AgSouth Farm Credit, ACA

THIRD QUARTER 2015

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2015 quarterly report of AgSouth 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.

William P. Spigener, Jr.
Chief Executive Officer

Alisa D. Gunter
Chief Financial Officer

Charles C. Rucks
Chairman of the Board

November 6, 2015

AgSouth 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 affected 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.

William P. Spigener
William P. Spigener
Chief Executive Officer

Alisa D. Gunter
Alisa D. Gunter
Chief Financial Officer

November 6, 2015

AgSouth 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 AgSouth Farm Credit, ACA (Association) for the period ended September 30, 2015. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2014 Annual Report of AgSouth Farm Credit. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

FORWARD LOOKING INFORMATION

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

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 wide range of agricultural commodities produced in our region, including poultry (broilers, turkeys and eggs), timber, sod and nursery, field grains, soybeans and hay, cotton, horses, blueberries, fruits, nuts and beef cattle. Loans to producers of these commodities total $1,322,894 or 85.46 percent of the Association's portfolio. Farm size varies, and many of the Association customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

During the third quarter of 2015 the Association originated $98,687 in loans for the secondary market. Originations for the same period 2014 were $64,063. The 54.05 percent increase is the result of the increase in residential lending is attributable to the overall improvement in the housing economy for purchases, refinances and construction loans in all markets that AgSouth serves. As of September 30, 2015, the Association held $2,773 in qualifying loans for sale.

Georgia Region

The Georgia region of AgSouth has experienced relatively good growing conditions for most crops through the end of the third quarter this year. Corn yield is expected to be approximately 180 bushels per acre on the 315,000 acres planted in the state in 2015. The price of corn is slightly up relative to September 2014 when prices dipped to around $3.50 per bushel.

Prices in our local markets were near $4.00 per bushel in September. Peanuts are in the initial stages of harvest with 71 percent of the crop rated good to excellent by USDA as of September 30, 2015. Recent heavy rains in early October have slowed harvest and could potentially hurt yield and quality if drier conditions do not return. There were approximately 800,000 acres of peanuts planted in Georgia this year and total production increases are expected to keep prices low. Most farmers will, however, be receiving additional government payments on their peanut base as a provision of the new farm bill with these payments expected in October of each year. It appears the payment for 2014 production will be in the $100 per ton range and should be received in October 2015.

The cotton crop in Georgia is rated 67 percent good to excellent and 26 percent fair by USDA as of the October crop progress and condition report. Prices remain in the $.62 to $.65 per pound range at the end of the third quarter.

Live cattle prices which peaked in September of 2014 have declined approximately 25 percent to the $125 per cwt. range at this time. Feeder cattle have followed a similar trend peaking in September and October of 2014 and since declining approximately 25 percent to the $180 cwt. range. Cattle remain profitable and lower feed cost and abundant hay production has helped ease the strain on profit margins due to the recent price declines.

The poultry industry remains strong with meat prices on a 3 year upward trend. Most integrators are expanding broiler production with additional growers or additional houses for existing growers. Lower feed cost along with higher meat prices have really improved margins in the poultry industry over the last 3 years. Avian Influenza has created much concern within the industry as migratory birds begin their movements into the southeast during the fall season. The industry has taken all the precautionary steps possible to prevent and control outbreaks. The Association has prepared a separate risk assessment of the potential impact to the Association of an outbreak of Avian Influenza should one occur.

Lumber markets peaked in June and July of this year at around $350/MBF and have since declined to the $280/MBF range. Timber stumpage prices have remained fairly stable with pulpwood showing the greatest price strength in the $18-$23/ton range. Chip-n-saw class trees remains in the $22-$24/ton range and saw timber is in the $28-$35/ton range. If wetter conditions continue as we move into winter, stumpage prices will likely rise as mills will compete for less available wood.

The blueberry and sweet onion season is in its final stages and appears to be an average year for both. Onion yields were average with smaller than normal sizing. There was a higher than normal percentage of mediums and less jumbo sized onions. Prices however were good with an overall price of around $16 per 40lb equivalent. Blueberries were hurt by a late season freeze in February on the early maturing high bush variety. However, better than normal rabbit-eye production, which is harvested later, offset much of this loss. The Association expects to have some blueberry producers who will be short of meeting all payment expectations, but, we feel this number should be limited.

The general economy continues to improve in Georgia with unemployment dropping to 5.9 percent in August down from 7.1 percent in August of 2014. Georgia has created an additional 83,000 jobs over last year which is higher than all adjoining states with the exception of Florida. Land values continue to remain stable in the region according to the Association's land value trend studies. Loan demand remains very strong with the region showing a significant increase in new loan closings in terms of both numbers and volume year over year.

South Carolina Region

Thus far, 2015 for South Carolina from an agricultural perspective can be best described as a period of extremes. Spring was wet and, in many areas of the state, moisture delayed planting of crops to some degree. Following planting of most row crops in May, varying levels of moisture and extreme heat set in and curtailed production potential. As the third quarter concluded, a wet fall harvest season for peanuts, cotton, and soybeans is expected given Hurricane Joaquin and its impact to the state.

Corn harvest is essentially complete at quarter end. Irrigated corn produced good results while dry land corn yields were well below average.

Peanut digging is well under way in the fourth quarter, but minimal acreage is actually harvested. The peanut crop is considered 92 percent fair to good. Concerns of excess rain at harvest time exist as wet conditions could harm the quality of the peanuts.

The cotton crop is maturing as 88 percent of bolls have opened with only 12 percent of crop picked. The National Agricultural Statistics Services (NASS) continues to consider 88 percent of the cotton crop as fair to excellent.

Soybeans in the region are starting to approach maturity, but no harvest has yet to occur. Seventy-eight percent of the soybean crop is considered fair to excellent.

With the dry growing conditions during mid-summer, hay in the upstate has not fared well and users of hay are looking for fall and winter sources. Fortunately, enough moisture was available to allow for an average hay crop in the midlands and lowcountry which might serve as a supply to Upstate farmers.

