
MidAtlantic Farm Credit, ACA
THIRD QUARTER 2015

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CERTIFICATION

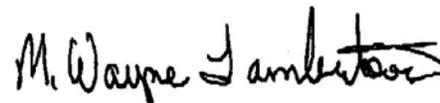
The undersigned certify that we have reviewed the September 30, 2015 quarterly report of MidAtlantic Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and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



J. Robert Frazee
Chief Executive Officer



John E. Wheeler, Jr.
Chief Financial Officer



M. Wayne Lambertson
Chairman of the Board

November 6, 2015

MidAtlantic Farm Credit, ACA

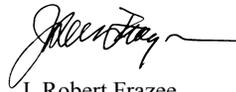
Report on Internal Control Over Financial Reporting

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

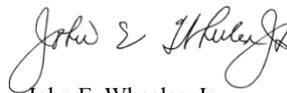
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2015. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



J. Robert Frazee
Chief Executive Officer



John E. Wheeler, Jr.
Chief Financial Officer

November 6, 2015

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for the financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well-diversified range of agricultural commodities, with cash grains, poultry and dairy representing the largest segments. In addition, the Association provides a significant amount of loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Gross loans at September 30, 2015 totaled \$2,381,628 compared to \$2,276,982 at December 31, 2014, increasing \$104,646 (4.60 percent) during the first nine months. The Association's allowance for loan losses of \$25,246 increased \$292 (1.17 percent) during the first nine months of 2015 resulting in net loans (gross loans less allowance for loan losses) of \$2,356,382 and \$2,252,028 at September 30, 2015 and December 31, 2014, respectively. Nonaccrual loans increased \$1,717 (6.87 percent) from \$25,008 at December 31, 2014 to \$26,725 at September 30, 2015 resulting in an increase in the ratio of nonaccrual loans to total loans from 1.10 percent to 1.12 percent. In addition, Other property owned increased from \$844 at December 31, 2014 (four properties) to \$1,294 at September 30, 2015 (three properties).

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

Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. During the first nine months of 2015, the net impact

of recoveries in excess of charge-offs and the transfer of \$567 from the allowance to the reserve for unfunded commitments resulted in a \$292 increase in the allowance at September 30, 2015. The allowance for loan losses represented 1.06 percent and 1.10 percent of total loans, and 94.47 percent and 99.78 percent of Nonaccrual loans, at September 30, 2015 and December 31, 2014, respectively. See also Note 2 of "Notes to the Consolidated Financial Statements".

RESULTS OF OPERATIONS

For the three months ended September 30, 2015

Net income for the three months ended September 30, 2015 totaled \$11,283, a decrease of \$987 (8.04 percent) compared to the three months ended September 30, 2014. Major changes in the components of net income are identified as follows:

- Net interest income decreased \$805 (4.77 percent) for the quarter ended September 30, 2015 compared to the same period in 2014. The decrease in net interest income is primarily attributable to (a) a \$1,063 decrease in the Association's portfolio margin primarily resulting from increased competition and (b) a \$200 decrease in net interest recognized attributable to nonaccruing loans. These decreases were partially offset by (a) a \$337 increase in the Association's earnings credit due to an increase in the Association's equity, (b) a 4.37 percent increase in the interest credit rate, and (c) a \$121 increase due to a \$106 million increase in the average daily balance of accruing portfolio volume.
- The risks identified in the Association's portfolio did not require a provision for loan losses to be recorded in the third quarters of 2015 and 2014, respectively. The Association's Nonaccrual loans increased from 1.10 percent at December 31, 2014 to 1.12 percent of the portfolio at September 30, 2015 and decreased from 1.21 percent at September 30, 2014. Nonaccrual loans at September 30, 2015 and June 30, 2015 are the lowest since the end of the second quarter of 2008 when Nonaccrual loans were \$15.8 million, or 0.82 percent of the total portfolio; this further illustrates the continuing improvement in the quality of the Association's portfolio. See also Note 2 of "Notes to the Consolidated Financial Statements".

- At September 30, 2015 and 2014, the Association accrued an estimated patronage receipt (reported as “Patronage refunds from other Farm Credit institutions” on the Consolidated Statements of Income) of \$3,524 and \$3,420, respectively, which is based on third quarter operations only; management anticipates additional income for the remaining quarter in 2015. Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The increase in the accrual in 2015 is due to the impact of an increase in loan volume.

