of the impact of outside forces on the well-being and success of the Association and its borrowers continue to be key strategic provisions of the business plan during 2016.

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* and *Note 12, Income Taxes*, 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 potential 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.

  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 the borrowers' repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

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

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

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

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.

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and certain related entities, we strive to diversify our loan portfolio through loan participations purchased and sold, geographic locations served, loan type, commodity and loan size. The tables below illustrate the diversification by loan type, geography, commodity and by loan participations. Refer to Note 3 — Loans and Allowance for Loan Losses for more loan portfolio information.

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	$ 964,995	56.22%	$ 907,876	57.32%	$ 858,812	58.28%
Production and intermediate-term	584,371	34.05%	519,117	32.78%	473,119	32.11%
Processing and marketing	24,361	1.42%	19,647	1.24%	14,102	0.96%
Farm-related business	16,849	0.98%	16,378	1.03%	16,785	1.14%
Communications	2,451	0.14%	–	–%	–	–%
Rural residential real estate	121,074	7.05%	117,306	7.41%	107,794	7.32%
Lease receivables	1,696	0.10%	2,534	0.16%	2,847	0.19%
Other	693	0.04%	930	0.06%	–	–%
Total	$ 1,716,490	100.00%	$ 1,583,788	100.00%	$ 1,473,459	100.00%

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

Branch	December 31, 2015	2014	2013
Findlay	7.3%	7.5%	7.6%
Wellington	2.8	3.2	7.4
Fremont	5.8	5.9	5.9
Tiffin	7.7	7.6	7.6
Bowling Green	6.2	6.3	7.7
Marion	3.8	3.8	3.9
Bucyrus	4.1	4.4	7.9
Kenton	4.3	4.6	6.2
Mt. Gilead	6.8	6.5	6.9
Upper Sandusky	2.9	3.3	3.4
Norwalk	7.0	7.4	7.3
Ottawa	6.3	6.8	6.7
Van Wert	7.7	6.6	8.2
Napoleon	4.3	4.4	4.4
Country Mortgages	8.2	8.4	8.2
AgriBusiness	14.8	13.3	0.7
	100.0%	100.0%	100.0%

The significant increase in the AgriBusiness branch during 2014 and 2015 is a result of the formal formation of the branch designation during September 2014 with $172.7 million of volume transferred from other branches to the AgriBusiness branch and the continued growth in participation purchased volume during 2015.

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. Commodity or industry categories are assigned based upon the largest agricultural commodity of the customer or specific commodity upon which repayment is dependent. The major commodities in the Association loan portfolio are shown below. The predominant commodities are general cash grains (primarily soybeans, corn and wheat) livestock and landlords and constitute about 82 percent of the entire portfolio.

Commodity Group	December 31, 2015		2014		2013	
	(dollars in thousands)					
General Cash Grain	$ 1,040,541	61%	$ 991,516	63%	$ 924,879	63%
Livestock	194,802	11%	165,407	10%	157,910	11%
Landlords	173,864	10%	159,895	10%	147,104	10%
Rural Home Loans	124,967	7%	122,314	8%	113,413	8%
Horticulture	70,389	4%	67,026	4%	62,613	4%
Other	111,927	7%	77,630	5%	67,540	4%
Total	$ 1,716,490	100%	$ 1,583,788	100%	$ 1,473,459	100%

Repayment ability is primarily related to the profitability of the commodities produced by our borrowers and the borrowers' off-farm income. The Association's loan portfolio contains a high concentration of cash grain producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are supplemented with off-farm employment income helping to reduce overall risk exposure. Consumer demand for beef, poultry and pork, demand for alternate renewable fuel sources, weather, regulations, government policies and international trade are some of the factors affecting the price of these commodities. Refer to the Agricultural Outlook and Economic Conditions discussion in this report for more details. Even though the concentration of large loans 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 utilization of crop insurance, and the use of FSA, USDA, Business and Industry and Farmer Mac loan guarantees.

Loan portfolio concentration risk, whether by enterprise, individual, or related parties, is managed through loan participations, adherence to sound underwriting standards, loan guarantees, internal lending limits, and sound portfolio management practices. As a part of these risk management strategies, the Association has entered into participation agreements with AgFirst, System entities and other entities and continues to participate in the federal loan guarantee programs. Refer to the Agricultural Outlook and Economic Conditions discussion in this report for more details.

The dollar and percentage changes between 2015 and 2014 for the different loan types are shown in the chart below.

Loan Type	December 2015	December 2014 (as revised)	$ Change	% Change
	(dollars in thousands)			
Real estate mortgage	$ 964,995	$ 907,876	$ 57,119	6.29%
Production and intermediate-term	584,371	519,117	65,254	12.57%
Processing and marketing	24,361	19,647	4,714	23.99%
Farm related business	16,849	16,378	471	2.88%
Communications	2,451	–	2,451	–%
Rural residential real estate	121,074	117,306	3,768	3.21%
Lease receivables	1,696	2,534	(838)	(33.07)%
Other	693	930	(237)	(25.48)%
Total	$ 1,716,490	$ 1,583,788	$ 132,702	8.38%

Real estate mortgage volume increased primarily due to increased new loans generated by strong marketing efforts by our branch teams, favorable recommendations from our members, excellent customer service, competitive interest rates and the value returned to members via the Association's patronage program.

Production and intermediate-term volume increased due to the Association's members increased usage of their operating lines of credit to fund operations due to lower crop prices and increased input costs. In addition, we experienced a marginal increase in intermediate term (IT) volume. Our members scaled back their use of IT credit as they limited their purchases of farm equipment and buildings due to the decline in the farm profitability as previously discussed.
Processing and marketing volume increased primarily due to an increased participation purchased volume.

Farm related business volume increased primarily due to efforts to build relationships with eligible agri-businesses.

Communications volume increased due to our increased focus in rural communities resulting in volume in this category in 2015 when there was none in 2014.

Rural residential real estate loans increased due to continued efforts to earn new business and retaining most loans in the Association's loan portfolio rather than selling loans into the secondary mortgage market.

The decrease in lease volume is related to pay down of lease balances and not adding any new lease participations during the past year.

As previously stated, during 2015, the Association purchased and sold loan participations within and outside the System. With the formation of the AgriBusiness department and the related increased emphasis on participation purchased loans as another source of income for the Association, participation purchased volume increased during 2015. Participations sold increased as a result of increased borrowing by large commercial accounts in excess of the Association's internal lending limits.

Loan Participations:	December 31, 2015	2014	2013
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 35,301	$ 18,812	$ 10,597
Participations Purchased – Non-FCS Institutions	14,495	10,043	1,300
Participations Sold	(141,577)	(102,025)	(81,968)
Total	$ (91,781)	$ (73,170)	$ (70,071)

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 also sells qualified long-term home mortgage loans into the secondary market. For the year ended December 31, 2015, the Association did not originate home loans for resale into the secondary market compared to $348 for 2014 and $324 for 2013.

MISSION RELATED INVESTMENTS

In 2004, 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 under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot program. FCA approved a continuation of the program on October 31, 2008 for an undetermined time period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments funding value-added food and fiber processors and marketers; agribusinesses; commercial enterprises that create and maintain employment opportunities in rural areas; community services, such as schools, hospitals, and government facilities;

and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing increased access to capital to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2015, 2014 and 2013, the Association had $19,193, $22,783 and $13,363, respectively, in Rural America Bonds.

Effective December 31, 2014, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have ended, the FCA can consider future requests on a case-by-case basis. The Association plans to continue looking for Rural America Bond opportunities that will help diversify the Association's portfolio and enhance earnings and will work with FCA to gain their approval of the investment.

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. All Title 1 loans must be collateralized by a first lien on real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. The regulatory maximum loan to appraised value (LTV) is 85 percent for all Title 1 loans unless the loan is guaranteed by a state, federal, or other governmental agency, then the maximum is 97 percent. Although these are the regulatory maximums, the Association's general lending level for all agricultural Title 1 loans is 70% LTV and includes a loanable limit on a tillable acre basis. The loanable limit curbs over reliance on standard lending strategies in an environment of rapidly increasing asset values.

Rural residential mortgage loans (rural home loans and resident loans to farmers) will maintain the 85 percent LTV (97 percent with state, federal, or other governmental agency guarantee) lending level. To offer flexibility to higher quality borrowers with probability of default (PD) indicators of 4 through 6 (post-closing), the lending level can go up to 80 percent LTV but only if the repayment plan is limited to 20 years or less on a fixed principal payment plan or 15 years or less if on an equal-amortized payment plan. For a loan with a PD of 10, the LTV must be less than or equal to 65 percent and must have a loan guarantee, if eligible. Title 1 loans made to PDs of 11 and 12 require Credit Department approval. As a result of the Association's internal policies, the actual loan to appraised value when loans are originated is generally lower than the statutory maximum percentage. Appraisals by state certified appraisers are required for Title 1 loans of more than $250,000. 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	98.64%	99.22%	98.04%
Substandard	1.36%	0.78%	1.96%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100.00%	100.00%	100.00%

Nonperforming Assets

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

High-risk Assets	**December 31, 2015**	**2014**	**2013**
	(dollars in thousands)		
Nonaccrual loans	$ 9,223	$ 11,814	$ 15,015
Restructured loans	–	–	–
Accruing loans 90 days past due	–	–	–
Total high-risk loans	9,223	11,814	15,015
Other property owned	60	–	763
Total high-risk assets	$ 9,283	$ 11,814	$ 15,778
Ratios			
Nonaccrual loans to total loans	0.54%	0.75%	1.02%
High-risk assets to total assets	0.52%	0.71%	1.02%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $2,591 or 21.93 percent in 2015 primarily due to the pay down of loan balances and a small amount of net charge offs. Nonaccrual loans decreased significantly over the past year and remain at manageable levels as a percentage of total loans. Current nonaccrual volume is defined as nonaccrual volume that is current on scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred back into accrual status. Current nonaccrual volume at December 31, 2015 was $8,626 of the total nonaccrual volume of $9,223. Current nonaccrual volume to total nonaccrual volume at December 31, 2015, 2014 and 2013 was 93.53 percent, 94.92 percent and 99.15 percent, respectively.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

The following table presents the activity in the allowance for loan losses for the most recent three years.

Allowance for Loan Losses Activity:	**Year Ended December 31, 2015**	**2014 (as revised)**	**2013 (as revised)**
	(dollars in thousands)		
Balance at beginning of year	$ 14,014	$ 15,434	$ 17,577
Charge-offs:			
Real estate mortgage	–	–	–
Production and intermediate-term	(99)	–	(7,425)
Agribusiness	–	–	(196)
Rural residential real estate	–	(27)	(12)
Total charge-offs	(99)	(27)	(7,633)
Recoveries:			
Production and intermediate-term	–	–	18
Agribusiness	–	–	–
Total recoveries	–	–	18
Net (charge-offs) recoveries	(99)	(27)	(7,615)
Provision for loan losses	(57)	(1,393)	5,472
Balance at end of year	$ 13,858	$ 14,014	$ 15,434
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.006)%	(0.002)%	(0.568)%

The net charge off for 2015 resulted from the charge off of a single loan. The 2014 charge off resulted from the charge off of three small loans. The 2013 charge off is primarily related to the charge-offs associated with a commercial nursery relationship and two participation purchased relationships.