Cattle farms in the state continue to experience good prices for their product albeit not as strong as the past several years or during early 2015. Upstate beef producers are experiencing hay shortages, as mentioned above, and have been seeking sources for the fall through spring. Adequate forage crops appear to be available to deal with this need. Cattle conditions are considered 99 percent fair to excellent with a high percentage rated good to excellent.

South Carolina eggs set are at 110 percent of the previous year. Chicks placed are at 96 percent compared to the 2014 third quarter. Accordingly, the higher percent of eggs set in the territory relates directly to the need to pick up chick placements within the state. Broilers continue to represent the largest concentration in South Carolina repaid from agricultural revenues. Integrators continue to expand in some areas of the state with most expansion centered on larger operations and additional houses being built by present growers. Lower feed costs have served the entire poultry industry well as integrators have been experiencing strong earnings. Thus far Avian Influenza has not been detected in the state, but the potential for future cases in the state exists. Integrators, the South Carolina Poultry Federation, the state veterinarians, and the South Carolina Department of Agriculture are monitoring the movement of Avian Influenza and are preparing for the potential exposure.

Domestic housing starts were at 1.12 million as of August 2015 and were actually down by approximately 3.0 percent from a month earlier. July housing starts were reported at a near eight year high and evidence the continued economic improvement in the country. Housing starts have now been over one million for four consecutive months, which continues to bode well for forestry in the foreseeable future. During the South Carolina Forestry Summit held in August, the South Carolina Forestry Commission and South Carolina Forestry Association jointly announced that a new study values the economic impact of the forestry industry in the state at $18.6 billion. In addition, over 90,300 jobs are provided by forestry within the state.

Unemployment in the state improved from the end of the second quarter by 0.6 percent and is at 6.0 percent at the midpoint of the third quarter. Rural counties served continue to trail more urban areas as the highest unemployment rates in the state are in Orangeburg, Bamberg, and Allendale counties with each exceeding 10.0 percent unemployment. On a positive note, the unemployment rates in such rural areas have experienced decreases in their unemployment numbers since this time last year. South Carolina continues to see improvement in employment within manufacturing, tourism and military. During the third quarter, the manufacturing sector received positive news as Volvo announced plans to build a new automotive plant in the Association's footprint near Summerville, South Carolina.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of September 30, 2015, was $1,547,985, an increase of $48,981 or 3.27 percent as compared to $1,499,004 at December 31, 2014. Net loans outstanding at September 30, 2015 were $1,535,670 as compared to $1,486,647 at December 31, 2014. Net loans accounted for 94.55 percent of total assets at September 30, 2015, as compared to 93.21 percent of total assets at December 31, 2014.

The increase in gross loan volume during the reporting period is attributed to new term volume and advances on operating lines of credit exceeding payments and payoffs. Competition for good, quality credits remains strong from some commercial banks.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At December 31, 2014, the Association held Investment securities totaling $8,713. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration. At September 30, 2015, investment securities totaled $8,476, a decrease of $237. The 2.72 percent decrease is from payments made during the third quarter of 2015.

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 from $13,012 at December 31, 2014, to $11,179 at September 30, 2015. During the third quarter payments, liquidations, transfers to other property owned or loans returning to accrual status exceeded transfers to nonaccrual status. Association staff is working diligently to work out all nonaccrual debt situations, and additional transfers may occur as the economy remains sluggish.

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 $12,315 compared to $12,357 at December 31, 2014, and was considered by management to be adequate to cover possible losses. The slight decrease in the allowance account is the result of charge-offs exceeding recoveries during the reporting period. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of senior management and staff assigned to special assets management, met in September to review the allowance account. The ALCO determined that an addition to the allowance account was needed and a provision was booked in September. The ALCO considered the general economic conditions, the potential for deterioration in the existing portfolio and the possibility for some loan growth in the next quarter in determining the level of allowance.

At December 31, 2014, the Association had $942 in Loans held for sale. As of September 30, 2015, the amount had increased to $2,773. The $1,831 or 194.37 percent increase in residential lending is attributable to the overall improvement in the housing economy for purchases, refinances and construction loans in all markets that AgSouth serves.

Investments in other Farm Credit institutions decreased from $21,402 at December 31, 2014 to $21,327 at September 30, 2015. The decrease of $75 or less than one percent is the result of a slightly lower balance of receivables from other Farm Credit institutions related to participations sold on a patronage basis. This includes loans sold to CoBank.

Premises and equipment, net decreased $109 from $15,800 at December 31, 2014 to $15,691 at September 30, 2015. The decrease is the result of normal activity within the premises and equipment accounts. No significant asset sales or purchases were made in the reporting period.

Other property owned increased to $5,741 at September 30, 2015 from $4,189 at December 31, 2014. The increase of

$1,552 or 37.05 percent in other property owned is the result of transfers to other property owned during the reporting period exceeding sales and write-downs of existing other property owned. The Association is actively marketing all properties for sale. For details, please visit our website at ***www.agsouthfc.com*** and click on *Property For Sale*.

Accounts receivable decreased $17,537 from $26,115 at December 31, 2014 to $8,578 at September 30, 2015. The decrease is the result of the reduction in patronage distribution receivable from AgFirst. As of September 30, 2015 this line item included only three quarters accrual which totaled $7,758 of patronage from AgFirst, while the December 31, 2014 total of $26,115, includes a full four quarters of patronage distribution totaling $10,512 plus a special patronage distribution of $14,896.

Other assets decreased $4,208 from $11,878 at December 31, 2014 to $7,670 at September 30, 2015. The majority of other assets is made up of prepaid retirement expense which decreased $4,407 between December 31, 2014 and September 30, 2015.

On the liability side of the balance sheet, Notes payable increased from $1,243,701 at December 31, 2014 to $1,279,620 at September 30, 2015. The $35,919 increase, or 2.89 percent, is tied to the higher amount of loans outstanding between the two reporting periods.

Accrued interest payable increased $69 or 2.57 percent from $2,685 at December 31, 2014 to $2,754 at September 30, 2015.