- Noninterest income decrease in the third quarter of \$32 (0.63 percent) included (a) an decrease of \$188 in Net gains on sales of rural home loans, (b) a \$144 increase in other losses, (c) a \$9 decrease in Other noninterest income, offset by, (d) a \$186 increase in Loan fees, (e) a \$104 increase in Patronage refunds, and (f) an increase of \$19 from fees for financially related services.

- Noninterest expense for the third quarter of 2015 was \$10,152 as compared to \$9,456 for the third quarter of 2014 or an increase of \$696 (7.36 percent). The increase of \$401 (5.67 percent) for Salaries and benefits is primarily comprised of routine annual salary and benefit increases and an increase in personnel primarily related to the Farm Credit Express Program. See also Note 7 of “Notes to the Consolidated Financial Statements”.

Insurance fund premium expense increased \$64 (12.28 percent) due to the increase in the Farm Credit System Insurance Corporation (FCSIC) premium from 0.12 percent of loans outstanding in 2014 to 0.13 percent in 2015, plus the increase in volume in 2015.

Occupancy and equipment and Other operating expenses decreased \$81 (3.53 percent) from \$2,294 to \$2,213. The decreases were primarily related to director expenses, training, travel expenses, and public and member expenses offset by an increase in furniture and equipment expenses.

- The Association recorded an income tax benefit of \$147 in the third quarter of 2015 and a provision for income taxes of \$399 in the third quarter of 2014.

For the nine months ended September 30, 2015

Net income for the nine months ended September 30, 2015 totaled \$32,889 or \$1,955 (5.61 percent) lower than the nine months ended September 30, 2014. Major changes in the components of net income are identified as follows:

- Net interest income for the nine months was down \$1,842 (3.63 percent); there are several key factors impacting the results. The significant reduction in the nonaccrual loan volume as compared to the nine months of 2014 resulted in a decrease of \$406 in foregone interest income for nonaccruing loan volume. In addition, the Association realized (a) a \$770 increase in the Association’s earnings credit due to (i) a change in the index employed by AgFirst Farm Credit Bank in computing the credit and (ii) an increase in the Association’s equity, and (b) a \$1,198 increase due to the increase in accruing loan volume. These increases were substantially offset by a \$3,852 decrease in the Association’s portfolio margin due to increased competition in our marketplace.

- Charge-offs and risks identified in the Association’s loan portfolio required a reversal of allowance for loan losses of \$567 to be recorded in the first nine months of 2015 as compared to a \$125 provision in the first nine months of 2014. The \$567 was reclassified as unfunded commitments which is recorded as part of Gains (losses) on other transactions in the Noninterest Income section of the Consolidated Statements of Income.

- At the period ended September 30, 2015, the Association accrued an estimated patronage receipt of \$10,226 as compared to \$10,048 at September 30, 2014. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income.

- Noninterest income included (a) a \$178 increase in Patronage refunds, (b) a \$177 increase in net Gains on sales of rural home loans, (c) an increase of \$128 in Fees for financially related services primarily related to Crop Insurance, (d) a \$126 increase in Loans fees, (e) a \$23 increase in Other noninterest income, (f) a \$5 increase in Gains on sales of premises and equipment, and (g) a \$696 increase in Losses on other transactions primarily related to unfunded commitments discussed above.

- Noninterest expense increased \$1,430 (4.98 percent) for the first nine months of 2015 as compared to 2014. The year-to-date increase for Salaries and employee benefits of \$1,120 (5.44 percent) includes an increase of \$590 (29.96 percent) for medical benefits. The remaining Salaries and employee benefits increase of \$530 includes annual salary and incentive compensation increases, payroll related benefit expenses, and filling several open staff positions.

Insurance fund premium expense increased \$174 (11.42 percent) resulting from the FCSIC premium increase for 2015.

Occupancy and equipment and Other operating expenses decreased \$345 (4.77 percent) from \$7,231 to \$6,886 which includes expense decreases in training, technology, purchased services, cost of space, data processing, and other operating expenses which were somewhat offset by increases in director expenses, and furniture and equipment expenses.

- Gains on other property owned, net decreased \$481.
- The Association recorded a Provision for income taxes of \$406, and \$1,090, respectively, for the nine months ended September 30, 2015 and 2014.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with 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 sectors. The Association utilizes the variable rate note 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 \$1,847,504 compared to \$1,760,410 at December 31, 2014. This increase during the period of \$87,094 (4.95 percent) corresponds to the receipt of prior year Bank patronage, current year net cash generated from operating activities reduced by the increase in the Association's loan volume and by patronage payments to stockholders.

