# 2015 Annual Report

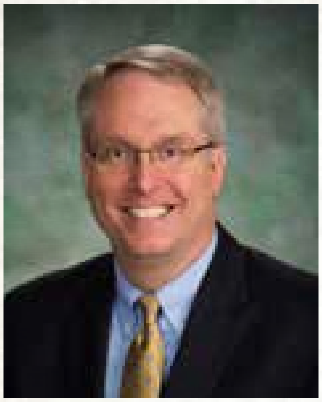
## Committed to Agriculture.
## Committed to You.

Cape Fear Farm Credit

# Table of Contents



# Message from the Chief Executive Officer



**Brad Cornelius**

As your new CEO, I am pleased to report that your customer-owned Association had outstanding results in 2015. As you review this annual report, please note:

- Net loan volume grew more than 4%.
- Net income of $19.6 million, helped by a $4 million special patronage distribution from our funding partner, AgFirst. The $4 million payment is a one-time event and is not expected to continue in future years.
- Cash patronage of $12 million, $8 million from our core earnings and $4 million from the special patronage distribution from our funding partner, AgFirst. This combined total translates into an average interest rate reduction of 1.60%.
- Continued strong capitalization – Permanent Capital near 22%
- Strong credit quality – 96.06% Acceptable and OAEM.

These strong financial results are a direct result of our Board and employees' commitment to our customer-owners and the communities we serve. I'd like to review some of our most important commitments with you:

- **Serving all of agriculture in our territory** – our loan portfolio reflects the diversity of agriculture in southeastern North Carolina. While most of the portfolio consists of the traditional North Carolina commodities of swine, poultry, tobacco, and row crops, many other commodities are represented, with new additions every year.
- **Promoting agriculture** – Cape Fear Farm Credit supports agriculture through financial contributions to local FFA and 4-H chapters, and other farming groups.
- **Agriculture expertise** – our employees understand the industries we serve and are committed to monitoring industry trends and advancing their level of expertise.
- **Community support** – We have approximately 82 employees located at 11 branch offices throughout our territory. Our employees are people of great character who are actively involved in church, civic and agricultural organizations, helping to build better communities, one act of service at a time.
- **Personal service** – We're dedicated to hiring, training and retaining employees with a passion for providing top-quality, personal service to our customer-owners. Several of our employees have been serving our customers for more than 40 years!
- **Products that fit your financial needs** – We have a wide variety of interest rate products available, which allows our lenders to tailor a loan solution to our customers' needs. We also offer leasing products and life insurance.
- **Patronage** – This commitment is one no other farm lender can match. Our Board of Directors is dedicated to the cooperative principle of returning the Association's profits to our customer-owners, so long as the Association has the capital and financial strength to do so. While the payment of future patronage is never guaranteed, we've been able to pay a substantial patronage for 28 consecutive years. During that time, we've returned $215 million to our customer owners, averaging $7.68 million per year.

As you can see, Cape Fear Farm Credit remains committed to agriculture, and committed to you.

Brad Cornelius

# Committed to Agriculture. Committed to You.

Cape Fear Farm Credit's theme for 2015 was "Committed to Agriculture. Committed to You," and that is a theme the employees and directors of the Association live by each and every day especially right here in the heart of Southeastern North Carolina.

Through sponsorships, outreach, and educational opportunities, Cape Fear Farm Credit places a great deal of emphasis on supporting the future of agriculture, farm families, and rural North Carolina. We will highlight a few of these efforts.

## Ryan Kennedy — Proud of His Past. Focused on His Future.

Since a very young age, Ryan Kennedy of Hope Mills, North Carolina has loved agriculture and had a passion for continuing the family tradition that has been so important to his family through the years. "It's what I've always done since I was seven or eight years old. I remember tending to the tobacco fields with Papa, and my very first job was plowing tobacco," stated Ryan. He farms with his grandfather, Earl Smith, and his father, David Kennedy, in Cumberland County on a farm that has been in the family since the mid 1800's. The farming operation consists of approximately 800 acres of corn, wheat, soybeans, sorghum, and longleaf pine straw. Ryan has a relatively new venture with a greenhouse business, and he is growing winter produce and spring ornamentals as well as tobacco plants.

Ryan is a graduate of North Carolina State University's Agricultural Institute and is very active in his community and supporting agriculture. He currently serves as a board member for the

Cumberland County Farm Bureau and the North Carolina Soybean Producers Association. He is an advisory committee member for the South Carolina Agribusiness Expo, and he also remains active in the Gray's Creek High School FFA Alumni Chapter.

As a 26 year old farmer, Ryan has been a Cape Fear Farm Credit customer-owner for two years. Ryan's family has a long history with Farm Credit, and as he explained, "Papa has been borrowing since he was 30 years old, back when it was called PCA." He went on to state, "Doing business with Cape Fear Farm Credit has been very easy. The loan officers are great people; they know us, understand our operation, and they even come check on us."

As a past participant of the Emerging Entrepreneurs' Conference, he shared, "The conference was very informative, especially for future planning and estate planning. The opportunity opened my eyes to how big of a scale we operate, and where the commodities we produce wind up."

Although many farmers have experienced tough times this year, Ryan shared with his fellow young farmers, "Don't get discouraged during times like this; just hang in there. Papa always tells me something that his dad told him years ago, 'Next year will be better.'

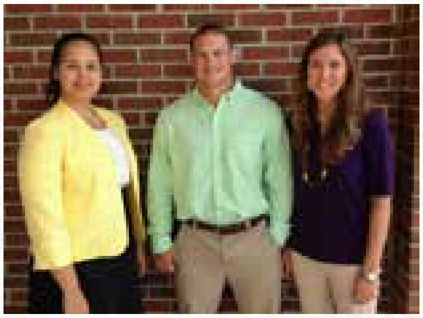
Cape Fear Farm Credit supports the future of agriculture, and Ryan Kennedy, a 26-year-old farmer in Cumberland County, is a wonderful example of how the Association partners with young farmers to help them grow and succeed.

## Ag Biz Planner

Cape Fear Farm Credit's 6th Ag Biz Planner program kicked off in November 2015 with a group of five participants from across Cape Fear Farm Credit's 12-county territory. This educational program targets young, beginning, small, and minority farmers throughout the territory and has several components including an online course, tools to assist the participant with creating a business plan, a mentor relationship with a Farm Credit employee, and a networking opportunity with other participants. Through completing the Ag Biz Planner financial and business planning course, these participants learn about business and personal financial planning, gain a better understanding of income statements and balance sheets, cash flow, and the smart use of credit on the farm. Each participant also completes a business plan for their operation. At the conclusion of the course, the participants join other graduates from across North Carolina, Virginia, West Virginia, and Maryland where they have the opportunity to interact and benchmark with other producers and graduates.

## Emerging Entrepreneurs' Conference

The Emerging Entrepreneurs' Conference is held annually and brings together a group of young and/or beginning farmers that learn from each other as well as Dr. David Kohl, professor emeritus in the Agricultural and Applied Economics Department at Virginia Tech University. Dr. Kohl helps participants understand the implications that the world economy has on farmers in southeastern North Carolina. He also discusses the trends he is seeing in agriculture, and gives the participants some tools to better manage their farming operations. The weekend event creates a wonderful environment for the attendees to network and learn. We even see friendships and partnerships built from the three days that these individuals get to spend with each other. The participants leave energized and focused on making healthy decisions for their businesses.



## Internship Program

Our internship program is focused on creating an opportunity for college students to understand the Farm Credit System, our mission, and the job opportunities within the organization. The 10-week program gives rising juniors and seniors the ability to job shadow, meet with employees for all departments within Cape Fear Farm Credit, meet with customers, go on farm tours, work on a project as a team, and present the results at the conclusion of the internship. We were excited this past year to have three interns from NC State University., Sidney Dunn, Karli Moore and Alex Sasser.

## Scholarship Program

Each year, Cape Fear Farm Credit awards up to $14,500 in scholarships to eligible high school seniors.

- The FFA Scholarship is awarded to a high school senior residing in the counties served by Cape Fear Farm Credit, and applicants must have at least one year of membership with FFA.
- One At-Large Scholarship is awarded per branch office to a high school senior that is the child or grandchild of a Cape Fear Farm Credit member.
- One Diversity Scholarship is awarded to a high school senior that is the child or grandchild of a Cape Fear Farm Credit member.

All of the scholarships focus on the areas of academic excellence, community involvement, leadership, and commitment to Southeastern North Carolina agriculture and rural development. It is a very rewarding experience to watch these students excel in their areas of interest during college and pursue careers in agriculture, education, healthcare, and other areas.

Cape Fear Farm Credit.
Where we are "Committed to Agriculture. Committed to You."

# Products and Services That Bring Value to Our Customer-Owners

## Loans

### Loans for Your Farm

- Equipment and vehicles
- Operating expenses
- Poultry and livestock facilities
- Farm improvements
- Barns, stables, sheds

### Loans for Your Agribusiness

- Nurseries and greenhouses
- Poultry and livestock operations
- Gins and processing facilities
- Timber and sawmill operations
- Farm-related businesses

### Loans for Your Home and Place in the Country

- Lots
- Homes
- Home construction
- Purchases and refinancing
- Remodeling and home improvements
- Refinances
- Hunting tracts
- Recreational property
- Horses, cattle and other livestock
- Livestock and utility trailers

## Additional Services

Cape Fear Farm Credit offers more than just loans. We want to help you be successful. Cape Fear Farm Credit offers the following services and conveniences:

### Financially-Related Services

Mortgage life and disability insurance — protect what is important to you.

### E-Commerce

**AccountAccess**
24-hour online access to all your Cape Fear Farm Credit accounts from your computer. You also have the ability to securely make payments and transfer funds to an external checking or savings account.

**mobileRoots™**
24-hour access to your Cape Fear Farm Credit accounts, balances, and recent transactions from your mobile device. You also have the ability to securely make payments and transfer funds to an external checking or savings account.

