AgSouth Farm Credit, ACA

FIRST QUARTER 2016

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2016 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

William T. Robinson
Chairman of the Board

May 9, 2016

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 March 31, 2016. 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 March 31, 2016, 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 March 31, 2016.

William P. Spigener
Chief Executive Officer

Alisa D. Gunter
Chief Financial Officer

May 9, 2016

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 March 31, 2016. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2015 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 $1,329,219 or 85.75 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.

Georgia Region

The first quarter of 2016 in the Georgia region of AgSouth has been favorable relative to several different factors including the weather and related growing conditions of major crops, loan demand and general business activity, as well as the performance of the existing loan portfolio.

The first quarter is a critical time for sweet onions, blueberries, and peaches. Conditions have been generally favorable for all three crops and USDA rates these crops as follows in their April 3, 2016 crop condition report. Blueberries rated 47 percent fair and 53 percent rated good. Onions are rated as 27 percent fair, 43 percent good, and 30 percent excellent and peaches were rated 8 percent fair, 57 percent good, and 35 percent excellent. Harvest and sale of these fruit and vegetable crops will begin within weeks and market indicators appear favorable for prices as well. The region's corn is 43 percent planted at this time, well ahead of last year's 26 percent planted. The winter wheat, rye, and oat crops are also rated fair to good by the April USDA report.

New crop ground is being prepared at this time for other significant spring planted crops including peanuts, cotton, and soybeans. Estimated corn acres in Georgia are up 18 percent from last year with a forecast of 390,000 acres in 2016. Cotton to be planted is up 2 percent at 1.15 million acres for 2016 and peanuts are down slightly to 730,000 acres compared to 750,000 in 2015. Soybeans are expected to be fairly stable at 320,000 acres. Price expectations for peanuts, cotton, and soybeans continue to be low relative to the short term averages but fairly consistent with longer term averages for these particular commodities.

The performance of the region's portfolio during the first quarter has been better than expected with a small percentage of producers unable to make expected payments. Lower commodity prices coupled with isolated areas of adverse yields led to most payment shortages; however, those impacted by both were relatively few and the Association has been able to work out modified repayment plans to assist most of these borrowers.

The timber industry remains fairly strong within the region. Timber stumpage prices have been fairly stable during the first quarter with pulpwood having the best price performance. Wet logging conditions had a positive impact in some areas on stumpage prices during the quarter as access to supply was limited. Improving conditions in the housing market is also impacting chip-n-saw and saw timber prices favorably as well. Lumber prices have increased approximately 12 percent during the first quarter. Housing prices in Georgia are up 5.7 percent from a year ago.

The poultry industry continues to experience good economic conditions as low feed cost and good meat prices drive strong profits for integrators. The expansion the industry experienced in 2015 has slowed as well as the number of applications from growers for new poultry house construction.

Milk prices remain low at $17.00 to $18.00 per hundred weight. This is down from prices which topped out at around $26.00 in September of 2014 and have steadily declined since. Feed cost are down for producers which has softened the impact of the decline in milk prices; however, many farms will not be able to sustain long periods at present price levels as some are at or slightly below their breakeven price points. The near term outlook is for continued low prices.

The general economy in Georgia continues to improve. Unemployment is down to 5.4 percent at February 2016 compared to 6.2 percent in February a year ago. The state continues to rank very well among southeastern states for attracting new industry. The manufacturing sector has steadily improved during the first quarter as measured by the state's PMI index. An index above 50.0 indicates the sector is expanding and Georgia's PMI jumped to 61.6 in February. This is in contrast to a national report on manufacturing which showed the sector is weaker nationally.

Land values remain stable to slightly improving. Lower commodity prices have leveled off cultivated land prices but they appear to be stable. Recreational tracts are actually showing some strengthening in value and the number of total land sales continues to increase in most counties.

South Carolina Region

Following the catastrophic weather conditions in 2015, South Carolina continues to work through the adverse impact. Business owners, including farmers, within the state remain focused on repairing damaged property and addressing financial issues arising from the devastating circumstances. The farm community continues to seek answers as to whether or not federal and/or state assistance will be available to offset losses, to what extent crop insurance claims will cover unpaid bills, and what will be their business or farm plan for 2016. As the end of the first quarter concluded, these questions remain for some farmers. Many customers in the region were negatively impacted to some degree in 2015, but most have performed on their loans with the assistance of crop insurance and other insurance claims. The AgSouth staff has been proactive in refinancing unpaid bills for many farmers and many operating loans have been re-established. There are some customers that will face difficult decisions regarding moving forward with their operations, but this should be a minimal number.

