
First South Farm Credit, ACA
THIRD QUARTER 2015

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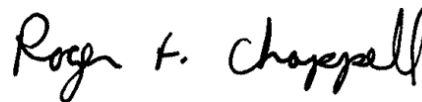
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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2015 quarterly report of First South Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Dan West
Chairman of the Board



Roger F. Chappell
Chief Executive Officer



Bryan Applewhite
Chief Financial Officer

November 6, 2015

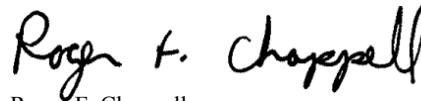
First South Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements. The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2015. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



Roger F. Chappell
Chief Executive Officer



Bryan Applewhite
Chief Financial Officer

November 6, 2015

First South Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of *First South Farm Credit, ACA* (Association) for the period ended September 30, 2015. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2014 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

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

Comparison of September 30, 2015 to December 31, 2014

The gross loan volume of the Association as of September 30, 2015, was \$1,636,045 as compared to \$1,440,403 at December 31, 2014. Net loans outstanding at September 30, 2015, were \$1,625,196 as compared to \$1,430,276 at December 31, 2014. Net loans accounted for 93.03 percent of total assets at September 30, 2015, as compared to 90.31 percent of total assets at December 31, 2014.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased to \$4,723 at September 30, 2015 from \$5,289 at December 31, 2014, a decrease of \$566.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2015, was \$10,849 compared to \$10,127 at December 31, 2014, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2015

Net income for the three months ended September 30, 2015, totaled \$6,058, as compared to \$7,907 for the same period in 2014. The decrease in net income primarily relates to an increase in salaries and employee benefits along with a decrease in patronage refunds from other Farm Credit institutions. Other changes are further discussed below.

Noninterest income for the three months ended September 30, 2015 totaled \$4,429, as compared to \$5,105 for the same period of 2014, a decrease of \$676. The decrease is primarily the result of decreased patronage refunds from other Farm Credit institutions of \$534, a decrease in gains on sales of premises and equipment of \$140, and a decrease in fees for financially related services of \$28. The decreases above were partially offset by an increase of \$25 in loan fees.

Noninterest expense for the three months ended September 30, 2015 increased \$1,055 compared to the same period of 2014. The increase is attributable to increased salaries and employee benefits of \$885, an increase in other operating expenses of \$70, an increase in Insurance Fund premiums of \$55, a net increase in other property owned of \$31, and an increase of \$14 in occupancy and equipment.

The Association recorded a provision for loan losses of \$339 for the three months ended September 30, 2015, compared to a provision for loan losses of \$27 for the same period in 2014. The Association recorded a provision of \$69 for income taxes for the three months ended September 30, 2015, compared to no provision for income taxes for the same period of 2014.

For the nine months ended September 30, 2015

Net income for the nine months ended September 30, 2015, totaled \$15,635, as compared to \$19,240 for the same period in 2014. This decrease in net income of \$3,605 relates primarily to various increases in noninterest expense which will be further explained below. Net interest income after the provision for loan losses for the nine months ended September 30, 2015 increased \$941 as compared to the same period in 2014. The increase in net interest income after the provision for loan losses was the result of increased interest income of \$3,542, offset by an increase in interest expense on notes payable to AgFirst Farm Credit Bank of \$2,555 and an increase of provision for loan losses of \$46 versus the same period of 2014.

Noninterest income for the nine months ended September 30, 2015, totaled \$12,938, as compared to \$14,422 for the same period of 2014, a decrease of \$1,484. The decrease is primarily attributable to reduced patronage refunds from other Farm Credit institutions of \$1,234, a decrease gains on sales of premises and equipment of \$110, a decrease in fees for financially related services of \$58 and a decrease in loan fees of \$100 versus the same period in 2014. The above decreases were offset by an increase in other noninterest income of \$18 versus the same period in 2014.

Noninterest expense for the nine months ended September 30, 2015, increased \$3,011 compared to the same period of 2014. The increases in noninterest expense were due to an increase in salaries and employee benefits of \$2,629, an increase of \$200 in other operating expenses, an increase in Insurance Fund premiums of \$156 and a net increase of \$96 in losses on other property owned. The above were offset by a decrease of \$70 in occupancy and equipment.