Patronage refunds payable decreased $9,047 or 98.83 percent from $9,154 at December 31, 2014 to $107 at September 30, 2015. The decrease is the result of estimated cash portion of the 2014 Patronage distribution on the Association's records at December 31, 2014. The payable for fiscal year 2015 will be established in December.

Accounts payable decreased $91 from $1,690 at December 31, 2014 to $1,599 at September 30, 2015. The 5.38 percent decrease is due to the payable established to pay the insurance premiums on loans to the Farm Credit System Captive Insurance Corporation (FCSIC). At December 31, 2014, this payable was $1,370 and at September 30, 2015 the payable totaled $1,078.

Other liabilities decreased $8,103 from $31,066 at December 31, 2014 to $22,963 at September 30, 2015. The 26.08 percent decrease is due to a liability of $5,254 set aside in December 2014 to settle a cash account with AgFirst. This liability was cleared on the first working day of 2015. The December 31, 2014 amount also includes an incentive accrual for the year 2014 totaling $2,865. As of September 30, 2015, the Association had only recorded $895 in incentive accrual for the year ending 2015.

Protected borrower stock did not change between the two reporting periods and remained at $3.

Unprotected borrower stock increased from $7,527 at December 31, 2014 to $7,863 at September 30, 2015. The increase of $336 or 4.46 percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out.

Allocated surplus decreased from $112,635 at December 31, 2014 to $98,279 at September 30, 2015. This is a decrease of $14,356 or 12.75 percent. The decrease is the result of the revolvement of the 2009 series of allocated surplus, totaling $14,578, in May 2015.

Unallocated surplus increased $24,452 or 13.08 percent from $187,002 at December 31, 2014 to $211,454 at September 30, 2015. The balance of $211,454 at September 30, 2015 includes the retention of a portion of 2014 fiscal year end earnings and year to date earnings in 2015.

RESULTS OF OPERATIONS

For the three months ended September 30, 2015

Net income for the three months ended September 30, 2015, totaled $8,562 as compared to $9,706 for the same period in 2014. This is a decrease of $1,144 or 11.79 percent. The following commentary explains the variance.

At September 30, 2015, interest income decreased $149 from $22,715 at September 30, 2014 to $22,566. This decrease of less than one percent is primarily due to the decline in rates earned on accruing loans in the two reporting periods. The weighted average loan rate at September 30, 2014 was 5.87 percent compared to 5.78 percent at September 30, 2015. The decline in rate is a result of market conditions and competition. For the three months ending September 30, 2014, interest income on investments totaled $187 compared to $138 for the three months ended September 30, 2015. Nonaccrual income, which is included in interest income, was $90 for the three months ended September 30, 2015, as compared to $244 for the same period in 2014.

Interest expense for the three months ended September 30, 2015 increased from $8,142 at September 30, 2014 to $8,396 at September 30, 2015. The variance of $254 is 3.12 percent and is reflective of the higher interest rate on Notes Payable and a higher balance of Notes Payable. At September 30, 2014 the average rate on outstanding notes payable was 2.53 percent compared to 2.61 percent at September 30, 2015.

Net interest income before the provision for loan loss decreased $403 for the three months ended September 30, 2015, as compared to the same period in 2014 due primarily to the factors discussed above.

Net interest income after the provision for loan losses decreased $1,078 during the quarter ending September 30, 2015. A provision entry was made in the quarter ending September 30, 2015 totaling $675. The provision entry was made after analysis and recommendation by the Association's ALCO members.

Noninterest income increased $349 over the same period last year. Loan fees increased $240 or 41.74 percent. The loan fee variance can be tied to the increase in fees earned on loans sold on the secondary market and servicing fees earned on portfolio loans.

Fees for financially related services increased $3 from $253 at September 30, 2014 compared to $256 at September 30, 2015. The increase of 1.19 percent is due to an increase in fee income from leases originated by the Association.

Patronage refunds from other Farm Credit institutions increased $51 from $2,755 at September 30, 2014 to $2,806 at September 30, 2015. The increase of 1.85 percent is the result of the higher average direct note balance at AgFirst Farm Credit Bank for the period ending September 30, 2015.

Gains on the sale of rural home loans increased $43 from $349 at September 30, 2014 compared to $392 at September 30, 2015. Originations between the two reporting periods increased and the yield premium resulting in a gain increased slightly. Demand for purchases, refinances and new construction has improved in the AgSouth territory.

Gains on the sale of premises and equipment for the period ending September 30, 2015 totaled $10 compared to $39 for the period ending September 30, 2014. No significant items were sold during the 2015 reporting period to generate any significant gains on the sale.

Gains on the sale of other transactions totaled $54. This is compared to a $42 gain on sale of other transactions in the same period in 2014. In 2015, the Association reduced the reserve for undrawn commitments because of a decline in available commitment balances. These gains were offset slightly by losses in a Rabbi Trust account held by the Association.

Other noninterest income was $37 during the three months ended September 30, 2015, compared to $8 for the three months ending September 30, 2014. This line item captures the volume premium paid by AgFirst for secondary market loans sold to AgFirst and earnings from the FCSIC. The volume premiums were higher in 2015 when compared to 2014 due to the increase in secondary market activity.

Noninterest expense for the three months ended September 30, 2015, increased $419 or 4.72 percent when compared to the same period of 2014. Salaries and employee benefits expense increased $613 between the two reporting periods. The increase in salaries and employee benefits is due to the increase in health care expense for employees and retirees and a slightly higher number of employees between the two reporting periods. The Association has a large number of employees eligible to retire and replacements are on staff during the transition period.

Occupancy and equipment expense at September 30, 2015 was $470 compared to $517 for the same period in 2014. This is a decrease of $47 or 9.09 percent. The majority of the decrease is due to lower maintenance and utility expenses in the two reporting periods.

The Insurance Fund premiums increased $23 from $352 at September 30, 2014 to $375 at September 30, 2015. The variance is due to the higher premium on accruing loans assessed in 2015 by the Insurance Fund and a higher balance of accruing loans outstanding.