### Money Management Tools

**FastCash**
Quick and easy fund transfers from your line of credit loan into your personal or business checking account at no cost to you

**AutoDraft**
Hassle-free, automatic drafting of your loan payments saves you time and money

**AutoBorrow**
A cash management tool that links your Cape Fear Farm Credit loan to your business checking account

### Other Services

**Farm Credit *EXPRESS***
Offered at most local equipment dealers

**Leases**
Trucks, equipment, buildings and more

**Educational Programs**
Offered throughout the year to our members

**Market News**
Interested in market news, data analysis, and other tools to keep ahead of the curve ... just ask your loan officer

# Board of Directors

**Andy Lowrey**
(Chairman)
Outside Director
Columbia, SC

**Al Bain**
Outside Director
Lillington, NC

**Andy Darden**
Clinton, NC

**David Gooden**
Elizabethtown, NC

**Tony Grant**
Outside Director
Columbia, SC

**Glenn Harder**
Outside Director
Raleigh, NC

**Gary Hendrix**
Raeford, NC

**Jart Hudson, Jr.**
Turkey, NC

**Paul Maguire**
Roseboro, NC

**Jon Pope**
Coats, NC

**Gary Rouse**
Outside Director
Clinton, NC

**Mitchell Sessoms**
Roseboro, NC

**Bo Stone**
Rowland, NC

**Alfred Wooten**
Burgaw, NC

# Senior Leadership Team

**Front Row:** Chief Credit Operations Officer Betty Kay Williams and Chief Lending Officer Tammy Mitten

**Back Row:** Administrative Officer Skipper Jones, Chief Financial Officer Evan Kleinhans, Chief Executive Officer Brad Cornelius and Chief Risk Officer Brian Smith

# Branch Locations

### Burgaw
811 South Walker Street
910.259.5481

### Clinton
1780 Southeast Boulevard
910.592.8121

### Dunn
400 West Broad Street
910.892.4065

### Elizabethtown
108 North Poplar Street
910.862.4536

### Fayetteville
333 East Russell Street
910.483.1404

### Kenansville
127 Beasley Street
910.296.1776

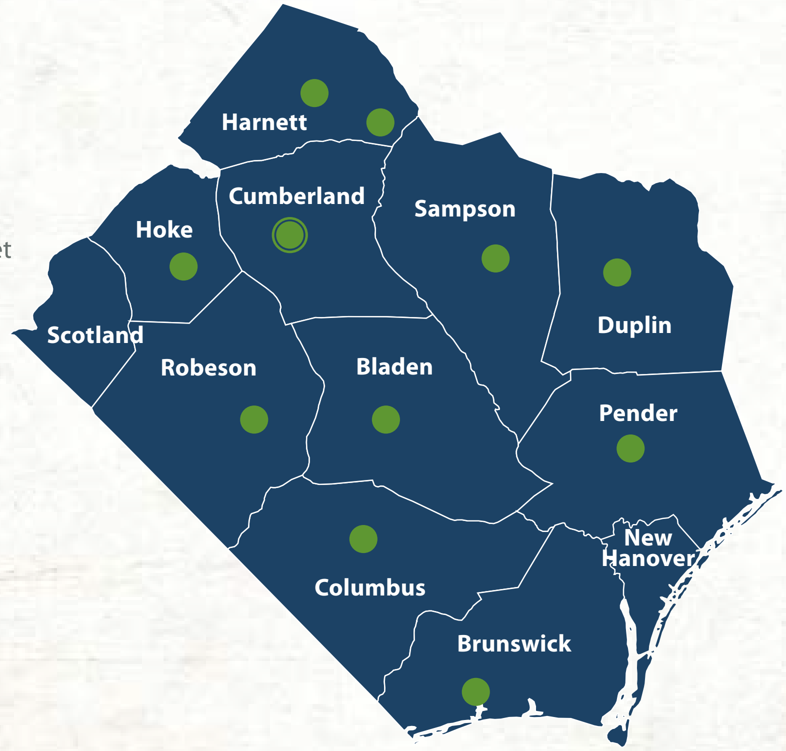
### Lillington
105 East Front Street
910.893.8318

### Lumberton
1902 North Cedar Street
910.738.8181

### Raeford
331 South Main Street
910.875.6181

### Shallotte
4631 Main Street
910.754.6203

### Whiteville
300 Liberty Street
910.642.8041



# Cape Fear Farm Credit Employees

(as of January 4, 2016)

## Burgaw Branch
Cale Horne
Debbie Bradshaw
Gail Lee

## Clinton Branch
Mike Carter
Gloria Chalk
Sylvia Fryar
Vickie Giddens
Tonya Hobbs
Dennis Honrine
Gena Tew

## Dunn Branch
Stuart Betts
Deneice Core
Denise Stancil
Glenda Tew

## Elizabethtown Branch
Brook Gillis
Jeanne Fields
Jake Suggs
Linda Wilson

## Fayetteville Branch
Brian Johnson
Sara Crozier
Ashley Such

## Kenansville Branch
Gerald Wilson
Patrick Abrams
Shannon Bell
Kim Hunter
Daniel Outlaw
Debbie Raynor
Shannon Scott

## Lillington Branch
Stuart Betts
Karen Powell
Tracy Taylor

## Lumberton Branch
Kevin Kinlaw
Vickie Edwards
Shawn Hunt
Carmin Russ
Vickie Walters

## Raeford Branch
Brian Johnson
Ismael Avila
Suzanne Malloy
Sharon Nichols

## Shallotte Branch
Cale Horne
Debbie White

## Whiteville Branch
Kevin Kinlaw
Andy Coates
Ginny Martin
Becky Thompson
Candy Ward

## Capital Markets Department
Randy Pope
Cliff Kilpatrick
Amy Tyndall

## Appraisal Department
Wayne Strickland
Tony Dempsey
Matthew Edwards
John Hales
Jared Johnson
Glenn Matthews
Carson Rose

## Administrative
Brad Cornelius
Melissa Boney
Kim Bunce
Nancy Byrd
Jay Darden
Dana Desien
Angela Harris
Chuck Hester
Ronda Hoffman
Skipper Jones
Cathy Keane
Brandon Kelly
Brentley King
Evan Kleinhans
Michelle Mathews
Will Maxwell
Tina Melvin-Ford
Tammy Mitten
Christy Moore
Katie Neal
John Patterson
Kristina Quinn
Brian Smith
Janet Smith
Sharon Smith
Courtney Stewart
Wayne Strickland
Sarah Temple
Betty Kay Williams
Diana Winningham

# Financials



# Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by management of Cape Fear Farm Credit, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all consolidated financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The consolidated financial statements have been audited by independent certified public accountants whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2015 Annual Report of Cape Fear 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.

F. A. Lowrey

F.A. Lowrey
Chairman of the Board

Brad Cornelius

Brad Cornelius
Chief Executive Officer

Evan Kleinhans

Evan J. Kleinhans
Chief Financial Officer

March 10, 2016

# 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, to provide 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 and 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 December 31, 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 December 31, 2015, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2015.

Brad Cornelius

Brad Cornelius
Chief Executive Officer

Evan Kleinhans

Evan J. Kleinhans
Chief Financial Officer

March 10, 2016

# Consolidated Five-Year Summary Of Selected Financial Data

| *(dollars in thousands)* | **2015** | 2014 | December 31, 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Balance Sheet Data** | | | | | |
| Cash | **$ 3,882** | $ 3,107 | $ 4,567 | $ 3,959 | $ 2,689 |
| Investment securities | **7,366** | 4,647 | 7,220 | 5,556 | 7,637 |
| Loans | **830,254** | 789,693 | 762,528 | 761,424 | 729,866 |
| Allowance for loan losses | **(7,117)** | (5,378) | (6,057) | (7,425) | (6,901) |
| Net loans | **823,137** | 784,315 | 756,471 | 753,999 | 722,965 |
| Investments in other Farm Credit institutions | **9,084** | 8,890 | 9,018 | 9,040 | 11,113 |
| Other property owned | **1,356** | 4,976 | 4,931 | 7,484 | 12,598 |
| Other assets | **25,598** | 27,650 | 33,798 | 31,471 | 37,242 |
| Total assets | **$ 870,423** | $ 833,585 | $ 816,005 | $ 811,509 | $ 794,244 |
| Notes payable to AgFirst Farm Credit Bank* | **$ 667,938** | $ 636,579 | $ 633,872 | $ 646,145 | $ 640,060 |
| Accrued interest payable and other liabilities with maturities of less than one year | **25,062** | 27,222 | 22,325 | 20,819 | 19,833 |
| Total liabilities | **693,000** | 663,801 | 656,197 | 666,964 | 659,893 |
| Protected borrower stock | **3** | 3 | 4 | 34 | 36 |
| Capital stock and participation certificates | **2,411** | 2,406 | 2,433 | 2,445 | 2,640 |
| Retained earnings | | | | | |
| Allocated | **83,467** | 77,931 | 69,210 | 55,494 | 44,048 |
| Unallocated | **91,849** | 89,784 | 88,459 | 86,915 | 87,945 |
| Accumulated other comprehensive income (loss) | **(307)** | (340) | (298) | (343) | (318) |
| Total members' equity | **177,423** | 169,784 | 159,808 | 144,545 | 134,351 |
| Total liabilities and members' equity | **$ 870,423** | $ 833,585 | $ 816,005 | $ 811,509 | $ 794,244 |
| **Statement of Income Data** | | | | | |
| Net interest income | **$ 24,693** | $ 24,336 | $ 24,466 | $ 25,546 | $ 23,961 |
| Provision for loan losses | **622** | 174 | 1,367 | 1,247 | 4,168 |
| Noninterest income (expense), net | **(4,469)** | (75) | (103) | (5,202) | (2,706) |
| Net income | **$ 19,602** | $ 24,087 | $ 22,996 | $ 19,097 | $ 17,087 |
| **Key Financial Ratios** | | | | | |
| Rate of return on average: | | | | | |
| Total assets | **2.30%** | 2.95% | 2.86% | 2.39% | 2.18% |
| Total members' equity | **10.96%** | 14.16% | 14.99% | 13.28% | 12.90% |
| Net interest income as a percentage of average earning assets | **3.00%** | 3.09% | 3.14% | 3.34% | 3.18% |
| Net (chargeoffs) recoveries to average loans | **0.136%** | (0.109)% | (0.357)% | (0.097)% | (0.713)% |
| Total members' equity to total assets | **20.38%** | 20.37% | 19.58% | 17.81% | 16.92% |
| Debt to members' equity (:1) | **3.91** | 3.91 | 4.11 | 4.61 | 4.91 |
| Allowance for loan losses to loans | **0.86%** | 0.68% | 0.79% | 0.98% | 0.95% |
| Permanent capital ratio | **22.23%** | 23.30% | 22.25% | 20.66% | 20.26% |
| Total surplus ratio | **21.91%** | 22.96% | 21.88% | 20.41% | 19.91% |
| Core surplus ratio | **21.91%** | 22.96% | 21.88% | 20.41% | 19.91% |
| **Net Income Distribution** | | | | | |
| Estimated patronage refunds: | | | | | |
| Cash | **$ 12,000** | $ 14,000 | $ 7,500 | $ 8,722 | $ 7,658 |
| Nonqualified retained earnings | **5,944** | 8,890 | 14,303 | 11,435 | 9,386 |

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2016.*

# Management's Discussion & Analysis of Financial Condition & Results of Operations

(dollars in thousands, except as noted)

**GENERAL OVERVIEW**

The following commentary summarizes the financial condition and results of operations of Cape Fear Farm Credit, ACA, (Association) for the year ended December 31, 2015 with comparisons to the years ended December 31, 2014 and December 31, 2013. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for 99 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Southeastern North Carolina. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association may be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.capefearfarmcredit.com***, or by calling 1-800-368-5819, extension 3243, or writing Evan J. Kleinhans, Cape Fear Farm Credit, P.O. Box 2405, Fayetteville, NC, 28302. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

**FORWARD LOOKING INFORMATION**

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

**AGRICULTURAL OUTLOOK**

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data for the Association.