The Association recorded provision for loan losses of \$1,065 for the nine months ended September 30, 2015, compared to a provision for loan losses of \$1,019 for the same period in 2014, an increase of \$46. The Association also recorded a provision for income taxes of \$148 and \$97 for the nine month periods ended September 30, 2015 and 2014, respectively.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the AgFirst Farm Credit Bank (Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2015 was \$1,356,243 as compared to \$1,194,897 at December 31, 2014, an increase of \$161,346. The decrease in notes payable from December 31, 2014 to September 30, 2015 is primarily related to seasonal lending in the portfolio.

CAPITAL RESOURCES

Total members' equity at September 30, 2015 and December 31, 2014 was \$335,600 and \$322,990, respectively. Capital stock declined \$469, primarily due to the decrease in the stock requirement noted below. Allocated and unallocated retained earnings decrease \$11,310 from September 30, 2015 from December 31, 2014, and reflect the impact of normal earnings and patronage payments.

In January 2013, the stock requirement on loans was changed from the lessor of 2% of the loan or \$5,000 to the lessor of 2% of the loan or \$1,000.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2015, the Association's permanent capital ratio, total surplus ratio and core surplus ratio were 17.06, 16.47 and 16.01 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

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

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

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

that the rules recognize the cooperative structure and the organization of the System.

- To make System regulatory capital requirements more transparent.
- To meet the requirements of section 939A of the Dodd-Frank Act.

FINANCIAL REGULATORY REFORM

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

STOCKHOLDER INVESTMENT

Stockholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank's Quarterly and Annual 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 on the Association's website, www.firstsouthland.com, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Bryan Applewhite, First South Farm Credit, ACA, 574 Highland Colony Parkway, Suite 100, Ridgeland, MS 39157. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

First South Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2015 <i>(unaudited)</i>	December 31, 2014 <i>(audited)</i>
Assets		
Cash	\$ 3,726	\$ 15,609
Loans	1,636,045	1,440,403
Allowance for loan losses	(10,849)	(10,127)
Net loans	1,625,196	1,430,276
Accrued interest receivable	17,656	13,231
Investments in other Farm Credit institutions	77,673	79,291
Premises and equipment, net	9,397	9,672
Other property owned	1,110	2,247
Accounts receivable	10,608	31,981
Other assets	1,571	1,465
Total assets	\$ 1,746,937	\$ 1,583,772
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,356,243	\$ 1,194,897
Accrued interest payable	2,697	2,397
Patronage refunds payable	5	11,546
Accounts payable	5,457	4,906
Other liabilities	46,935	47,036
Total liabilities	1,411,337	1,260,782
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	59,879	60,348
Retained earnings		
Allocated	183,846	186,287
Unallocated	120,294	106,543
Accumulated other comprehensive income (loss)	(28,419)	(30,188)
Total members' equity	335,600	322,990
Total liabilities and members' equity	\$ 1,746,937	\$ 1,583,772

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

First South Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Interest Income				
Loans	\$ 19,710	\$ 18,553	\$ 54,739	\$ 51,197
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	8,141	7,247	22,145	19,590
Net interest income	11,569	11,306	32,594	31,607
Provision for loan losses	339	27	1,065	1,019
Net interest income after provision for loan losses	11,230	11,279	31,529	30,588
Noninterest Income				
Loan fees	618	593	2,084	2,184
Fees for financially related services	371	399	382	440
Patronage refunds from other Farm Credit institutions	3,381	3,915	10,213	11,447
Gains (losses) on sales of premises and equipment, net	58	198	88	198
Other noninterest income	1	—	171	153
Total noninterest income	4,429	5,105	12,938	14,422
Noninterest Expense				
Salaries and employee benefits	6,793	5,908	20,483	17,854
Occupancy and equipment	406	392	1,154	1,224
Insurance Fund premiums	405	350	1,094	938
(Gains) losses on other property owned, net	10	(21)	76	(20)
Other operating expenses	1,918	1,848	5,877	5,677
Total noninterest expense	9,532	8,477	28,684	25,673
Income before income taxes	6,127	7,907	15,783	19,337
Provision for income taxes	69	—	148	97
Net income	\$ 6,058	\$ 7,907	\$ 15,635	\$ 19,240

