
Puerto Rico Farm Credit, ACA
THIRD QUARTER 2015

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CERTIFICATION

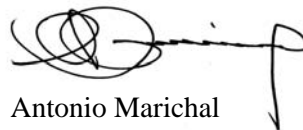
The undersigned certify that we have reviewed the September 30, 2015 quarterly report of Puerto Rico Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and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



Pablo A. Rodríguez
Chairman of Board of Directors



Ricardo L. Fernandez
Chief Executive Officer



Antonio Marichal
Member of Board of Directors
Chairman of the Audit Committee

November 6, 2015

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.



Ricardo L. Fernández
Chief Executive Officer

November 6, 2015

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

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Puerto Rico Farm Credit, ACA (Association) for the nine months ended September 30, 2015. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, and the 2014 annual report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing short and intermediate-term loans and long-term real estate mortgage loans. The Association also maintains a portfolio of purchased loans, originated by other Farm Credit System entities and non-system entities. The Association's predominant chartered territory (CT) agricultural commodities were dairy, fruits (including plantains and coffee) and rural home which totaled approximately \$85,792 or 51.01 percent of the gross principal balance, net of sold loans, at September 30, 2015.

The outstanding loan volume of the Association at September 30, 2015 was \$159,732, a decrease of \$6,722 or 4.04 percent as compared to \$166,454 at December 31, 2014. Loans originated within the Association's chartered territory were lower by approximately \$6,553 and participation loans purchased decreased by approximately \$169.

Net loans outstanding at September 30, 2015 totaled \$158,348 as compared to \$164,470 at December 31, 2014. Net loans made up 96.09 percent of total assets at September 30, 2015, as compared to 95.53 percent at December 31, 2014.

Non-accrual loans totaled \$6,543 or 4.10 percent of total loans at September 30, 2015, compared to \$7,759 or 4.66 percent of total loans at December 31, 2014. Nonaccrual loans decreased \$1,216 during the first nine months of 2015. The decrease in non-accrual loan volume was primarily the result of a \$478 participation loan transferred to other property owned (OPO) and \$422 charge offs recognized on chartered territory loans, among other non-recurring repayments; partially offset by \$358 outstanding volume on chartered territory loans transferred to nonaccrual. Management expects that a large nonaccrual loan will be resolved during the rest of the year.

The overall delinquency rate for the chartered territory accruing loan portfolio continues to remain stable. Management believes that high risk loans will decrease by the end of the year.

The allowance for loan losses decreased \$600 to \$1,384 at September 30, 2015 from \$1,984 at December 31, 2014. The decrease was primarily due to \$562 reduction in the general allowance for chartered territory loans. Management will continue to monitor certain risks, such as collateral risk and other factors that may increase the risk of the portfolio, such as climate conditions, government fiscal policy and overall economic conditions in the island. The total allowance for loan losses to outstanding loan volume decreased to 0.87 percent at September 30, 2015 from 1.19 percent at December 31, 2014.

During the first nine months of 2015, charge-offs recognized totaled \$422, mainly due to collateral value updates on various nonaccrual chartered territory loans. The Association is actively marketing acquired properties and may incur additional accounting losses or gains, as sales are completed.

Prevailing economic indicators signal continued weakness in the island's economy. The government does not have the ability to stimulate the economy as it is burdened with high debt levels. As the government attempts to restructure its debt, it is foreseeable that difficult decisions will be made and economic recovery will be slow to occur. On the other hand, the US economic conditions continue improving with moderate economic growth expected in fiscal 2015 and 2016.

The dairy industry's production has decreased slightly year-to-date with production below the previous year. The new administrative order signed by the industry administrator in July 2014 provides farmers with improved margins and has helped provide much needed liquidity to some farmers. The Association continues to monitor events within the industry and their potential impact on the dairy portfolio. The Association lends over 39 percent of chartered territory loans to this industry and continues to execute risk management practices to reduce overall risk.

The state-side participation loan portfolio has experienced stability in real estate for "land-in-transition" and "real estate development". Only one loan remains in the participation loan portfolio. Management continues to work together with other associations to collect on this loan.

The Association will continue to search for opportunities to fulfill its public mission. The Board of Directors and management remain cautious of the Association's ability to

quickly grow the portfolio under the prevailing economic environment.

Management will focus on targeted marketing to viable farmers in sectors demonstrating the ability to grow and remain competitive in a changing marketplace.

RESULTS OF OPERATIONS

For the three months ended September 30, 2015

The Association recorded a net loss for the three months ended September 30, 2015 of \$277 as compared to net income of \$508 for the same period in 2014. This \$785 decrease in net income is primarily attributed to an increase in the provision for loan losses of \$555 along with an increase in noninterest expense resulting from one-time severance payments recorded in salaries and benefits.