The table below shows the allowance for loan losses by loan type for the most recent three years. .

Allowance for Loan Losses by Type	**December 31, 2015**	**2014 (as revised)**	**2013 (as revised)**
	(dollars in thousands)		
Real estate mortgage	$ 2,812	$ 2,510	$ 2,459
Production and intermediate-term	10,082	10,226	11,393
Agribusiness	382	351	429
Communications	11	–	–
Rural residential real estate	564	918	1,147
Other	3	4	–
Lease receivables	4	5	6
Total allowance	$ 13,858	$ 14,014	$ 15,434

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	0.81%	0.88%	1.05%
Nonperforming loans	150.25%	118.62%	102.79%
Nonaccrual loans	150.25%	118.62%	102.79%

The decrease in the allowance for loan losses for 2015 relates to the decrease in specific reserves on loans in nonaccrual status and changes to our management qualitative allowance (MQA). These were partially offset by an increase in general reserves. The decrease in the allowance for loan losses during 2014 resulted from the reduced specific reserves on nonaccrual loans, which were offset in part by increased general reserves.

The decrease in specific reserves for 2014 and 2015 is primarily a result of reduced specific reserves on a large commercial relationship caused by the pay down of loan balances and increased collateral values for this relationship. General reserves increased as a result of increased loan volume and increased probability of default (PD) and loss given default (LGD) characteristics within the loan portfolio related to the decline in the agricultural economy as previously discussed.

The 2013 and 2014 general reserves had a qualitative adjustment by management (MQA) to address the Board and management's analysis and conclusion of the cyclical risk inherent in our cash grain and related landlord segments of our portfolio as well as to address the risk in our less seasoned rural residential real estate portfolio. The rural residential real estate MQA was reduced in 2014 as the general economy and housing market improved. The MQA for this segment was eliminated in 2015 as a result of the Association using credit bureau reporting to obtain updated credit scores for borrowers in this segment of the portfolio. The 2015 general reserves included a cash grain and related landlord MQA. This MQA was reduced when compared to 2014 to account for the changes in PDs for these segments of the portfolio which resulted from the declining agricultural economy as previously discussed.

The lower crop prices and higher input costs adversely impact the members' financial position, which does increase the risk to the Association. Despite the adverse conditions, our credit quality remains strong. Continued emphasis on sound underwriting and servicing standards will help our members and the Association through the more difficult times ahead. Refer to the Agricultural Outlook and Economic Conditions section of this report factors posing potential adverse impact to the portfolio in 2016.

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net income for the year ended December 31, 2015, totaled $47,418, a decrease of $4,063 or 7.89 percent when compared to the 2014 net income of $51,481. The 2014 net income was $9,015 or 21.23 percent higher than the 2013 net income of $42,466. Major components of the change in net income for the past two years are outlined in the following table.

Change in Net Income:	**2015-2014**	**2014-2013**
	(dollars in thousands)	
Net income (prior year)	$ 51,481	$ 42,466
Increase (decrease) in net income due to:		
Investment securities	(50)	457
Interest income	6,400	5,611
Interest expense	(3,225)	(2,304)
Net interest income	3,125	3,764
(Provision for) reversal of loan losses	(1,336)	6,865
Loan fees	161	83
Financially related services	65	(49)
Equity earnings of AgFirst Farm Credit Bank	(4,602)	(973)
Gains (losses) on other property owned, net	(257)	387
Gains (losses) on sales of premises and equipment, net	(85)	77
Other noninterest income	15	(2)
Salaries and employee benefits	(902)	(664)
Occupancy and equipment	(56)	(53)
Insurance Fund premiums	(241)	(213)
Guarantee Fees	485	(283)
Other operating expenses	(280)	(244)
(Provision for) reversal of income taxes	(155)	320
Total changes in income	(4,063)	9,015
Net income	$ 47,418	$ 51,481

Net Interest Income

Net interest income was $43,961, $40,836 and $37,072 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:

	Volume*	**Rate**	**Total**
12/31/15 – 12/31/14			
Interest income	$ 7,318	$ (968)	$ 6,350
Interest expense	3,094	131	3,225
Change in net interest income	$ 4,224	$ (1,099)	$ 3,125
12/31/14 – 12/31/13			
Interest income	$ 5,206	$ 862	$ 6,068
Interest expense	2,118	186	2,304
Change in net interest income	$ 3,088	$ 676	$ 3,764

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

Net interest income for 2015 increased by $3,125 or 7.65 percent when compared to the 2014 net interest income. Net interest income for 2014 increased by $3,764 or 10.15 percent when compared to 2013 net interest income.

For 2015, 2014 and 2013 the Association's earnings on its own funds in loans were $6,000, $5,391, and $3,253, respectively. The $609 or 11.29 percent increase for 2015 when compared to 2014 is primarily a result of the increase in our own funds in loans and a slight increase in our average portfolio cost of funds. The 2014 increase when compared to 2013 relates to a change in the interest rate paid by AgFirst Farm Credit Bank (the Bank) on the Association's loanable funds and increase in our own funds in loans. Beginning in 2014, the Bank set the monthly interest based on the Association's prior month's average portfolio cost of borrowing interest rate. In prior years, the Bank used the Prime direct note rate. This change increased the average rate used to calculate the earnings on the Association's own funds in loans resulting in higher income on these funds.

Provision for Loan Losses

The Association evaluates risks inherent in our loan portfolio on an ongoing basis and establishes appropriate reserves for loan losses. For 2015 and 2014 the Association recorded a reversal of provision for loan losses of ($57) and ($1,393) as compared to recording provision for loan losses of $5,472 for 2013. The 2015 and 2014 reversal resulted from the changes in the allowance for loan loss as previously discussed. The 2013 provision for loan losses resulted from increased specific reserves and increases in the general allowance. The increase in the general allowance for 2013 is primarily a result of increased loan volume and the initiation of the MQA as previously discussed.

Please refer to the *Allowance for Loan Losses* portion of the Critical Accounting Policies section of this report for further information concerning the calculation of the allowance for loan losses.

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	$ 624	$ 463	$ 380	34.77%	21.84%
Fees for financially related services	301	236	285	27.54%	(17.19)%
Patronage refund from other Farm Credit Institutions	20,144	24,746	25,719	(18.60)%	(3.78)%
Gains on sales of premises and equipment, net	(3)	82	5	(103.66)%	1,540.00%
Other noninterest income	82	67	69	22.39%	(2.90)%
Total noninterest income	$ 21,148	$ 25,594	$ 26,458	(17.37)%	(3.27)%

Noninterest income decreased in 2015 by $4,446 or 17.37 percent due primarily due to less special patronage refund from the Bank and reduced gain on the sale of premises and equipment. These were offset in part by higher loan fee and financially related services fee income. Noninterest income for 2014 decreased from 2013 by $864 or 3.27 percent primarily due to reduced special patronage from the Bank.

The 2015 patronage from the Bank is comprised of $10,338 of general patronage, $9,100 in special patronage and $707 in patronage on participation loans sold to the Bank. The Association received special distributions of $9,100, $14,826 and $16,575 for 2015, 2014 and 2013, respectively. The significant special patronage refunds for 2015, 2014 and 2013 are due to the benefit of the Association's cooperative membership in AgFirst. During all three years, AgFirst had excess capital resulting from strong earnings and flat to limited volume growth within the AgFirst District. As a result of their capital strength, the Bank's board of directors approved the payment of the special distributions to the AgFirst District associations, which are the Bank's member owners.

Loan Fees increased in 2015 over 2014 primarily from increased fee income from participations purchased, rural home secondary market loans, investments, new loans, loan servicing and appraisal fees.

Fees for financially related services increased for 2015 as compared to 2014 because of increased multi-peril crop insurance income and income from a one-time credit life insurance program buyout payment from TransAmerica.

Gains on sales of premises and equipment decreased as a result of the sale of the old Tiffin office building recorded in 2014 and the recording of small, miscellaneous losses for 2015.

The 2015 increase in other non-interest income resulted from an increased captive insurance and out-of-territory loan fee income.

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	$ 11,639	$ 10,737	$ 10,073	8.40%	6.59%
Insurance Fund premium	1,254	1,013	800	23.79%	26.63%
Guarantee fee	819	1,304	1,021	(37.19)%	27.72%
Occupancy and equipment expense	933	877	824	6.39%	6.43%
Losses (gains) on other property owned, net	–	(257)	130	100%	(297.69)%
Other operating expense	3,103	2,823	2,579	9.92%	9.46%
Total noninterest expense	$ 17,748	$ 16,497	$ 15,427	7.58%	6.94%

Salaries and employee benefits increased for 2015 primarily due to increased costs associated with merit compensation, increased staffing levels, salary related benefits, payroll taxes, increased health care costs, retirement related expenses and increased incentives. These were offset in part by higher deferred loan origination costs. Salaries and employee benefits increased for 2014 for the same reasons as 2015 and lower deferred loan origination costs.

Insurance Fund premium expenses increased for 2015 and 2014 due to increased premium rates and the significant increase in loan volume previously discussed. Insurance fund premium expenses for 2015, 2014 and 2013 were lowered through the Association's continued use of loan guarantees. The Association is not required to pay insurance premiums on the government guaranteed portion of its loan portfolio.

Occupancy and equipment expenses increased for 2015 primarily due to increased expenses for depreciation, utilities and maintenance. The 2014 expenses increased due to depreciation generated by the new Tiffin office building and higher maintenance and utility expenses.

Guarantee fees are one-time and/or annual fees paid by the Association to obtain federal government and Farmer Mac loan guarantees. Guarantee related expenses decreased in 2015 due to reduced guarantee loan applications. Guarantee fees increased for 2014 due to increased availability of guarantee funding when compared to 2013.

Gains on the sale of other property owned (OPO) increased for 2014 due to a gain recognized upon the sale of participation purchased related OPO. There was no OPO sale in 2015.

The 2015 increase in other operating expenses is a result of increased expenses in advertising, data services, travel expenses, training and liability related insurances, primarily offset by lower expenses for purchased services, member relations, and postage. Other operating expenses for 2014 increased due to higher purchased services, training, travel, data related services, advertising, public relations, and miscellaneous liability insurances offset by lower expenses for directors, furniture and equipment, and printing and office supplies.

Income Taxes

For 2014, the Association recorded a reversal of provision for income taxes of $155, as compared to a provision for taxes of $165. The reversal relates to 2013 having an Ohio franchise tax liability but no such liability for 2014 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). As a result, the Association had $0 tax for 2015. 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	2.86%	3.43%	3.06%
Return on average members' equity	18.02%	21.50%	19.61%
Net interest income as a percentage of average earning assets	2.72%	2.79%	2.74%
Net (charge-offs) recoveries to average loans	(0.006)%	(0.002)%	(0.568)%
Total members' equity to total assets	14.92%	14.73%	14.33%
Debt to members' equity (:1)	5.70	5.79	5.98

The ratios as of December 31, 2015 and the changes in the ratios shown in the table are due to the financial information previously stated.