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

First South Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Net income	\$ 6,058	\$ 7,907	\$ 15,635	\$ 19,240
Other comprehensive income net of tax				
Employee benefit plans adjustments	590	249	1,769	747
Comprehensive income	\$ 6,648	\$ 8,156	\$ 17,404	\$ 19,987

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

First South Farm Credit, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2013	\$ 61,513	\$ 161,836	\$ 102,939	\$ (17,412)	\$ 308,876
Comprehensive income			19,240	747	19,987
Capital stock/participation certificates issued/(retired), net	(583)				(583)
Retained earnings retired		(2,350)			(2,350)
Patronage distribution adjustment		1,576	(1,169)		407
Balance at September 30, 2014	\$ 60,930	\$ 161,062	\$ 121,010	\$ (16,665)	\$ 326,337
Balance at December 31, 2014	\$ 60,348	\$ 186,287	\$ 106,543	\$ (30,188)	\$ 322,990
Comprehensive income			15,635	1,769	17,404
Capital stock/participation certificates issued/(retired), net	(469)				(469)
Retained earnings retired		(4,493)			(4,493)
Patronage distribution adjustment		2,052	(1,884)		168
Balance at September 30, 2015	\$ 59,879	\$ 183,846	\$ 120,294	\$ (28,419)	\$ 335,600

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

First South Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

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

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

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

Accounting Standards Updates (ASUs) Issued During the Period

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

- 2015-16 Business Combinations – In September, 2015, the FASB issued ASU 2015-16 Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this Update with earlier application permitted for financial statements that have not been issued. Application of this guidance is not expected to have an impact on the Association's financial condition or results of operations.
- 2015-15 Interest – In August, 2015, the FASB issued ASU 2015-15 Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. The update adds

Securities and Exchange Commission (SEC) paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force (EITF) meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements.

- 2015-10 Technical Corrections and Improvements – In June, 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements (numerous Topics). The amendments in the Update represent changes to make minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments were effective upon the issuance of the Update.
- 2015-07 Fair Value Measurement – In May, 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Topic 820 permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. To address diversity in practice related to how certain investments measured at net asset value with future redemption dates are categorized, the amendments in this Update remove the requirement to categorize investments for which fair values are measured using the net asset value per share practical expedient. It also limits disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Earlier application is permitted. The guidance is to be applied retrospectively to all periods presented. Application of this guidance is not expected to have an impact on the Association's financial condition or results of operations, but will require modifications to footnote disclosures.
- Accounting Standards Update 2015-02 Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in this Update affect

reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments: 1. Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, 2. Eliminate the presumption that a general partner should consolidate a limited partnership, 3. Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, 4. Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. Application of this guidance is not expected to have an impact on the Association's financial condition or results of operations.

ASUs Pending Effective Date

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

Potential effects of ASUs issued in previous periods:

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

Accounting Standards Effective During the Period

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

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

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

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

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

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

Note 2 — Loans and Allowance for Loan Losses

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

A summary of loans outstanding at period end follows:

	September 30, 2015	December 31, 2014
Real estate mortgage	\$ 970,147	\$ 589,259
Production and intermediate-term	609,308	798,383
Loans to cooperatives	899	4,955
Processing and marketing	30,299	24,396
Farm-related business	8,736	6,976
Communication	13,680	13,082
Rural residential real estate	2,976	3,352
Total Loans	<u>\$ 1,636,045</u>	<u>\$ 1,440,403</u>