The February 2016 USDA forecast estimates 2015 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $93.2 billion, down $34.9 billion from 2014 and down $7.8 billion from its 10-year average of $101.0 billion. The decline in net cash income in 2015 was primarily due to decreases in livestock receipts of $26.5 billion and crop receipts of $18.0 billion, partially offset by a decrease in cash expenses of $10.2 billion.

The February 2016 USDA forecast for the farm economy, as a whole, forecasts 2016 farmers' net cash income to decrease to $90.9 billion, a $2.3 billion decrease from 2015, and $10.1 billion below the 10-year average. The forecasted decrease in farmers' net cash income for 2016 is primarily due to an expected decrease in cash receipts of $9.5 billion, partially offset by a decrease in cash expenses of $3.5 billion and an increase in direct government payments of $3.3 billion. The decrease in cash receipts reflects a $7.9 billion decline in livestock receipts primarily due to decreased dairy, livestock, hog, and poultry receipts. Crop receipts are predicted to decrease modestly by $1.6 billion in 2016. Corn production is expected to increase slightly in 2016, but continued weakening in corn prices is expected to more than offset production gains, leading to an expected decline of $0.8 billion in corn receipts.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2012 to December 31, 2015:

| Commodity | 12/31/15 | 12/31/14 | 12/31/13 | 12/31/12 |
|---|---|---|---|---|
| Hogs | $42.80 | $64.30 | $61.50 | $62.40 |
| Milk | $17.20 | $20.40 | $22.00 | $20.90 |
| Broilers | $0.47 | $0.58 | $0.56 | $0.58 |
| Turkeys | $0.89 | $0.73 | $0.69 | $0.67 |
| Corn | $3.65 | $3.79 | $4.41 | $6.87 |
| Soybeans | $8.76 | $10.30 | $13.00 | $14.30 |
| Wheat | $4.71 | $6.14 | $6.73 | $8.30 |
| Beef Cattle | $122.00 | $164.00 | $130.00 | $124.00 |

The USDA's income outlook varies depending on farm size and commodity specialties. The USDA classifies all farms into four primary categories: small family farms (gross cash farm income (GCFI) less than $350 thousand), midsize family farms (GCFI between $350 thousand and under $1 million), large-scale family farms (GCFI of $1 million or more), and nonfamily farms (principal operator or individuals related to the operator do not own a majority of the business). Approximately 99 percent of U.S. farms are family farms and the remaining 1 percent are nonfamily farms. The family farms produce 90 percent of the value of agricultural output and the nonfamily farms produce the remaining 10 percent of agricultural output. The small family farms represent about 90 percent of all U.S. farms, hold 57 percent of farm assets and account for 22 percent of the value of production. Approximately 68 percent of production occurs on 9 percent of family farms classified as midsize or large-scale.

According to the USDA February 2016 forecast, the growth in the values of farm sector assets, debt, and equity are forecasted to moderate in 2016. The slowdown reflects the expectation of a second year of declining net farm income and stable to small reductions in farmland values. Farm sector assets are expected to decline from $2.86 trillion for 2015 to $2.82 trillion in 2016 primarily due to a decline in the value of farm real estate. In addition, most other farm assets such as crop inventories, financial assets, and livestock and poultry inventories are expected to drop in 2016. Overall, farm sector debt is estimated to increase from $364.3 billion in 2015 to $372.5 billion in 2016. Farm business equity (assets minus debt) is expected to decline to $2.44 trillion in 2016 from $2.50 trillion in 2015.

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. As a result of the decline in farm assets and continued increase in farm debt, these ratios are forecast to rise in 2016 to 13.2 percent and 15.3 percent from 10.5 percent and 11.8 percent in 2013, which was the lowest value for both measures since 1954. The USDA notes the increase in these ratios suggests a higher amount of financial stress is building in the sector relative to recent years. Even though these measures have increased every year for the past three years, each remains low relative to historical levels. The USDA also indicated that it appears that the farm sector is well insulated from the risks associated with declining commodity prices, adverse weather, changing macroeconomic conditions, as well as fluctuations in farm asset values.

As estimated by the USDA in February 2016, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) declined to 39.6 percent at December 31, 2014 (the latest available data), as compared with 41.0 percent at December 31, 2013.

In general, agriculture, during the past several years, experienced favorable economic conditions driven by high commodity and livestock prices and increased farmland values during this period. To date, the Association's financial results have remained favorable as a result of these favorable agricultural conditions. Production agriculture; however, remains a cyclical business that is heavily influenced by commodity prices and various other factors.

In an environment of less favorable economic conditions in agriculture, including extensive and extended drought conditions, and without sufficient government support programs, including USDA-sponsored crop insurance programs, the Association's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general economy remain more volatile given the state of the global economy. Certain agriculture sectors, as described more fully in this *Management's Discussion and Analysis*, recently have experienced significant financial stress and could experience additional financial stress in the near future. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

**CRITICAL ACCOUNTING POLICIES**

The consolidated financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2015 was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

## ECONOMIC CONDITIONS

The economy in the Cape Fear region continues to have slower economic growth in comparison to other parts of the state and country. North Carolina's unemployment rate increased slightly from 5.5% in December 2014 to 5.7% in December 2015 and is above the national rate of 5.0%. The unemployment rate in Southeastern North Carolina is higher than the state average. Of the 12 counties in Southeastern North Carolina that the Association serves, 33.3% are ranked as Tier 1 or most distressed in terms of economic wellbeing by the North Carolina Department of Commerce, 41.7% are ranked as Tier 2 or moderately distressed, and 25.0% are ranked as Tier 3 or least distressed.

The largest commodity exposure in our portfolio is the swine industry. The swine industry in our region continued to be profitable in 2015 primarily due to lower feed costs. The industry in general was able to withstand slowing global demand caused by the strengthening of the US dollar. Our Association also has significant exposure to the poultry industry. The broiler industry has benefitted from lower input costs, but expansion in production capacity could place downward pressure on prices. The turkey industry is very concentrated and is sensitive to supply and demand, but the industry in general benefitted from lower input costs. The poultry industry has also been impacted by slowing global demand caused by the strengthening of the US dollar.

Row crops also make up a significant portion of our portfolio. Commodity prices in 2015 were volatile for most crops. Grain prices continued to be lower than previous years causing operating margins to compress. Crop yields in our territory fluctuated some due to the impact of variable weather conditions, but in general, yields were below average. The planting and harvest cycles were disrupted by heavy rainfall for many row crop producers in our territory. Row crop production continues to consolidate, especially with specialty crops such as tobacco, cotton, and peanuts. Significant cuts have been reported on tobacco production estimates for the coming year. Traditional farmland values have remained relatively stable in our territory.

Our Association's loan officers, with the support and direction of our senior leadership team, have successfully navigated the challenges of operating in difficult economic conditions. We continue to adhere to our mission to be the lender of choice to all of agriculture and our rural communities. Our expertise in agricultural and rural lending allows us to help our customer-owners through the fluctuations and uncertainties that are prevalent in the agricultural industry today.

The credit quality of the loan portfolio continued to be good with a slight contraction in the amount of acceptable credit quality in 2015 as compared to 2014. Stress in the row crop industry is beginning to be reflected in the Association's credit quality. For the year ended December 31, 2015, Cape Fear Farm Credit's financial performance continued to be strong. The Association remained in a strong capital position. A great deal of uncertainty still exists overall. We are carefully managing through this uncertainty while at the same time aggressively looking to enhance our overall position by making high quality loan decisions and seeking attractive new loan opportunities with qualified borrowers.

**LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

In the tables below, classifications of loan type information for 2014 and 2013 have been updated for amounts that were previously reported in the 2014 Annual Report to correct errors. See Note 3, Loans and Allowance for Loan Losses, in the Notes to the Financial Statements for information on these classification revisions.

The diversification of the Association loan volume by type for each of the past three years is shown below.

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| **Loan Type** | **2015** | | **2014 (as revised)** | | **2013 (as revised)** | |
| | *(dollars in thousands)* | | | | | |
| Real estate mortgage | $ 526,365 | 63.40% | $ 502,448 | 63.63 % | $ 472,664 | 61.99 % |
| Production and intermediate-term | 259,901 | 31.31 | 247,835 | 31.39 | 256,700 | 33.66 |
| Processing and marketing | 28,833 | 3.47 | 25,853 | 3.27 | 20,691 | 2.71 |
| Farm related business | 6,376 | 0.77 | 5,641 | 0.71 | 4,015 | 0.53 |
| Rural residential real estate | 5,503 | 0.66 | 4,267 | 0.54 | 4,319 | 0.57 |
| Communication | 2,751 | 0.33 | 3,123 | 0.40 | 3,461 | 0.45 |
| Loans to Cooperatives | 249 | 0.03 | 250 | 0.03 | 402 | 0.05 |
| Energy | 276 | 0.03 | 276 | 0.03 | 276 | 0.04 |
| | $ 830,254 | 100.00 % | $ 789,693 | 100.00 % | $ 762,528 | 100.00 % |

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the loan volume by branch for the past three years is as follows:

| | December 31, | | |
|---|---|---|---|
| **Branch/State** | **2015** | **2014** | **2013** |
| Burgaw | 5.30% | 5.21% | 5.33% |
| Clinton | 14.37 | 16.66 | 17.56 |
| Dunn | 6.24 | 6.88 | 7.27 |
| Elizabethtown | 10.40 | 9.74 | 9.80 |
| Fayetteville | 2.90 | 3.35 | 3.46 |
| Kenansville | 20.65 | 20.78 | 20.19 |
| Lillington | 3.59 | 3.37 | 3.68 |
| Lumberton | 9.33 | 9.14 | 8.72 |
| Raeford | 5.37 | 5.75 | 5.54 |
| Shallotte | 1.47 | 1.16 | 1.44 |
| Whiteville | 4.63 | 4.28 | 3.72 |
| Capital Markets | 5.52 | 4.34 | 3.41 |
| Commercial | 7.22 | 7.71 | 7.84 |
| Bonds & Investments | .04 | 0.05 | 0.06 |
| Special Asset Management | 2.97 | 1.58 | 1.98 |
| | 100.00% | 100.00% | 100.00% |

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association's loan portfolio are shown below. The predominant commodities are Swine, Chickens, and Field & Row Crops, which constitute 65 percent of the entire portfolio.