CAPITAL RESOURCES

Members' equity at September 30, 2015 totaled \$541,795, an increase of \$23,768 (4.59 percent) compared to total members' equity of \$518,027 at December 31, 2014. Total Comprehensive income of \$32,984 for the nine months ended September 30, 2015 and net member capital stock/participation certificates issued of \$121, an estimated cash patronage distribution accrual for the first nine months of 2015 totaling \$9,000, and net patronage distribution adjustment and retained earnings retired of \$337 account for the change.

Farm Credit Administration (FCA) regulations require that all Farm Credit institutions maintain a minimum permanent capital ratio of 7.0 percent and total surplus and core surplus ratios equal to 3.5 percent. 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. At September 30, 2015, the Association exceeded the minimum regulatory standard for all of the ratios as permanent capital, total surplus and core surplus ratios equaled 20.70 percent, 20.34 percent and 20.34 percent, respectively.

REGULATORY MATTERS

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

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

On September 4, 2014, the FCA published a proposed rule in the Federal Register to modify the regulatory capital requirements for System banks and associations. The initial public comment period ended on February 16, 2015. On June 15, 2015, the FCA opened 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 1-800-333-7950, or writing John E. Wheeler, Jr., Chief Financial Officer, MidAtlantic Farm Credit, ACA, 45 Aileron Court, Westminster, MD 21157-3022, or accessing the website, www.mafc.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (Listen Up) at 1-888-789-6627 or www.ListenUpReports.com

MidAtlantic Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2015 <i>(unaudited)</i>	December 31, 2014 <i>(audited)</i>
Assets		
Cash	\$ 2,250	\$ 2,615
Loans	2,381,628	2,276,982
Allowance for loan losses	(25,246)	(24,954)
Net loans	2,356,382	2,252,028
Loans held for sale	1,106	373
Accrued interest receivable	18,934	11,917
Investments in other Farm Credit institutions	25,129	25,079
Premises and equipment, net	11,888	12,220
Other property owned	1,294	844
Accounts receivable	11,098	35,123
Other assets	3,916	7,609
Total assets	\$ 2,431,997	\$ 2,347,808
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,847,504	\$ 1,760,410
Accrued interest payable	3,779	3,442
Patronage refunds payable	9,062	24,967
Accounts payable	2,893	3,386
Other liabilities	26,964	37,576
Total liabilities	1,890,202	1,829,781
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	9,864	9,743
Retained earnings		
Allocated	292,798	292,021
Unallocated	239,572	216,797
Accumulated other comprehensive income (loss)	(439)	(534)
Total members' equity	541,795	518,027
Total liabilities and members' equity	\$ 2,431,997	\$ 2,347,808

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Interest Income				
Loans	\$ 27,339	\$ 27,059	\$ 81,260	\$ 80,397
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	11,254	10,169	32,383	29,678
Net interest income	16,085	16,890	48,877	50,719
Provision for (reversal of allowance for) loan losses	—	—	(567)	125
Net interest income after provision for (reversal of allowance for) loan losses	16,085	16,890	49,444	50,594
Noninterest Income				
Loan fees	480	294	1,040	914
Fees for financially related services	1,096	1,077	2,121	1,993
Patronage refunds from other Farm Credit institutions	3,524	3,420	10,226	10,048
Gains (losses) on sales of rural home loans, net	130	318	812	635
Gains (losses) on sales of premises and equipment, net	17	52	117	112
Gains (losses) on other transactions	(80)	29	(603)	93
Other noninterest income	36	45	311	288
Total noninterest income	5,203	5,235	14,024	14,083
Noninterest Expense				
Salaries and employee benefits	7,461	7,060	21,698	20,578
Occupancy and equipment	680	583	1,808	1,755
Insurance Fund premiums	585	521	1,697	1,523
(Gains) losses on other property owned, net	(107)	(419)	(108)	(589)
Other operating expenses	1,533	1,711	5,078	5,476
Total noninterest expense	10,152	9,456	30,173	28,743
Income before income taxes	11,136	12,669	33,295	35,934
Provision (benefit) for income taxes	(147)	399	406	1,090
Net income	\$ 11,283	\$ 12,270	\$ 32,889	\$ 34,844