Net interest income was \$1,246 for the three months ended September 30, 2015 compared to \$1,183 for the same period in 2014. The increase of \$63 is attributed to an increase in average loan volume outstanding during the period in 2015 compared to 2014 along with increased nonaccrual loan income.

Noninterest income for the three months ended September 30, 2015 totaled \$221 compared to \$264 for the same period of 2014, resulting in a decrease of \$43 or 16.29 percent. This decrease was mainly due to a \$55 provision for unfunded commitments recorded in losses in other transactions partially offset by \$24 decline in losses on sales of premises and equipment.

Noninterest expense was \$1,420 for the three months ended September 30, 2015 as compared to \$1,170 for the same period in 2014, resulting in an increase of \$250 or 21.37 percent. The increase was primarily due to an increase of \$256 in salaries and benefits due to one-time severance payments.

For the nine months ended September 30, 2015

Net income for the nine months ended September 30, 2015 totaled \$538 compared to \$670 for the same period in 2014, a decrease of \$132 or 19.70 percent. The decrease is primarily the result of an increase in noninterest expense resulting from one-time severance payments recorded in salaries and benefits offset by a reduction in the provision for loan losses.

Net interest income increased \$36 for the nine months ended September 30, 2015, as compared to the same period of 2014. This increase is attributed to an increase in average loan volume outstanding during the period in 2015 compared to 2014 offset by decreased nonaccrual loan income.

Noninterest income for the nine months ended September 30, 2015 was \$646 compared to \$812 for the same period of 2014, resulting in a decrease of \$166 or 20.44 percent. This decrease was primarily attributable to an increase in losses on other

transactions related to a provision for unfunded commitments along with an impairment loss of \$40 on other than temporary investments.

Noninterest expense for the nine months ended September 30, 2015 totaled \$3,901 as compared to \$3,632 for the same period of 2014, an increase of \$269 or 7.41 percent. This increase is primarily related to an increase of \$135 in salaries and employee benefits due to one-time severance payments and an increase of \$260 in other operating expenses partially offset by a decrease in losses of \$101 on other property owned.

Although the Association is subject to federal income tax, the Association does not expect to incur a federal tax liability in 2015 due to the taxable loss carryforward. No provision for income taxes has been recognized in 2015.

Key Results of Operations Ratios

	Annualized for the nine months ended 9/30/15	For the year ended 12/31/14
Return on Average Assets	0.43 %	2.34 %
Return on Average Equity	1.37 %	7.87 %
Net Interest Income as a Percentage of Average Earning Assets (Includes Nonaccruals)	2.94 %	2.92 %

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

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 funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate notes. The variable rate notes are utilized by the Association to fund variable rate loan advances and operating fund requirements. The fixed rate notes are used specifically to fund fixed rate loan advances made by the Association.

The total notes payable to the Bank at September 30, 2015 was \$110,529 as compared to \$118,626 at December 31, 2014. The decrease of \$8,097 or 6.83 percent is primarily due to a decline in loan volume outstanding during the period.

See Note 4, *Debt*, in the Notes to the Consolidated Financial Statements for additional information on the status of compliance with requirements under the General Financing Agreement.

The Association had no lines of credit outstanding with third parties as of September 30, 2015.

Funds Management

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers variable and fixed rate loan products which are competitively priced according to local market rates. Variable rate loans are generally indexed to either the Prime rate or the London Interbank Offered Rate (LIBOR). The majority of the interest rate risk in the Association balance sheet is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control interest rate risk associated with the loan portfolio.

CAPITAL RESOURCES

Total members' equity at September 30, 2015 increased by \$524 or 1.01 percent to \$52,421 from the December 31, 2014 total of \$51,897. The increase was primarily attributable to the year-to-date net income during the period partially offset by the decrease of capital stock and participation certificates.

Total capital stock and participation certificates were \$506 at September 30, 2015 compared to \$520 at December 31, 2014. The decrease of \$14 was the net result of refunding more stock to non-borrowing stockholders than new stockholders purchasing capital stock or participation certificates.

Unallocated retained earnings were \$51,915 at September 30, 2015 for an increase of \$538 or 1.05 percent from December 31, 2014 when unallocated retained earnings totaled \$51,377. The increase was due to year-to-date net income during the period.

The Association's regulatory permanent capital ratio at September 30, 2015 was 35.24 percent compared to 32.98 percent at December 31, 2014. The Association's total surplus and core surplus ratios were both 34.89 percent at September 30, 2015. 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.