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| **Commodity Group** | **2015** | | **2014** | | **2013** | |
| | *(dollars in thousands)* | | | | | |
| Swine | $ 247,738 | 30% | $ 241,697 | 31% | $ 242,788 | 32% |
| Chickens | 180,155 | 22 | 172,480 | 22 | 164,355 | 22 |
| Field & Row Crops | 109,047 | 13 | 101,804 | 13 | 87,216 | 11 |
| Landlords | 55,929 | 7 | 56,250 | 7 | 62,137 | 8 |
| Tobacco | 51,578 | 6 | 43,435 | 6 | 40,912 | 5 |
| Fruits, Vegetables, & Nuts | 39,328 | 5 | 34,717 | 4 | 29,001 | 4 |
| Timber, Sawmills, & Paper | 42,895 | 5 | 34,349 | 4 | 34,241 | 4 |
| Cotton | 21,926 | 2 | 25,779 | 3 | 27,854 | 4 |
| Livestock | 22,230 | 3 | 24,598 | 3 | 15,293 | 2 |
| Other | 27,369 | 3 | 22,495 | 3 | 20,826 | 3 |
| Turkeys | 18,215 | 2 | 19,308 | 2 | 24,600 | 3 |
| Non-Farm & Miscellaneous | 7,094 | 1 | 6,908 | 1 | 7,065 | 1 |
| Rural Home | 6,750 | 1 | 5,873 | 1 | 6,240 | 1 |
| Total | $ 830,254 | 100% | $ 789,693 | 100% | $ 762,528 | 100% |

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of swine, chicken, and field & row crop producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Demand for pork and chicken, prices of field grains, and international trade are some of the factors affecting the price of these commodities. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

The Association had a 4.83% increase in gross loan volume for the twelve months ended December 31, 2015, in comparison with the same period of 2014. Purchased accruing loans increased by $12,018 or 35.04% in 2015 from 2014. The Association had a $14,859 increase in sold volume which equated to a 4.00% increase in net accruing volume in 2015 in comparison with 2014.

During 2015, the Association continued activity in the selling of loan participations within the System. Selling participation loans provides a means for the Association to spread credit concentration risk and realize interest and fee income which may strengthen our capital position. The Association continued strict guidelines for purchases in 2015.

| | December 31, | | |
|---|---|---|---|
| **Loan Participations:** | **2015** | **2014** | **2013** |
| | *(dollars in thousands)* | | |
| Participations Purchased – FCS Institutions | $ 45,898 | $ 33,734 | $ 24,523 |
| Participations Purchased – Non-FCS Institutions | 520 | 621 | 1,484 |
| Participations Sold | (188,279) | (173,542) | (215,813) |
| Total | $ (141,861) | $ (139,187) | $ (189,806) |

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2015.

The Association continued to sell qualified long-term mortgage loans into the secondary market in 2015. For the period ended December 31, 2015, the Association originated loans for resale totaling $2,475 which is an increase of $296 or 13.58% from the 2014 amount of $2,179 originated. Of the $2,475 originated in 2015, $2,475 was sold into the secondary market and no loans were held for sale at year end waiting processing and funding. The Association originated $2,179 loans for resale in 2014, $2,179 was sold into the secondary market, and no loans were held for sale at year end waiting processing and funding. The Association originated $3,615 loans for resale in 2013, $3,615 was sold into the secondary market, and no loans were held for sale at year end waiting processing and funding.

## MISSION RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot program and the Tobacco Buyout Program under the Mission Related Investments umbrella, as described in the following.

Effective December 31, 2014, the FCA concluded each pilot program approved as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs have concluded, the FCA can consider future requests on a case-by-case basis.

In October 2005, the FCA authorized AgFirst and the Associations to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program was to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds are classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2015, the Association had $7,697 in Rural America Bonds of which $331 of these instruments were classified as Loans on the Consolidated Balance Sheets and the other $7,366 were classified as Investment Securities. As of December 31, 2014, the Association had $5,026 in Rural America Bonds of which $379 of these instruments were classified as Loans and the other $4,647 were classified as Investment Securities. As of December 31, 2013, the Association had $7,647 in Rural America Bonds of which $427 of these instruments were classified as Loans and the other $7,220 were classified as Investment Securities.

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers received equal annual payments through 2014 under a contract with the Secretary of Agriculture. The Tobacco Act also included a provision that allowed the quota holders and producers to assign to a "financial institution" the right to receive the contract payments (Successor-in-Interest Contracts (SIIC)) so that they may obtain a lump sum or other payment. On April 4, 2005, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout). At December 31, 2015, 2014, and 2013 the Association had $0, $0, and $5,522, respectively, in SIIC outstanding. These instruments are classified as Other Investments on the Consolidated Balance Sheets. The final payment under this program was received in January 2014.

**CREDIT RISK MANAGEMENT**

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income
- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

| Credit Quality | 2015 | 2014 | 2013 |
|---|---|---|---|
| Acceptable & OAEM | 96.06% | 96.37% | 97.52% |
| Substandard | 3.94% | 3.63% | 2.48% |
| Doubtful | –% | –% | –% |
| Loss | –% | –% | –% |
| Total | 100.00% | 100.00% | 100.00% |

The Association monitors and manages risk concentrations to safeguard the investment of its stockholders. Risk concentrations can arise from:

- the collective exposure of loan(s) to a single obligor or group of obligors;
- a group of loans in which the primary repayment source is dependent upon a common affiliated party such as a livestock integrator, a marketing cooperative, a specialized buying station, etc.;
- a group of loans whose primary repayment source is dependent upon a specific commodity or industry;
- financial entities failing to meet their contractual obligations to the Association, referred to as financial counterparty risk.

The tools for managing these risks include financial monitoring of the risk source, proper reserve and capital levels, loan participations and cooperative lending, government guarantees, standby loan guarantees issued by other financial institutions, and periodic stress testing of the Association's portfolio.

In 2011, the Association entered into a standby loan guarantee agreement with Farmer Mac, a separate entity of the Farm Credit System, to guarantee a pool of loans. Under the terms of the agreement, Farmer Mac is obligated to purchase loans that default and limit the Association's maximum loss potential to three percent of the initial loan balance of the pool or $4,798. This standby guarantee agreement reduced the Association's risk caused by concentrations in certain industries and certain affiliated parties. As of the year ended December 31, 2015, the balance of loans guaranteed in this pool was $40,982. As of December 31, 2015, no losses have been recognized on the Farmer Mac pool.

The Association also utilizes government guarantees to help reduce risk on individual loan relationships and to help manage concentration risk. As of the year ended December 31, 2015, the balance of loans secured by a government guarantee was $70,905. The balance of loans secured by a government guarantee for the years ended in 2014 and 2013 was $75,962 and $75,822, respectively.

*Nonperforming Assets*

The Association's loan portfolio is divided into performing and high-risk categories. A Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

| | December 31, | | |
|---|---|---|---|
| **High-risk Assets** | **2015** | **2014** | **2013** |
| | | *(dollars in thousands)* | |
| Nonaccrual loans | $ 20,702 | $ 11,240 | $ 14,190 |
| Accruing restructured loans | 3,448 | 1,283 | 1,243 |
| Accruing bankruptcy loans | 921 | 1,128 | 636 |
| Accruing loans 90 days past due | – | – | – |
| Total high-risk loans | 25,071 | 13,651 | 16,069 |
| Other property owned | 1,356 | 4,976 | 4,931 |
| Total high-risk assets | $ 26,427 | $ 18,627 | $ 21,000 |
| **Ratios** | | | |
| Nonaccrual loans to total loans | 2.49% | 1.42% | 1.86% |
| High-risk assets to total assets | 3.04% | 2.23% | 2.57% |

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans increased $9,462 or 84.17% percent in 2015 in comparison with 2014. This increase is primarily the result of stress in the row crop industry that caused the transfer of several large accounts to non-accrual in the fourth quarter. Of the $20,702 in nonaccrual volume at December 31, 2015, $2,574 or 12.43%, compared to $4,388 or 39.04% and $6,083 or 42.87% at December 31, 2014 and 2013, respectively, was current as to scheduled principal and interest payments but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

*Allowance for Loan Losses*

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

The following table presents the activity in the allowance for loan losses for the most recent three years:

| | Year Ended December 31, | | |
|---|---|---|---|
| **Allowance for Loan Losses Activity:** | **2015** | **2014 (as revised)** | **2013 (as revised)** |
| | | *(dollars in thousands)* | |
| Balance at beginning of year | $ 5,378 | $ 6,057 | $ 7,425 |
| Charge-offs: | | | |
| Real estate mortgage | (13) | (150) | (898) |
| Production and intermediate-term | (59) | (955) | (1,849) |
| Energy | – | – | – |
| Agribusiness | (49) | – | (408) |
| Rural Residential Real Estate | – | – | (2) |
| Total charge-offs | (121) | (1,105) | (3,157) |
| Recoveries: | | | |
| Real estate mortgage | 1,232 | 112 | 229 |
| Production and intermediate-term | 6 | 140 | 161 |
| Energy | – | – | – |
| Agribusiness | – | – | 27 |
| Rural Residential Real Estate | – | – | 5 |
| Total recoveries | 1,238 | 252 | 422 |
| Net (charge-offs) recoveries | 1,118 | (853) | (2,735) |
| Provision for (reversal of allowance for) loan losses | 622 | 174 | 1,367 |
| Balance at end of year | $ 7,117 | $ 5,378 | $ 6,057 |
| Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period | 0.136% | (0.109)% | (0.357)% |