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

MidAtlantic Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2015	2014	2015	2014
Net income	\$ 11,283	\$ 12,270	\$ 32,889	\$ 34,844
Other comprehensive income net of tax				
Employee benefit plans adjustments	<u>32</u>	<u>16</u>	<u>95</u>	<u>48</u>
Comprehensive income	<u>\$ 11,315</u>	<u>\$ 12,286</u>	<u>\$ 32,984</u>	<u>\$ 34,892</u>

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

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

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2013	\$ 9,656	\$ 271,212	\$ 208,798	\$ (377)	\$ 489,289
Comprehensive income			34,844	48	34,892
Capital stock/participation certificates issued/(retired), net	62				62
Patronage distribution					
Cash			(14,250)		(14,250)
Retained earnings retired		(317)	54		(263)
Patronage distribution adjustment		(2,091)	1,677		(414)
Balance at September 30, 2014	\$ 9,718	\$ 268,804	\$ 231,123	\$ (329)	\$ 509,316
Balance at December 31, 2014	\$ 9,743	\$ 292,021	\$ 216,797	\$ (534)	\$ 518,027
Comprehensive income			32,889	95	32,984
Capital stock/participation certificates issued/(retired), net	121				121
Patronage distribution					
Cash			(9,000)		(9,000)
Retained earnings retired		(190)	61		(129)
Patronage distribution adjustment		967	(1,175)		(208)
Balance at September 30, 2015	\$ 9,864	\$ 292,798	\$ 239,572	\$ (439)	\$ 541,795

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

MidAtlantic 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 MidAtlantic 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.

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

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

Note 2 — Loans and Allowance for Loan Losses

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

A summary of loans outstanding at period end follows:

	September 30, 2015	December 31, 2014
Real estate mortgage	\$ 1,408,984	\$ 1,345,426
Production and intermediate-term	769,175	749,249
Loans to cooperatives	5,484	1,457
Processing and marketing	61,242	47,803
Farm-related business	61,894	64,004
Communication	43,160	35,747
Energy and water/waste disposal	3,074	4,677
Rural residential real estate	28,615	28,619
Total Loans	\$ 2,381,628	\$ 2,276,982

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	\$ 11,240	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 11,240	\$ —
Production and intermediate-term	29,404	48,696	9,772	14,341	47,544	532	86,720	63,569
Loans to cooperatives	—	—	5,520	—	—	—	5,520	—
Processing and marketing	42,456	—	9,152	—	7,292	—	58,900	—
Farm-related business	667	—	23,386	—	—	—	24,053	—
Communication	3,277	—	39,985	—	—	—	43,262	—
Energy and water/waste disposal	—	—	3,080	—	—	—	3,080	—
Total	\$ 87,044	\$ 48,696	\$ 90,895	\$ 14,341	\$ 54,836	\$ 532	\$ 232,775	\$ 63,569

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	\$ 10,587	\$ 300	\$ —	\$ —	\$ —	\$ —	\$ 10,587	\$ 300
Production and intermediate-term	32,406	39,802	13,529	17,579	32,176	—	78,111	57,381
Loans to cooperatives	—	—	1,470	—	—	—	1,470	—
Processing and marketing	30,258	—	6,551	—	8,203	—	45,012	—
Farm-related business	—	—	23,497	—	2,844	—	26,341	—
Communication	—	—	35,814	—	—	—	35,814	—
Energy and water/waste disposal	—	—	4,684	—	—	—	4,684	—
Total	\$ 73,251	\$ 40,102	\$ 85,545	\$ 17,579	\$ 43,223	\$ —	\$ 202,019	\$ 57,681

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	\$ 39,446	\$ 483,575	\$ 885,963	\$ 1,408,984
Production and intermediate-term	184,461	391,274	193,440	769,175
Loans to cooperatives	–	5,484	–	5,484
Processing and marketing	7,342	26,668	27,232	61,242
Farm-related business	6,320	41,809	13,765	61,894
Communication	–	37,176	5,984	43,160
Energy and water/waste disposal	–	–	3,074	3,074
Rural residential real estate	2,876	8,589	17,150	28,615
Total Loans	\$ 240,445	\$ 994,575	\$ 1,146,608	\$ 2,381,628
Percentage	10.10%	41.76%	48.14%	100.00%