Winter wheat planted acreage within the state was significantly reduced compared to the past as excess moisture persisting into late 2015 limited the ability to plant. Spring crops within the state are progressing adequately. Approximately 30 percent of corn is planted, which is well ahead of 2015 and in line with the 5 year average. Corn planted acreage is expected to increase approximately 8 percent. Forecasts for cotton, peanuts, and soybeans project a lower anticipated acreage than the previous year. In combination, the planted acreage for these three crops could be the lowest since 1978. Land preparation is now taking place for peanut, soybean, and cotton plantings during the upcoming quarter.

Vegetable crops in the state appear to be in good condition. Watermelons are transplanted, strawberry harvest is underway, and the region's peaches are in bloom with prospects for a favorable season. Overall, soil moisture in the region both on a topsoil and subsoil basis is rated adequate to surplus.

Poultry integrators appear to be experiencing success with feed costs reduced compared to the recent past and demand for production at favorable levels. Many integrators have contemplated some level of expansion within the state, but permitting issues have delayed this process to some extent.

The timber industry in the state was also adversely affected by the weather in 2015. Most of the adversity in this area were due to limitations placed upon logging and harvesting of timber during the late third quarter and virtually the entire fourth quarter. Timberland values appear to remain stable to improving, and sales of timberland have increased.

Rural real estate values in general have stabilized in South Carolina and the demand for real estate has increased as evidenced by the number of sales observed in late 2015 and early 2016. With interest rates remaining low, home construction and sales have remained positive.

Non-farm income continues to repay a significant portion of the loan portfolio with the sources generating this income represented by many diversified industries and businesses within each industry. The state continues to draw new businesses which will employ South Carolinians for years to come. An example of this aspect is the new Volvo plant now under construction in the Summerville area.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2016, was $1,550,065, a decrease of $7,816 or less than one percent as compared to $1,557,881 at December 31, 2015. Net loans outstanding at March 31, 2016 were $1,537,030 as compared to $1,544,782 at December 31, 2015. Net loans accounted for 94.89 percent of total assets at March 31, 2016, as compared to 93.56 percent of total assets at December 31, 2015.

The decrease in gross loan volume during the reporting period is attributed to payments and payoffs on operating lines of credit and term loans. Advances on operating funds are now being processed and growth in the portfolio is anticipated in the second quarter of 2016. 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, 2015, the Association held Investment securities totaling $8,395. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration. At March 31, 2016, investment securities totaled $8,312, a decrease of $83. The less than one percent decrease is from payments made during the first quarter of 2016.

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 increased from $10,694 at December 31, 2015, to $13,690 at March 31, 2016. The balance of nonaccrual loans is increased by transfers to nonaccrual status offset by liquidations, loans returning to accrual status, or transfer of assets to other property owned. Association staff is working diligently to work out all nonaccrual debt situations, and additional transfers may occur as the economy remains sluggish.

During the first quarter of 2016 the Association originated $28,893 in loans for the secondary market. Originations for the same period 2015 were $27,368. The 5.57 percent increase is the result of the increase in demand for home loans and refinances during the reporting period. As of March 31, 2016, the Association held $1,093 in qualifying loans for sale. At December 31, 2015, loans held for sale totaled $3,302.

Other property owned decreased to $4,767 at March 31, 2016 from $5,425 at December 31, 2015. The decrease of $658 or 12.13 percent in other property owned is the result of sales and write-downs of existing other property owned exceeding transfers to other property owned during the reporting period. 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*.

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 March 31, 2016, was $13,035 compared to $13,099 at December 31, 2015, 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 any 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 March to review the allowance account. The ALCO determined that an addition to the allowance account was not needed at this time. The ALCO considered the general economic conditions, the potential for further deterioration in the existing portfolio and the possibility for some loan growth in the next quarter in determining the level of allowance.

Investments in other Farm Credit institutions increased from $22,145 at December 31, 2015 to $22,321 at March 31, 2016. The increase of $176 or less than one percent is the result of a slightly higher 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 increased $506 from $16,339 at December 31, 2015 to $16,845 at March 31, 2016. The increase of 3.10 percent is the result of the acquisition of a new office building in Carrollton, Georgia. The Association intends to relocate staff to the new facility after a renovation project set to begin in May 2016 is complete.

Accounts receivable decreased $15,693 from $19,565 at December 31, 2015 to $3,872 at March 31, 2016. The decrease is the result of the patronage distribution receivable from AgFirst, which totaled $10,577 in regular distribution and $8,178 in a special distribution. As of March 31, 2016, this line item included only one quarter's accrual of patronage from AgFirst totaling $2,763.

Other assets decreased $1,225 from $11,599 at December 31, 2015 to $10,374 at March 31, 2016. The majority of other assets is made up of prepaid retirement expense which decreased $1,450 between December 31, 2015 and March 31, 2016.