Key financial condition ratios were as follows:

	9/30/15	12/31/14
Total Members' Equity to Asset	31.81%	30.14%
Debt to Total Members' Equity	2.14	2.32

REGULATORY MATTERS

FCA Supervisory Agreement

On March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement supersedes FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporates certain requirements from these letters. The Supervisory Agreement requires the Board of Directors to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibits the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, high turnover in senior management, perceived weaknesses in board governance, and, reduced earnings and liquidity.

The Board of Directors and the Association have worked together to reach significant milestones. The regulator has provided the Board of Directors several interim progress reports on compliance with the SA and delivered a report of examination to the Board of Directors as of December 31, 2014. The Association has achieved full compliance in 14 out of 17 items and substantial compliance in 3 out of 17 items. Some of the results achieved in compliance with the agreement include the following:

- Hiring a board consultant and working with the consultant to assist the Board in fulfilling its fiduciary duties and improving board operations and governance.
- Updating its board committee charters, undergoing several training sessions and changing leadership to improve governance of the Association.
- Revising the director candidate nominating procedures to qualify new candidates, which led to stockholders electing two new directors to the Board in 2012.
- Hiring a new CEO beginning on February 1, 2011 to lead the Association after the retirement of the previous CEO on September 30, 2010.
- Building a cohesive senior management team.
- Overseeing the implementation of updated collateral risk management policies and procedures that are in line with best practices in the industry.
- Improving the methodology used to calculate the Allowance for Loan Losses of the Association.

- Hiring a specialized third party auditor that assessed the capital markets portfolio credit risk and helped, strengthened credit policies and procedures.
- Establishing a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the SA.
- Ensuring that FCA's recommendations are incorporated in the various action plans.
- Reviewing the Association's internal audit plan to focus on areas where perceived weaknesses were identified.
- Establishing a risk assessment process to assess risks and controls in the ACA.
- Establishing an asset quality improvement plan to monitor management efforts in managing high risk loans.
- Revising the business plan to establish strategic priorities and to comply with FCA regulations governing business planning.
- Establishing a human capital plan and succession plan to assist in the long-term success of the Association.
- Revising board policies on a quarterly basis to guide management in conducting day to day operations.
- Enhancing the participation's portfolio credit underwriting and administration controls.

All required measures have not been achieved or completed as of the date of this report and the Board of Directors continues to work with the management team in improving the areas identified in the Supervisory Agreement. Besides the ongoing corrective actions already mentioned, other actions to be taken target the following areas:

- Maintain oversight over internal controls.
- Continue executing strategies to grow the Association's loan portfolio with high quality loans to improve asset quality and, enhance earnings and liquidity.
- Continue improving the preparation and documentation of the income approach in appraisals.

The Board of Directors will continue engaging a board consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement. Both the Board of Directors and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

The Association remained under written supervisory agreement as of the date of this report.

Other Matters

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and

associations. The public comment period ended on October 23, 2014. The stated objectives of the proposed rule are as follows:

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

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

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

During the third quarter of 2015, the Association entered into an agreement with and began receiving certain standard and as-requested optional or negotiated services from Farm Credit of Florida, ACA for a fee. These services include, but do not fully cover and are not limited to, accounting, reporting, risk management, human resources and, loan on-boarding and servicing. The agreement is expected to leverage synergies and realize operating efficiencies and savings for both institutions. Both institutions are required to meet specified obligations under the agreement, which is automatically renewable for a one year term, unless terminated by either institution with 180 days prior written notice or sooner if specified obligations are not satisfied.

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 its website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-981-3323, or writing Ricardo L. Fernández, CEO, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936-3649, or accessing the website, www.puertoricofarmcredit.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 Association.

Puerto Rico 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	\$ 240	\$ 292
Loans	159,732	166,454
Allowance for loan losses	(1,384)	(1,984)
Net loans	158,348	164,470
Other investments	—	40
Accrued interest receivable	661	576
Investments in other Farm Credit institutions	1,624	1,624
Premises and equipment, net	1,007	984
Other property owned	1,898	1,484
Accounts receivable	728	2,348
Other assets	293	346
Total assets	\$ 164,799	\$ 172,164
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 110,529	\$ 118,626
Accrued interest payable	154	161
Patronage refunds payable	—	800
Accounts payable	525	358
Other liabilities	1,170	322
Total liabilities	112,378	120,267
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	506	520
Unallocated retained earnings	51,915	51,377
Total members' equity	52,421	51,897
Total liabilities and members' equity	\$ 164,799	\$ 172,164