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

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

	September 30, 2015	December 31, 2014		September 30, 2015	December 31, 2014
Real estate mortgage:			Communication:		
Acceptable	94.74%	93.40%	Acceptable	100.00%	100.00%
OAEM	2.94	3.73	OAEM	0.00	0.00
Substandard/doubtful/loss	2.32	2.87	Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Energy and water/waste disposal:		
Acceptable	95.03%	91.82%	Acceptable	100.00%	100.00%
OAEM	2.06	4.43	OAEM	0.00	0.00
Substandard/doubtful/loss	2.91	3.75	Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			Rural residential real estate:		
Acceptable	100.00%	99.21%	Acceptable	89.66%	88.26%
OAEM	0.00	0.79	OAEM	5.55	6.36
Substandard/doubtful/loss	0.00	0.00	Substandard/doubtful/loss	4.79	5.38
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Total Loans:		
Acceptable	99.91%	99.91%	Acceptable	95.15%	93.20%
OAEM	0.09	0.09	OAEM	2.48	3.74
Substandard/doubtful/loss	0.00	0.00	Substandard/doubtful/loss	2.37	3.06
	100.00%	100.00%		100.00%	100.00%
Farm-related business:					
Acceptable	99.99%	97.94%			
OAEM	0.00	0.05			
Substandard/doubtful/loss	0.01	2.01			
	100.00%	100.00%			

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

	September 30, 2015					Recorded Investment 90 Days or More Past Due and Accruing Interest
	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	
Real estate mortgage	\$ 6,128	\$ 9,993	\$ 16,121	\$ 1,404,891	\$ 1,421,012	\$ 362
Production and intermediate-term	3,238	7,851	11,089	764,399	775,488	84
Loans to cooperatives	–	–	–	5,490	5,490	–
Processing and marketing	–	–	–	61,274	61,274	–
Farm-related business	79	–	79	62,179	62,258	–
Communication	–	–	–	43,199	43,199	–
Energy and water/waste disposal	–	–	–	3,108	3,108	–
Rural residential real estate	624	315	939	27,794	28,733	–
Total	\$ 10,069	\$ 18,159	\$ 28,228	\$ 2,372,334	\$ 2,400,562	\$ 446

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	\$ 5,685	\$ 9,103	\$ 14,788	\$ 1,338,003	\$ 1,352,791	\$ —
Production and intermediate-term	3,381	7,234	10,615	742,862	753,477	257
Loans to cooperatives	—	—	—	1,460	1,460	—
Processing and marketing	—	349	349	47,512	47,861	—
Farm-related business	78	—	78	64,055	64,133	—
Communication	—	—	—	35,751	35,751	—
Energy and water/waste disposal	—	—	—	4,717	4,717	—
Rural residential real estate	565	110	675	28,034	28,709	—
Total	\$ 9,709	\$ 16,796	\$ 26,505	\$ 2,262,394	\$ 2,288,899	\$ 257

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	\$ 13,772	\$ 11,905
Production and intermediate-term	12,296	12,446
Farm-related business	—	(1)
Rural residential real estate	657	658
Total	\$ 26,725	\$ 25,008
Accruing restructured loans:		
Real estate mortgage	\$ 5,909	\$ 6,743
Production and intermediate-term	9,965	11,961
Rural residential real estate	759	894
Total	\$ 16,633	\$ 19,598
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 362	\$ —
Production and intermediate-term	84	257
Total	\$ 446	\$ 257
Total nonperforming loans	\$ 43,804	\$ 44,863
Other property owned	1,294	844
Total nonperforming assets	\$ 45,098	\$ 45,707
Nonaccrual loans as a percentage of total loans	1.12%	1.10%
Nonperforming assets as a percentage of total loans and other property owned	1.89%	2.01%
Nonperforming assets as a percentage of capital	8.32%	8.82%

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	\$ 8,049	\$ 6,956
Past due	18,676	18,052
Total	26,725	25,008
Impaired accrual loans:		
Restructured	16,633	19,598
90 days or more past due	446	257
Total	17,079	19,855
Total impaired loans	\$ 43,804	\$ 44,863