On the liability side of the balance sheet, Notes payable to AgFirst Farm Credit Bank decreased from $1,286,760 at December 31, 2015 to $1,255,414 at March 31, 2016. The $31,346 decrease, or 2.44 percent, is tied to the lower amount of loans outstanding between the two reporting periods.

Accrued interest payable decreased $45 or 1.57 percent from $2,870 to $2,825. The decrease is tied to the lower notes payable balance outstanding.

Patronage refunds payable decreased $7,086 from $8,144 at December 31, 2015 to $1,058 at March 31, 2016. The decrease is the result of estimated cash portion of the 2015 Patronage distribution on the Association's records at December 31, 2015 moving from Patronage refund payable to Other liabilities. This amount totaled $7,945 at December 31, 2015.

Accounts payable decreased $1,122 from $2,008 at December 31, 2015 to $886 at March 31, 2016. The 55.88 percent decrease is due to the payable established to pay the insurance premiums on loans to the FCSIC. At December 31, 2015, this payable was $1,458 and at March 31, 2016 the payable had been reduced to $449.

Other liabilities increased $17,378 from $26,779 at December 31, 2015 to $44,157 at March 31, 2016. The 64.89 percent increase is due the liability established for the cash portion of the 2015 patronage distribution and the revolvement of the 2010 series of Allocated Surplus. The checks to pay the patronage and allocated surplus had been processed, but remain outstanding at the commercial bank as of March 31, 2016.

Protected borrower stock did not change between the two reporting periods and remained at $2.

Unprotected borrower stock increased from $7,972 at December 31, 2015 to $8,061 at March 31, 2016. The increase of $89 or 1.12 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 $116,777 at December 31, 2015 to $98,720 at March 31, 2016. This is a decrease of $18,057 or 15.46 percent. The reduction is from the decision made by the Board of Directors to revolve the 2010 series of Allocated Surplus in late February 2016. The checks and notices for this revolvement were generated in early March 2016.

Unallocated surplus increased $8,789 or 4.39 percent. The balance of $209,169 at March 31, 2016 includes the retention of a portion of 2015 fiscal year end earnings and earnings year to date in 2016.

RESULTS OF OPERATIONS

For the three months ended March 31, 2016

Net income for the three months ended March 31, 2016, totaled $8,760 as compared to $7,848 for the same period in 2015. This is an increase of $912 or 11.62 percent. The following commentary explains the variance.

At March 31, 2016, interest income increased $1,078 from $21,421 at March 31, 2015 to $22,499. This increase of 5.03 percent is primarily due to the increase in average earning assets between the two reporting periods. For the quarter ending March 31, 2015 the year to date average daily balance of average earning assets was $1,458,604 compared to $1,541,298 for the same period in 2016. For the three months ending March 31, 2015, interest income on investments totaled $139 compared to $135 for the three months ended March 31, 2016.

Nonaccrual income, which is included in interest income, was $204 for the three months ended March 31, 2016, as compared to $228 for the same period in 2015.

Interest expense for the three months ended March 31, 2016 increased $857 from $7,586 at March 31, 2015 to $8,443 at March 31, 2016. The variance is 11.30 percent and is tied to the increase in the weighted average direct note rate between the two reporting periods. As of March 31, 2015, the weighted average direct note rate was 2.58 percent compared to a weighted average direct note rate of 2.69 percent as of March 31, 2016.

Net interest income before the provision for loan loss increased $221 for the three months ended March 31, 2016, as compared to the same period in 2015 due primarily to the factors discussed above.

Net interest income after the provision for loan losses increased $309 during the quarter ending March 31, 2016. A small reversal of the provision of $94 was made in the quarter ending March 31, 2016. The reversal was necessary to move general allowance to Other Liabilities to cover potential losses on undrawn loan commitment. In the same period in 2015 a similar provision entry of $6 was necessary. Undrawn loan commitment balances have increased during the reporting period and resulted in the need for a slightly higher other liability.

Noninterest income increased $686 over the same period last year. Loan fees increased $55 or 8.11 percent. The loan fee variance can be tied to the increase in fees earned on loans sold on the secondary market and a slight increase in late fees.

Fees for financially related services increased $35 from $249 at March 31, 2015 compared to $284 at March 31, 2016. The increase of 14.06 percent is due to an increase in commissions earned on leasing services offered by the Association.

Patronage refunds from other Farm Credit institutions increased $636 from $2,843 at March 31, 2015 to $3,479 at March 31, 2016. The increase of 22.37 percent is the result of the increase in loans sold to CoBank on a patronage basis as well as a reclassification of allocated savings from the Farm Credit System Captive Insurance Company of $147.

Gains on the sale of rural home loans increased $17 from $414 at March 31, 2015 compared to $431 at March 31, 2016. Originations between the two reporting periods increased and the yield premium resulting in a gain increased slightly. Demand for home loans has improved due to the low interest rate environment and an increase in the new construction market during the spring buying season.