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

Puerto Rico Farm Credit, ACA
Consolidated Statements of Operations

(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	\$ 1,709	\$ 1,659	\$ 5,016	\$ 5,026
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	463	476	1,401	1,447
Net interest income	1,246	1,183	3,615	3,579
Provision for (reversal of allowance for) loan losses	324	(231)	(178)	89
Net interest income after provision for (reversal of allowance for) loan losses	922	1,414	3,793	3,490
Noninterest Income				
Loan fees	44	28	90	78
Fees for financially related services	—	1	1	2
Patronage refunds from other Farm Credit institutions	218	231	670	689
Gains (losses) on sales of premises and equipment, net	—	(24)	—	(24)
Gains (losses) on other transactions	(55)	—	(137)	6
Total other-than-temporary impairment losses on investments	—	—	(40)	—
Other noninterest income	14	28	62	61
Total noninterest income	221	264	646	812
Noninterest Expense				
Salaries and employee benefits	886	630	2,267	2,132
Occupancy and equipment	46	69	160	185
Insurance Fund premiums	31	31	95	95
(Gains) losses on other property owned, net	43	40	51	152
Other operating expenses	414	400	1,328	1,068
Total noninterest expense	1,420	1,170	3,901	3,632
Net income (loss)	\$ (277)	\$ 508	\$ 538	\$ 670

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

Puerto Rico 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 (loss)	\$ (277)	\$ 508	\$ 538	\$ 670
Other comprehensive income net of tax				
Employee benefit plans adjustments	—	(2)	—	(7)
Comprehensive income (loss)	\$ (277)	\$ 506	\$ 538	\$ 663

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

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

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2013	\$ 537	\$ 48,256	\$ 302	\$ 49,095
Comprehensive income		670	(7)	663
Capital stock/participation certificates issued/(retired), net	(15)			(15)
Balance at September 30, 2014	\$ 522	\$ 48,926	\$ 295	\$ 49,743
Balance at December 31, 2014	\$ 520	\$ 51,377	\$ —	\$ 51,897
Comprehensive income		538		538
Capital stock/participation certificates issued/(retired), net	(14)			(14)
Balance at September 30, 2015	\$ 506	\$ 51,915	\$ —	\$ 52,421

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

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 Puerto Rico 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	\$ 84,905	\$ 90,578
Production and intermediate-term	31,326	33,752
Processing and marketing	20,276	17,722
Farm-related business	2,290	2,350
Communication	5,112	5,658
Energy and water/waste disposal	1,995	2,420
Rural residential real estate	13,828	13,974
Total Loans	<u>\$ 159,732</u>	<u>\$ 166,454</u>

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

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

September 30, 2015

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
		\$	\$	\$	\$	\$	\$	\$
Real estate mortgage	1,008	–	–	–	968	–	1,976	–
Production and intermediate term	5,861	–	–	–	5,670	–	11,531	–
Processing and marketing	19,787	–	–	–	431	–	20,218	–
Farm-related business	–	–	–	–	2,083	–	2,083	–
Communication	5,129	–	–	–	–	–	5,129	–
Energy and water/waste disposal	2,000	–	–	–	–	–	2,000	–
Total	<u>\$ 33,785</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 9,152</u>	<u>\$ –</u>	<u>\$ 42,937</u>	<u>\$ –</u>

December 31, 2014

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
		\$	\$	\$	\$	\$	\$	\$
Real estate mortgage	1,048	5,672	–	–	1,380	–	2,428	5,672
Production and intermediate term	7,194	2,146	–	–	5,977	–	13,171	2,146
Processing and marketing	17,153	–	–	–	481	–	17,634	–
Farm-related business	–	–	–	–	2,132	–	2,132	–
Communication	5,668	–	–	–	–	–	5,668	–
Energy and water/waste disposal	2,428	–	–	–	–	–	2,428	–
Total	<u>\$ 33,491</u>	<u>\$ 7,818</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 9,970</u>	<u>\$ –</u>	<u>\$ 43,461</u>	<u>\$ 7,818</u>