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

Impaired loans	September 30, 2015			Quarter Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	\$ 8,107	\$ 8,784	\$ 1,232	\$ 7,940	\$ 22	\$ 8,088	\$ 225
Production and intermediate-term	8,566	11,063	3,363	8,389	24	8,546	238
Processing and marketing	—	—	—	—	—	—	—
Farm-related business	—	—	—	—	—	—	—
Rural residential real estate	657	801	194	643	2	655	18
Total	\$ 17,330	\$ 20,648	\$ 4,789	\$ 16,972	\$ 48	\$ 17,289	\$ 481
With no related allowance for credit losses:							
Real estate mortgage	\$ 11,936	\$ 13,780	\$ —	\$ 11,689	\$ 33	\$ 11,908	\$ 331
Production and intermediate-term	13,779	15,811	—	13,496	38	13,747	382
Processing and marketing	—	2,107	—	—	—	—	—
Farm-related business	—	4	—	—	—	—	—
Rural residential real estate	759	869	—	743	2	757	21
Total	\$ 26,474	\$ 32,571	\$ —	\$ 25,928	\$ 73	\$ 26,412	\$ 734
Total:							
Real estate mortgage	\$ 20,043	\$ 22,564	\$ 1,232	\$ 19,629	\$ 55	\$ 19,996	\$ 556
Production and intermediate-term	22,345	26,874	3,363	21,885	62	22,293	620
Processing and marketing	—	2,107	—	—	—	—	—
Farm-related business	—	4	—	—	—	—	—
Rural residential real estate	1,416	1,670	194	1,386	4	1,412	39
Total	\$ 43,804	\$ 53,219	\$ 4,789	\$ 42,900	\$ 121	\$ 43,701	\$ 1,215

Impaired loans	December 31, 2014			Year Ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	\$ 7,019	\$ 8,203	\$ 1,560	\$ 7,072	\$ 302
Production and intermediate-term	5,954	7,191	2,776	5,999	256
Processing and marketing	—	—	—	—	—
Farm-related business	—	—	—	—	—
Rural residential real estate	658	847	174	663	28
Total	\$ 13,631	\$ 16,241	\$ 4,510	\$ 13,734	\$ 586
With no related allowance for credit losses:					
Real estate mortgage	\$ 11,629	\$ 12,885	\$ —	\$ 11,716	\$ 499
Production and intermediate-term	18,710	22,467	—	18,851	804
Processing and marketing	—	3,045	—	—	—
Farm-related business	(1)	4	—	(1)	—
Rural residential real estate	894	1,007	—	901	39
Total	\$ 31,232	\$ 39,408	\$ —	\$ 31,467	\$ 1,342
Total:					
Real estate mortgage	\$ 18,648	\$ 21,088	\$ 1,560	\$ 18,788	\$ 801
Production and intermediate-term	24,664	29,658	2,776	24,850	1,060
Processing and marketing	—	3,045	—	—	—
Farm-related business	(1)	4	—	(1)	—
Rural residential real estate	1,552	1,854	174	1,564	67
Total	\$ 44,863	\$ 55,649	\$ 4,510	\$ 45,201	\$ 1,928