Gains on the sale of premises and equipment for the period ending March 31, 2016 totaled $14 compared to $22 for the period ending March 31, 2015. During the 2016 reporting period, the Association recorded gains on the sale of several Association automobiles that were replaced. No other significant Association assets were sold during the current reporting period.

Losses on the sale of other transactions totaled $117. This is an increase of $54 over a loss of $63 in the same period in 2015. In 2016, the Association had losses on investments in the Rabbi Trust for some current employees and retirees.

Other noninterest income was $22 during the three months ended March 31, 2016, compared to $17 for the three months ending March 31, 2015. This line item captures the volume premium paid by AgFirst for secondary market loans sold to AgFirst. The volume premiums were slightly higher in 2016 when compared to 2015 due to the increase in secondary market activity.

Noninterest expense for the three months ended March 31, 2016, increased $84 or less than one percent when compared to the same period of 2015. Salaries and employee benefits expense decreased $300 between the two reporting periods. The decrease in salaries and employee benefits is due to the timing of the health savings account expense funded by the Association. The Association funded health care savings accounts in a one time lump sum in January 2015 compared to a bi-monthly funding in 2016.

Occupancy and equipment expense at March 31, 2016 was $693 compared to $698 for the same period in 2015. This is a decrease of $5 or less than one percent.

The Insurance Fund premiums increased $104 from $345 at March 31, 2015 to $449 at March 31, 2016. The variance is due to the higher premium on accruing loans assessed in 2016 by the Insurance Fund and a higher balance of accruing loans outstanding. The FCSIC board recently increased the premium from 13 basis points to 16 basis points on accruing volume. The increase is the result of an overall increase in loan volume at the System level.

In the three months ending March 31, 2016, the Association experienced losses and expenses on the sale of Other Property Owned in the amount of $40. During the same period of 2015, the Association booked losses and expenses on the sale of Other Property Owned of $7. The losses in the 2016 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. Some pieces are under contract for less than the current carrying value, while other write-downs were needed due to new appraisals.

Other operating expenses increased $252 from $1,841 at March 31, 2015, compared to $2,093 at March 31, 2016. The increase of 13.69 percent is attributed to an increase in purchased services, advertising and public and member relations expenses between the reporting periods. Other operating expenses also include communications, data processing, and all other expenses necessary to run the business.

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 March 31, 2016 was $1,255,414 as compared to $1,286,760 at December 31, 2015. The decrease in the notes payable correlates to the decrease in gross loans during the reporting period.

CAPITAL RESOURCES

Total members' equity at December 31, 2015 totaled $324,619. At March 31, 2016 total members' equity had decreased by $9,142 to $315,477. The decrease in total members' equity is due to the decrease in allocated retained earnings offset by an increase in unallocated retained earnings between the two reporting periods. At December 31, 2015, allocated retained earnings totaled $116,777 compared to $98,720 at March 31, 2016. The decrease is due to the revolvement of the 2010 series of allocated surplus in the first quarter of 2016. At December 31, 2015, unallocated retained earnings totaled $200,380. At March 31, 2016, the unallocated retained earnings had increased to $209,169. The increase in unallocated retained earnings is due to the decision to retain earnings from 2015 earnings for capital purposes.

Total capital stock and participation certificates were $8,063 on March 31, 2016, compared to $7,974 on December 31, 2015. 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 March 31, 2016, the Association's total surplus ratio and core surplus ratio were 20.46 percent and 15.50 percent, respectively, and the permanent capital ratio was 21.00 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 March 31, 2016, the Association had loans totaling $11,605 in this program. The cost of the guarantees year to date was $17. 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, 2015, the Association's permanent capital ratio was 20.68 percent. The increase to 21.00 percent permanent capital at March 31, 2016 is the result of the decision to retain income in unallocated surplus at year end 2015. 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

On March 10, 2016, the FCA adopted a final regulation to modify the regulatory capital requirements for System banks and associations. The stated objectives of the rule are as follows:

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

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

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

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

Other Matters

The Board of Directors has established a CEO Search Committee as CEO Bill Spigener has announced his intent to retire in March 2017.

FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the Financial Regulatory Reform section of the Association's 2015 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 2015 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)		March 31, 2016		December 31, 2015
		(unaudited)		*(audited)*
Assets				
Cash	**$**	**1,163**	$	4,191
Investment securities:				
Held to maturity (fair value of $8,394 and $8,265, respectively)		**8,312**		8,395
Loans		**1,550,065**		1,557,881
Allowance for loan losses		**(13,035)**		(13,099)
Net loans		**1,537,030**		1,544,782
Loans held for sale		**1,093**		3,302
Accrued interest receivable		**14,040**		15,437
Investments in other Farm Credit institutions		**22,321**		22,145
Premises and equipment, net		**16,845**		16,339
Other property owned		**4,767**		5,425
Accounts receivable		**3,872**		19,565
Other assets		**10,374**		11,599
Total assets	**$**	**1,619,817**	$	1,651,180
Liabilities				
Notes payable to AgFirst Farm Credit Bank	**$**	**1,255,414**	$	1,286,760
Accrued interest payable		**2,825**		2,870
Patronage refunds payable		**1,058**		8,144
Accounts payable		**886**		2,008
Other liabilities		**44,157**		26,779
Total liabilities		**1,304,340**		1,326,561
Commitments and contingencies (Note 8)				
Members' Equity				
Protected borrower stock		**2**		2
Capital stock and participation certificates		**8,061**		7,972
Retained earnings				
Allocated		**98,720**		116,777
Unallocated		**209,169**		200,380
Accumulated other comprehensive income (loss)		**(475)**		(512)
Total members' equity		**315,477**		324,619
Total liabilities and members' equity	**$**	**1,619,817**	$	1,651,180

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 March 31, 2016		2015
Interest Income				
Loans	**$**	**22,364**	$	21,282
Investments		**135**		139
Total interest income		**22,499**		21,421
Interest Expense				
Notes payable to AgFirst Farm Credit Bank		**8,364**		7,556
Other		**79**		30
Total interest expense		**8,443**		7,586
Net interest income		**14,056**		13,835
Provision for (reversal of allowance for) loan losses		**(94)**		(6)
Net interest income after provision for (reversal of allowance for) loan losses		**14,150**		13,841
Noninterest Income				
Loan fees		**733**		678
Fees for financially related services		**284**		249
Patronage refunds from other Farm Credit institutions		**3,479**		2,843
Gains (losses) on sales of rural home loans, net		**431**		414
Gains (losses) on sales of premises and equipment, net		**14**		22
Gains (losses) on other transactions		**(117)**		(63)
Other noninterest income		**22**		17
Total noninterest income		**4,846**		4,160
Noninterest Expense				
Salaries and employee benefits		**6,956**		7,256
Occupancy and equipment		**693**		698
Insurance Fund premiums		**449**		345
(Gains) losses on other property owned, net		**40**		7
Other operating expenses		**2,093**		1,841
Total noninterest expense		**10,231**		10,147
Income before income taxes		**8,765**		7,854
Provision for income taxes		**5**		6
Net income	**$**	**8,760**	$	7,848

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 March 31, 2016		2015
Net income	**$**	**8,760**	$ 7,848
Other comprehensive income net of tax			
Employee benefit plans adjustments		**37**	27
Comprehensive income	**$**	**8,797**	$ 7,875

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, 2014	$ 3	$ 7,527	$ 112,635	$ 187,002	$ (530)	$ 306,637
Comprehensive income				7,848	27	7,875
Capital stock/participation certificates issued/(retired), net		86				86
Retained earnings retired			(1)			(1)
Balance at March 31, 2015	$ 3	$ 7,613	$ 112,634	$ 194,850	$ (503)	$ 314,597
Balance at December 31, 2015	$ 2	$ 7,972	$ 116,777	$ 200,380	$ (512)	$ 324,619
Comprehensive income				**8,760**	**37**	**8,797**
Capital stock/participation certificates issued/(retired), net		**89**				**89**
Retained earnings retired			**(18,037)**			**(18,037)**
Patronage distribution adjustment			**(20)**	**29**		**9**
Balance at March 31, 2016	**$ 2**	**$ 8,061**	**$ 98,720**	**$ 209,169**	**$ (475)**	**$ 315,477**

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, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 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 ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent Annual Report:

- In March, 2016, the FASB issued ASU 2016-07 Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. To simplify the accounting for equity method investments, the amendments in the Update eliminate the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Earlier application is permitted. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

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:

- 2016-02 Leases (Topic 842): In February, 2016, the FASB issued an update that requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued an update that is intended to improve the recognition and measurement of financial instruments. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

- 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. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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:

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) – The amendment was adopted prospectively. There were no changes to the Association's statements of financial condition or results of operations as a result of this guidance. See Note 6, *Fair Value Measurement*, for the disclosures required by this guidance.

- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the Association's statements of financial condition or results of operations as a result of this guidance.

- 2014-15 Income Statement – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern: This amendment is effective for the annual reporting period ended December 31, 2016 and, interim and annual periods thereafter. It may require additional disclosures but will not have a material impact on the Association's financial condition or results of operations.