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

	September 30, 2015			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 14,632	\$ 45,117	\$ 25,156	\$ 84,905
Production and intermediate-term	4,210	21,215	5,901	31,326
Processing and marketing	6	10,136	10,134	20,276
Farm-related business	-	227	2,063	2,290
Communication	-	5,112	-	5,112
Energy and water/waste disposal	-	1,995	-	1,995
Rural residential real estate	368	261	13,199	13,828
Total Loans	\$ 19,216	\$ 84,063	\$ 56,453	\$ 159,732
Percentage	12.03%	52.63%	35.34%	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	88.70%	89.60%			Acceptable	100.00%	100.00%		
OAEM	1.49	0.60			OAEM	-	-		
Substandard/doubtful/loss	9.81	9.80			Substandard/doubtful/loss	-	-		
	100.00%	100.00%				100.00%	100.00%		
Production and intermediate-term:					Energy and water/waste disposal:				
Acceptable	91.93%	89.28%			Acceptable	-	17.58%		
OAEM	-	-			OAEM	100.00	82.42		
Substandard/doubtful/loss	8.07	10.72			Substandard/doubtful/loss	-	-		
	100.00%	100.00%				100.00%	100.00%		
Processing and marketing:					Rural residential real estate:				
Acceptable	100.00%	100.00%			Acceptable	95.18%	95.30%		
OAEM	-	-			OAEM	0.86	0.77		
Substandard/doubtful/loss	-	-			Substandard/doubtful/loss	3.96	3.93		
	100.00%	100.00%				100.00%	100.00%		
Farm-related business:					Total Loans:				
Acceptable	100.00%	100.00%			Acceptable	90.75%	90.57%		
OAEM	-	-			OAEM	2.11	1.59		
Substandard/doubtful/loss	-	-			Substandard/doubtful/loss	7.14	7.84		
	100.00%	100.00%				100.00%	100.00%		

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

	September 30, 2015					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	\$ 2,007	\$ 4,333	\$ 6,340	\$ 78,952	\$ 85,292	\$ -
Production and intermediate-term	126	689	815	30,670	31,485	-
Processing and marketing	-	-	-	20,336	20,336	-
Farm-related business	-	-	-	2,299	2,299	-
Communication	-	-	-	5,113	5,113	-
Energy and water/waste disposal	-	-	-	1,995	1,995	-
Rural residential real estate	519	12	531	13,342	13,873	-
Total	\$ 2,652	\$ 5,034	\$ 7,686	\$ 152,707	\$ 160,393	\$ -

December 31, 2014

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 1,444	\$ 4,577	\$ 6,021	\$ 84,848	\$ 90,869	\$ -
Production and intermediate-term	-	1,343	1,343	32,576	33,919	-
Processing and marketing	-	-	-	17,793	17,793	-
Farm-related business	-	-	-	2,361	2,361	-
Communication	-	-	-	5,660	5,660	-
Energy and water/waste disposal	-	-	-	2,421	2,421	-
Rural residential real estate	346	37	383	13,624	14,007	-
Total	\$ 1,790	\$ 5,957	\$ 7,747	\$ 159,283	\$ 167,030	\$ -

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	\$ 5,717	\$ 6,064
Production and intermediate-term	689	1,527
Rural residential real estate	137	168
Total	\$ 6,543	\$ 7,759
Accruing restructured loans:		
Real estate mortgage	\$ 2,308	\$ 2,392
Production and intermediate-term	1,461	1,555
Total	\$ 3,769	\$ 3,947
Accruing loans 90 days or more past due:		
Total	\$ -	\$ -
Total nonperforming loans	\$ 10,312	\$ 11,706
Other property owned	1,898	1,484
Total nonperforming assets	\$ 12,210	\$ 13,190
Non-accrual loans as a percentage of total loans	4.10%	4.66%
Nonperforming assets as a percentage of total loans and other property owned	7.55%	7.85%
Nonperforming assets as a percentage of capital	23.29%	25.42%

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	\$ 1,362	\$ 1,682
Past due	5,181	6,077
Total	6,543	7,759
Impaired accrual loans:		
Restructured	3,769	3,947
90 days or more past due	-	-
Total	3,769	3,947
Total impaired loans	\$ 10,312	\$ 11,706

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	\$ 142	\$ 141	\$ 2	\$ 152	\$ 1	\$ 155	\$ 4
Production and intermediate-term	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	\$ 142	\$ 141	\$ 2	\$ 152	\$ 1	\$ 155	\$ 4
With no related allowance for credit losses:							
Real estate mortgage	\$ 7,883	\$ 12,207	\$ –	\$ 8,443	\$ 76	\$ 8,588	\$ 195
Production and intermediate-term	2,150	5,757	–	2,303	21	2,342	53
Rural residential real estate	137	183	–	147	1	149	4
Total	\$ 10,170	\$ 18,147	\$ –	\$ 10,893	\$ 98	\$ 11,079	\$ 252
Total:							
Real estate mortgage	\$ 8,025	\$ 12,348	\$ 2	\$ 8,595	\$ 77	\$ 8,743	\$ 199
Production and intermediate-term	2,150	5,757	–	2,303	21	2,342	53
Rural residential real estate	137	183	–	147	1	149	4
Total	\$ 10,312	\$ 18,288	\$ 2	\$ 11,045	\$ 99	\$ 11,234	\$ 256