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

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at June 30, 2015	\$ 7,868	\$ 14,778	\$ 1,805	\$ 210	\$ 11	\$ 565	\$ 25,237
Charge-offs	—	—	—	—	—	—	—
Recoveries	—	6	—	—	—	3	9
Provision for loan losses	627	782	(1,303)	(59)	(4)	(43)	—
Balance at September 30, 2015	\$ 8,495	\$ 15,566	\$ 502	\$ 151	\$ 7	\$ 525	\$ 25,246
Balance at December 31, 2014	\$ 6,306	\$ 16,778	\$ 1,321	\$ 100	\$ 9	\$ 440	\$ 24,954
Charge-offs	(96)	(166)	—	—	—	—	(262)
Recoveries	11	119	981	—	—	10	1,121
Provision for loan losses	2,274	(1,165)	(1,800)	51	(2)	75	(567)
Balance at September 30, 2015	\$ 8,495	\$ 15,566	\$ 502	\$ 151	\$ 7	\$ 525	\$ 25,246
Balance at June 30, 2014	\$ 5,906	\$ 17,884	\$ 1,232	\$ 94	\$ 8	\$ 663	\$ 25,787
Charge-offs	—	(29)	—	—	—	(85)	(114)
Recoveries	17	29	(558)	—	—	4	(508)
Provision for loan losses	281	(748)	575	2	1	(111)	—
Balance at September 30, 2014	\$ 6,204	\$ 17,136	\$ 1,249	\$ 96	\$ 9	\$ 471	\$ 25,165
Balance at December 31, 2013	\$ 5,894	\$ 15,797	\$ 1,219	\$ 119	\$ 11	\$ 690	\$ 23,730
Charge-offs	(159)	(131)	—	—	—	(85)	(375)
Recoveries	35	164	1,476	—	—	10	1,685
Provision for loan losses	434	1,306	(1,446)	(23)	(2)	(144)	125
Balance at September 30, 2014	\$ 6,204	\$ 17,136	\$ 1,249	\$ 96	\$ 9	\$ 471	\$ 25,165
Allowance on loans evaluated for impairment:							
Individually	\$ 1,232	\$ 3,363	\$ —	\$ —	\$ —	\$ 194	\$ 4,789
Collectively	7,263	12,203	502	151	7	331	20,457
Balance at September 30, 2015	\$ 8,495	\$ 15,566	\$ 502	\$ 151	\$ 7	\$ 525	\$ 25,246
Individually	\$ 1,560	\$ 2,776	\$ —	\$ —	\$ —	\$ 174	\$ 4,510
Collectively	4,746	14,002	1,321	100	9	266	20,444
Balance at December 31, 2014	\$ 6,306	\$ 16,778	\$ 1,321	\$ 100	\$ 9	\$ 440	\$ 24,954
Recorded investment in loans evaluated for impairment:							
Individually	\$ 13,772	\$ 12,296	\$ —	\$ —	\$ —	\$ 657	\$ 26,725
Collectively	1,407,240	763,192	129,022	43,199	3,108	28,076	2,373,837
Balance at September 30, 2015	\$ 1,421,012	\$ 775,488	\$ 129,022	\$ 43,199	\$ 3,108	\$ 28,733	\$ 2,400,562
Individually	\$ 11,905	\$ 12,446	\$ (1)	\$ —	\$ —	\$ 658	\$ 25,008
Collectively	1,340,886	741,031	113,455	35,751	4,717	28,051	2,263,891
Balance at December 31, 2014	\$ 1,352,791	\$ 753,477	\$ 113,454	\$ 35,751	\$ 4,717	\$ 28,709	\$ 2,288,899

*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.

Outstanding Recorded Investment	Three Months Ended September 30, 2015				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 21	\$ —	\$ —	\$ 21	
Production and intermediate-term	368	2,294	—	2,662	
Rural residential real estate	—	171	—	171	
Total	\$ 389	\$ 2,465	\$ —	\$ 2,854	
Post-modification:					
Real estate mortgage	\$ 21	\$ —	\$ —	\$ 21	\$ —
Production and intermediate-term	370	2,291	—	2,661	—
Rural residential real estate	—	171	—	171	—
Total	\$ 391	\$ 2,462	\$ —	\$ 2,853	\$ —

Nine Months Ended September 30, 2015					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 184	\$ 1,854	\$ –	\$ 2,038	
Production and intermediate-term	610	8,157	–	8,767	
Rural residential real estate	–	171	–	171	
Total	\$ 794	\$ 10,182	\$ –	\$ 10,976	
Post-modification:					
Real estate mortgage	\$ 171	\$ 1,935	\$ –	\$ 2,106	\$ –
Production and intermediate-term	612	8,183	–	8,795	–
Rural residential real estate	–	171	–	171	–
Total	\$ 783	\$ 10,289	\$ –	\$ 11,072	\$ –

Three months ended September 30, 2014					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 793	\$ –	\$ –	\$ 793	
Production and intermediate-term	78	1,763	2	1,843	
Total	\$ 871	\$ 1,763	\$ 2	\$ 2,636	
Post-modification:					
Real estate mortgage	\$ 793	\$ –	\$ –	\$ 793	–
Production and intermediate-term	78	1,763	2	1,843	–
Total	\$ 871	\$ 1,763	\$ 2	\$ 2,636	\$ –

Nine months ended September 30, 2014					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 988	\$ –	\$ –	\$ 988	
Production and intermediate-term	78	9,891	2	9,971	
Rural residential real estate	255	14	–	269	
Total	\$ 1,321	\$ 9,905	\$ 2	\$ 11,228	
Post-modification:					
Real estate mortgage	\$ 1,672	\$ –	\$ –	\$ 1,672	\$ –
Production and intermediate-term	78	9,887	2	9,967	–
Rural residential real estate	254	14	–	268	–
Total	\$ 2,004	\$ 9,901	\$ 2	\$ 11,907	\$ –