Key factors in maximizing net income for future years will be increasing net interest and noninterest income while controlling operating expenses. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. 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 matched to the Association's interest earning assets. The variable rate note is also utilized by the Association to fund variable day-to-day operations. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2015, was $1,500,003 as compared to $1,390,681 at December 31, 2014 and $1,293,962 at December 31, 2013. This is an increase of $109,322 or 7.86 percent for 2015 and an increase of $96,719 or 7.47 percent for 2014. The increase for both years is attributable to continued loan and investment growth, patronage payments to members, premises and equipment purchases and pension funding. This was partially offset by Association earnings. The average volume of outstanding notes payable to the Bank was $1,378,365, $1,246,328, and $1,155,759 for the years ended December 31, 2015, 2014, and 2013, respectively. Refer to Note 6, *Debt, 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 increase loan volume while managing cash balances to minimize the note payable. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in loan guarantees, investments, and other secondary market programs provide 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 maintain and increase 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 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, *Debt, Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion and Analysis and in Note 6, *Debt, 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 adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure 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.

The following table shows the components of and total members' equity as of December 31, 2015, 2014 and 2013.

	December 31,		
	2015	2014	2013
	(dollars in thousands)		
Class A Preferred Stock	$ 12,300	$ 12,242	$ 12,358
C Stock and Participation Certificates	7,205	6,931	6,598
Nonqualified Retained Earnings	150,832	125,807	98,738
Nonqualified Allocated Retained Earnings	26,231	31,908	38,389
Unallocated Retained Earnings	72,324	68,849	65,209
Total members' equity	$ 268,892	$ 245,737	$ 221,292

Total members' equity increased by $23,155 or 9.42 percent for 2015 when compared to 2014. 2015 members' equity increased due to strong earnings and an increase in capital stock offset by cash patronage. Nonqualified allocated retained earnings (NQA) decreased due to the distribution of the 2009 NQA and the move to all cash patronage. All cash patronage means the NQA will continue to decrease until all NQA is disbursed. Total members' equity increased for 2014 for the same reasons stated for 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. 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:

	December 31,			Regulatory
	2015	2014	2013	Minimum
Permanent capital ratio	19.85%	20.95%	20.28%	7.00%
Total surplus ratio	18.32%	19.23%	18.46%	7.00%
Core surplus ratio	17.05%	17.71%	16.73%	3.50%

The decrease in the 2015 permanent capital, total surplus and core surplus (capital ratios) resulted from increased loan volume, a decrease in loan guarantees as a percentage of the loan portfolio and the move to all cash patronage. The 2014 capital ratios increased due to strong earnings and the continued benefits of loan guarantees offsetting the increase in loan volume. There are no anticipated 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 patronage distributions of $43,641 in 2015, $47,328 in 2014, and $38,679 in 2013.

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

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

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association. Statistics for minority farmers are not available.

	As of December 31, 2015	
	Number of Loans	Amount of Loans
Young	2,875	$303,125
Beginning	2,969	$279,729
Small	8,342	$593,872

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 (2012 is the latest USDA Ag census data available) Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 13,573 reported farmers of which by definition 1,038 or 7.6 percent were young, 2,028 or 14.9 percent were beginning, and 11,071 or 81.6 percent were small. Comparatively, as of December 31, 2015, the demographics of the Association's agricultural portfolio contained 7,261 farmers, of which by definition 1,527 or 21.0 percent were young, 1,646 or 22.7 percent were beginning and 4,416 or 60.8 percent were small.

Slight differences between the Census and our YBS information are as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information shows young farmers up to age 35.
- The Census shows years on present farm up to nine years, whereas the Association's YBS information shows 10 years or less for a beginning farmer.
- The Census data is based on number of farms, whereas the Association's YBS information is based on number of loans.

The Association's YBS program is designed to help YBS farmers finance their operations. It consists of three focus areas: education, events, and financial support. Education is at the heart of the program, and includes supporting or conducting seminars and training sessions. These educational opportunities may be in-house; in the form of events held by the Association, or external; in which case the Association provides a speaker or provides educational materials. The Association's website, www.agcredit.net, includes information and resources for YBS visitors to the site.

The second focus area of the program includes those activities in which the Association sponsors local events (such as 4-H and FFA activities at county fairs), or events where the Association is an exhibitor (such as industry or trade shows).

The third prong of the program, financial support, addresses the specific credit programs and partnerships that we've developed to help small farmers, young farmers, and beginning farmers. It consists of programs such as those offered by the Farm Service Agency (FSA). As a "preferred lender" with FSA, the Association utilizes this relationship to obtain guarantees providing financial support to YBS farmers.

The Association is also a Guaranteed Participating Lender for the Small Business Administration (SBA), which offers lending programs specifically for small borrowers. Additionally, the Association offers flexible financing options in-house for qualifying borrowers.

A member of the Credit team coordinates the Association's YBS efforts. Additional staff members in each of the Association's branch offices help conduct or coordinate YBS programs. The Association includes YBS goals in the annual strategic plan and reports on those goals and achievements to the Board of Directors on a quarterly basis.

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.

Credit Programs:
The Association created 3 new credit programs in 2015 to better assist Young, Beginning and Small as well as Minority, Women, and Veteran Farmers (Ag Start Farmers):

Ag Grow Loans for farm operators. This loan program was created for Ag Start Farmers who are making their first or second time farmland purchase or contract livestock building purchase. This loan program eases requirements on certain credit ratios, provides extended terms, has lower borrowing costs, and requires an FSA guarantee along with other certain loan requirements.

Ag Grow loans for non-farm operators. This loan program was created for Ag Start Farmers who desire to purchase farmland to continue/expand their family farm legacy and/or for a long term investment in our agriculture communities. This loan program eases requirements on certain credit ratios, provides extended terms, has lower borrowing costs, and gives strong consideration for the applicant's off-farm profession for business management experience.

Ag Niche Loans for non-traditional/niche farm programs. This loan program is intended for Ag Start farmers running a non-traditional operation with benefits consisting of: flexible repayment terms to match income stream, strong focus on the operator's education/experience/research background of their non-traditional business, a business plan that includes a detailed marketing plan, and proper research of their public relations with their community. Loan limit of $25,000 on new start-up operations with higher loan amounts available on established operations.

The following strategies and outreach programs have been implemented to allow the Association to meet its objectives and goals for the young, beginning and small farmer program to date.

Use of FSA and other loan related programs including:

- FSA guarantees
- FSA interest assistance
- FSA Beginning Farmer Down Payment Farm Ownership loan
- FSA 50/50 Participation Program
- FSA Socially Disadvantaged Loan Program
- Ohio Link Deposit loans

FFA and 4-H Involvement:

- Donations pledged for fair buildings.
- Participating in FFA career days, field days and judging events.
- Offering $300 per county for 4-H "Real Money, Real World" money management projects.
- Sponsoring the FFA 110 percent Awards, attending award banquets and recognizing winners in the Ag Credit Leader.
- Supporting of 4-H, FFA and young farmer organizations through local, district, state and national sponsorships.
- Donating FFA Handbooks for students (over 1,200 books in 2015) and CDs (as needed) for teachers and advisors.
- All branches are supporting their local junior fair livestock sales and other junior fair activities.
- Scholarships for young FFA women to attend Women in Agriculture conference (Napoleon).
- Making loans for FFA and 4-H projects (with parent co-signer).
- Financing the calf club to help provide animals (Findlay).
- Donating fair t-shirts, money for prizes, giveaways for barn meetings, chairs for exhibitors, back tags for show ring for Jr. Fair exhibitors.
- Newspaper and Social Media advertising for National 4-H and FFA week.
- Fair sponsorships Sponsoring FFA Gold Metal Chapter Award.
- Celebrating FFA Week at area schools by providing snacks and gifts.

Other Youth:

- Supporting OSU Center for Small Business and Cooperative Education and Development.
- Reimbursing course fees to youth who successfully complete any farm safety course.
- Providing five $2,000 college scholarships to students studying an agricultural curriculum.

- Providing PowerPoint presentation to use when talking with vocational agriculture classes about the importance of establishing and maintaining good credit.
- Taught 8th graders from County Schools the importance of paying loans back on time or earlier.
- Association employees making presentations to high school agri-business classes explaining Ag Credit, the cooperative method of doing business and agricultural finance issues.
- Sponsoring state-wide Environmental Envirothon (Area 1 and Area 2) competition for 100 students from 18 high schools.
- Supporting The Piggyback Foundation Donating approximately 1,000 Ag Credit farm themed T-shirts to area youth.
- Making donations to support area youth programs like, but not limited to, Flying Horse summer camp, local ballpark sponsorships and banners, golf teams, yearbook ads, community safety programs, Farm Rescue bin safety training, High School Music, Athletic, and Academic boosters, Advertising at the Ohio HS All Star game, Fishing Derby for kids, "Pork in the Classroom", School essay winner prizes and judging.
- Sponsoring, organizing and running Pee Wee Pig shows at 6 fairs (Wood, Ottawa, Seneca Hancock, Wyandot and Attica Independent). Awarded 36 prize bags.
- Sponsoring Beef & Goat Obstacle Course in Putnam County.
- Employing four interns in summer of 2015.
- Taught Business planning classes and explain Ag Credit at Lorain Community College and Terra Community College.
- Sponsoring Farm Safety Camp for third graders, they sponsor lunch, teach at a station and providing the t-shirts. (Ottawa)

Other YBS Involvement:

- Donating to and/or participate in local and state farm agricultural council and local Chamber of Commerce groups.
- Providing local radio segments with topics geared toward YBS farmers.
- Providing access to credit life insurance, crop insurance and appraisal services.
- Sponsoring commodity marketing/outlook meetings.
- Sponsored Farm Estate Planning, Eldercare, Asset Protection, and Crop Insurance Workshops to address these issues affecting farm operations.
- Sponsored a series of Farm Law Education programs at the Upper Sandusky Public Library. Ag Credit also made presentations regarding Farm Loans.
- Advertising YBS promotional topics in local media outlets.
- Featuring YBS families in articles and "Are You Eligible" promotion ads in the Association's quarterly magazine, The Leader.
- Supporting Wood County Young Farmer organization as the primary sponsor and organizer.
- Starting Young Professional Group with Farm Bureau in Marion
- Delivering holiday gifts to YBS borrowers.
- Assisted in sponsoring local County Leadership programs.
- Assisting YBS farmers in using Quick Books for improved recordkeeping.
- Providing free Farm Record books.
- Sending crop advisory letters to YBS farmers.
- Being a Silver sponsor for the Women in Agriculture workshop and donating giveaways for all participants.
- Findlay, Norwalk and Ottawa teams have provided floats for local parades.
- Promoting YBS programs on Ag Credit billing statement stuffers, invoice marketing messages, lobby monitor displays, lobby posters, YBS tab on Ag Credit Website and social media (Facebook and Twitter).
- Providing YBS banner for trade shows.
- Purchasing mini finishing barn display to loan out to community groups and use at fairs and events.
- Sponsoring, promoting, and attending several Farm Bill meetings.
- Sponsoring cover crop signs with NRCS.
- Wood Co. Soil & Water ATV Farm Tour.
- Attended Winter Young Ag Professional Conference.
- Sponsoring, promoting, and participating in several area Young Farmer groups.