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	\$ 651	\$ 622	\$ 31	\$ 797	\$ 20
Production and intermediate-term	185	189	9	227	6
Rural residential real estate	–	–	–	–	–
Total	\$ 836	\$ 811	\$ 40	\$ 1,024	\$ 26
With no related allowance for credit losses:					
Real estate mortgage	\$ 7,805	\$ 11,780	\$ –	\$ 9,569	\$ 243
Production and intermediate-term	2,897	6,365	–	3,551	90
Rural residential real estate	168	222	–	206	5
Total	\$ 10,870	\$ 18,367	\$ –	\$ 13,326	\$ 338
Total:					
Real estate mortgage	\$ 8,456	\$ 12,402	\$ 31	\$ 10,366	\$ 263
Production and intermediate-term	3,082	6,554	9	3,778	96
Rural residential real estate	168	222	–	206	5
Total	\$ 11,706	\$ 19,178	\$ 40	\$ 14,350	\$ 364

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	\$ 201	\$ 791	\$ 157	\$ 23	\$ 17	\$ 148	\$ 1,337
Charge-offs	(101)	(176)	—	—	—	—	(277)
Recoveries	—	—	—	—	—	—	—
Provision for loan losses	110	225	6	1	(1)	(17)	324
Balance at September 30, 2015	\$ 210	\$ 840	\$ 163	\$ 24	\$ 16	\$ 131	\$ 1,384
Balance at December 31, 2014	\$ 235	\$ 1,250	\$ 177	\$ 26	\$ 17	\$ 279	\$ 1,984
Charge-offs	(246)	(176)	—	—	—	—	(422)
Recoveries	—	—	—	—	—	—	—
Provision for loan losses	221	(234)	(14)	(2)	(1)	(148)	(178)
Balance at September 30, 2015	\$ 210	\$ 840	\$ 163	\$ 24	\$ 16	\$ 131	\$ 1,384
Balance at June 30, 2014	\$ 906	\$ 1,621	\$ 413	\$ 28	\$ 1	\$ 225	\$ 3,194
Charge-offs	(305)	—	—	—	—	—	(305)
Recoveries	2	3	—	—	—	—	5
Provision for loan losses	(3)	(146)	(94)	(1)	15	(2)	(231)
Balance at September 30, 2014	\$ 600	\$ 1,478	\$ 319	\$ 27	\$ 16	\$ 223	\$ 2,663
Balance at December 31, 2013	\$ 1,359	\$ 1,002	\$ 565	\$ 12	\$ 2	\$ 188	\$ 3,128
Charge-offs	(553)	(5)	—	—	—	(1)	(559)
Recoveries	2	3	—	—	—	—	5
Provision for loan losses	(208)	478	(246)	15	14	36	89
Balance at September 30, 2014	\$ 600	\$ 1,478	\$ 319	\$ 27	\$ 16	\$ 223	\$ 2,663
Allowance on loans evaluated for impairment:							
Individually	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2
Collectively	208	840	163	24	16	131	1,382
Balance at September 30, 2015	\$ 210	\$ 840	\$ 163	\$ 24	\$ 16	\$ 131	\$ 1,384
Individually	\$ 31	\$ 9	\$ —	\$ —	\$ —	\$ —	\$ 40
Collectively	204	1,241	177	26	17	279	1,944
Balance at December 31, 2014	\$ 235	\$ 1,250	\$ 177	\$ 26	\$ 17	\$ 279	\$ 1,984
Recorded investment in loans evaluated for impairment:							
Individually	\$ 7,481	\$ 2,150	\$ —	\$ —	\$ —	\$ 84	\$ 9,715
Collectively	77,811	29,335	22,635	5,113	1,995	13,789	150,678
Balance at September 30, 2015	\$ 85,292	\$ 31,485	\$ 22,635	\$ 5,113	\$ 1,995	\$ 13,873	\$ 160,393
Individually	\$ 8,041	\$ 3,082	\$ —	\$ —	\$ —	\$ —	\$ 11,123
Collectively	82,828	30,837	20,154	5,660	2,421	14,007	155,907
Balance at December 31, 2014	\$ 90,869	\$ 33,919	\$ 20,154	\$ 5,660	\$ 2,421	\$ 14,007	\$ 167,030