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:

	March 31, 2016	December 31, 2015
Real estate mortgage	$ 1,260,486	$ 1,240,201
Production and intermediate-term	225,964	253,321
Processing and marketing	4,798	4,644
Farm-related business	6,283	6,344
Rural residential real estate	50,213	50,996
Other (including Mission Related)	2,321	2,375
Total Loans	$ 1,550,065	$ 1,557,881

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 the principal balance of participation loans at periods ended:

	March 31, 2016							
	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	$ –	$ 182,623	$ –	$ 11,060	$ –	$ –	$ –	$ 193,683
Production and intermediate-term	–	38,894	1,026	11,560	1,947	–	2,973	50,454
Processing and marketing	–	8,690	–	21,679	–	–	–	30,369
Farm-related business	–	–	–	6,975	–	–	–	6,975
Total	$ –	$ 230,207	$ 1,026	$ 51,274	$ 1,947	$ –	$ 2,973	$ 281,481

	December 31, 2015							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 213,860	$ –	$ 12,453	$ –	$ –	$ –	$ 226,313
Production and intermediate-term	–	28,463	1,137	3,446	2,202	–	3,339	31,909
Processing and marketing	–	9,463	–	14,243	–	–	–	23,706
Farm-related business	–	6,875	–	6,975	–	–	–	13,850
Total	$ –	$ 258,661	$ 1,137	$ 37,117	$ 2,202	$ –	$ 3,339	$ 295,778

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:

	March 31, 2016			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 76,311	$ 238,065	$ 946,110	$ 1,260,486
Production and intermediate-term	89,705	88,348	47,911	225,964
Processing and marketing	3,056	1,161	581	4,798
Farm-related business	84	3,328	2,871	6,283
Rural residential real estate	5,034	1,901	43,278	50,213
Other (including Mission Related)	916	896	509	2,321
Total Loans	$ 175,106	$ 333,699	$ 1,041,260	$ 1,550,065
Percentage	11.30%	21.53%	67.17%	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:

	March 31, 2016	December 31, 2015
Real estate mortgage:		
Acceptable	95.88%	95.76%
OAEM	2.12	2.25
Substandard/doubtful/loss	2.00	1.99
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	96.98%	97.66%
OAEM	1.86	1.23
Substandard/doubtful/loss	1.16	1.11
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2016	December 31, 2015
Rural residential real estate:		
Acceptable	97.28%	96.49%
OAEM	1.86	1.92
Substandard/doubtful/loss	0.86	1.59
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	96.12%	96.13%
OAEM	2.06	2.06
Substandard/doubtful/loss	1.82	1.81
	100.00%	100.00%

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

	March 31, 2016					
	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	$ 5,245	$ 5,405	$ 10,650	$ 1,260,581	$ 1,271,231	$ –
Production and intermediate-term	2,111	544	2,655	226,262	228,917	–
Processing and marketing	–	–	–	4,824	4,824	–
Farm-related business	–	–	–	6,303	6,303	–
Rural residential real estate	171	128	299	50,143	50,442	–
Other (including Mission Related)	–	–	–	2,343	2,343	–
Total	$ 7,527	$ 6,077	$ 13,604	$ 1,550,456	$ 1,564,060	$ –

	December 31, 2015					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 8,106	$ 3,995	$ 12,101	$ 1,239,130	$ 1,251,231	$ –
Production and intermediate-term	1,534	621	2,155	255,306	257,461	–
Processing and marketing	–	–	–	4,657	4,657	–
Farm-related business	–	–	–	6,360	6,360	–
Rural residential real estate	492	131	623	50,546	51,169	–
Other (including Mission Related)	–	–	–	2,394	2,394	–
Total	$ 10,132	$ 4,747	$ 14,879	$ 1,558,393	$ 1,573,272	$ –

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

	March 31, 2016	December 31, 2015
Nonaccrual loans:		
Real estate mortgage	$ 11,487	$ 8,266
Production and intermediate-term	1,981	2,048
Rural residential real estate	222	379
Total	$ 13,690	$ 10,693
Accruing restructured loans:		
Real estate mortgage	$ 8,606	$ 8,164
Production and intermediate-term	1,138	1,049
Rural residential real estate	378	446
Total	$ 10,122	$ 9,659
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 23,812	$ 20,352
Other property owned	4,767	5,425
Total	$ 28,579	$ 25,777
Nonaccrual loans as a percentage of total loans	0.88%	0.69%
Nonperforming assets as a percentage of total loans and other property owned	1.84%	1.65%
Nonperforming assets as a percentage of capital	9.06%	7.94%

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.