REGULATORY MATTERS

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

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

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

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

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

FINANCIAL REGULATORY REFORM

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

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

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

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

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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


OHIO APPLES
GROBE FRUIT FARM
OHIO APPLES


Fremont Members

DISCLOSURE REQUIRED

by Farm Credit Administration Regulations

Description of Business

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

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

Description of Property

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

Location	Description	Form of Ownership
610 W. Lytle St. Fostoria	Administrative	Owned
7868 County Rd. 140, Ste. A Findlay	Branch	Leased(1)
2155 Oak Harbor Rd., Suite B Fremont	Branch	Owned(2)
2500 W Market St. Tiffin	Branch	Owned
111 E. Gypsy Lane Rd. Bowling Green	Branch	Owned
602 W. Lytle St. Fostoria	Branch	Owned
1100 E. Center St. Marion	Branch	Owned
3113 St. Rt. 98 Bucyrus	Branch	Owned
12923 St. Rt. 309 Kenton	Branch	Owned
97 Houpt Dr., Room E. Upper Sandusky	Branch	Leased(3)
871 W. Marion Rd., Suite 204 Mt. Gilead	Branch	Leased(4)
5362 US Route 42 Mt. Gilead	Branch	Owned(5)
735A US Highway 20 E. Norwalk	Branch	Owned
116 W Herrick Avenue Wellington	Branch	Leased(6)
315 W. Williamstown Rd. Ottawa	Branch	Owned
1195 Professional Dr. Van Wert	Branch	Leased(7)
1485 Scott St. Napoleon	Branch	Owned

(1) Two-year lease terminating on December 31, 2016. Annual lease of $29,739.50.

(2) The Association owns the West half of the building.

(3) Five-year lease terminating February 28, 2017. Annual lease of $19,524.

(4) Lease terminated September 30, 2015. Moved to new building located at 5362 US Route 42 Mt. Gilead.

(5) During 2015, the Association completed work on this branch office. Moved into the building during September 2015.

(6) Three-year lease terminating November 30, 2017. Annual lease of $22,200.

(7) Ten-year lease terminating December 31, 2022. Annual lease of $33,780.

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association:

Senior Officer	Position
Brian Ricker	*President and Chief Executive Officer* effective February 1, 2014. *Chief Operating Officer* from October 1, 2013 through January 31, 2014. *Chief Credit Officer* from September 2012 through September 2013. *Senior Credit Officer* from March 2012 through August 2012. *Relationship Manager* from November 2009 through February 2012. *Branch Manager* from March 1997 through October 2009. Employed by Ag Credit for the past 5 years and since March 1997.
Daniel Ebert	*Chief Financial Officer and Secretary / Treasurer*. Chief Financial Officer since August 1, 2007. Secretary / Treasurer since April 2008. Employed by Ag Credit for the past 5 years. Employed by Ag Credit, or predecessor associations, since July 1986.
Pierce Hodnette	*Chief Credit Officer* effective January 1, 2014. Employed by the Association or AgFirst Farm Credit Bank (the Bank) for the past 5 years. Mr. Hodnette was employed by the Bank from June 21, 2004 through December 31, 2013. His positions included *Vice President-Association Capital Markets Officer* from January 2013 through December 2013, *Vice President-Relationship Manager* from January 2009 through December 2012, *Associate Corporate Credit Analyst* July 2005 through December 2008 and *Marketing Research Analyst* from June 2004 through July 2005.
John Hunter	*General Counsel* since May 2014. Corporate Counsel from April 2013 through April 2014. Served as outside counsel to Ag Credit from approximately 1987 through March 2013. Was in private practice in Toledo, Ohio starting in 1986 and focused on commercial credit and creditor's rights, including matters affecting System lenders. For the past 5 years Mr. Hunter was employed by Ag Credit (2.75 years) and his legal practice (2.25 years).
Mark Pepple	*Vice President – Corporate Services* since January 2001. Employed by Ag Credit for the past 5 years. Employed by Ag Credit, or predecessor associations, since July 1978.
Clem Prenger	*Risk Management Officer* from September 2011 through June 30, 2015. Mr. Prenger retired effective July 1, 2015. Prior to his retirement, Mr. Prenger was employed by Ag Credit, or predecessor associations, since October, 1987.

The total amount of compensation earned by the CEO and the highest paid officers and 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	Change in Pension Value*	Perq/ Other**	Total
Brian Ricker	2015	$ 268,466	$ 26,340	$ 155,875	$ 879	$ 451,560
Brian Ricker	2014	248,882	22,631	270,603	809	542,925
Neil Jordan	2014	26,501	26,500	366,389	74,793	494,183
Neil Jordan	2013	275,573	26,877	(19,783)	3,976	286,643
8	2015	$ 1,153,266	$ 121,550	$ 262,674	$ 42,552	$ 1,580,042
7	2014	1,064,821	84,518	1,012,860	28,551	2,190,750
5	2013	723,011	83,080	75,997	8,176	890,264

Regulatory reporting changes have affected the content of the compensation reported for 2015, 2014 and 2013.

**On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures." The rule amends FCA Regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. The rule will be effective 30 days after publication in the Federal Register during which time either one or both Houses of Congress are in session. System banks and associations were required to 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 for 2014 and retroactively to 2013, but this application had no effect on the 2013 amounts as previously reported in the 2013 Annual Report.*

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.

*** Amounts in the above table classified as Perquisites include one or more of the following items: travel incentives, group life insurance, automobile compensation, relocation, annual leave payments and tuition reimbursement. No deferred compensation was earned by or provided to the CEO, senior officers or highly compensated employees. Neil Jordan's perq/other was higher in 2014 primarily due to the payment of previously earned annual leave.*

The Association participates in multi-association, District and multi-District sponsored benefit plans. Change in pension value is considered a part of compensation and was a new disclosure in 2013. The Pension Benefits table below reflects number of years credited service, actuarial present value of accumulated benefits, along with any payments made during 2015 for the CEO and senior officers and other highly compensated employees as a group.

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:					
Brian J. Ricker	2015	Independent Association Retirement Plan	19.75	$ 699,830	$ –
				$ 699,830	$ –
Senior Officers and Highly Compensated Employees:					
6 Individuals, excluding the CEO	2015	Independent Association Retirement Plan	34.12	$ 6,460,901	$ –
2 Individuals, excluding the CEO	2015	Cash Balance Plan	7.13	35,845	–
				$ 6,496,746	$ –

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 at December 31, 2015.

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 upcoming 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.

Disclosure of information on the total compensation paid during 2015 to any senior officer, or to any other employee included in the aggregate group totals shown previously, is available and will be disclosed to Association's shareholders upon request.

Senior officers and other highly compensated employees may participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and/or which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Association.

In addition to base salary, employees and senior officers can earn additional compensation under an annual bonus plan designed to encourage teamwork in meeting or exceeding key financial and growth objectives established by the Board of Directors. The President and Chief Executive Officer can earn additional compensation under an annual bonus plan similar to the employee bonus plan and is designed to encourage teamwork in meeting or exceeding key financial and growth objectives established by the Board of Directors. The term of both plans is the year beginning September 1 through August 31. Both plans are based upon the achievement of predetermined Association performance goals for net income, return on equity, increase in loan volume, credit quality and credit administration with an emphasis on net income. The Board of Directors approves both plans annually.

Employees may earn additional incentive compensation under the Guarantee Loan, Loan Officer Incentive Plan (Guarantee Incentive), Mortgage Loan Originator Incentive Plan (MLO Incentive), Fixed Rate Re-Pricing Incentive, Farm Credit Express Incentive (FCE), Crop Insurance Incentive, Appraisal Path Incentive, and the Retirement Early Notification Incentive. The Guarantee Incentive pays the employee an incentive for obtaining an FSA, Business and Industry or USDA loan guarantee. These guarantees help the Association leverage capital, mitigate credit risk and assist the Association to lend funds to Young, Beginning and Small Farmers and Ranchers. The MLO Incentive pays the employee for making qualified home mortgage loans. The MLO Incentive is designed to motivate employees to make loans to qualified borrowers and help the Association extend credit to the rural communities it serves. The Fixed Rate Re-Pricing Incentive is paid to Operations Support Specialists for increased earnings generated through the processing of eligible fixed rate note modifications reducing the Association's cost of borrowed funds and reduce the interest rate for the respective member(s). The FCE Incentive is paid to FCE specialists for establishing and maintaining relationships with FCE dealers providing increased ease and access to equipment financing. The Crop Insurance Incentive is paid to team members to promote the use of crop insurance products sold by the Association or its affiliated agents to reduce borrower risk and provide income to the Association. The Appraisal Path Incentive is paid to Association appraisers to promote achievement of required certifications. The Retirement Early Notification Incentive is paid to team members who provide at least nine months notice of their intention to retire allowing the Association the ability to manage succession. Incentives are shown in the year earned, which may be different from the year of payment.

All employees are reimbursed for mileage on personally owned automobiles at the rate allowed by IRS regulations and for all actual travel expenses incurred when traveling on Association business. A copy of the travel and other business expenses policy is available to shareholders upon written request.

On October 3, 2012, FCA adopted a regulation that requires all System institutions to hold advisory votes on the compensation for all senior officers and/or the CEO when the compensation of either the CEO or the senior officer group increases by 15 percent or more from the previous reporting period. In addition, the regulation requires associations to hold an advisory vote on CEO and/or senior officer compensation when 5 percent of the voting stockholders petition for the vote and to disclose the petition authority in the annual report to shareholders. The regulation became effective December 17, 2012, and the base year for determining whether there is a 15 percent or greater increase was 2013. For the year ended December 31, 2015, no advisory votes were held.

On January 17, 2014, the President signed into law the Consolidated Appropriations Act which includes language prohibiting the FCA from using any funds available "to implement or enforce" the regulation. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. Section 5404 of the law directs FCA to within 60 days of enactment of the law "review its rules to reflect the Congressional intent that a primary responsibility of boards of directors of Farm Credit System institutions, as elected representatives of their stockholders, is to oversee compensation practices." FCA has not yet taken any action with respect to their regulation in response to these actions.

Directors

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

		Term of Office		Number of Days Served		Compensation		
Name of Director	**Position**	**Election Year**	**Current Term Expiration**	**Board Meetings**	**Other Official Activities***	**Compensation Regular Board Meetings**	**Compensation for Other Activities**	**Total Compensation Paid During 2015**
S. Jerry Layman	Chairman (from Jan-May)	2004	2016	10.0	7.6	$8,900	$7,100	$16,000
Scott A. Schroeder	Chairman (from Jun-Dec)	2008	2017	10.0	14.5	9,800	13,550	23,350
Keith L. Roberts	Vice Chairman (from Jan-May)	2006	2015	2.0	5.0	1,400	3,800	5,200
Gary L Baldosser	Vice Chairman (from Jun-Dec)	2009	2018	8.0	17.1	6,200	13,100	19,300
Paul N. Aley	Outside Director	2005	2017	6.0	5.5	4,800	4,400	9,200
Charles L. Bostdorff	Director	2001	2016	8.0	6.5	6,200	4,900	11,100
David J. Conrad	Director	2015	2018	6.0	5.0	4,800	3,550	8,350
Deborah L. Johlin-Bach	Director	2007	2016	10.0	12.0	7,700	9,000	16,700
Lauren J. Kamm	Director	2012	2015	3.0	10.0	2,100	7,000	9,100
Daniel C. Rengert	Outside Director	2012	2017	8.0	15.5	6,100	11,400	17,500
David M. Stott, PhD	Outside Director	2012	2018	9.5	13.5	7,300	10,100	17,400
Michael W. Stump	Director	2008	2017	10.0	13.5	7,700	10,100	17,800
Michael A. Thiel	Director	2015	2018	5.0	6.0	4,000	4,350	8,350
Total				95.5	131.7	$77,000	$102,350	$179,350

** Other official activities include, but are not limited to, special board meetings, training, committee meetings, Farm Credit System meetings, annual meetings and other assignments approved by the Board of Directors.*

Subject to approval by the Board, the Association may allow directors honoraria for attendance at regular meetings, committee meetings or special assignments. Honoraria for these meetings were $1,100 per meeting for the Chairman, $700 (January 1 through May 31) and $800 (June 1 through December 31) per meeting for all other directors and $50 per conference call. Committees generally meet during regularly scheduled board meetings, however, may also meet on other days during the year. Compensation received and days attending meetings for committees outside of the regular board meetings are shown in the director narratives below. Total compensation paid to directors, as a group was $179,350. No director received non-cash compensation during the year.