In the three months ending September 30, 2015, the Association experienced losses and expenses on the sale of Other Property Owned in the amount of $4. During the same period of 2014, the Association booked losses and expenses on the sale of Other Property Owned of $118. The losses in the 2014 reporting period were write-downs on several pieces of Other Property Owned held by the Association as well as losses recorded at the time of the sale. No significant write-downs or expenses were needed in the 2015 reporting period.

Other operating expenses decreased $56 from $1,608 at September 30, 2014, compared to $1,552 at September 30, 2015. The decrease of 3.48 percent is attributed to a decrease in training, guarantee fees, and supervisory and examination expense offset by higher purchased services expenses between the reporting periods. Other operating expenses also include communications, data processing, and all other expenses necessary to run the business.

For the nine months ended September 30, 2015

Net income for the nine months ended September 30, 2015, totaled $24,452 as compared to $27,080 for the same period in 2014. This is a decrease of $2,628 or 9.70 percent. The following narrative will explain the variance.

At September 30, 2015, interest income decreased $653 from the same period in 2014. The decrease was due to the decrease in investment interest income of $121 and a lower amount of interest income earned on loans. Interest income on loans decreased $532. The average interest rate decreased between the two reporting periods. Interest rates are negotiated by lending staff and reflect market conditions. Nonaccrual income, which is included in interest income, was $683 for the nine months ended September 30, 2015, as compared to $806 for the same period in 2014. The decrease of $123 is the result of the lower amount of interest income recognized when nonaccrual loans pay off or are reinstated to accrual status.

Interest expense increased $386 for the nine months ended September 30, 2015. The increase is attributable to the interest rate paid on the higher notes payable balance. At September 30, 2015, the average rate on the direct note was 2.61 percent compared to 2.53 percent at September 30, 2014.

Net interest income before the provision for loan loss decreased $1,039 or 2.40 percent for the nine months ended September 30, 2015 as compared to the same period in 2014 primarily due to the decrease in margin earned, despite the higher loan balance. Net interest income after the provision for loan losses decreased $1,596 in the period ending September 30, 2015.

The provision amount for the nine months period ending September 30, 2015 totaled $557 and there was no provision or reversal in the 2014 reporting period. In September 2015, the Association's ALCO made the decision that a provision entry was necessary to bring the allowance for loan loss account to a higher level. This decision was made after analyzing the risk in the current portfolio. The ALCO analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income increased $463 over the same period last year. Loan fees increased $475 or 25.97 percent. In the first nine months of 2015, fees earned on loans sold in the secondary market have been significantly higher than the same period in 2014. The volume of loans sold increased between the two reporting periods due to the overall improvement in the housing economy for purchases, refinances and construction loans.

Fees for financially related services increased $86 from $561 at September 30, 2014 compared to $647 at September 30, 2015. The 15.33 percent increase in fees for financially related services is the result of lease commissions earned.

The patronage refunds from other Farm Credit institutions decreased $522 from $8,669 at September 30, 2014 to $8,147 at September 30, 2015. The decrease is due to the lower amount of patronage earned on loans sold to other Associations between the reporting periods.

Gains on the sale of rural home loans increased $575 from $752 at September 30, 2014 to $1,327 at September 30, 2015. Gains increased due to the increase in loan originations to be sold between the reporting periods.

Gains on the sale of premises and equipment decreased $29 from $76 at September 30, 2014 to $47 at September 30, 2015. The gains were recorded when Association automobiles were replaced.

Losses on other transactions totaled $112 for the nine months ended September 30, 2015 compared to a gain of $66 for the same period in 2014. The losses recorded in 2015 was the result of the need to establish a contingent liability for undrawn commitment loans and a loss on a Rabbi trust account held by the Association.

Other noninterest income increased $56 from $199 at September 30, 2014 compared to $255 at September 30, 2015. The variance of 28.14 percent is due to volume premiums earned on loans sold into the secondary market. The Association earns volume premiums from AgFirst on a quarterly basis.

Noninterest expense for the nine months ended September 30, 2015, increased $1,494 compared to the same period of 2014. Salaries and employee benefit expense increased $1,809 between the two reporting periods. The 8.95 percent increase in salaries and employee benefits is tied to the increase in health care expense and an overall increase in the number of employees between the two reporting periods. The Association has a significant number of employees eligible to retire and has, in some cases, hired replacements to begin the training and transition process.

The Association booked an accrual for the 2015 incentive payment based upon plan results which is included in salary and benefit expense. The Association evaluated 2015 performance measures for incentive purposes and determined that some employees would earn incentive in 2015. Based upon this information, the Association accrued $895 in incentive in June 2015. Association results will be re-evaluated prior to the end of the fourth quarter 2015 to determine if an additional accrual is warranted.

Occupancy and equipment expense at September 30, 2015 was $1,663 compared to $1,702 for the same period in 2014. The decrease is from the normal cost of operations including maintenance and utility costs.

The Insurance Fund premium increased from $1,024 at September 30, 2014 to $1,078 at September 30, 2015. The increase of 5.27 percent is tied to the increase in the premium on loans in accrual status and a higher balance of loans outstanding.

Losses on the sale or write-down of other property owned totaled $79 for the nine months ending September 30, 2015. When compared to the same period in 2014, losses on other property owned totaled $254. The losses or write downs were required after new contracts, sale closings, and/or new appraisals were obtained and the book value needed to more accurately reflect the current market value. Activity within other property owned has been limited in 2015 thus far.

Other operating expenses decreased $155 from $5,163 at September 30, 2014, compared to $5,008 at September 30, 2015. The decrease is primarily due to lower travel, guarantee fees, and supervisory and examination expenses between the two reporting periods.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the 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 $1,279,620 as compared to $1,243,701 at December 31, 2014.

The increase in the notes payable correlates to the increase in loans during the reporting period.