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

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

	September 30, 2015							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 1,447	\$ 91,405	\$ –	\$ –	\$ 48,637	\$ –	\$ 50,084
Production and intermediate-term	1,787	75,349	5,392	–	9,652	–	16,831	75,349
Loans to cooperatives	–	–	209	–	537	–	746	–
Processing and marketing	20,622	146	–	2,692	–	–	20,622	2,838
Farm-related business	4,374	–	–	–	136	–	4,510	–
Communication	13,700	–	–	–	–	–	13,700	–
Rural residential real estate	–	–	–	–	247	–	247	–
Total	<u>\$ 41,930</u>	<u>\$ 166,900</u>	<u>\$ 5,601</u>	<u>\$ 2,692</u>	<u>\$ 59,209</u>	<u>\$ –</u>	<u>\$ 106,740</u>	<u>\$ 169,592</u>

	December 31, 2014							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
	Real estate mortgage	\$ 1,835	\$ 64,757	\$ –	\$ –	\$ 44,566	\$ –	\$ 46,401
Production and intermediate-term	653	127,052	6,000	–	22,326	–	28,979	127,052
Loans to cooperatives	–	–	1,848	–	1,918	–	3,766	–
Processing and marketing	12,237	146	–	3,634	–	–	12,237	3,780
Farm-related business	458	71	–	–	140	–	598	71
Communication	13,088	–	–	–	–	–	13,088	–
Rural residential real estate	–	–	–	–	46	–	46	–
Total	<u>\$ 28,271</u>	<u>\$ 192,026</u>	<u>\$ 7,848</u>	<u>\$ 3,634</u>	<u>\$ 68,996</u>	<u>\$ –</u>	<u>\$ 105,115</u>	<u>\$ 195,660</u>

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

September 30, 2015				
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 27,228	\$ 257,603	\$ 685,316	\$ 970,147
Production and intermediate-term	219,027	263,193	127,088	609,308
Loans to cooperatives	35	702	162	899
Processing and marketing	8,085	10,796	11,418	30,299
Farm-related business	2,858	2,149	3,729	8,736
Communication	–	9,927	3,753	13,680
Rural residential real estate	–	1,376	1,600	2,976
Total Loans	\$ 257,233	\$ 545,746	\$ 833,066	\$ 1,636,045
Percentage	15.72%	33.36%	50.92%	100.00%

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

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

	September 30, 2015	December 31, 2014		September 30, 2015	December 31, 2014
Real estate mortgage:			Farm-related business:		
Acceptable	96.01%	94.85%	Acceptable	100.00%	100.00%
OAEM	2.21	2.15	OAEM	–	–
Substandard/doubtful/loss	1.78	3.00	Substandard/doubtful/loss	–	–
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Communication:		
Acceptable	94.15%	94.02%	Acceptable	100.00%	100.00%
OAEM	3.08	3.12	OAEM	–	–
Substandard/doubtful/loss	2.77	2.86	Substandard/doubtful/loss	–	–
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			Rural residential real estate:		
Acceptable	77.20%	93.01%	Acceptable	88.60%	90.71%
OAEM	–	6.99	OAEM	6.79	6.12
Substandard/doubtful/loss	22.80	–	Substandard/doubtful/loss	4.61	3.17
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Total Loans:		
Acceptable	100.00%	100.00%	Acceptable	95.42%	94.53%
OAEM	–	–	OAEM	2.47	2.62
Substandard/doubtful/loss	–	–	Substandard/doubtful/loss	2.11	2.85
	100.00%	100.00%		100.00%	100.00%

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

September 30, 2015						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 2,349	\$ 168	\$ 2,517	\$ 977,289	\$ 979,806	\$ 7
Production and intermediate-term	1,225	1,280	2,505	614,683	617,188	–
Loans to cooperatives	–	–	–	918	918	–
Processing and marketing	–	–	–	30,321	30,321	–
Farm-related business	–	–	–	8,776	8,776	–
Communication	–	–	–	13,698	13,698	–
Rural residential real estate	35	103	138	2,856	2,994	–
Total	\$ 3,609	\$ 1,551	\$ 5,160	\$ 1,648,541	\$ 1,653,701	\$ 7