The allowance for loan losses by loan type for the most recent three years is as follows:

| | December 31, | | |
|---|---|---|---|
| **Allowance for Loan Losses by Type** | **2015** | **2014 (as revised)** | **2013 (as revised)** |
| | | *(dollars in thousands)* | |
| Production and intermediate-term | $ 2,600 | $ 2,032 | $ 2,615 |
| Real estate mortgage | 4,202 | 3,087 | 3,213 |
| Agribusiness | 227 | 184 | 149 |
| Energy | 2 | 2 | 2 |
| Rural residential real estate | 68 | 55 | 57 |
| Communication | 18 | 18 | 21 |
| Total allowance | $ 7,117 | $ 5,378 | $ 6,057 |

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

| **Allowance for Loan Losses** | December 31, | | |
|---|---|---|---|
| **as a Percentage of:** | **2015** | **2014** | **2013** |
| Total loans | 0.86% | 0.68% | 0.79% |
| Nonperforming loans | 29.47% | 42.95% | 39.25% |
| Nonaccrual loans | 34.38% | 47.85% | 42.69% |

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

## RESULTS OF OPERATIONS

*Net Interest Income*

Net interest income was $24.7 million, $24.3 million, and $24.5 million in 2015, 2014 and 2013, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

**Change in Net Interest Income:**

| | Volume* | Rate | Nonaccrual Income | Total |
|---|---|---|---|---|
| | *(dollars in thousands)* | | | |
| **12/31/15 - 12/31/14** | | | | |
| Interest income | $ 2,347 | $ (1,079) | $ 414 | $ 1,682 |
| Interest expense | (778) | (548) | – | 1,326 |
| Change in net interest income | $ 1,569 | $ (1,627) | $ 414 | $ 356 |
| **12/31/14 - 12/31/13** | | | | |
| Interest income | $ 468 | $ (721) | $ (60) | $ (313) |
| Interest expense | (127) | (56) | – | (183) |
| Change in net interest income | $ 595 | $ (665) | $ (60) | $ (130) |

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

*Noninterest Income*

Noninterest income for each of the three years ended December 31 is shown in the following table:

| Noninterest Income | For the Year Ended December 31, 2015 | 2014 | 2013 | Percentage Increase/(Decrease) 2015/2014 | 2014/2013 |
|---|---|---|---|---|---|
| | *(dollars in thousands)* | | | | |
| Loan fees | $ 2,118 | $ 2,097 | $ 1,944 | 1.00% | 7.87% |
| Fees for financially related services | 141 | 50 | 104 | 182.00 | (51.92) |
| Patronage refund from other Farm Credit Institutions | 9,830 | 12,995 | 14,900 | (24.36) | (12.79) |
| Insurance Fund refund | – | – | – | – | – |
| Other noninterest income | 224 | 288 | 332 | (22.22) | (13.25) |
| Total noninterest income | $ 12,313 | $ 15,430 | $ 17,280 | (20.20)% | (10.71)% |

Noninterest income decreased $3,117 or 20.20% when comparing 2015 to 2014 and decreased $1,850 or 10.71% when comparing 2014 to 2013. The decrease from 2014 to 2015 is primarily attributed to a decrease in the special patronage distribution from AgFirst from $7,532 in 2014 to $4,336 in 2015. The decrease from 2013 to 2014 is also primarily attributed to a decrease in the special patronage distribution from $9,174 in 2013 to $7,532 in 2014. This special patronage is nonreoccurring and was declared by the AgFirst's Board of Directors in both 2014 and 2015 due to their very strong earnings and high capital levels. The Association had a $21 increase in Loan Fees from 2014 to 2015 and a $91 increase in Fees for Financially Related Services from 2014 to 2015. Other noninterest income decreased to $224 in 2015 from $288 in 2014.

*Noninterest Expense*

Noninterest expense for each of the three years ended December 31 is shown in the following table:

| Noninterest Expense | For the Year Ended December 31, 2015 | 2014 | 2013 | Percentage Increase/(Decrease) 2015/2014 | 2014/2013 |
|---|---|---|---|---|---|
| | *(dollars in thousands)* | | | | |
| Salaries and employee benefits | $ 10,269 | $ 9,790 | $ 9,739 | 4.89% | 0.52% |
| Occupancy and equipment | 719 | 796 | 626 | (9.67) | 27.16 |
| Insurance Fund premiums | 782 | 690 | 587 | 13.33 | 17.55 |
| (Gains) losses on other property owned, net | 1,074 | 487 | 2,454 | 120.53 | (80.15) |
| Other operating expenses | 3,788 | 3,592 | 3,714 | 5.46 | (3.28) |
| Total noninterest expense | $ 16,632 | $ 15,355 | $ 17,120 | 8.32% | (10.31)% |

Salaries and employee benefits increased by $479 or 4.89% in 2015 as compared with 2014. Insurance Fund premiums increased 13.33% percent for the twelve months ended December 31, 2015 compared to the same period of 2014. The FCSIC set premiums at 13 basis points on adjusted insured debt outstanding for all of 2015. In addition, there was a 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments. The Association recognized losses on Other Property Owned of $1,074 in 2015 compared to $487 for 2014 and $2,454 for 2013. The increase in losses on Other Property Owned is primarily attributed to the loss associated with the sale of one large property in the fourth quarter. Please refer to Note 5, *Other Property Owned*, of the Notes to the Consolidated Financial Statements, for more information concerning Association Other Property Owned. Other Operating Expenses increased by 5.46% in 2015 from 2014. The total increase in noninterest expense in 2015 in comparision with 2014 is primarily a result of the increase in losses on Other Property Owned and Salaries and Employee Benefits. Total noninterest expense increased $1,277 or 8.32% when comparing 2015 to 2014 and decreased $1,765 or 10.31% when comparing 2014 to 2013.

*Income Taxes*

The Association recorded a provision for income taxes of $150 for the year ended December 31, 2015 as compared to a provision of $150 for 2014 and a provision of $263 for 2013. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes* of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

*Key Results of Operations Comparisons*

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

| Key Results of Operations Comparisons | For the 12 Months Ended 12/31/15 | 12/31/14 | 12/31/13 |
|---|---|---|---|
| Return on average assets | 2.30% | 2.95% | 2.86% |
| Return on average members' equity | 10.96% | 14.16% | 14.99% |
| Net interest income as a percentage of average earning assets | 3.00% | 3.09% | 3.14% |
| Net (charge-offs) recoveries to average loans | 0.136% | (0.109)% | (0.357)% |

Cape Fear Farm Credit has enjoyed robust earnings in recent years with strong interest income as well as noninterest income. The Association has also experienced moderate and manageable loan volume growth over the last three years. Net charge-offs as a percentage of average loans have remained less than (1.0)% over the last three years, and the Association's net interest margin, while contracting slightly, has remained strong.

Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. We also seek to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

**LIQUIDITY AND FUNDING SOURCES**

*Liquidity and Funding*

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA 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, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2015, was $667,938 as compared to $636,579 at December 31, 2014 and $633,872 at December 31, 2013. The increase of 4.93% compared to December 31, 2014 is attributed to an increase in loan volume year over year. The slight increase of 0.43% as of December 31, 2014 compared to December 31, 2013 is attributable to an increase in loan volume year over year. The average volume of outstanding notes payable to the Bank was $656,724 for the year ended December 31, 2015. For the year ended December 31, 2014 and 2013, the average volume outstanding notes payable to the Bank was $633,180 and $639,065, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

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. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit available from third party financial institutions as of December 31, 2015.

*Funds Management*

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 30 or 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

*Relationship with the Bank*

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this Annual Report.

The Bank's ability to access capital of the Association is discussed in Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding Sources" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this Annual Report.

**CAPITAL RESOURCES**

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2015 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2015, increased 4.50% percent to $177,423 from the December 31, 2014 total of $169,784. At December 31, 2014, total members' equity increased 6.24% from the December 31, 2013 total of $159,808. The increase was primarily attributed to the increase in retained surplus due to the amount of net income being greater than any surplus amounts revolved or redeemed in 2015.

Total capital stock and participation certificates were $2,414 on December 31, 2015, compared to $2,409 on December 31, 2014, and $2,437 on December 31, 2013.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

| | 2015 | 2014 | 2013 | Regulatory Minimum |
|---|---|---|---|---|
| Permanent capital ratio | 22.23% | 23.30% | 22.25% | 7.00% |
| Total surplus ratio | 21.91% | 22.96% | 21.88% | 7.00% |
| Core surplus ratio | 21.91% | 22.96% | 21.88% | 3.50% |

The decrease in the Association's permanent capital, total surplus, and core surplus for December 31, 2015 was due to increased loan volume which increased the Association's risk-adjusted asset base. The total and core surplus ratios are exactly the same because the Association no longer has any allocated surplus that is scheduled to be revolved. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

## PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This program includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $12,000 in 2015, $14,000 in 2014, and $7,500 in 2013.

## YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to be the lender of choice to all of agriculture and our rural communities, which includes providing credit to Young*, Beginning** and Small*** farmers. We recognize these farmers are vital to the future growth of the Association and our ability to meet our mission. As the aging demographic indicates that the average age of a farmer is 59, it is even more important to the Association that we be committed to attracting, growing and retaining the YSB volume in our territory.

For these reasons, the Association has established annual business goals to ensure we meet the financial needs of these farmers and increase our market share of loans to these farmers. These business goals include both specific marketing plans to target these groups and designated resources to help ensure YBS borrowers have access to a stable source of credit. The Association did meet its 2015 goals and will continue to strive to build its YBS portfolio.

The following table outlines the loan volume and number of YBS loans originated by the Association in 2015.

| | As of December 31, 2015 | |
|---|---|---|
| | Number of Loans | Amount of Loans |
| Young | 304 | $46,952 |
| Beginning | 358 | $52,903 |
| Small | 744 | $43,991 |

*Note: For purposes of the above table, a loan could be classified in more than one category depending upon the characteristics of the underlying borrower. Dollar figures are in thousands.*

The 2012 USDA Ag Census data has been used as a benchmark to measure the Association's market share to this group of farmers. The census indicated there were 6,348 farmers within the Association's chartered territory (counties). Of these reported farmers, the following were classified as Young, Beginning or Small Farmers:

- 378 or 6.0% of the total – Young;
- 1,265 or 19.90% of the total – Beginning; and
- 4,724 or 74.40% of the total – Small.

The Ag Census does not collect data on how many of these farmers borrow money, thus a fair comparison of market percentage is not possible. However, as of December 31, 2015, the demographics of the Association's agricultural portfolio contained 5,333 loans to farmers. Of that total, the following were classified as Young, Beginning or Small Farmers:

- 846 or 16% of the total were Young Farmers;
- 1,104 or 21% of the total were Beginning Farmers; and
- 2,181 or 41% of the total were to Small Farmers.