CAPITAL RESOURCES

Total members' equity at December 31, 2014 totaled $306,637. At September 30, 2015 total members' equity had increased by $10,514 to $317,151. The increase in total members' equity is due to the increase in unallocated retained earnings between the two reporting periods. At December 31, 2014, unallocated retained earnings totaled $187,002. At September 30, 2015, the unallocated retained earnings had increased to $211,454. The increase in unallocated retained earnings is due to the decision to retain earnings from 2014 for capital purposes as well as year to date earnings in 2015.

Total capital stock and participation certificates were $7,866 on September 30, 2015, compared to $7,530 on December 31, 2014. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

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 total surplus ratio and core surplus ratio were 19.59 percent and 15.62 percent, respectively, and the permanent capital ratio was 20.13 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

The Association has a portion of the portfolio in an in-portfolio guarantee program with Farmer Mac. The purpose of these guarantees is to improve the Association's capital position. At September 30, 2015, the Association had loans totaling $15,083 in this program. The cost of the guarantees year to date was $66. The use of the Farmer Mac in-portfolio guarantees had a positive effect on the Association's capital ratios.

At the present time, the Association's capital position remains strong and well above regulatory minimums. At December 31, 2014, the Association's permanent capital ratio was 20.00 percent. The increase to 20.13 percent permanent capital at September 30, 2015 is the result of the decision to retain income in unallocated surplus at year end 2014. The Association continues to utilize various loan guarantee programs, including FSA, SBA and Farmer Mac to offset risk and improve the capital position. The Association has other tools available to strengthen the capital position. These options include selling additional loans to AgFirst and others, placing additional pools of loans with Farmer Mac in the in-portfolio guarantee program, and participating with AgFirst in a capitalized participation pool. Should additional measures be needed to improve the Association's capital ratios, Association management will study all options and make a recommendation to the Board for consideration.

REGULATORY MATTERS

Other 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.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-310-4805, ext. 6737, writing Alisa D. Gunter, CFO, AgSouth Farm Credit, ACA, PO Box 4966, Spartanburg, SC 29305, or accessing the website ***www.agsouthfc.com***. 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 report 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.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2015	December 31, 2014
	(unaudited)	*(audited)*
Assets		
Cash	**$ 2,330**	$ 4,976
Investment securities:		
Held to maturity (fair value of $8,479 and $8,876, respectively)	**8,476**	8,713
Loans	**1,547,985**	1,499,004
Allowance for loan losses	**(12,315)**	(12,357)
Net loans	**1,535,670**	1,486,647
Loans held for sale	**2,773**	942
Accrued interest receivable	**15,938**	14,271
Investments in other Farm Credit institutions	**21,327**	21,402
Premises and equipment, net	**15,691**	15,800
Other property owned	**5,741**	4,189
Accounts receivable	**8,578**	26,115
Other assets	**7,670**	11,878
Total assets	**$ 1,624,194**	$ 1,594,933
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,279,620**	$ 1,243,701
Accrued interest payable	**2,754**	2,685
Patronage refunds payable	**107**	9,154
Accounts payable	**1,599**	1,690
Other liabilities	**22,963**	31,066
Total liabilities	**1,307,043**	1,288,296
Commitments and contingencies (Note 8)		
Members' Equity		
Protected borrower stock	**3**	3
Capital stock and participation certificates	**7,863**	7,527
Retained earnings		
Allocated	**98,279**	112,635
Unallocated	**211,454**	187,002
Accumulated other comprehensive income (loss)	**(448)**	(530)
Total members' equity	**317,151**	306,637
Total liabilities and members' equity	**$ 1,624,194**	$ 1,594,933

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

AgSouth Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2015	For the three months ended September 30, 2014	For the nine months ended September 30, 2015	For the nine months ended September 30, 2014
Interest Income				
Loans	**$ 22,428**	$ 22,528	**$ 65,731**	$ 66,263
Investments	**138**	187	**416**	537
Total interest income	**22,566**	22,715	**66,147**	66,800
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**8,311**	8,128	**23,722**	23,464
Other	**85**	14	**171**	43
Total interest expense	**8,396**	8,142	**23,893**	23,507
Net interest income	**14,170**	14,573	**42,254**	43,293
Provision for loan losses	**675**	—	**557**	—
Net interest income after provision for loan losses	**13,495**	14,573	**41,697**	43,293
Noninterest Income				
Loan fees	**815**	575	**2,304**	1,829
Fees for financially related services	**256**	253	**647**	561
Patronage refunds from other Farm Credit institutions	**2,806**	2,755	**8,147**	8,669
Gains (losses) on sales of rural home loans, net	**392**	349	**1,327**	752
Gains (losses) on sales of premises and equipment, net	**10**	39	**47**	76
Gains (losses) on other transactions	**54**	42	**(112)**	66
Other noninterest income	**37**	8	**255**	199
Total noninterest income	**4,370**	4,021	**12,615**	12,152
Noninterest Expense				
Salaries and employee benefits	**6,902**	6,289	**22,026**	20,217
Occupancy and equipment	**470**	517	**1,663**	1,702
Insurance Fund premiums	**375**	352	**1,078**	1,024
(Gains) losses on other property owned, net	**4**	118	**79**	254
Other operating expenses	**1,552**	1,608	**5,008**	5,163
Total noninterest expense	**9,303**	8,884	**29,854**	28,360
Income before income taxes	**8,562**	9,710	**24,458**	27,085
Provision for income taxes	**—**	4	**6**	5
Net income	**$ 8,562**	$ 9,706	**$ 24,452**	$ 27,080

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

AgSouth Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2015	For the three months ended September 30, 2014	For the nine months ended September 30, 2015	For the nine months ended September 30, 2014
Net income	**$ 8,562**	$ 9,706	**$ 24,452**	$ 27,080
Other comprehensive income net of tax				
Employee benefit plans adjustments	**27**	5	**82**	16
Comprehensive income	**$ 8,589**	$ 9,711	**$ 24,534**	$ 27,096