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

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

Outstanding Recorded Investment	Three months ended September 30, 2015				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Rural residential real estate	\$ —	\$ —	\$ 81	\$ 81	
Total	\$ —	\$ —	\$ 81	\$ 81	
Post-modification:					
Rural residential real estate	\$ —	\$ —	\$ 126	\$ 126	\$ —
Total	\$ —	\$ —	\$ 126	\$ 126	\$ —
Outstanding Recorded Investment	Nine months ended September 30, 2015				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Rural residential real estate	\$ —	\$ —	\$ 81	\$ 81	
Total	\$ —	\$ —	\$ 81	\$ 81	
Post-modification:					
Rural residential real estate	\$ —	\$ —	\$ 126	\$ 126	\$ —
Total	\$ —	\$ —	\$ 126	\$ 126	\$ —

Three months ended September 30, 2014					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Production and intermediate-term	\$ -	\$ 440	\$ -	\$ 440	
Total	\$ -	\$ 440	\$ -	\$ 440	
Post-modification:					
Production and intermediate-term	\$ -	\$ 440	\$ -	\$ 440	\$ -
Total	\$ -	\$ 440	\$ -	\$ 440	\$ -

Nine months ended September 30, 2014					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	\$ 115	\$ -	\$ -	\$ 115	
Production and intermediate-term	-	650	-	650	
Total	\$ 115	\$ 650	\$ -	\$ 765	
Post-modification:					
Real estate mortgage	\$ 116	\$ -	\$ -	\$ 116	\$ -
Production and intermediate-term	-	647	-	647	-
Total	\$ 116	\$ 647	\$ -	\$ 763	\$ -

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

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

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Real estate mortgage	\$ 5,661	\$ 6,050	\$ 3,353	\$ 3,658
Production and intermediate-term	1,461	1,740	-	185
Rural residential real estate	84	-	84	-
Total Loans	\$ 7,206	\$ 7,790	\$ 3,437	\$ 3,843
Additional commitments to lend	\$ -	\$ -		

The following table presents information as of period end:

	September 30, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ 26
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ -

Note 3 — Investments

Other Investments

In 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Association purchased total equity investments in the RBIC of \$250. There are no outstanding commitments to make additional equity purchases beyond this amount. Beginning in 2013, analyses indicated that decreases in value of the investment had occurred that were other than temporary, due to a series of losses and other factors. As a result, the Association recognized other-than-temporary impairment of \$40 and \$0 for the nine months ended September 30, 2015 and 2014, respectively, which is included in Impairment Losses on Investments in the Statements of Income. As of September 30, 2015 and December 31, 2014, the RBIC totaled \$0 and \$40, respectively.

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 0.65 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 no investments 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.

A Special Credit Agreement (SCA) addressing the Association's GFA earnings covenant default was executed effective January 31, 2013 and expired on January 31, 2014. The Association operated under the terms and requirements of the 2014 GFA from February 1, 2014 until April 11, 2014. On April 11, 2014, the Association entered into a SCA with the Bank pursuant to its GFA as a result of events of default under the GFA related to continued regulatory enforcement matters discussed in Note 9. This SCA expired on April 11, 2015 and was renewed through April 11, 2016. The Association was in compliance with the SCA covenants at September 30, 2015 and December 31, 2014.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component (a)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Employee Benefit Plans:				
Balance at beginning of period	\$ —	\$ 297	\$ —	\$ 302
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	—	(2)	—	(7)
Net current period other comprehensive income	—	(2)	—	(7)
Balance at end of period	\$ —	\$ 295	\$ —	\$ 295

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	Three Months Ended September 30,		Nine Months Ended September 30,		Income Statement Line Item
	2015	2014	2015	2014	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ —	\$ 2	\$ —	\$ 7	See Note 7.
Net amounts reclassified	\$ —	\$ 2	\$ —	\$ 7	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Nine Months Ended September 30, 2015						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	\$ -	\$ -	\$ -	\$ -	\$ -	
Liabilities:						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 10,310	\$ -	\$ -	\$ 10,310	\$ 10,310	\$ (384)
Other property owned	1,898	-	-	2,055	2,055	(40)
Other investments	-	-	-	-	-	(40)
Nonrecurring Assets	\$ 12,208	\$ -	\$ -	\$ 12,365	\$ 12,365	\$ (464)
Other Financial Instruments						
Assets:						
Cash	\$ 240	\$ 240	\$ -	\$ -	\$ 240	
Loans	148,038	-	-	147,217	147,217	
Other Financial Assets	\$ 148,278	\$ 240	\$ -	\$ 147,217	\$ 147,457	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 110,529	\$ -	\$ -	\$ 110,592	\$ 110,592	
Other Financial Liabilities	\$ 110,529	\$ -	\$ -	\$ 110,592	\$ 110,592	