The Association recognizes these farmers have unique credit and business needs to be successful. Through marketing, outreach and financial support programs, we have created a three-pronged approach to help young, beginning and small farmers in 2015. These initiatives and outreach programs included:

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations.
- Involvement of at least one Young, Beginning, or Small (YBS) Farmer on each Branch Advisory Committee.
- Implementation of streamlined loans with reduced cost.
- Sponsorship of a program called Ag Biz Planner – an e-learning course focused on helping young, beginning, small or minority farmers develop a business plan and learn to be successful business owners. At the conclusion of the online portion, all participants come together for a day and a half conference to hear expert speakers and engage in network activities to put in practice the principles learned in the course.
- Sponsorship of an Emerging Entrepreneurs' Conference – a three day conference focused on young, beginning, small and minority farmers. Topics include farm transition, farm management, issues facing agriculture, and strategic planning all delivered by expert speaker(s). The conference is designed to create an interactive environment for emerging entrepreneurs to network and share ideas.
- Advertising, including radio and use of the Association's internet site to reach YBS Farmers.

The Chief Lending Officer coordinates the Association's YBS efforts. The Association includes YBS goals in the annual strategic plan and reports on those goals and achievements to the Board of Directors on a quarterly basis.

The Association is committed to the future success of Young, Beginning and Small farmers. Additional business objectives have been added in 2015 to continue to promote this important customer base.

* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

## REGULATORY MATTERS

As stated in previous Quarterly Reports to Stockholders, the Association was operating under a Supervisory Agreement with FCA. On November 24, 2015 the Supervisory Agreement with FCA that the Association was previously operating under was lifted.

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

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

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

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 FCA expects to issue a final regulation in 2016. 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

The Dodd-Frank Act was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the statutory provisions of the Dodd-Frank Act are not applicable to the Farm Credit System.

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions require, among other things, more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges or other multilateral platforms. Margin is required for these transactions.  Derivative transactions that are not subject to mandatory trading and clearing requirements may be subject to minimum margin and capital requirements.  The Commodity Futures Trading Commission and other federal banking regulators have exempted System institutions from certain, but not all, of these new requirements, including, for swaps with members, mandatory clearing and minimum margin for noncleared swaps.

Notwithstanding the above-mentioned exemptions from clearing and margin requirements for System institutions, counterparties of System institutions may require margin or other forms of credit support as a condition to entering into noncleared transactions because such transactions may subject these counterparties to more onerous capital, liquidity and other requirements absent such margin or credit support. Alternatively, these counterparties may pass on the capital and other costs associated with entering into transactions if insufficient margin or other credit support is not provided.

The Dodd-Frank Act requirements may make derivative transactions more costly and less attractive as risk management tools for System institutions; and thus may impact the System's funding and hedging strategies.

The Dodd-Frank Act also created a new federal agency called the Consumer Financial Protection Bureau (CFPB). The CFPB has the responsibility to regulate the offering of consumer financial products or services under federal consumer financial laws. The Farm Credit Administration retains the responsibility to oversee and enforce compliance by System institutions with relevant rules adopted by the CFPB.

In light of the foregoing, it is difficult to predict at this time the extent to which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have an impact on the System. However, it is possible they could affect funding and hedging strategies and increase funding and hedging costs.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

# Disclosure Required by Farm Credit Administration Regulations

**Description of Business**

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Consolidated Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report.

**Unincorporated Business Entities**

The Association holds an equity ownership in the following Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC). The LLCs were organized for the stated purpose of acquiring and managing unusual or complex collateral associated with former loans until such time as the assets may be sold or otherwise disposed of pursuant to the terms of the Operating Agreements of the respective LLCs.

| Entity Name | Entity Type | Entity Purpose |
|---|---|---|
| Cape Fear Acquisitions | LLC | Manage Acquired Property |
| CBF Holdings | LLC | Manage Acquired Property |
| Ethanol Holding Company | LLC | Manage Acquired Property |
| A1 Ledges Wilder | LLC | Manage Acquired Property |
| A1 Sequatchie Point | LLC | Manage Acquired Property |

**Description of Property**

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in North Carolina:

| Location | Description | Form of Ownership |
|---|---|---|
| 333 East Russell Street Fayetteville | Administrative/ Branch | Owned |
| 105 East Front Street Lillington | Branch | Owned |
| 400 West Broad Street Dunn | Branch | Owned |
| 1780 Southeast Boulevard Clinton | Branch | Owned |
| 127 Beasley Street Kenansville | Branch | Owned |
| 811 South Walker Street Burgaw | Branch | Owned |
| 108 North Poplar Street Elizabethtown | Branch | Owned |
| 331 South Main Street Raeford | Branch | Owned |
| 1902 North Cedar Street Lumberton | Branch | Owned |
| 300 Liberty Street Whiteville | Branch | Owned |
| 4631 Main Street Shallotte | Branch | Owned |

**Legal Proceedings**

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, of the Consolidated Financial Statements included in this Annual Report.

**Description of Capital Structure**

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Members' Equity,* of the Consolidated Financial Statements included in this Annual Report.

**Description of Liabilities**

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Consolidated Financial Statements included in this Annual Report.

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

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

## Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

| Senior Officer | Position & Other Business Interests |
|---|---|
| William L. Melton | *Interim President and Chief Executive Officer* From July 2013 to January 2016. He previously served as Senior Vice President and Chief Lending Officer at AgFirst Farm Credit Bank from July 2003 through June 2013. |
| Bradford (Brad) Cornelius | *President and Chief Executive Officer* since January 2016. He previously served as Chief Credit Officer at AgChoice Farm Credit Bank for five years. Prior to this he spent eighteen years in various lending and credit roles at AgGeorgia Farm Credit. |
| Laura (Skipper) Jones | *Senior Vice President / Administrative Officer* since July 2014. She previously served as Marketing Manager from September 2008 to July 2014. |
| Evan J. Kleinhans | *Senior Vice President / Chief Financial Officer* since November 2011. He previously served as Vice President of Finance and Accounting for Information Sciences Consulting, Inc. Mr. Kleinhans serves as the Treasurer of CBF Holdings, LLC which is an Unincorporated Business Entity created for the purpose of acquiring and managing unusual or complex collateral associated with former loans that Cape Fear Farm Credit has an equity ownership in. |
| Tammy J. Mitten | *Senior Vice President / Chief Lending Officer* since June 2014. She previously served as Vice President and Unit Manager over the Business Systems and Credit Operations at the Farm Credit Bank of Texas in Austin, TX from August 2010 until June 2014. Prior to this she served as a Senior Vice President and Senior Relationship Manager in the Government and Institutional Banking Group at Wachovia Bank. |
| Brian J. Smith | *Senior Vice President / Chief Risk Officer* since May 2011. Served as Interim President & Chief Executive Officer between January 2013 and July 2013. He also served as Senior Vice President and Senior Credit Analyst at Four Oaks Bank from June 2008 through May 2011 and prior to that served as Vice President – Credit at AgCarolina Farm Credit. Mr. Smith serves as a Member Manager of CBF Holdings, LLC which is an Unincorporated Business Entity created for the purpose of acquiring and managing unusual or complex collateral associated with former loans that Cape Fear Farm Credit has an equity ownership in. |
| Betty Kay Williams | *Senior Vice President / Chief Credit Operations Officer* since April 2011. She previously served the Association as a Vice President and Senior Credit Administrator from November 2010 to April 2011. Prior, she served the Association as Vice President and Branch Manager. |

The total amount of compensation earned by the Chief Executive Officer (CEO) and the senior officers and other highly compensated employees as a group during the years ended December 31, 2015, 2014 and 2013, is as follows:

| Name of Individual or Number in Group | Year | Salary | Bonus | Deferred Comp. | Change in Pension Value* | Perq/ Other** | Total |
|---|---|---|---|---|---|---|---|
| William L. Melton | 2015 | $ 310,012 | $ 135,000 | $ – | $ 108 | $ – | $ 445,120 |
| William L. Melton | 2014 | $ 290,845 | $ – | $ – | $ 8,300 | $ – | $ 299,145 |
| William L. Melton (a) | 2013 | $ 123,060 | $ – | $ – | $ 2,834 | $ – | $ 125,894 |
| Brian J. Smith (b) | 2013 | $ 79,722 | $ 19,838 | $ – | $ 1,777 | $ – | $ 101,337 |
| Michael R. Jackson(c) | 2013 | $ 173,580 | $ 47,080 | $ 439,952 | $ (110,548) | $ 35,698 | $ 585,762 |
| 6 | 2015 | $ 746,459 | $ 128,929 | $ – | $ 4,145 | $ – | $ 875,388 |
| 7 (d) | 2014 | $ 747,686 | $ 135,935 | $ 10,851 | $ 559,282 | $ 9,516 | $ 1,463,270 |
| 5 | 2013 | $ 506,243 | $ 94,023 | $ – | $ (35,348) | $ 28,518 | $ 593,436 |

*All amounts are in actual dollars*

* *On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures." The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. The rule will be effective 30 days after publication in the Federal Register during which time either one or both Houses of Congress are in session. System banks and associations must comply with the rule for compensation reported in the table for the fiscal year ending 2015, and may implement the rule retroactively for the fiscal years ended 2014 and 2013. The Association applied the rule retroactively to 2013 but this application had no effect on the 2013 amounts as previously reported in the 2013 Annual Report.*

** *The Perquisites/Other amount disclosed in the above chart includes club memberships, automobile allowance, deferred compensation, life insurance, and relocation reimbursement.*

*(a) Appointed by Board of Directors in July 2013*

*(b) Served as Interim CEO From January 2013 to July 2013. Served as senior officer prior to appointment. His compensation is prorated between the CEO disclosure and Senior Officer disclosure based on days served in each position.*

*(c) Effective January 2013, the Board did not renew CEOs contract. Salary includes salary earned in 2013, accrued leave payout, and severance agreement. Deferred compensation related to severance agreement. Bonus paid in 2013 was earned in 2012 and paid pursuant to severance agreement.*

*(d) The changes in pension values in 2014 as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statement.*

The disclosure of information on the total compensation paid during 2015 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

On March 31, 2014, the FCA published an interim final rule rescinding all requirements for nonbinding advisory votes on senior officer compensation at System banks and associations. The comment period for the interim rule ended on April 30, 2014 and the final rule became effective on June 18, 2014.