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2013	$ 16	$ 7,192	$ 110,391	$ 168,402	$ (224)	$ 285,777
Comprehensive income				27,080	16	27,096
Protected borrower stock issued/(retired), net	(12)					(12)
Capital stock/participation certificates issued/(retired), net		240				240
Retained earnings retired			(19,291)			(19,291)
Patronage distribution adjustment			633	(904)		(271)
Balance at September 30, 2014	$ 4	$ 7,432	$ 91,733	$ 194,578	$ (208)	$ 293,539
Balance at December 31, 2014	**$ 3**	**$ 7,527**	**$ 112,635**	**$ 187,002**	**$ (530)**	**$ 306,637**
Comprehensive income				**24,452**	**82**	**24,534**
Capital stock/participation certificates issued/(retired), net		**336**				**336**
Retained earnings retired			**(14,356)**			**(14,356)**
Balance at September 30, 2015	**$ 3**	**$ 7,863**	**$ 98,279**	**$ 211,454**	**$ (448)**	**$ 317,151**

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

AgSouth 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 AgSouth 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 disposals.

- 2014-04 Reclassification of Consumer Mortgage Loans – The criteria of the standard were not significantly different from the Association's policy in place at adoption. The amendment was adopted prospectively. See Note 2, *Loans and Allowance for Loan Losses*, for the additional disclosures required by this guidance.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	September 30, 2015	December 31, 2014
Real estate mortgage	$ 1,227,576	$ 1,213,660
Production and intermediate-term	260,422	231,817
Processing and marketing	5,758	5,357
Farm-related business	10,539	8,174
Rural residential real estate	43,171	39,458
Other (including Mission Related)	519	538
Total Loans	$ 1,547,985	$ 1,499,004

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	$ 405	$ 154,528	$ –	$ 10,409	$ –	$ –	$ 405	$ 164,937
Production and intermediate-term	–	37,994	1,257	–	2,306	–	3,563	37,994
Processing and marketing	–	10,040	–	9,722	–	–	–	19,762
Farm-related business	–	9,167	–	10,125	–	–	–	19,292
Total	$ 405	$ 211,729	$ 1,257	$ 30,256	$ 2,306	$ –	$ 3,968	$ 241,985

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	$ 415	$ 102,228	$ –	$ 11,599	$ –	$ –	$ 415	$ 113,827
Production and intermediate-term	–	38,963	1,325	–	1,436	–	2,761	38,963
Processing and marketing	–	8,017	–	6,967	–	–	–	14,984
Farm-related business	–	7,708	–	–	–	–	–	7,708
Total	$ 415	$ 156,916	$ 1,325	$ 18,566	$ 1,436	$ –	$ 3,176	$ 175,482

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	$ 77,462	$ 250,515	$ 899,599	$ 1,227,576
Production and intermediate-term	112,502	87,404	60,516	260,422
Processing and marketing	2,378	2,525	855	5,758
Farm-related business	2,304	5,539	2,696	10,539
Rural residential real estate	4,238	2,071	36,862	43,171
Other (including Mission Related)	–	–	519	519
Total Loans	$ 198,884	$ 348,054	$ 1,001,047	$ 1,547,985
Percentage	12.85%	22.48%	64.67%	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
Real estate mortgage:		
Acceptable	95.72%	95.35%
OAEM	2.45	2.84
Substandard/doubtful/loss	1.83	1.81
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	96.51%	96.37%
OAEM	1.22	2.08
Substandard/doubtful/loss	2.27	1.55
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2015	December 31, 2014
Farm-related business:		
Acceptable	100.00%	99.96%
OAEM	–	–
Substandard/doubtful/loss	–	0.04
	100.00%	100.00%
Rural residential real estate:		
Acceptable	95.97%	97.43%
OAEM	2.39	1.02
Substandard/doubtful/loss	1.64	1.55
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	95.91%	95.61%
OAEM	2.22	2.64
Substandard/doubtful/loss	1.87	1.75
	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	$ 9,061	$ 4,831	$ 13,892	$ 1,225,086	$ 1,238,978	$ –
Production and intermediate-term	594	929	1,523	263,068	264,591	–
Processing and marketing	–	–	–	5,794	5,794	–
Farm-related business	14	–	14	10,603	10,617	–
Rural residential real estate	371	70	441	42,934	43,375	–
Other (including Mission Related)	–	–	–	522	522	–
Total	$ 10,040	$ 5,830	$ 15,870	$ 1,548,007	$ 1,563,877	$ –

	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	$ 10,812	$ 2,763	$ 13,575	$ 1,210,430	$ 1,224,005	$ –
Production and intermediate-term	1,324	873	2,197	233,229	235,426	–
Processing and marketing	–	–	–	5,381	5,381	–
Farm-related business	–	1	1	8,262	8,263	–
Rural residential real estate	211	77	288	39,325	39,613	–
Other (including Mission Related)	–	–	–	540	540	–
Total	$ 12,347	$ 3,714	$ 16,061	$ 1,497,167	$ 1,513,228	$ –

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	$ 8,192	$ 10,772
Production and intermediate-term	2,654	1,806
Farm-related business	–	3
Rural residential real estate	333	431
Total	$ 11,179	$ 13,012
Accruing restructured loans:		
Real estate mortgage	$ 7,931	$ 8,252
Production and intermediate-term	971	1,337
Farm-related business	184	189
Rural residential real estate	370	169
Total	$ 9,456	$ 9,947
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 20,635	$ 22,959
Other property owned	5,741	4,189
Total	$ 26,376	$ 27,148
Nonaccrual loans as a percentage of total loans	0.72%	0.87%
Nonperforming assets as a percentage of total loans and other property owned	1.70%	1.81%
Nonperforming assets as a percentage of capital	8.32%	8.85%

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	$ 3,590	$ 4,455
Past due	7,589	8,557
Total	11,179	13,012
Impaired accrual loans:		
Restructured	9,456	9,947
90 days or more past due	–	–
Total	9,456	9,947
Total impaired loans	$ 20,635	$ 22,959