December 31, 2014

	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	\$ 1,066	\$ 325	\$ 1,391	\$ 592,786	\$ 594,177	\$ -
Production and intermediate-term	1,741	1,361	3,102	803,335	806,437	-
Loans to cooperatives	-	-	-	4,992	4,992	-
Processing and marketing	-	-	-	24,469	24,469	-
Farm-related business	-	-	-	7,082	7,082	-
Communication	-	-	-	13,108	13,108	-
Rural residential real estate	37	-	37	3,332	3,369	-
Total	\$ 2,844	\$ 1,686	\$ 4,530	\$ 1,449,104	\$ 1,453,634	\$ -

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

	September 30, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	\$ 827	\$ 677
Production and intermediate-term	3,793	4,505
Rural residential real estate	103	107
Total	\$ 4,723	\$ 5,289
Accruing restructured loans:		
Real estate mortgage	\$ 4,132	\$ 6,392
Production and intermediate-term	999	6,343
Total	\$ 5,131	\$ 12,735
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 7	\$ -
Total	\$ 7	\$ -
Total nonperforming loans	\$ 9,861	\$ 18,024
Other property owned	1,110	2,247
Total nonperforming assets	\$ 10,971	\$ 20,271
Nonaccrual loans as a percentage of total loans	0.29%	0.37%
Nonperforming assets as a percentage of total loans and other property owned	0.67%	1.41%
Nonperforming assets as a percentage of capital	3.27%	6.28%

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

	September 30, 2015	December 31, 2014
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 3,111	\$ 3,031
Past due	1,612	2,258
Total	4,723	5,289
Impaired accrual loans:		
Restructured	5,131	12,735
90 days or more past due	7	-
Total	5,138	12,735
Total impaired loans	\$ 9,861	\$ 18,024

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

Impaired loans	September 30, 2015			Quarter Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	\$ 68	\$ 85	\$ 13	\$ 69	\$ —	\$ 98	\$ 3
Production and intermediate-term	233	232	73	238	2	336	10
Farm-related business	—	—	—	—	—	—	—
Rural residential real estate	—	—	—	—	—	—	—
Total	\$ 301	\$ 317	\$ 86	\$ 307	\$ 2	\$ 434	\$ 13
With no related allowance for credit losses:							
Real estate mortgage	\$ 4,898	\$ 5,171	\$ —	\$ 4,991	\$ 38	\$ 7,061	\$ 209
Production and intermediate-term	4,559	7,725	—	4,646	35	6,572	195
Farm-related business	—	1	—	—	—	—	—
Rural residential real estate	103	163	—	105	1	148	4
Total	\$ 9,560	\$ 13,060	\$ —	\$ 9,742	\$ 74	\$ 13,781	\$ 408
Total:							
Real estate mortgage	\$ 4,966	\$ 5,256	\$ 13	\$ 5,060	\$ 38	\$ 7,159	\$ 212
Production and intermediate-term	4,792	7,957	73	4,884	37	6,908	205
Farm-related business	—	1	—	—	—	—	—
Rural residential real estate	103	163	—	105	1	148	4
Total	\$ 9,861	\$ 13,377	\$ 86	\$ 10,049	\$ 76	\$ 14,215	\$ 421

Impaired loans	December 31, 2014			Year Ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ —	\$ —	\$ —	\$ —	\$ —
Production and intermediate-term	1,723	2,083	309	1,706	62
Total	\$ 1,723	\$ 2,083	\$ 309	\$ 1,706	\$ 62
With no related allowance for credit losses:					
Real estate mortgage	\$ 7,069	\$ 7,465	\$ —	\$ 7,000	\$ 252
Production and intermediate-term	9,125	12,024	—	9,035	325
Farm-related business	—	4	—	—	—
Rural residential real estate	107	164	—	106	4
Total	\$ 16,301	\$ 19,657	\$ —	\$ 16,141	\$ 581
Total:					
Real estate mortgage	\$ 7,069	\$ 7,465	\$ —	\$ 7,000	\$ 252
Production and intermediate-term	10,848	14,107	309	10,741	387
Farm-related business	—	4	—	—	—
Rural residential real estate	107	164	—	106	4
Total	\$ 18,024	\$ 21,740	\$ 309	\$ 17,847	\$ 643

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at each reporting period.