	March 31, 2016	December 31, 2015
Impaired nonaccrual loans:		
Current as to principal and interest	$ 5,941	$ 4,614
Past due	7,749	6,079
Total	13,690	10,693
Impaired accrual loans:		
Restructured	10,122	9,659
90 days or more past due	–	–
Total	10,122	9,659
Total impaired loans	$ 23,812	$ 20,352
Additional commitments to lend	$ –	$ –

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

	March 31, 2016			Quarter Ended March 31, 2016	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 313	$ 310	$ 2	$ 293	$ 4
Production and intermediate-term	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 313	$ 310	$ 2	$ 293	$ 4
With no related allowance for credit losses:					
Real estate mortgage	$ 19,780	$ 22,568	$ –	$ 18,540	$ 256
Production and intermediate-term	3,119	3,508	–	2,924	40
Rural residential real estate	600	732	–	562	8
Total	$ 23,499	$ 26,808	$ –	$ 22,026	$ 304
Total:					
Real estate mortgage	$ 20,093	22,878	2	$ 18,833	$ 260
Production and intermediate-term	3,119	3,508	–	2,924	40
Rural residential real estate	600	732	–	562	8
Total	$ 23,812	$ 27,118	$ 2	$ 22,319	$ 308

	December 31, 2015			Year Ended December 31, 2015	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	15	16	1	16	1
Rural residential real estate	–	–	–	–	–
Total	$ 15	$ 16	$ 1	$ 16	$ 1
With no related allowance for credit losses:					
Real estate mortgage	$ 16,431	$ 19,314	$ –	$ 17,814	$ 940
Production and intermediate-term	3,082	3,533	–	3,341	176
Rural residential real estate	824	976	–	895	47
Total	$ 20,337	$ 23,823	$ –	$ 22,050	$ 1,163
Total:					
Real estate mortgage	$ 16,431	$ 19,314	$ –	$ 17,814	$ 940
Production and intermediate-term	3,097	3,549	1	3,357	177
Rural residential real estate	824	976	–	895	47
Total	$ 20,352	$ 23,839	$ 1	$ 22,066	$ 1,164

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows. Prior to issuance of the Association's 2015 Annual Report, management identified errors in classification of the loan portfolio among the various FCA loan type categories that are used to report disaggregated loan information in footnote disclosures. As discussed in Note 3, Loans and Allowance for Loan Losses, of the Bank's 2015 Annual Report, FCA loan type classifications prior to December 31, 2015 have been revised as necessary to reflect these loan type classifications, as adjusted. In the table below, activity for the quarter ended March 31, 2015 is presented as revised.

	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 December 31, 2015	$ 10,369	$ 2,177	$ 92	$ 423	$ 38	$ 13,099
Charge-offs	(49)	(25)	–	–	–	(74)
Recoveries	56	42	1	–	5	104
Provision for loan losses	209	(279)	1	(2)	(23)	(94)
Balance at March 31, 2016	$ 10,585	$ 1,915	$ 94	$ 421	$ 20	$ 13,035
Balance at December 31, 2014	$ 9,916	$ 1,957	$ 89	$ 358	$ 37	$ 12,357
Charge-offs	(108)	(90)	–	–	–	(198)
Recoveries	43	10	1	–	5	59
Provision for loan losses	78	(60)	(14)	(4)	(6)	(6)
Balance at March 31, 2015	$ 9,929	$ 1,817	$ 76	$ 354	$ 36	$ 12,212
Allowance on loans evaluated for impairment:						
Individually	$ 2	$ –	$ –	$ –	$ –	$ 2
Collectively	10,583	1,915	94	421	20	13,033
Balance at March 31, 2016	$ 10,585	$ 1,915	$ 94	$ 421	$ 20	$ 13,035
Individually	$ –	$ 1	$ –	$ –	$ –	$ 1
Collectively	10,378	2,173	115	428	4	13,098
Balance at December 31, 2015	$ 10,378	$ 2,174	$ 115	$ 428	$ 4	$ 13,099
Recorded investment in loans evaluated for impairment:						
Individually	$ 18,842	$ 2,350	$ –	$ 601	$ –	$ 21,793
Collectively	1,252,389	226,567	11,127	49,841	2,343	1,542,267
Balance at March 31, 2016	$ 1,271,231	$ 228,917	$ 11,127	$ 50,442	$ 2,343	$ 1,564,060
Individually	$ 14,639	$ 2,766	$ 181	$ 753	$ –	$ 18,339
Collectively	1,231,961	257,969	13,657	50,836	510	1,554,933
Balance at December 31, 2015	$ 1,246,600	$ 260,735	$ 13,838	$ 51,589	$ 510	$ 1,573,272

**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 March 31, 2016				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 1,791	$ 1,030	$ –	$ 2,821	
Production and intermediate-term	168	140	–	308	
Total	$ 1,959	$ 1,170	$ –	$ 3,129	
Post-modification:					
Real estate mortgage	$ 1,708	$ 1,040	$ –	$ 2,748	$ –
Production and intermediate-term	153	170	–	323	–
Total	$ 1,861	$ 1,210	$ –	$ 3,071	$ –