Directors are reimbursed for mileage on personally owned automobiles at the rate allowed by IRS and for all actual travel expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to stockholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $78,244 for 2015, $89,614 for 2014 and $101,897 for 2013.

The following represents certain information regarding the directors of the Association:

Scott A. Schroeder, Chairman, represents Paulding, Putnam and Van Wert Counties. For the past five years, his principal occupation and employment was farming. During 2015 Mr. Schroeder served on the Compensation Committee (1 day and $1,100 compensation) and currently serves as Chairman of the Governance Committee.

Gary L. Baldosser, Vice Chairman, represents Seneca County. For the past five years, his principal occupation and employment was farming. During 2015, Mr. Baldosser served on the Compensation Committee (1 day and $800 compensation) and currently serves as Chairman of the Audit Committee (2 days and $1,500 compensation).

Charles L. Bostdorff represents Wood, Henry and western Lucas Counties. For the past five years, his principal occupation and employment was farming. During 2015, Mr. Bostdorff served on the Operations, Governance and Compensation Committees (1 day and $800 compensation).

David J. Conrad represents Erie, Huron and Lorain Counties. For the past five years, his principal occupation and employment was farming. During 2015, Mr. Conrad served on the Operations Committee.

Deborah L. Johlin-Bach represents Ottawa, Sandusky and eastern Lucas Counties. For the past five years, her principal occupation and employment was farming. Deborah also serves as the Secretary of the Woodmore FFA Alumni Association. During 2015, Mrs. Johlin-Bach served on the Credit Committee.

S. Jerry Layman represents Hardin and Hancock Counties. For the past five years, Mr. Layman's principal occupation and employment has been farming, a partner in a custom farm drainage operation and he served as Chairman of the Buck Township trustees. During 2015, Mr. Layman served on the Operations Committee, Governance and Compensation Committee (1 day and $800 compensation). He represents Ag Credit on the Independent Association Retirement Plan (IARP) Committee (0.5 days and $550 compensation) and is serving on the AgFirst/Texas benefit sponsor committee (5 days with compensation paid by AgFirst Farm Credit Bank). Mr. Layman also served as an at-large director to the AgFirst Farm Credit Bank Board of Directors in 2015.

Daniel C. Rengert is an outside director. For the past five years, he has been retired. Mr. Rengert's principal occupation and employment prior to his retirement in June 2010 was president of TODCO a division of the Overhead Door Company. During his 45 year career he served in various senior management capacities including President of TODCO and on the Senior Executive Team at the Overhead Door Company. During 2015, Mr. Rengert served on the Credit Committee.

David M. Stott, Ph.D., CPA is an outside director. Dr. Stott's principal occupation and employment for the past five years was Chair, Department of Accounting and MIS, Associate Professor at Bowling Green State University and as owner and secretary/treasurer of Stott CPA, Inc. David also serves as a Board Member for the Falcon Health Center LLC. During 2015, he served on the Audit Committee (2 days and $1,500 compensation).

Michael W. Stump represents Crawford and Morrow Counties. For the past five years, his principal occupation and employment was farming. During 2015, Mr. Stump served on the Audit Committee (2 days and $1,500 compensation).

Michael A. Thiel represents Marion and Wyandot Counties. For the past five years, his principal occupation and employment was farming. Michael serves as the President of the Wyandot County Beef Association. During 2015, Mr. Thiel served on the Credit Committee.

Keith L. Roberts represented Marion and Wyandot Counties. For the past five years, his principal occupation and employment was grain farming. Mr. Roberts was not re-elected in 2015.

Lauren J. Kamm represented Erie, Huron and Lorain Counties. For the past five years, his principal occupation and employment was farming. Mr. Kamm was not re-elected in 2015.

Paul N. Aley was an outside director. Mr. Aley's principal occupation and employment for the past five years was owner of AgriEnergy Resources. During 2015, Paul served on the Governance Committee and Compensation Committee. Mr. Aley stepped down as an outside director after the December Board meeting.

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.

FCA regulation requires the disclosure of the purchase or retirement of Association preferred stock held by an Association officer or director. The Association only has Class A Preferred Stock (preferred stock) and is available for purchase by members and others in accordance with the Association's Bylaws. The average preferred stock dividend rate for dividends paid in 2015 was 1.545 percent. Dividends are declared quarterly and paid in cash. The following chart shows the directors and senior officers holding preferred stock and the preferred stock activity for each individual for 2015.

Director/Officer	Beginning Balance 1/1/15	Purchases	Retirements	Dividends Paid	Transfer Out	Ending Balance 12/31/15
Deborah L. Johlin-Bach	$ 735	$ –	$ –	$ –	$ –	$ 735
Charles L. Bostdorff	28,960	–	–	–	–	28,960
Keith L. Roberts	109,855	–	–	–	109,855	–
S. Jerry Layman	141,805	–	–	–	–	141,805
Scott A. Schroeder	11,865	–	11,865	–	–	–
Michael W. Stump	1,620	–	–	–	–	1,620
Gary L. Baldosser	245	–	–	–	–	245
Michael A. Thiel	750	–	–	–	–	750
P. Mark Pepple	$ 3,550	$ –	$ –	$ –	$ –	$ 3,550

(i) The Transfer Out column represents Class A Preferred Stock of Directors who were not re-elected during the year.

Involvement in Certain Legal Proceedings

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

Relationship with Independent Certified Public Accountant

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

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

	2015
Independent Certified Public Accountant	
PricewaterhouseCoopers LLP	$ 64,617

Audit fees for PricewaterhouseCoopers LLP were for the annual audit of the Consolidated Financial Statements.

All audit fees incurred by the Association were approved by the Audit Committee.

Consolidated Financial Statements

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

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-419-435-7758, ext. 1023, or writing Dan Ebert, Chief Financial Officer, Ag Credit, Agricultural Credit Association, 610 West Lytle Street, Fostoria, OH 44830 or accessing the web site, ***www.agcredit.net***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

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

On November 10, 1999, the FCA Board adopted a policy requiring 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 new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

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

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

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.


AGRICULTURAL
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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 Ag Credit Agricultural Credit 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 accountant 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:

Gary L. Baldosser
Chairman of the Audit Committee

Members of Audit Committee

Michael W. Stump
David M. Stott, Ph.D., CPA

March 10, 2016

Report of Independent
CERTIFIED PUBLIC ACCOUNTANTS

pwc

Report of Independent Certified Public Accountants

To the Board of Directors and Members of
Ag Credit Agricultural Credit Association

We have audited the accompanying consolidated financial statements of Ag Credit Agricultural Credit Association 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 Ag Credit Agricultural Credit Association 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	**$ 4,080**	$ 4,656	$ 4,573
Investment securities:			
Held to maturity (fair value of $19,073, $22,945, and $12,656, respectively)	**19,193**	22,783	13,363
Loans	**1,716,490**	1,583,788	1,473,459
Allowance for loan losses	**(13,858)**	(14,014)	(15,434)
Net loans	**1,702,632**	1,569,774	1,458,025
Accrued interest receivable	**23,619**	20,609	19,031
Investments in other Farm Credit institutions	**18,798**	17,184	15,901
Premises and equipment, net	**8,233**	5,869	5,440
Other property owned	**60**	—	763
Accounts receivable	**20,180**	24,763	24,952
Other assets	**5,121**	2,908	2,694
Total assets	**$ 1,801,916**	$ 1,668,546	$ 1,544,742
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 1,500,003**	$ 1,390,681	$ 1,293,962
Accrued interest payable	**2,969**	2,635	2,522
Patronage refunds payable	**18,560**	20,109	13,764
Accounts payable	**1,715**	1,141	2,023
Advanced conditional payments	**507**	560	1,417
Other liabilities	**9,270**	7,683	9,762
Total liabilities	**1,533,024**	1,422,809	1,323,450
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**19,505**	19,173	18,956
Retained earnings			
Allocated	**177,063**	157,715	137,127
Unallocated	**72,324**	68,849	65,209
Total members' equity	**268,892**	245,737	221,292
Total liabilities and members' equity	**$ 1,801,916**	$ 1,668,546	$ 1,544,742

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

Consolidated Statements of
COMPREHENSIVE INCOME

(dollars in thousands)	For the year ended December 31, 2015	2014	2013
Interest Income			
Loans	**$ 75,667**	$ 69,267	$ 63,656
Investments	**1,087**	1,137	680
Total interest income	**76,754**	70,404	64,336
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**32,793**	29,568	27,264
Net interest income	**43,961**	40,836	37,072
Provision for (reversal of allowance for) loan losses	**(57)**	(1,393)	5,472
Net interest income after provision for (reversal of allowance for) loan losses	**44,018**	42,229	31,600
Noninterest Income			
Loan fees	**624**	463	380
Fees for financially related services	**301**	236	285
Patronage refunds from other Farm Credit institutions	**20,144**	24,746	25,719
Gains (losses) on sales of premises and equipment, net	**(3)**	82	5
Gains (losses) on other transactions	**1**	—	—
Other noninterest income	**81**	67	69
Total noninterest income	**21,148**	25,594	26,458
Noninterest Expense			
Salaries and employee benefits	**11,639**	10,737	10,073
Occupancy and equipment	**933**	877	824
Insurance Fund premiums	**1,254**	1,013	800
Guarantee fees	**819**	1,304	1,021
(Gains) losses on other property owned, net	**—**	(257)	130
Other operating expenses	**3,103**	2,823	2,579
Total noninterest expense	**17,748**	16,497	15,427
Income before income taxes	**47,418**	51,326	42,631
Provision for income taxes	**—**	(155)	165
Net income	**47,418**	51,481	42,466
Other comprehensive income	**—**	—	—
Comprehensive income	**$ 47,418**	$ 51,481	$ 42,466