At or for the Year ended December 31, 2014						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	\$ -	\$ -	\$ -	\$ -	\$ -	
Liabilities:						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 11,666	\$ -	\$ -	\$ 11,666	\$ 11,666	\$ (452)
Other property owned	1,484	-	-	1,577	1,577	(194)
Other investments	40	-	-	40	40	(30)
Nonrecurring Assets	\$ 13,190	\$ -	\$ -	\$ 13,283	\$ 13,283	\$ (676)
Other Financial Instruments						
Assets:						
Cash	\$ 292	\$ 292	\$ -	\$ -	\$ 292	
Loans	152,804	-	-	152,005	152,005	
Other Financial Assets	\$ 153,096	\$ 292	\$ -	\$ 152,005	\$ 152,297	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 118,626	\$ -	\$ -	\$ 118,454	\$ 118,454	
Other Financial Liabilities	\$ 118,626	\$ -	\$ -	\$ 118,454	\$ 118,454	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and

assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the

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

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 12,365	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Other investments – RBIC	\$ –	Third party evaluation	Income, expense, capital	Not applicable

* 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 forecast
		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	\$ 247	\$ 261	\$ 743	\$ 784
401(k)	28	18	75	54
Other postretirement benefits	–	28	–	83
Total	\$ 275	\$ 307	\$ 818	\$ 921

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	\$ –	\$ 1,016	\$ 1,016
Other postretirement benefits	–	–	–
Total	\$ –	\$ 1,016	\$ 1,016

Contributions in the above table include an allocated estimate of funding for the multi-employer pension plan in which the Association participates. The projected amount may change when a total funding amount and allocation is determined by the

pension Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change the contribution 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 and the Puerto Rico Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental benefits.

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 — Regulatory Enforcement Matters

On March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement supersedes FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporates certain requirements from these letters. The Supervisory Agreement requires the Board of Directors to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibits the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, high turnover in senior management, perceived weaknesses in board governance, and, reduced earnings and liquidity.

The Board of Directors and the Association have worked together to reach significant milestones. The regulator has provided the Board of Directors several interim progress reports on compliance with the SA and delivered a report of examination to the Board of Directors as of December 31, 2014. The Association has achieved full compliance in 14 out of 17 items and substantial compliance in 3 out of 17 items. Some of the results achieved in compliance with the agreement include the following:

- Hiring a board consultant and working with the consultant to assist the Board in fulfilling its fiduciary duties and improving board operations and governance.
- Updating its board committee charters, undergoing several training sessions and changing leadership to improve governance of the Association.
- Revising the director candidate nominating procedures to qualify new candidates, which led to stockholders electing two new directors to the Board in 2012.
- Hiring a new CEO beginning on February 1, 2011 to lead the Association after the retirement of the previous CEO on September 30, 2010.
- Building a cohesive senior management team.
- Overseeing the implementation of updated collateral risk management policies and procedures that are in line with best practices in the industry.
- Improving the methodology used to calculate the Allowance for Loan Losses of the Association.
- Hiring a specialized third party auditor that assessed the capital markets portfolio credit risk and helped, strengthened credit policies and procedures.

- Establishing a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the SA.
- Ensuring that FCA's recommendations are incorporated in the various action plans.
- Reviewing the Association's internal audit plan to focus on areas where perceived weaknesses were identified.
- Establishing a risk assessment process to assess risks and controls in the ACA.
- Establishing an asset quality improvement plan to monitor management efforts in managing high risk loans.
- Revising the business plan to establish strategic priorities and to comply with FCA regulations governing business planning.
- Establishing a human capital plan and succession plan to assist in the long-term success of the Association.
- Revising board policies on a quarterly basis to guide management in conducting day to day operations.
- Enhancing the participation's portfolio credit underwriting and administration controls.

All required measures have not been achieved or completed as of the date of this report and the Board of Directors continues to work with the management team in improving the areas identified in the Supervisory Agreement. Besides the ongoing corrective actions already mentioned, other actions to be taken target the following areas:

- Maintain oversight over internal controls.
- Continue executing strategies to grow the Association's loan portfolio with high quality loans to improve asset quality and, enhance earnings and liquidity.
- Continue improving the preparation and documentation of the income approach in appraisals.

The Board of Directors will continue engaging a board consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement. Both the Board of Directors and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

The Association remained under written supervisory agreement as of the date of this report.

Note 10 — 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 \$765 which will be recorded in October 2015 as patronage refunds from other Farm Credit institutions.