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:						
Balance at June 30, 2015	\$ 5,170	\$ 5,120	\$ 145	\$ 59	\$ 31	\$ 10,525
Charge-offs	–	(16)	–	–	–	(16)
Recoveries	1	–	–	–	–	1
Provision for loan losses	744	(407)	15	(13)	–	339
Balance at September 30, 2015	\$ 5,915	\$ 4,697	\$ 160	\$ 46	\$ 31	\$ 10,849
Balance at December 31, 2014	\$ 3,949	\$ 5,949	\$ 151	\$ 49	\$ 29	\$ 10,127
Charge-offs	52	(418)	–	–	–	(366)
Recoveries	(65)	88	–	–	–	23
Provision for loan losses	1,979	(922)	9	(3)	2	1,065
Balance at September 30, 2015	\$ 5,915	\$ 4,697	\$ 160	\$ 46	\$ 31	\$ 10,849
Balance at June 30, 2014	\$ 3,711	\$ 6,320	\$ 158	\$ 47	\$ 25	\$ 10,261
Charge-offs	–	(47)	–	–	(44)	(91)
Recoveries	–	6	–	–	–	6
Provision for loan losses	110	(105)	(25)	2	45	27
Balance at September 30, 2014	\$ 3,821	\$ 6,174	\$ 133	\$ 49	\$ 26	\$ 10,203
Balance at December 31, 2013	\$ 3,338	\$ 5,471	\$ 294	\$ 39	\$ 38	\$ 9,180
Charge-offs	–	(63)	–	–	(44)	(107)
Recoveries	13	98	–	–	–	111
Provision for loan losses	470	668	(161)	10	32	1,019
Balance at September 30, 2014	\$ 3,821	\$ 6,174	\$ 133	\$ 49	\$ 26	\$ 10,203
Allowance on loans evaluated for impairment:						
Individually	\$ 13	\$ 73	\$ –	\$ –	\$ –	\$ 86
Collectively	5,902	4,624	160	46	31	10,763
Balance at September 30, 2015	\$ 5,915	\$ 4,697	\$ 160	\$ 46	\$ 31	\$ 10,849
Individually	\$ –	\$ 309	\$ –	\$ –	\$ –	\$ 309
Collectively	3,949	5,640	151	49	29	9,818
Balance at December 31, 2014	\$ 3,949	\$ 5,949	\$ 151	\$ 49	\$ 29	\$ 10,127
Recorded investment in loans evaluated for impairment:						
Individually	\$ 5,997	\$ 8,912	\$ 145	\$ 59	\$ 134	\$ 15,247
Collectively	973,809	608,276	39,870	13,639	2,860	1,638,454
Balance at September 30, 2015	\$ 979,806	\$ 617,188	\$ 40,015	\$ 13,698	\$ 2,994	\$ 1,653,701
Individually	\$ 7,069	\$ 10,848	\$ –	\$ –	\$ 107	\$ 18,024
Collectively	587,108	795,589	36,543	13,108	3,262	1,435,610
Balance at December 31, 2014	\$ 594,177	\$ 806,437	\$ 36,543	\$ 13,108	\$ 3,369	\$ 1,453,634

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following table presents additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no TDRs that occurred during the three or nine month periods ended September 30, 2015.

Outstanding Recorded Investment	Three months ended September 30, 2014				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ –	\$ 1,861	\$ –	\$ 1,861	
Total	\$ –	\$ 1,861	\$ –	\$ 1,861	
Post-modification:					
Real estate mortgage	\$ –	\$ 1,864	\$ –	\$ 1,864	\$ –
Total	\$ –	\$ 1,864	\$ –	\$ 1,864	\$ –

Outstanding Recorded Investment	Nine months ended September 30, 2014				Total	Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions			
Pre-modification:						
Real estate mortgage	\$	–	\$ 2,085	\$	–	\$ 2,085
Production and intermediate-term		–	482		–	482
Total	\$	–	\$ 2,567	\$	–	\$ 2,567
Post-modification:						
Real estate mortgage	\$	–	\$ 2,088	\$	–	\$ 2,088
Production and intermediate-term		–	482		–	482
Total	\$	–	\$ 2,570	\$	–	\$ 2,570