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 Recorded Investment	September 30, 2015 Unpaid Principal Balance	September 30, 2015 Related Allowance	Quarter Ended September 30, 2015 Average Impaired Loans	Quarter Ended September 30, 2015 Interest Income Recognized on Impaired Loans	Nine Months Ended September 30, 2015 Average Impaired Loans	Nine Months Ended September 30, 2015 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	$ 65	$ 76	$ 7	$ 69	$ 1	$ 71	$ 3
Production and intermediate-term	36	108	3	39	–	40	2
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 101	$ 184	$ 10	$ 108	$ 1	$ 111	$ 5
With no related allowance for credit losses:							
Real estate mortgage	$ 16,058	$ 18,315	$ –	$ 17,133	$ 139	$ 17,557	$ 747
Production and intermediate-term	3,589	4,615	–	3,830	31	3,925	167
Farm-related business	184	183	–	196	2	201	8
Rural residential real estate	703	800	–	749	6	768	33
Total	$ 20,534	$ 23,913	$ –	$ 21,908	$ 178	$ 22,451	$ 955
Total:							
Real estate mortgage	$ 16,123	$ 18,391	7	$ 17,202	$ 140	$ 17,628	$ 750
Production and intermediate-term	3,625	4,723	3	3,869	31	3,965	169
Farm-related business	184	183	–	196	2	201	8
Rural residential real estate	703	800	–	749	6	768	33
Total	$ 20,635	$ 24,097	$ 10	$ 22,016	$ 179	$ 22,562	$ 960

Impaired loans	December 31, 2014 Recorded Investment	December 31, 2014 Unpaid Principal Balance	December 31, 2014 Related Allowance	Year Ended December 31, 2014 Average Impaired Loans	Year Ended December 31, 2014 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 692	$ 707	$ 60	$ 864	$ 43
Production and intermediate-term	78	78	46	97	5
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 770	$ 785	$ 106	$ 961	$ 48
With no related allowance for credit losses:					
Real estate mortgage	$ 18,332	$ 21,277	$ –	$ 22,897	$ 1,147
Production and intermediate-term	3,065	4,003	–	3,829	192
Farm-related business	192	215	–	240	12
Rural residential real estate	600	706	–	749	37
Total	$ 22,189	$ 26,201	$ –	$ 27,715	$ 1,388
Total:					
Real estate mortgage	$ 19,024	$ 21,984	$ 60	$ 23,761	$ 1,190
Production and intermediate-term	3,143	4,081	46	3,926	197
Farm-related business	192	215	–	240	12
Rural residential real estate	600	706	–	749	37
Total	$ 22,959	$ 26,986	$ 106	$ 28,676	$ 1,436

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*	Rural Residential Real Estate	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:						
Balance at June 30, 2015	$ 10,086	$ 1,942	$ 91	$ 301	$ 4	$ 12,424
Charge-offs	(782)	(24)	–	–	–	(806)
Recoveries	15	2	–	–	5	22
Provision for loan losses	437	165	38	40	(5)	675
Balance at September 30, 2015	$ 9,756	$ 2,085	$ 129	$ 341	$ 4	$ 12,315
Balance at December 31, 2014	$ 9,969	$ 1,952	$ 111	$ 321	$ 4	$ 12,357
Charge-offs	(956)	(115)	–	–	–	(1,071)
Recoveries	290	162	4	1	15	472
Provision for loan losses	453	86	14	19	(15)	557
Balance at September 30, 2015	$ 9,756	$ 2,085	$ 129	$ 341	$ 4	$ 12,315
Balance at June 30, 2014	$ 9,454	$ 1,907	$ 115	$ 303	$ 4	$ 11,783
Charge-offs	(11)	(95)	–	(5)	–	(111)
Recoveries	155	58	–	37	13	263
Provision for loan losses	(14)	54	2	(29)	(13)	–
Balance at September 30, 2014	$ 9,584	$ 1,924	$ 117	$ 306	$ 4	$ 11,935
Balance at December 31, 2013	$ 9,397	$ 1,862	$ 106	$ 279	$ 4	$ 11,648
Charge-offs	(237)	(145)	(1)	(9)	–	(392)
Recoveries	410	114	89	41	25	679
Provision for loan losses	14	93	(77)	(5)	(25)	–
Balance at September 30, 2014	$ 9,584	$ 1,924	$ 117	$ 306	$ 4	$ 11,935
Allowance on loans evaluated for impairment:						
Individually	$ 7	$ 3	$ –	$ –	$ –	$ 10
Collectively	9,749	2,082	129	341	4	12,305
Balance at September 30, 2015	$ 9,756	$ 2,085	$ 129	$ 341	$ 4	$ 12,315
Individually	$ 60	$ 46	$ –	$ –	$ –	$ 106
Collectively	9,909	1,906	111	321	4	12,251
Balance at December 31, 2014	$ 9,969	$ 1,952	$ 111	$ 321	$ 4	$ 12,357
Recorded investment in loans evaluated for impairment:						
Individually	$ 14,792	$ 2,878	$ 184	$ 703	$ –	$ 18,557
Collectively	1,224,186	261,713	16,227	42,672	522	1,545,320
Balance at September 30, 2015	$ 1,238,978	$ 264,591	$ 16,411	$ 43,375	$ 522	$ 1,563,877
Individually	$ 10,739	$ 1,805	$ 2	$ 428	$ –	$ 12,974
Collectively	1,213,266	233,621	13,642	39,185	540	1,500,254
Balance at December 31, 2014	$ 1,224,005	$ 235,426	$ 13,644	$ 39,613	$ 540	$ 1,513,228

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

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

	Three Months Ended September 30, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 283	$ –	$ –	$ 283	
Production and intermediate term	–	69	–	69	
Total	$ 283	$ 69	$ –	$ 352	
Post-modification:					
Real estate mortgage	$ 282	$ –	$ –	$ 282	$ –
Production and intermediate term	–	69	–	69	–
Total	$ 282	$ 69	$ –	$ 351	$ –