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

Consolidated Statements of

CHANGES IN MEMBERS' EQUITY

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2012	$ 18,285	$ 119,997	$ 61,821	$ 200,103
Comprehensive income			42,466	42,466
Capital stock/participation certificates issued/(retired), net	671			671
Dividends declared/paid			(191)	(191)
Patronage distribution				
Cash			(13,688)	(13,688)
Nonqualified allocated retained earnings		9,719	(9,719)	—
Nonqualified retained earnings		15,272	(15,272)	—
Retained earnings retired		(7,821)		(7,821)
Patronage distribution adjustment		(40)	(208)	(248)
Balance at December 31, 2013	$ 18,956	$ 137,127	$ 65,209	$ 221,292
Comprehensive income			51,481	51,481
Capital stock/participation certificates issued/(retired), net	217			217
Dividends declared/paid			(196)	(196)
Patronage distribution				
Cash			(20,034)	(20,034)
Nonqualified retained earnings		27,294	(27,294)	—
Retained earnings retired		(6,802)		(6,802)
Patronage distribution adjustment		96	(317)	(221)
Balance at December 31, 2014	$ 19,173	$ 157,715	$ 68,849	$ 245,737
Comprehensive income			**47,418**	**47,418**
Capital stock/participation certificates issued/(retired), net	**332**			**332**
Dividends declared/paid			**(188)**	**(188)**
Patronage distribution				
Cash			**(18,474)**	**(18,474)**
Nonqualified retained earnings		**25,167**	**(25,167)**	**—**
Retained earnings retired		**(5,677)**		**(5,677)**
Patronage distribution adjustment		**(142)**	**(114)**	**(256)**
Balance at December 31, 2015	**$ 19,505**	**$ 177,063**	**$ 72,324**	**$ 268,892**

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	**$ 47,418**	$ 51,481	$ 42,466
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**449**	413	396
Amortization (accretion) of net deferred loan costs (fees)	**554**	416	416
Premium amortization (discount accretion) on investments	**(17)**	(13)	(46)
Provision for (reversal of allowance for) loan losses	**(57)**	(1,393)	5,472
(Gains) losses on other property owned	**—**	(263)	105
(Gains) losses on sales of premises and equipment, net	**3**	(82)	(5)
(Gains) losses on other transactions	**(1)**	—	—
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**(3,010)**	(1,578)	(1,581)
(Increase) decrease in accounts receivable	**4,583**	189	(14,166)
(Increase) decrease in other assets	**(2,213)**	(214)	(742)
Increase (decrease) in accrued interest payable	**334**	113	279
Increase (decrease) in accounts payable	**574**	(882)	1,054
Increase (decrease) in other liabilities	**1,588**	(2,079)	1,617
Total adjustments	**2,787**	(5,373)	(7,201)
Net cash provided by (used in) operating activities	**50,205**	46,108	35,265
Cash flows from investing activities:			
Purchases of investment securities, held to maturity	**—**	(12,796)	(2,454)
Proceeds from maturities of or principal payments received on investment securities, held to maturity	**3,607**	3,389	200
Net (increase) decrease in loans	**(133,415)**	(110,772)	(104,220)
(Increase) decrease in investment in other Farm Credit institutions	**(1,614)**	(1,283)	(1,233)
Purchases of premises and equipment	**(2,816)**	(859)	(1,669)
Proceeds from sales of premises and equipment	**—**	99	9
Proceeds from sales of other property owned	**—**	1,026	741
Net cash provided by (used in) investing activities	**(134,238)**	(121,196)	(108,626)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**109,322**	96,719	90,137
Net increase (decrease) in advanced conditional payments	**(53)**	(857)	172
Capital stock and participation certificates issued/(retired), net	**332**	217	671
Patronage refunds and dividends paid	**(20,467)**	(14,106)	(9,776)
Retained earnings retired	**(5,677)**	(6,802)	(7,821)
Net cash provided by (used in) financing activities	**83,457**	75,171	73,383
Net increase (decrease) in cash	**(576)**	83	22
Cash, beginning of period	**4,656**	4,573	4,551
Cash, end of period	**$ 4,080**	$ 4,656	$ 4,573
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	**$ 60**	$ —	$ 1,556
Estimated cash dividends or patronage distributions declared or payable	**18,662**	20,230	13,879
Supplemental information:			
Interest paid	**$ 32,459**	$ 29,455	$ 26,985
Taxes (refunded) paid, net	**(172)**	173	137

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:** Ag Credit Agricultural Credit Association (the Association or ACA) is a member-owned cooperative providing credit and credit-related services to qualified borrowers in the counties of Huron, Erie, Lorain, Paulding, Putnam, Van Wert, Henry, Lucas, Wood, Hancock, Ottawa, Sandusky, Seneca, Wyandot, Marion, Hardin, Crawford and Morrow in the state of Ohio.

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

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

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst (the Bank) and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year end, the 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 is 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 risk rating model based on internally generated combined system risk rating guidance incorporating a 14-point probability of default (PD) scale to identify and track the probability of borrower default and a separate scale addressing loss given default (LGD). PD is the probability a borrower will experience a default within 12 months from the date of the determination of the PD. 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 LGD 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 PD categories carries a distinct percentage of default probability. The 14-point PD scale provides for granularity of the PD, especially in the acceptable ratings. There are nine acceptable PD categories ranging 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.

As of December 31, 2015 there were no loans held for sale.

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

Investment Securities:
The Association holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of Other Comprehensive Income (OCI). Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security using the effective interest method.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in other comprehensive income.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

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 Independent Association 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, dental, and life insurance benefits for defined retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Employees who retired on or before December 1, 2007 may be eligible for the life insurance benefits. Substantially all employees are eligible to participate in health and dental plans at retirement, however, only employees who started before December 1, 2009 are eligible for employer contribution towards the benefits. Certain charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

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

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

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

Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

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

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

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

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

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

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

J. **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, 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	$ 727,378	$ 180,498	$ 907,876
Production and intermediate-term	579,316	(60,199)	519,117
Processing and marketing	19,648	(1)	19,647
Farm-related business	16,215	163	16,378
Rural residential real estate	237,767	(120,461)	117,306
Lease receivables	2,534	–	2,534
Other (including Mission Related)	930	–	930
Total Loans	$ 1,583,788	$ –	$ 1,583,788

	December 31, 2013		
(dollars in thousands)	As Previously Reported	Adjustment	As Revised
Real estate mortgage	$ 693,477	$ 165,335	$ 858,812
Production and intermediate-term	525,533	(52,414)	473,119
Processing and marketing	13,923	179	14,102
Farm-related business	16,742	43	16,785
Rural residential real estate	220,937	(113,143)	107,794
Lease receivables	2,847	–	2,847
Total Loans	$ 1,473,459	$ –	$ 1,473,459

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, but excluding purchases by full or part time farmers. 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	$ 964,995	$ 907,876	$ 858,812
Production and intermediate-term	584,371	519,117	473,119
Processing and marketing	24,361	19,647	14,102
Farm-related business	16,849	16,378	16,785
Communication	2,451	–	–
Rural residential real estate	121,074	117,306	107,794
Lease receivables	1,696	2,534	2,847
Other (including Mission Related)	693	930	–
Total Loans	$ 1,716,490	$ 1,583,788	$ 1,473,459

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	$ 1,747	$ 8,746	$ –	$ 715	$ 5,610	$ –	$ 7,357	$ 9,461
Production and intermediate-term	12,315	130,676	1,049	1,258	8,010	–	21,374	131,934
Processing and marketing	16,184	–	445	–	1	–	16,630	–
Farm-related business	1,102	–	–	–	–	–	1,102	–
Communication	2,458	–	–	–	–	–	2,458	–
Other (including Mission Related)	–	182	–	–	875	–	875	182
Total	$ 33,806	$ 139,604	$ 1,494	$ 1,973	$ 14,496	$ –	$ 49,796	$ 141,577

	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	$ 283	$ 5,516	$ –	$ 748	$ 6,011	$ –	$ 6,294	$ 6,264
Production and intermediate-term	6,443	95,022	1,078	369	2,732	–	10,253	95,391
Processing and marketing	9,949	–	801	–	–	–	10,750	–
Lease receivables	–	–	258	–	–	–	258	–
Other (including Mission Related)	–	371	–	–	1,300	–	1,300	371
Total	$ 16,675	$ 100,909	$ 2,137	$ 1,117	$ 10,043	$ –	$ 28,855	$ 102,026

	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	$ –	$ 27,354	$ –	$ 617	$ –	$ –	$ –	$ 27,971
Production and intermediate-term	1,050	53,208	1,516	418	–	–	2,566	53,626
Processing and marketing	3,254	371	4,333	–	1,300	–	8,887	371
Lease receivables	–	–	444	–	–	–	444	–
Total	$ 4,304	$ 80,933	$ 6,293	$ 1,035	$ 1,300	$ –	$ 11,897	$ 81,968

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	$ 6,657	$ 52,637	$ 905,701	$ 964,995
Production and intermediate term	239,430	254,722	90,219	584,371
Processing and marketing	38	10,783	13,540	24,361
Farm-related business	3,132	3,235	10,482	16,849
Communication	–	2,451	–	2,451
Rural residential real estate	407	3,070	117,597	121,074
Lease receivables	352	1,147	197	1,696
Other (including Mission Related)	693	–	–	693
Total Loans	$ 250,709	$ 328,045	$ 1,137,736	$ 1,716,490
Percentage	14.61%	19.11%	66.28%	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	98.47%	98.44%	98.21%
OAEM	0.76	1.32	0.91
Substandard/doubtful/loss	0.77	0.24	0.88
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	95.02%	96.33%	94.74%
OAEM	2.52	1.98	1.38
Substandard/doubtful/loss	2.46	1.69	3.88
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	80.23%
OAEM	–	–	8.82
Substandard/doubtful/loss	–	–	10.95
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	96.86%	96.51%	96.06%
OAEM	0.14	0.31	0.41
Substandard/doubtful/loss	3.00	3.18	3.53
	100.00%	100.00%	100.00%

	December 31, 2015	2014 (as revised)	2013 (as revised)
Communication:			
Acceptable	100.00%	–%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	–%	–%
Rural residential real estate:			
Acceptable	91.84%	98.86%	98.74%
OAEM	7.43	0.46	0.46
Substandard/doubtful/loss	0.73	0.68	0.80
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Total Loans:			
Acceptable	96.84%	97.78%	96.94%
OAEM	1.80	1.44	1.10
Substandard/doubtful/loss	1.36	0.78	1.96
	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	$ 2,966	$ 152	$ 3,118	$ 977,149	$ 980,267	$ –
Production and intermediate-term	2,569	21	2,590	589,487	592,077	–
Processing and marketing	–	–	–	24,401	24,401	–
Farm-related business	–	332	332	16,656	16,988	–
Communication	–	–	–	2,451	2,451	–
Rural residential real estate	801	20	821	120,614	121,435	–
Lease receivables	–	–	–	1,696	1,696	–
Other (including Mission Related)	–	–	–	693	693	–
Total	$ 6,336	$ 525	$ 6,861	$ 1,733,147	$ 1,740,008	$ –

December 31, 2014 (as revised)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,556	$ –	$ 1,556	$ 919,837	$ 921,393	$ –
Production and intermediate-term	560	–	560	525,030	525,590	–
Processing and marketing	–	–	–	19,696	19,696	–
Farm-related business	–	331	331	16,176	16,507	–
Rural residential real estate	789	–	789	116,869	117,658	–
Lease receivables	–	–	–	2,534	2,534	–
Other (including Mission Related)	–	–	–	930	930	–
Total	$ 2,905	$ 331	$ 3,236	$ 1,601,072	$ 1,604,308	$ –