For the year ended December 31, 2015, no advisory votes were held. On October 3, 2012, FCA adopted a regulation that requires all System institutions to hold advisory votes on the compensation for all senior officers and/or the CEO when the compensation of either the CEO or the senior officer group increases by 15 percent or more from the previous reporting period. In addition, the regulation requires associations to hold an advisory vote on CEO and/or senior officer compensation when 5 percent of the voting stockholders petition for the vote and to disclose the petition authority in the annual report to shareholders. The regulation became effective December 17, 2012, and the base year for determining whether there is a 15 percent or greater increase was 2013. No District Association held an advisory vote based on a stockholder petition in 2013.

On January 17, 2014, the President signed into law the Consolidated Appropriations Act, which includes language prohibiting the FCA from using any funds available to "implement or enforce" the regulation. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. Section 5404 of the law directs FCA, within 60 days of enactment of the law, to "review its rules to reflect the Congressional intent that a primary responsibility of boards of directors of Farm Credit System institutions, as elected representatives of their stockholders, is to oversee compensation practices." FCA has not yet taken any action with respect to their regulation in response to these actions. Regulatory reporting changes have affected the content of the compensation reported for 2013, 2014, and 2015.

Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement. Amounts in the above table classified as Other include amounts contributed by the Association on behalf of the senior officer to a defined contribution plan unless the plan is made available to all employees on the same basis.

In addition to a base salary, senior officers earn additional compensation under a profit sharing plan. The Association profit sharing plan is designed to motivate employees to maximize the return to Association stockholders. The profit sharing plan has positive and negative adjustments for loan volume growth, earnings, efficiencies, and credit quality factors. All Association employees, with the exception of the Chief Executive Officer, are covered by the plan. The Chief Executive Officer's bonus is at the discretion of the Board of Directors. Bonuses shown in previous years are shown in the year earned which may be different than the year of payment.

Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

**Pension Benefits Table**
**As of December 31, 2015**

| Name of Individual or Number in Group | Year | Plan Name | Number of Years Credited Service | Actuarial Present Value of Accumulated Benefits | Payments During 2015 |
|---|---|---|---|---|---|
| **CEO:** | | | | | |
| William L. Melton (1) | 2015 | AgFirst Cash Balance Retirement Plan | 2.42 | $ 11,243 | $ – |
| | | | | $ 11,243 | $ – |
| **Senior Officers and Highly Compensated Employees:** | | | | | |
| 2 Officers, excluding the CEO | 2015 | AgFirst Retirement Plan | 39.67 | $ 2,679,230 | $ – |
| 4 Officers, excluding the CEO | 2015 | AgFirst Cash Balance Retirement Plan | 4.25 | 41,829 | – |
| | | | | $ 2,721,059 | $ – |

*All amounts are in actual dollars*
* *Represents the average years of credited service for the group*

## Retirement and Deferred Compensation Plans

The Association's compensation programs include retirement and deferred compensation plans designed to provide income following an employee's retirement. Although retirement benefits are paid following an employee's retirement, the benefits are earned while employed. The objective of the Association is to offer benefit plans that are market competitive and aligned with the Association's strategic objectives. The plans are designed to enable the Association to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that supports the Association's mission and that allows the Association to align the human capital needs with the Association's overall strategic plan.

Employees participate in one of two qualified defined benefit retirement plans.

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees hired on or after January 1, 2003 participate in the AgFirst Farm Credit Cash Balance Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 with a minimum of 5 years of credited service or at age 55 with a minimum of 10 years of credited service. Upon retirement, payout is determined using a percent of eligible compensation formula, subject to the Internal Revenue Code limitation on compensation, and regular interest credits. For purposes of determining the payout, "compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan which has an employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to $0.50 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003 receive a maximum employer matching contribution equal to $1.00 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees may participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Association.

**Chief Executive Officer**

Mr. Melton participates in the AgFirst Farm Credit Cash Balance Retirement Plan, as described above. Mr. Cornelius participates in the AgFirst Farm Credit Retirement Plan. Mr. Jackson participated in the AgFirst Farm Credit Retirement Plan until his retirement on May 3, 2013 at which time he was eligible to begin drawing unreduced pension benefits. Mr. Smith participated in the AgFirst Farm Credit Cash Balance Retirement Plan during his time as Interim CEO and continues to participate in his current senior officer position.

Mr. Melton does not participate in the Farm Credit Benefits Alliance 401(k) Plan, as described above. Mr. Cornelius participates in the Farm Credit Benefits Alliance 401(k) Plan. Mr. Jackson participated in the Farm Credit Benefits Alliance 401(k) Plan until his retirement on May 3, 2013. Mr. Smith also participated in the Farm Credit Benefits Alliance 401(k) Plan during his time as Interim CEO and continues to participate in his current senior officer position.

Mr. Melton does not participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above. Mr. Cornelius also does not participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan. Mr. Jackson did not participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan. Mr. Smith participated in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan during his time as Interim CEO and continues to participate in his current senior officer position.

**Directors**

The following chart details the year the director began serving on the board, the current term of expiration, and total cash compensation paid:

| DIRECTOR & TITLE* | ORIGINAL YEAR OF ELECTION OR APPOINTMENT | CURRENT TERM EXPIRATION** | TOTAL COMP. PAID DURING 2015 |
|---|---|---|---|
| F.A. Lowrey, *Chairman, Outside Director* | 2013 | 2016 | $55,000 |
| Glenn E. Harder, *Vice Chairman*, *Outside Director* | 2013 | 2016 | 44,000 |
| Alton D. Bain, *Outside Director* | 2014 | 2017 | 25,000 |
| Anthony E. Darden | 2014 | 2016 | 20,000 |
| David R. Gooden (1) | 2014 | 2018 | 20,000 |
| Anthony T. Grant, *Outside Director* | 2013 | 2016 | 44,000 |
| Gary A. Hendrix | 2007 | 2018 | 20,000 |
| P. Jart Hudson | 2003 | 2016 | 20,000 |
| Paul M. Maguire | 2014 | 2018 | 20,000 |
| Jonathan A. Pope | 2009 | 2017 | 20,000 |
| Gary L. Rouse, *Outside Director* | 2014 | 2017 | 25,000 |
| Mitchell S. Sessoms | 2014 | 2017 | 20,000 |
| Michael T. (Bo) Stone (2) | 2015 | 2019 | 10,000 |
| Kenneth N. Waddell (3) | 2014 | 2015 | 10,000 |
| Alfred K. Wooten | 2014 | 2019 | 20,000 |
| Total | | | $373,000 |

*All amounts are in actual dollars*

* *Position Title as of 12/31/2015*
** *Term expires on the Annual Meeting Date of corresponding year unless otherwise noted*

(1) *Mr. David R. Gooden previously served from 2005-2008*
(2) *Mr. Michael T. Stone previously served from 2007-2014*
(3) *Mr. Kenneth N. Waddell's term expired in 2015*

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years.

***Mr. F. A. Lowrey,*** *Chairman,* was appointed as an Association outside director in 2013. His principal occupation and employment for the past five years was as the CEO of AgFirst Farm Credit Bank. He retired from this position in June 2012. Mr. Lowrey serves on the boards of the South Carolina Jobs & Economic Development Authority, a SC statewide conduit bond issuer, the University of South Carolina Educational Foundation, an educational institution, and the Business Partnership Foundation of the Darla Moore School of Business at the University of South Carolina, an educational institution. Mr. Lowery is Chairman of the Audit Committee of The National 4-H Council. He also serves as an elder at Eastminster Presbyterian Church, a religious organization.

***Mr. Glenn E. Harder***, *Vice Chairman*, was appointed as an Association outside director in 2013. He is the President and owner of GEH Advisory Services, LLC, a strategic advisory services firm. His principal occupation and employment for the past five years was as a business consultant with GEH Advisory

Services, LLC. Mr. Harder also served on the board of DPL, Inc., an Ohio based public utility, as Board Chairman, prior to 2012.

***Mr. Alton D. Bain***, was appointed as an Association outside director in 2014. He is a Partner in Bain & McRae, LLP, a law firm. His principal occupation and employment for the past five years was practicing law with Bain & McRae, LLP. Mr. Bain also serves on the board of the Harnett County Community Foundation (civic organization) and also as an elder at Lillington Presbyterian Church, a religious organization.

***Mr. Anthony E. Darden*** is a poultry and swine farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Darden also serves on the board of the Sampson Regional Medical Center (hospital).

***Mr. David R. Gooden*** is a row crop, hay, strawberry, cattle, timber, swine, poultry and sweet corn farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Gooden also serves on the board of the Bladen County Livestock Association (livestock promotion).

***Mr. Anthony T. Grant*** was appointed as an Association outside director in 2013. He is the CEO and owner of Grant Business Strategies, Inc., a financial advisory and business strategies firm. His principal occupation and employment for the past five years was as a business consultant with Grant Business Strategies, Inc. Mr. Grant also serves on the board of the Columbia Urban League (multi-service non-profit agency).

***Mr. Gary A. Hendrix*** is a cotton, row crop, and contract swine farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Hendrix also serves on the boards of FCI (agricultural services), the North Carolina Soybean Growers Association (crop promotion) and the Hoke County Soil & Water Conservation District (conservation).

***Mr. P. Jart Hudson, Jr.*** is a row crop, peanut, tobacco and contract swine farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Hudson also serves on the board of the Tobacco Growers Association of NC (crop promotion association,) and as an officer of Four County Peanut Services Inc.

***Mr. Paul M. Maguire*** is a cattle, poultry, hay and timber farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Maguire also serves as on the Cumberland County Extension Advisory Board (agricultural advisory board), and as an officer of the Cumberland County Livestock Association (livestock promotion).

***Mr. Jonathan (Jon) A. Pope*** is a tobacco, row crop, cattle, contract poultry and hay farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Pope also serves on the board of the Harnett County Farm Bureau (insurance).

***Mr. Gary L. Rouse*** was appointed as an Association outside director in 2014. He is the President, Stockholder and Firm Manager of Rouse & Peterson, P.A a public accounting firm. His principal occupation and employment for the last five years was practicing as a Certified Public Accountant at Rouse & Peterson, P.A.

***Mr. Mitchell S. Sessoms*** is a poultry and hay farmer. His principal occupation and employment for the last five years was working for Tyson Foods (poultry integrator) and self-employed farming.

***Mr. Michael T. (Bo) Stone*** is a row crop, hay, cattle, contract swine, produce and strawberry farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Stone also serves on the board of Southeastern Regional Medical Center (hospital), Dillon Christian School (private school), and AgFirst Farm Credit Bank.