	Three months ended March 31, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 221	$ 2,896	$ –	$ 3,117	
Total	$ 221	$ 2,896	$ –	$ 3,117	
Post-modification:					
Real estate mortgage	$ 237	$ 2,980	$ –	$ 3,217	$ (43)
Total	$ 237	$ 2,980	$ –	$ 3,217	$ (43)

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 March 31, 2016	2015
Real estate mortgage	$ 33	$ 722
Production and intermediate-term	146	–
Total	$ 179	$ 722

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		Nonaccrual TDRs	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Real estate mortgage	$ 14,026	$ 12,689	$ 5,420	$ 4,525
Production and intermediate-term	1,550	1,868	412	819
Rural residential real estate	424	614	46	168
Total Loans	$ 16,000	$ 15,171	$ 5,878	$ 5,512
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

	March 31, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 52	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 175	$ –

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 March 31, 2016, 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:

	March 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 8,312	$ 196	$ (114)	$ 8,394	6.39%

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 8,395	$ 41	$ (171)	$ 8,265	6.27%

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

	March 31, 2016		
	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	8,312	8,394	6.39
Total	$ 8,312	$ 8,394	6.39%

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. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	March 31, 2016			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 3,488	$ (114)	$ –	$ –

	December 31, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 3,480	$ (171)	$ –	$ –

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 owned 6.73 percent of the issued stock of the Bank as of March 31, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled $31.0 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $72 million for the first three months of 2016. In addition, the Association had an investment of $5,044 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)* For the Three Months Ended March 31, 2016	2015
Employee Benefit Plans:		
Balance at beginning of period	$ (512)	$ (530)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	37	27
Net current period other comprehensive income	37	27
Balance at end of period	$ (475)	$ (503)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*	For the Three Months Ended March 31, 2016	2015	Income Statement Line Item
Defined Benefit Pension Plans:			
Periodic pension costs	$ (37)	$ (27)	See Note 7.
Net amounts reclassified	$ (37)	$ (27)	

(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 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 Three Months Ended March 31, 2016					
	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	$ 1,548	$ 1,548	$ –	$ –	$ 1,548	
Recurring Assets	$ 1,548	$ 1,548	$ –	$ –	$ 1,548	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 23,810	$ –	$ –	$ 23,810	$ 23,810	$ 28
Other property owned	4,767	–	–	4,938	4,938	(35)
Nonrecurring Assets	$ 28,577	$ –	$ –	$ 28,748	$ 28,748	$ (7)
Other Financial Instruments						
Assets:						
Cash	$ 1,163	$ 1,163	$ –	$ –	$ 1,163	
Investment securities, held-to-maturity	8,312	–	–	8,394	8,394	
Loans	1,514,313	–	–	1,522,963	1,522,963	
Other Financial Assets	$ 1,523,788	$ 1,163	$ –	$ 1,531,357	$ 1,532,520	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,255,414	$ –	$ –	$ 1,255,026	$ 1,255,026	
Other Financial Liabilities	$ 1,255,414	$ –	$ –	$ 1,255,026	$ 1,255,026	

	At or for the Year ended December 31, 2015					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,410	$ 1,410	$ –	$ –	$ 1,410	
Recurring Assets	$ 1,410	$ 1,410	$ –	$ –	$ 1,410	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 20,352	$ –	$ –	$ 20,352	$ 20,352	$ (384)
Other property owned	5,425	–	–	5,667	5,667	(342)
Nonrecurring Assets	$ 25,777	$ –	$ –	$ 26,019	$ 26,019	$ (726)
Other Financial Instruments						
Assets:						
Cash	$ 4,191	$ 4,191	$ –	$ –	$ 4,191	
Investment securities, held-to-maturity	8,395	–	–	8,265	8,265	
Loans	1,527,732	–	–	1,544,279	1,544,279	
Other Financial Assets	$ 1,540,318	$ 4,191	$ –	$ 1,552,544	$ 1,556,735	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,286,760	$ –	$ –	$ 1,283,141	$ 1,283,141	
Other Financial Liabilities	$ 1,286,760	$ –	$ –	$ 1,283,141	$ 1,283,141	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

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	$ 28,748	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:

	For the three months ended March 31, 2016	2015
Pension	$ 1,524	$ 1,527
401(k)	209	253
Other postretirement benefits	340	445
Total	$ 2,073	$ 2,225

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

	Actual YTD Through 3/31/16	Projected Contributions For Remainder of 2016	Projected Total Contributions 2016
Pension	$ 21	$ 3,204	$ 3,225
Other postretirement benefits	192	602	794
Total	$ 213	$ 3,806	$ 4,019

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, 2016.

Further details regarding employee benefit plans are contained in the 2015 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 there were none requiring disclosure through May 9, 2016, which was the date the financial statements were issued.