	December 31, 2013 (as revised)					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,513	$ –	$ 1,513	$ 869,850	$ 871,363	$ –
Production and intermediate-term	3,424	–	3,424	475,494	478,918	–
Processing and marketing	–	–	–	14,175	14,175	–
Farm-related business	34	–	34	16,916	16,950	–
Rural residential real estate	749	32	781	107,335	108,116	–
Lease receivables	–	–	–	2,847	2,847	–
Total	$ 5,720	$ 32	$ 5,752	$ 1,486,617	$ 1,492,369	$ –

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

	December 31,		
	2015	2014 (as revised)	2013 (as revised)
Nonaccrual loans:			
Real estate mortgage	$ 568	$ 636	$ 1,203
Production and intermediate-term	8,303	10,847	13,400
Farm-related business	332	331	380
Rural residential real estate	20	–	32
Total	$ 9,223	$ 11,814	$ 15,015
Accruing restructured loans:			
Total	$ –	$ –	$ –
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 9,223	$ 11,814	$ 15,015
Other property owned	60	–	763
Total nonperforming assets	$ 9,283	$ 11,814	$ 15,778
Nonaccrual loans as a percentage of total loans	0.54%	0.75%	1.02%
Nonperforming assets as a percentage of total loans and other property owned	0.54%	0.75%	1.07%
Nonperforming assets as a percentage of capital	3.45%	4.81%	7.13%

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

	December 31,		
	2015	2014	2013
Impaired nonaccrual loans:			
Current as to principal and interest	$ 8,627	$ 11,214	$ 14,888
Past due	596	600	127
Total	9,223	11,814	15,015
Impaired accrual loans:			
Restructured	–	–	–
90 days or more past due	–	–	–
Total	–	–	–
Total impaired loans	$ 9,223	$ 11,814	$ 15,015
Additional commitments to lend	$ 3,263	$ 2,500	$ 2,000

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	$ 331	$ 402	$ 35	$ 400	$ 1
Production and intermediate-term	4,779	5,405	161	5,770	6
Farm-related business	332	401	189	400	–
Rural residential real estate	20	20	3	25	–
Total	$ 5,462	$ 6,228	$ 388	$ 6,595	$ 7
With no related allowance for credit losses					
Real estate mortgage	$ 237	$ 274	$ –	$ 285	$ –
Production and intermediate-term	3,524	12,884	–	4,254	5
Total	$ 3,761	$ 13,158	$ –	$ 4,539	$ 5
Total					
Real estate mortgage	$ 568	$ 676	$ 35	$ 685	$ 1
Production and intermediate-term	8,303	18,289	161	10,024	11
Farm-related business	332	401	189	400	–
Rural residential real estate	20	20	3	25	–
Total	$ 9,223	$ 19,386	$ 388	$ 11,134	$ 12

	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	$ 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
With no related allowance for credit losses					
Real estate mortgage	$ 268	$ 283	$ –	$ 316	$ 5
Production and intermediate-term	4,845	13,915	–	5,694	79
Total	$ 5,113	$ 14,198	$ –	$ 6,010	$ 84
Total					
Real estate mortgage	$ 636	$ 702	$ 71	$ 748	$ 11
Production and intermediate-term	10,847	20,222	2,123	12,749	177
Farm-related business	331	401	183	389	5
Total	$ 11,814	$ 21,325	$ 2,377	$ 13,886	$ 193

	December 31, 2013 (as revised)			Year Ended December 31, 2013 (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	$ 404	$ 435	$ 100	$ 709	$ 4
Production and intermediate-term	8,873	9,167	4,582	15,565	94
Farm related business	380	428	146	667	4
Rural residential real estate	32	49	10	55	–
Total	$ 9,689	$ 10,079	$ 4,838	$ 16,996	$ 102
With no related allowance for credit losses					
Real estate mortgage	$ 799	$ 888	$ –	$ 1,402	$ 9
Production and intermediate-term	4,527	13,135	–	7,941	48
Total	$ 5,326	$ 14,023	$ –	$ 9,343	$ 57
Total					
Real estate mortgage	$ 1,203	$ 1,323	$ 100	$ 2,111	$ 13
Production and intermediate-term	13,400	22,302	4,582	23,506	142
Farm-related business	380	428	146	667	4
Rural residential real estate	32	49	10	55	–
Total	$ 15,015	$ 24,102	$ 4,838	$ 26,339	$ 159

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

	Year ended December 31, 2015	2014	2013
Interest income which would have been recognized under the original loan terms	$ 3,071	$ 899	$ 765
Less: interest income recognized	4	177	157
Foregone interest income	$ 3,067	$ 722	$ 608

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	Rural Residential Real Estate	Lease Receivables	Other	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2014	$ 2,259	$ 10,514	$ 351	$ –	$ 881	$ 5	$ 4	$ 14,014
Charge-offs	–	(99)	–	–	–	–	–	(99)
Recoveries	–	–	–	–	–	–	–	–
Provision for loan losses	324	(96)	33	11	(327)	(1)	(1)	(57)
Balance at December 31, 2015	$ 2,583	$ 10,319	$ 384	$ 11	$ 554	$ 4	$ 3	$ 13,858
Balance at December 31, 2013	$ 2,270	$ 11,630	$ 439	$ –	$ 1,089	$ 6	$ –	$ 15,434
Charge-offs	–	–	–	–	(27)	–	–	(27)
Recoveries	–	–	–	–	–	–	–	–
Provision for loan losses	(11)	(1,116)	(88)	–	(181)	(1)	4	(1,393)
Balance at December 31, 2014	$ 2,259	$ 10,514	$ 351	$ –	$ 881	$ 5	$ 4	$ 14,014
Balance at December 31, 2012	$ 1,397	$ 14,729	$ 1,166	$ –	$ 280	$ 4	$ –	$ 17,576
Charge-offs	–	(7,425)	(196)	–	(12)	–	–	(7,633)
Recoveries	–	–	18	–	–	–	–	18
Provision for loan losses	873	4,326	(549)	–	821	2	–	5,473
Balance at December 31, 2013	$ 2,270	$ 11,630	$ 439	$ –	$ 1,089	$ 6	$ –	$ 15,434
Allowance on loans evaluated for impairment:								
Individually	$ 35	$ 161	$ 189	$ –	$ 3	$ –	$ –	$ 388
Collectively	2,548	10,158	195	11	551	4	3	13,470
Balance at December 31, 2015	$ 2,583	$ 10,319	$ 384	$ 11	$ 554	$ 4	$ 3	$ 13,858
Individually	$ 71	$ 2,123	$ 183	$ –	$ –	$ –	$ –	$ 2,377
Collectively	2,188	8,391	168	–	881	5	4	11,637
Balance at December 31, 2014	$ 2,259	$ 10,514	$ 351	$ –	$ 881	$ 5	$ 4	$ 14,014
Individually	$ 100	$ 4,582	$ 146	$ –	$ 10	$ –	$ –	$ 4,838
Collectively	2,170	7,048	293	–	1,079	6	–	10,596
Balance at December 31, 2013	$ 2,270	$ 11,630	$ 439	$ –	$ 1,089	$ 6	$ –	$ 15,434
Recorded investment in loans evaluated for impairment:								
Individually	$ 568	$ 8,303	$ 332	$ –	$ 20	$ –	$ –	$ 9,223
Collectively	979,699	583,774	41,057	2,451	121,415	1,696	693	1,730,785
Balance at December 31, 2015	$ 980,267	$ 592,077	$ 41,389	$ 2,451	$ 121,435	$ 1,696	$ 693	$ 1,740,008
Individually	$ 636	$ 10,847	$ 331	$ –	$ –	$ –	$ –	$ 11,814
Collectively	920,757	514,743	35,872	–	117,658	2,534	930	1,592,494
Balance at December 31, 2014	$ 921,393	$ 525,590	$ 36,203	$ –	$ 117,658	$ 2,534	$ 930	$ 1,604,308
Individually	$ 1,203	$ 13,400	$ 380	$ –	$ 32	$ –	$ –	$ 15,015
Collectively	870,160	465,518	30,745	–	108,084	2,847	–	1,477,354
Balance at December 31, 2013	$ 871,363	$ 478,918	$ 31,125	$ –	$ 108,116	$ 2,847	$ –	$ 1,492,369

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $524,405, $529,625, and $446,018 at December 31, 2015, 2014, and 2013, respectively. Fees paid for such guarantee commitments totaled $819, $1,304, and $1,021 for 2015, 2014, and 2013, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. The tables do not include purchased credit impaired loans. There were no TDRs that occurred during 2015 and 2014.

	Year Ended December 31, 2013 (as revised)				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 3,668	$ –	$ –	$ 3,668	$ –
Production and intermediate-term	22,195	–	–	22,195	(7,169)
Total	$ 25,863	$ –	$ –	$ 25,863	$ (7,169)
Post-modification:					
Real estate mortgage	$ 413	$ –	$ –	$ 413	$ –
Production and intermediate-term	12,597	–	–	12,597	–
Total	$ 13,010	$ –	$ –	$ 13,010	$ –

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

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

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2015	2014 (as revised)	2013 (as revised)	2015	2014 (as revised)	2013 (as revised)
Real estate mortgage	$ 332	$ 368	$ 404	$ 332	$ 368	$ 404
Production and intermediate-term	8,282	10,832	13,284	8,282	10,832	13,284
Total Loans	$ 8,614	$ 11,200	$ 13,688	$ 8,614	$ 11,200	$ 13,688
Additional commitments to lend	$ 3,263	$ 2,500	$ 2,000			

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	$ 119

Note 4 — Investments

Investment Securities

The Association's investments consist primarily 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 (the scale) used to also grade loans, falls below 9. The FCA requires System institutions to provide notification to FCA when a security becomes ineligible. At December 31, 2015, the Association did not hold any RABs whose credit quality had deteriorated beyone the program limits.

A summary of the amortized cost and fair value of HTM investment securities follows:

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 19,193	$ 208	$ (328)	$ 19,073	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%

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 13,363	$ 185	$ (892)	$ 12,656	5.53%

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

	December 31, 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	2,217	2,261	5.13
After ten years	16,976	16,812	5.03
Total	$ 19,193	$ 19,073	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.

	December 31, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 12,743	$ (328)	$ –	$ –

	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)

	December 31, 2013			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 5,753	$ (549)	$ 2,735	$ (343)

The recording of an impairment loss 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

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 $18,788 for 2015, $17,175 for 2014 and $15,891 for 2013. The Association owns 7.33 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 an investment of $10 related to other Farm Credit institutions at December 31, 2015.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2015	2014	2013
Land	$ 1,287	$ 685	$ 575
Buildings and improvements	8,286	6,549	6,298
Furniture and equipment	3,188	2,780	2,540
Total cost	12,761	10,014	9,413
Less: accumulated depreciation	4,528	4,145	3,973
Total	$ 8,233	$ 5,869	$ 5,440

Other Property Owned

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

	December 31, 2015	2014	2013
(Gains) losses on sale, net	$ –	$ (281)	$ 6
Carrying value unrealized (gains) losses, net	–	18	99
Operating (income) expense, net	–	6	25
(Gains) losses on other property owned, net	$ –	$ (257)	$ 130

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. There were no deferred gains at December 31, 2015, 2014, and 2013.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

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

The weighted average interest rates on the variable rate advances were 1.56 percent for LIBOR-based loans and 1.66 percent for Prime-based loans, and the weighted average remaining maturities were 2.9 years and 8.0 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 2.66 percent, and the weighted average remaining maturity was 12.8 years at December 31, 2015. The weighted-average interest rate on all interest-bearing notes payable was 2.39 percent and the weighted-average remaining maturity was 10.4 years at December 31, 2015. Variable rate and fixed rate notes payable represent approximately 11.26 percent and 88.74 percent, respectively, of total notes payable at December 31, 2015. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm-related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2 percent of the member's outstanding principal balance or $1 thousand, 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 January 30, 1997 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	19.85%	20.95%	20.28%	7.00%
Total surplus ratio	18.32%	19.23%	18.46%	7.00%
Core surplus ratio	17.05%	17.71%	16.73%	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. The Association has no reason to believe any such restrictions may apply in the future.