Outstanding Recorded Investment	Nine Months Ended September 30, 2015 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 652	$ 2,896	$ –	$ 3,548	
Production and intermediate-term	26	179	106	311	
Total	$ 678	$ 3,075	$ 106	$ 3,859	
Post-modification:					
Real estate mortgage	$ 667	$ 2,980	$ –	$ 3,647	$ (43)
Production and intermediate-term	26	181	106	313	–
Total	$ 693	$ 3,161	$ 106	$ 3,960	$ (43)

Outstanding Recorded Investment	Three months ended September 30, 2014 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 881	$ 78	$ –	$ 959	
Production and intermediate-term	–	810	–	810	
Total	$ 881	$ 888	$ –	$ 1,769	
Post-modification:					
Real estate mortgage	$ 896	$ 78	$ –	$ 974	$ –
Production and intermediate-term	–	715	–	715	–
Total	$ 896	$ 793	$ –	$ 1,689	$ –

Outstanding Recorded Investment	Nine months ended September 30, 2014 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 1,547	$ 381	$ –	$ 1,928	
Production and intermediate-term	–	964	–	964	
Rural residential real estate	71	–	93	164	
Total	$ 1,618	$ 1,345	$ 93	$ 3,056	
Post-modification:					
Real estate mortgage	$ 1,567	$ 381	$ –	$ 1,948	$ –
Production and intermediate-term	–	832	–	832	–
Rural residential real estate	71	–	93	164	(4)
Total	$ 1,638	$ 1,213	$ 93	$ 2,944	$ (4)

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

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

	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Real estate mortgage	$ –	$ 540	$ 2,310	$ 1,434
Production and intermediate-term	112	–	112	1,705
Total	$ 112	$ 540	$ 2,422	$ 3,139

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

	Total TDRs September 30, 2015	December 31, 2014	Nonaccrual TDRs September 30, 2015	December 31, 2014
Real estate mortgage	$ 11,130	$ 12,111	$ 3,199	$ 3,859
Production and intermediate-term	2,306	2,196	1,335	859
Farm-related business	184	190	–	1
Rural residential real estate	572	445	202	276
Total Loans	$ 14,192	$ 14,942	$ 4,736	$ 4,995
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	$ 116

Note 3 — 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 risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. At September 30, 2015, the Association held no RABs whose credit quality has deteriorated beyond the program limits.

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

	September 30, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 8,476	$ 83	$ (80)	$ 8,479	6.30%

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 8,713	$ 163	$ –	$ 8,876	6.38%

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

	September 30, 2015		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	8,476	8,479	6.30
Total	$ 8,476	$ 8,479	6.30%

All of these investments have 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. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position at December 31, 2014. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category.

	September 30, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 3,619	$ (80)	$ –	$ –

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

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

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

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

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

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owns 6.99 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 $3,816 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Employee Benefit Plans:				
Balance at beginning of period	$ (475)	$ (213)	$ (530)	$ (224)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	27	5	82	16
Net current period other comprehensive income	27	5	82	16
Balance at end of period	$ (448)	$ (208)	$ (448)	$ (208)

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2015	2014	2015	2014	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (27)	$ (5)	$ (82)	$ (16)	See Note 7.
Net amounts reclassified	$ (27)	$ (5)	$ (82)	$ (16)	

(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:						
Assets held in Trust funds	$ 1,401	$ 1,401	$ –	$ –	$ 1,401	
Recurring Assets	$ 1,401	$ 1,401	$ –	$ –	$ 1,401	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 20,625	$ –	$ –	$ 20,625	$ 20,625	$ (503)
Other property owned	5,741	–	–	6,153	6,153	(55)
Nonrecurring Assets	$ 26,366	$ –	$ –	$ 26,778	$ 26,778	$ (558)
Other Financial Instruments						
Assets:						
Cash	$ 2,330	$ 2,330	$ –	$ –	$ 2,330	
Investment securities, held-to-maturity	8,476	–	–	8,479	8,479	
Loans	1,517,818	–	–	1,523,925	1,523,925	
Other Financial Assets	$ 1,528,624	$ 2,330	$ –	$ 1,532,404	$ 1,534,734	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,279,620	$ –	$ –	$ 1,276,199	$ 1,276,199	
Other Financial Liabilities	$ 1,279,620	$ –	$ –	$ 1,276,199	$ 1,276,199	

At or for the Year ended December 31, 2014

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,236	$ 1,236	$ –	$ –	$ 1,236	
Recurring Assets	$ 1,236	$ 1,236	$ –	$ –	$ 1,236	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 22,853	$ –	$ –	$ 22,853	$ 22,853	$ (692)
Other property owned	4,189	–	–	4,500	4,500	(202)
Nonrecurring Assets	$ 27,042	$ –	$ –	$ 27,353	$ 27,353	$ (894)
Other Financial Instruments						
Assets:						
Cash	$ 4,976	$ 4,976	$ –	$ –	$ 4,976	
Investment securities, held-to-maturity	8,713	–	–	8,876	8,876	
Loans	1,464,736	–	–	1,473,039	1,473,039	
Other Financial Assets	$ 1,478,425	$ 4,976	$ –	$ 1,481,915	$ 1,486,891	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,243,701	$ –	$ –	$ 1,234,106	$ 1,234,106	
Other Financial Liabilities	$ 1,243,701	$ –	$ –	$ 1,234,106	$ 1,234,106	

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	$ 26,778	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

Note 7 — Employee Benefit Plans

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Pension	$ 1,527	$ 1,534	$ 4,582	$ 4,603
401(k)	198	137	675	463
Other postretirement benefits	445	265	1,335	795
Total	$ 2,170	$ 1,936	$ 6,592	$ 5,861

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

	Actual YTD Through 9/30/15	Projected Contributions For Remainder of 2015	Projected Total Contributions 2015
Pension	$ 64	$ 6,034	$ 6,098
Other postretirement benefits	637	208	845
Total	$ 701	$ 6,242	$ 6,943

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change 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 $8,174 which will be recorded in October 2015 as patronage refunds from other Farm Credit institutions.