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

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

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Real estate mortgage	\$ 4,132	\$ 6,489	\$ –	\$ 97
Production and intermediate-term	999	6,343	–	–
Total Loans	\$ 5,131	\$ 12,832	\$ –	\$ 97
Additional commitments to lend	\$ –	\$ –		

The following table presents information as of period end:

	September 30, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ –

Note 3 — Investments

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owns 10.92 percent of the issued stock of the Bank as of September 30, 2015 net of any reciprocal investment. As of that date, the Bank's assets totaled \$30.0 billion and shareholders' equity totaled \$2.4 billion. The Bank's earnings were \$254 million for the first nine months of 2015. In addition, the Association has an investment of \$79 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Employee Benefit Plans:				
Balance at beginning of period	\$ (29,009)	\$ (16,914)	\$ (30,188)	\$ (17,412)
Other comprehensive income before reclassifications	-	-	-	-
Amounts reclassified from AOCI	590	249	1,769	747
Net current period other comprehensive income	590	249	1,769	747
Balance at end of period	\$ (28,419)	\$ (16,665)	\$ (28,419)	\$ (16,665)

	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2015	2014	2015	2014	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (590)	\$ (249)	\$ (1,769)	\$ (747)	See Note 7.
Net amounts reclassified	\$ (590)	\$ (249)	\$ (1,769)	\$ (747)	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Nine Months Ended September 30, 2015						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	\$ -	\$ -	\$ -	\$ -	\$ -	
Liabilities:						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 9,775	\$ -	\$ -	\$ 9,775	\$ 9,775	\$ (120)
Other property owned	1,110	-	-	1,277	1,277	(29)
Nonrecurring Assets	\$ 10,885	\$ -	\$ -	\$ 11,052	\$ 11,052	\$ (149)
Other Financial Instruments						
Assets:						
Cash	\$ 3,726	\$ 3,726	\$ -	\$ -	\$ 3,726	
Loans	1,615,421	-	-	1,600,929	1,600,929	
Other Financial Assets	\$ 1,619,147	\$ 3,726	\$ -	\$ 1,600,929	\$ 1,604,655	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,356,243	\$ -	\$ -	\$ 1,351,355	\$ 1,351,355	
Other Financial Liabilities	\$ 1,356,243	\$ -	\$ -	\$ 1,351,355	\$ 1,351,355	

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	\$ 17,715	\$ -	\$ -	\$ 17,715	\$ 17,715	\$ (174)
Other property owned	2,247	-	-	2,584	2,584	(9)
Nonrecurring Assets	\$ 19,962	\$ -	\$ -	\$ 20,299	\$ 20,299	\$ (183)
Other Financial Instruments						
Assets:						
Cash	\$ 15,609	\$ 15,609	\$ -	\$ -	\$ 15,609	
Loans	1,412,561	-	-	1,394,646	1,394,646	
Other Financial Assets	\$ 1,428,170	\$ 15,609	\$ -	\$ 1,394,646	\$ 1,410,255	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,194,897	\$ -	\$ -	\$ 1,183,141	\$ 1,183,141	
Other Financial Liabilities	\$ 1,194,897	\$ -	\$ -	\$ 1,183,141	\$ 1,183,141	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

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

Inputs to Valuation Techniques

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

information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 11,052	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
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Pension	\$ 918	\$ 560	\$ 2,753	\$ 1,680
401(k)	167	121	508	361
Other postretirement benefits	416	273	1,247	819
Total	\$ 1,501	\$ 954	\$ 4,508	\$ 2,860

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

	Actual YTD Through 9/30/15	Projected Contributions For Remainder of 2015	Projected Total Contributions 2015
Pension	\$ —	\$ 2,510	\$ 2,510
Other postretirement benefits	425	137	562
Total	\$ 425	\$ 2,647	\$ 3,072

Other postretirement benefit contributions in the above table include allocated estimates of funding for a multi-employer plan in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2015.

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

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

On October 19, 2015, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2016. The Association will receive approximately \$9,270 which will be recorded in October 2015 as patronage refunds from other Farm Credit institutions.