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,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Production and intermediate-term	\$ –	\$ 575	\$ 1,862	\$ 575
Rural residential real estate	34	11	104	11
Total	\$ 34	\$ 586	\$ 1,966	\$ 586

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	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Real estate mortgage	\$ 8,207	\$ 8,806	\$ 2,298	\$ 2,063
Production and intermediate-term	15,352	17,730	5,387	5,769
Rural residential real estate	803	905	44	11
Total Loans	\$ 24,362	\$ 27,441	\$ 7,729	\$ 7,843
Additional commitments to lend	\$ –	\$ 4		

The following table presents information as of period end:

	<u>September 30, 2015</u>	
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$	432
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$	72

Note 3 — Investments

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owns 9.60 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 \$1,073 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)

	<u>Changes in Accumulated Other Comprehensive Income by Component (a)</u>			
	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Employee Benefit Plans:				
Balance at beginning of period	\$ (471)	\$ (345)	\$ (534)	\$ (377)
Other comprehensive income before reclassifications	-	-	-	-
Amounts reclassified from AOCI	32	16	95	48
Net current period other comprehensive income	32	16	95	48
Balance at end of period	\$ (439)	\$ (329)	\$ (439)	\$ (329)

	<u>Reclassifications Out of Accumulated Other Comprehensive Income (b)</u>				<u>Income Statement Line Item</u>
	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (32)	\$ (16)	\$ (95)	\$ (48)	See Note 7.
Net amounts reclassified	\$ (32)	\$ (16)	\$ (95)	\$ (48)	

(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	\$ 1,607	\$ 1,607	\$ –	\$ –	\$ 1,607	
Recurring Assets	\$ 1,607	\$ 1,607	\$ –	\$ –	\$ 1,607	
Liabilities:						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 39,015	\$ –	\$ –	\$ 39,015	\$ 39,015	\$ 581
Other property owned	1,294	–	–	1,441	1,441	179
Nonrecurring Assets	\$ 40,309	\$ –	\$ –	\$ 40,456	\$ 40,456	\$ 760
Other Financial Instruments						
Assets:						
Cash	\$ 2,250	\$ 2,250	\$ –	\$ –	\$ 2,250	
Loans	2,318,473	–	–	2,304,203	2,304,203	
Other Financial Assets	\$ 2,320,723	\$ 2,250	\$ –	\$ 2,304,203	\$ 2,306,453	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,847,504	\$ –	\$ –	\$ 1,845,315	\$ 1,845,315	
Other Financial Liabilities	\$ 1,847,504	\$ –	\$ –	\$ 1,845,315	\$ 1,845,315	

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	\$ 1,626	\$ 1,626	\$ –	\$ –	\$ 1,626	
Recurring Assets	\$ 1,626	\$ 1,626	\$ –	\$ –	\$ 1,626	
Liabilities:						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 40,353	\$ –	\$ –	\$ 40,353	\$ 40,353	\$ (1,144)
Other property owned	844	–	–	940	940	776
Nonrecurring Assets	\$ 41,197	\$ –	\$ –	\$ 41,293	\$ 41,293	\$ (368)
Other Financial Instruments						
Assets:						
Cash	\$ 2,615	\$ 2,615	\$ –	\$ –	\$ 2,615	
Loans	2,212,048	–	–	2,202,991	2,202,991	
Other Financial Assets	\$ 2,214,663	\$ 2,615	\$ –	\$ 2,202,991	\$ 2,205,606	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,760,410	\$ –	\$ –	\$ 1,747,340	\$ 1,747,340	
Other Financial Liabilities	\$ 1,760,410	\$ –	\$ –	\$ 1,747,340	\$ 1,747,340	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements at September 30, 2015

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 40,456	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
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	\$ 1,510	\$ 1,501	\$ 4,530	\$ 4,504
401(k)	221	164	643	462
Other postretirement benefits	401	237	1,202	711
Total	\$ 2,132	\$ 1,902	\$ 6,375	\$ 5,677

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	\$ 9	\$ 5,933	\$ 5,942
Other postretirement benefits	402	138	540
Total	\$ 411	\$ 6,071	\$ 6,482

Contributions in the previous 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 \$11,895 which will be recorded in October 2015 as patronage refunds from other Farm Credit institutions.