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

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

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
A Preferred/Nonvoting	No	2,460,006	$ 12,300
C Common/Voting	No	1,197,849	5,989
C Participation Certificates/Nonvoting	No	243,089	1,216
Total Capital Stock and Participation Certificates		3,900,944	$ 19,505

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 Board determines the minimum aggregate amount of these two accounts. 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 accounts 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 that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2015, allocated members' equity consisted of $26,231 of nonqualified allocated surplus and $150,832 of nonqualified retained surplus.

Dividends

The Association may declare dividends on its capital stock and participation certificates. Dividend declaration, dividend rates and method of payment are at the discretion of the Board in accordance with the Association's bylaws.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. The Association declared dividends for each 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 the Board approves another proportionate patronage basis.

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 A Preferred Stock, Class B Common Stock, Class C Common Stock 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. Class B Common Stock, Class C Common Stock and Participation Certificates
2. Class A 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 consistent with the Association's bylaws and pro rata to the holders of the outstanding stock and participation certificates in the following order:

3. Class A Preferred Stock
4. Class B Common Stock; Class C Common Stock and Participation Certificates
5. Allocated surplus evidenced by qualified written notices of allocation on the basis of oldest allocations first
6. Allocated surplus evidenced by nonqualified notices of allocation on the basis of oldest allocations first
7. Unallocated surplus accrued after March 31, 1997 on a patronage basis
8. Any remaining assets of the Association after such distribution ratably to the holders of all classes of stock and participation certificates

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.

The fair value of investment securities is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

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:						
Recurring Assets	$ 61	$ 61	$ –	$ –	$ 61	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 8,835	$ –	$ –	$ 8,835	$ 8,835	$ 1,890
Other property owned	60	–	–	68	68	–
Nonrecurring Assets	$ 8,895	$ –	$ –	$ 8,903	$ 8,903	$ 1,890
Other Financial Instruments						
Assets:						
Cash	$ 4,080	$ 4,080	$ –	$ –	$ 4,080	
Investment securities, held-to-maturity	19,193	–	–	19,073	19,073	
Loans	1,693,797	–	–	1,678,190	1,678,190	
Other Financial Assets	$ 1,717,070	$ 4,080	$ –	$ 1,697,263	$ 1,701,343	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,500,003	$ –	$ –	$ 1,479,430	$ 1,479,430	
Other Financial Liabilities	$ 1,500,003	$ –	$ –	$ 1,479,430	$ 1,479,430	

	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:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 9,437	$ –	$ –	$ 9,437	$ 9,437	$ 2,435
Other property owned	–	–	–	–	–	263
Nonrecurring Assets	$ 9,437	$ –	$ –	$ 9,437	$ 9,437	$ 2,698
Other Financial Instruments						
Assets:						
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	
Liabilities:						
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	

	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:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 10,177	$ –	$ –	$ 10,177	$ 10,177	$ (1,590)
Other property owned	763	–	–	888	888	(105)
Nonrecurring Assets	$ 10,940	$ –	$ –	$ 11,065	$ 11,065	$ (1,695)
Other Financial Instruments						
Assets:						
Cash	$ 4,573	$ 4,573	$ –	$ –	$ 4,573	
Investment securities, held-to-maturity	13,363	–	–	12,656	12,656	
Loans	1,447,848	–	–	1,413,324	1,413,324	
Other Financial Assets	$ 1,465,784	$ 4,573	$ –	$ 1,425,980	$ 1,430,553	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,293,962	$ –	$ –	$ 1,254,251	$ 1,254,251	
Other Financial Liabilities	$ 1,293,962	$ –	$ –	$ 1,254,251	$ 1,254,251	

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 8,903	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	Risk adjusted spread
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 9 — Employee Benefit Plans

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

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to 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:

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.

1. Employer contributions were discontinued effective as of January 1, 2015.

2. All participants who were not already fully vested in the CB Plan became fully vested as of December 31, 2014.

3. 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 multiemployer defined benefit plans for the annual periods ended December 31, are outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Association's respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Independent Associations' Retirement Plan	83.07%	77.50%	82.47%	$3,786	$1,375	$1,815	43.73%	44.69%	44.15%
AgFirst Farm Credit Cash Balance Retirement Plan	102.72%	100.07%	95.06%	$ –	$61	$23	0.00%	1.22%	1.28%

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%	$198	$213	$178	2.92%	2.76%	2.57%

The District's multiemployer 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 defined benefit IAR Plan with three other District associations or the CB Plan. These two plans are noncontributory and include eligible District employees. For participants hired prior to January 1, 2009, benefits are provided under the IAR Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2009 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 under 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 $1,482 for 2015, $1,429 for 2014, and $1,420 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. Certain 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 $572 for 2015, $350 for 2014, and $335 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. This 401(k) plan requires the Association to match 100 percent of employee optional contributions up to a maximum employee contribution of 6 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as 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 $561, $440, and $415 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.

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 $15,295. During 2015, $17,648 of new loans were made and repayments totaled $15,102. In the opinion of management, none of these loans outstanding at December 31, 2015 involved more than a normal risk of collectibility.

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, $225,632 of commitments to extend credit and no commercial letters of credit were outstanding. There was no reserve for unfunded commitments included in other liabilities on the balance sheet at December 31, 2015.

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 $245 with expiration dates ranging from January 12, 2016 to March 10, 2017. The maximum potential amount of future payments that may be required under these guarantees was $245.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2015	2014	2013
Current:			
Federal	$ –	$ –	$ 10
State	–	(155)	155
	–	(155)	165
Deferred:	–	–	–
Total provision for income taxes	$ –	$ (155)	$ 165

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	$ 16,597	$ 17,964	$ 14,921
State tax, net	–	–	101
Patronage distributions	(6,466)	(7,012)	(4,791)
Tax-exempt FLCA earnings	(9,679)	(10,755)	(10,086)
Change in deferred tax asset valuation allowance	(505)	(225)	100
Other	53	(127)	(80)
Provision for income taxes	$ –	$ (155)	$ 165

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

	December 31,		
	2015	2014	2013
Deferred income tax assets:			
Allowance for loan losses	$ 3,690	$ 3,781	$ 4,186
Annual leave	246	241	227
Nonaccrual loan interest	1,087	669	461
Pensions and other postretirement benefits	1,493	1,341	1,293
Other	9	26	23
Gross deferred tax assets	6,525	6,058	6,190
Less: valuation allowance	(4,562)	(5,067)	(5,292)
Gross deferred tax assets, net of valuation allowance	1,963	991	898
Deferred income tax liabilities:			
Pensions and other postretirement benefits	(1,617)	(811)	(808)
Other	(346)	(180)	(90)
Gross deferred tax liability	(1,963)	(991)	(898)
Net deferred tax asset	$ –	$ –	$ –

At December 31, 2015, deferred income taxes have not been provided by the Association on approximately $3.3 million of its investment in the Bank. Management expects that these earnings will not be converted to cash.

The Association recorded a valuation allowance of $4,562, $5,067 and $5,292 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.

During January 2014, the Association learned of, filed under, and made the first payment for a new Ohio (the State) equity based tax called the Financial Institutions Tax (FIT) for specifically defined Financial Institutions. After further review of the definition of a financial institution as defined under the FIT the Association determined it is not subject to the FIT but instead is subject to the Commercial Activity Tax (CAT). The CAT applies to most businesses operating within Ohio, except those who are subject to the FIT. In May 2014, the Association cancelled its FIT account, requested a refund of the $173 prior FIT payment, registered under the CAT and made its first year payment under the CAT. In August 2014, the State responded with an initial determination denying Ag Credit's request for refund. In September 2014, Ag Credit filed a request for hearing. The hearing request was granted and the first hearing was held on January 22, 2015. The Association submitted its formal written position to the Ohio Department of Taxation during March 2015. During 2015, legislation was introduced to clarify the Association's CAT filing status. The legislation passed during 2015. As a result, the Association received its refund and the matter was closed.

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	$ 10,650	$ 10,973	$ 11,056	$ 11,282	$ 43,961
Provision for (reversal of allowance for) loan losses	–	1,468	(97)	(1,428)	(57)
Noninterest income (expense), net	(1,757)	(1,484)	(1,424)	8,065	3,400
Net income	$ 8,893	$ 8,021	$ 9,729	$ 20,775	$ 47,418

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 10,010	$ 10,182	$ 9,883	$ 10,761	$ 40,836
Provision for (reversal of allowance for) loan losses	–	–	–	(1,393)	(1,393)
Noninterest income (expense), net	(1,690)	(1,177)	(1,463)	13,582	9,252
Net income	$ 8,320	$ 9,005	$ 8,420	$ 25,736	$ 51,481

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 8,932	$ 9,150	$ 9,424	$ 9,566	$ 37,072
Provision for loan losses	–	–	431	5,041	5,472
Noninterest income (expense), net	(1,328)	(713)	(1,181)	14,088	10,866
Net income	$ 7,604	$ 8,437	$ 7,812	$ 18,613	$ 42,466

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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BRANCH LOCATIONS

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419-352-5178
877-635-3426

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3113 State Route 98
Bucyrus, OH 44820
419-562-7926

FINDLAY
7868 CR 140, Suite A
Findlay, OH 45840
419-422-7632
888-405-2221

FOSTORIA
ADMINISTRATIVE OFFICE
610 W. Lytle Street
Fostoria, OH 44830
419-435-7758
800-837-3678

FREMONT
2155 Oak Harbor Road
Fremont, OH 43420
419-332-2639
800-896-4541

KENTON
12923 SR 309
Kenton, OH 43326
419-675-2303
877-808-0163

MARION
1100 E. Center Street
Marion, OH 43302
740-387-2270

MT. GILEAD
5362 US Hwy 42, Suite 100
Mt. Gilead, OH 43338
419-947-1040

NAPOLEON
1485 Scott Street
Napoleon, OH 43545
419-599-8656
800-347-0277

NORWALK
735 US Highway 20 East
Norwalk, OH 44857
419-663-4020
800-686-0756

OTTAWA
315 W. Williamstown Road
Ottawa, OH 45875
419-523-6677
888-380-3738

TIFFIN
2500 W. Market Street
Tiffin, OH 44883
419-447-0787
877-568-1688

UPPER SANDUSKY
97 Houpt Drive, Room E
Upper Sandusky, OH 43351
419-294-4933

VAN WERT
1195 Professional Drive
Van Wert, OH 45891
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