***Mr. Kenneth N. Waddell.*** is a swine, row crop, hay and cattle farmer. His principal occupation and employment for the past five years was self-employed farming, a North Carolina House Representative (political), and a teacher (retired) at Columbus County Schools (education). Mr. Waddell also serves on the boards of the Columbus County Economic Development Commission (economic development) and Columbus County Committee of 100 (support organization). *Mr. Waddell completed his elected term as a director July 20, 2015.*

***Mr. Alfred K. Wooten*** is a turf grass, blueberry and row crop farmer. His principal occupation and employment for the past five years was self-employed farming. Mr. Wooten also serves as President of the North Carolina Sod Producers Association (crop promotion association) and on the board of the Pender County Farm Bureau (insurance).

Subject to approval by the board, the Association may allow the Chairman of the Board a quarterly retainer of $13,750, outside directors a quarterly retainer of $11,000 or $6,250 and other regular Board members a quarterly retainer of $5,000. Total compensation paid to directors as a group during 2015 was $373,000.

The following chart details the number of meetings and other activities as well as committee assignments during 2014 for each director:

| | Days Served | | |
|---|---|---|---|
| **Name of Director** | **Regular Board Meetings** | **Other Official Activities*** | **Committee Assignments**** |
| F.A. Lowrey, *Chairman, Outside Director (1)* | 12 | 44 | Compensation, Compliance, Governance |
| Glenn E. Harder, *Vice Chairman, Outside Director (3)* | 12 | 46 | Audit, Compliance, Governance |
| Alton D. Bain, *Outside Director* | 12 | 28 | Compensation |
| Anthony E. Darden | 12 | 22 | Risk Management |
| David R. Gooden | 12 | 23 | Audit |
| Anthony T. Grant, *Outside Director (2)* | 12 | 37 | Governance, Risk Management |
| Gary A. Hendrix *(4)* | 12 | 44 | Audit, Compliance, Governance |
| P. Jart Hudson | 10 | 16 | Compensation |
| Paul M. Maguire | 12 | 38 | Compliance, Risk Management |
| Jonathan A. Pope | 12 | 31 | Compliance, Risk Management |
| Gary L. Rouse, *Outside Director* | 12 | 33 | Audit |
| Mitchell S. Sessoms | 12 | 22 | Risk Management |
| Michael T. (Bo) Stone | 6 | 7 | Compensation |
| Kenneth N. Waddell | 5 | 20 | Compensation |
| Alfred K. Wooten (5) | 12 | 39 | Compensation, Governance |

** Includes board committee meetings and other board activities other than regular board meetings including training.*
*** Committee Assignments as of 12/31/2015*

*(1) Chairman of the Governance Committee*
*(2) Chairman of the Risk Committee*
*(3) Chairman of the Compliance Committee*
*(4) Chairman of the Audit Committee*
*(5) Chairman of the Compensation Committee*

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $101,703 for 2015, $79,429 for 2014 and $65,722 for 2013.

**Transactions with Senior Officers and Directors**

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

**Involvement in Certain Legal Proceedings**

There were no matters which came to the attention of management or the board of directors or senior officers regarding the involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

**Relationship with Independent Certified Public Accountants**

There were no changes in or material disagreements with our independent certified public accountants on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees paid by the Association for services rendered by its independent certified public accountants for the year ended December 31, 2015 were as follows:

| | 2015 |
|---|---|
| ***Independent Certified Public Accountants*** | |
| Pricewaterhouse Coopers LLP | |
| Audit services | $ 66,046 |
| Total | $ 66,046 |

Audit service fees were for the annual audit of the consolidated financial statements.

**Consolidated Financial Statements**

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 10, 2016 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 1-800-368-5819, extension 3243 or writing Evan J. Kleinhans, Chief Financial Officer, Cape Fear Farm Credit, PO Box 2405, Fayetteville, NC, 28302 or by accessing the web site, ***www.capefearfarmcredit.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

**Borrower Information Regulations**

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

**Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products**

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to the shareholders.

**Shareholder Investment**

Shareholder investment in the Association may be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank'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 by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

# Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Cape Fear Farm Credit (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited consolidated financial statements with management, which has primary responsibility for the consolidated financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent certified public accountants for 2015, is responsible for expressing an opinion on the conformity of the Association's audited consolidated financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 *(Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Association's Annual Report for 2015. The foregoing report is provided by the following independent directors, who constitute the Committee:

Gary A. Hendrix
Chairman of the Audit Committee

**Members of Audit Committee**

David R. Gooden
Glenn E. Harder
Gary L. Rouse

March 10, 2016

pwc

**Report of Independent Certified Public Accountants**

To the Board of Directors and Members of
Cape Fear Farm Credit, ACA

We have audited the accompanying consolidated financial statements of Cape Fear Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2015, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Certified Public Accountants' Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cape Fear Farm Credit, ACA and its subsidiaries at December 31, 2015, 2014 and 2013 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 10, 2016

*PricewaterhouseCoopers LLP, 401 E. Las Olas Blvd, Suite 1800, Fort Lauderdale, FL 33301*
*T: (954)764-7111, F: (954)525-4453,* www.pwc.com/us

# Consolidated Balance Sheets

| *(dollars in thousands)* | December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| **Assets** | | | |
| Cash | **$ 3,882** | $ 3,107 | $ 4,567 |
| Investment securities: | | | |
| Held to maturity (fair value of $7,087, $4,312, and $6,132, respectively) | **7,366** | 4,647 | 7,220 |
| Loans | **830,254** | 789,693 | 762,528 |
| Allowance for loan losses | **(7,117)** | (5,378) | (6,057) |
| Net loans | **823,137** | 784,315 | 756,471 |
| Other investments | **—** | — | 5,512 |
| Accrued interest receivable | **7,327** | 7,108 | 5,865 |
| Investments in other Farm Credit institutions | **9,084** | 8,890 | 9,018 |
| Premises and equipment, net | **3,354** | 3,081 | 2,752 |
| Other property owned | **1,356** | 4,976 | 4,931 |
| Accounts receivable | **10,340** | 13,111 | 14,517 |
| Other assets | **4,577** | 4,350 | 5,152 |
| Total assets | **$ 870,423** | $ 833,585 | $ 816,005 |
| **Liabilities** | | | |
| Notes payable to AgFirst Farm Credit Bank | **$ 667,938** | $ 636,579 | $ 633,872 |
| Accrued interest payable | **1,310** | 1,186 | 1,181 |
| Patronage refunds payable | **12,008** | 14,007 | 7,562 |
| Accounts payable | **1,070** | 2,143 | 1,547 |
| Other liabilities | **10,674** | 9,886 | 12,035 |
| Total liabilities | **693,000** | 663,801 | 656,197 |
| Commitments and contingencies (Note 11) | | | |
| **Members' Equity** | | | |
| Protected borrower stock | **3** | 3 | 4 |
| Capital stock and participation certificates | **2,411** | 2,406 | 2,433 |
| Retained earnings | | | |
| Allocated | **83,467** | 77,931 | 69,210 |
| Unallocated | **91,849** | 89,784 | 88,459 |
| Accumulated other comprehensive income (loss) | **(307)** | (340) | (298) |
| Total members' equity | **177,423** | 169,784 | 159,808 |
| Total liabilities and members' equity | **$ 870,423** | $ 833,585 | $ 816,005 |

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

# Consolidated Statements of Income

| *(dollars in thousands)* | For the year ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| **Interest Income** | | | |
| Loans | **$ 39,318** | $ 37,535 | $ 37,537 |
| Investments | **264** | 364 | 675 |
| Total interest income | **39,582** | 37,899 | 38,212 |
| **Interest Expense** | | | |
| Notes payable to AgFirst Farm Credit Bank | **14,889** | 13,563 | 13,746 |
| Net interest income | **24,693** | 24,336 | 24,466 |
| Provision for loan losses | **622** | 174 | 1,367 |
| Net interest income after provision for loan losses | **24,071** | 24,162 | 23,099 |
| **Noninterest Income** | | | |
| Loan fees | **2,118** | 2,097 | 1,944 |
| Fees for financially related services | **141** | 50 | 104 |
| Patronage refunds from other Farm Credit institutions | **9,830** | 12,995 | 14,900 |
| Gains (losses) on sales of rural home loans, net | **60** | 52 | 85 |
| Gains (losses) on sales of premises and equipment, net | **55** | 89 | (11) |
| Gains (losses) on other transactions | **—** | 7 | 213 |
| Other noninterest income | **109** | 140 | 45 |
| Total noninterest income | **12,313** | 15,430 | 17,280 |
| **Noninterest Expense** | | | |
| Salaries and employee benefits | **10,269** | 9,790 | 9,739 |
| Occupancy and equipment | **719** | 796 | 626 |
| Insurance Fund premiums | **782** | 690 | 587 |
| (Gains) losses on other property owned, net | **1,074** | 487 | 2,454 |
| Other operating expenses | **3,788** | 3,592 | 3,714 |
| Total noninterest expense | **16,632** | 15,355 | 17,120 |
| Income before income taxes | **19,752** | 24,237 | 23,259 |
| Provision for income taxes | **150** | 150 | 263 |
| Net income | **$ 19,602** | $ 24,087 | $ 22,996 |

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

# Consolidated Statements of Comprehensive Income

| *(dollars in thousands)* | For the year ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Net income | **$ 19,602** | $ 24,087 | $ 22,996 |
| **Other comprehensive income net of tax** | | | |
| Employee benefit plans adjustments | **33** | (42) | 45 |
| Comprehensive income | **$ 19,635** | $ 24,045 | $ 23,041 |

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

# Consolidated Statements of Changes in Members' Equity

| *(dollars in thousands)* | Protected Borrower Stock | Capital Stock and Participation Certificates | Retained Earnings Allocated | Retained Earnings Unallocated | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2012 | $ 34 | $ 2,445 | $ 55,494 | $ 86,915 | $ (343) | $ 144,545 |
| Comprehensive income | | | | 22,996 | 45 | 23,041 |
| Protected borrower stock issued/(retired), net | (30) | | | | | (30) |
| Capital stock/participation certificates | | | | | | |
| issued/(retired), net | | (12) | | | | (12) |
| Patronage distribution | | | | | | |
| Cash | | | | (7,500) | | (7,500) |
| Nonqualified retained earnings | | | 14,303 | (14,303) | | — |
| Patronage distribution adjustment | | | (587) | 351 | | (236) |
| Balance at December 31, 2013 | $ 4 | $ 2,433 | $ 69,210 | $ 88,459 | $ (298) | $ 159,808 |
| Comprehensive income | | | | 24,087 | (42) | 24,045 |
| Protected borrower stock issued/(retired), net | (1) | | | | | (1) |
| Capital stock/participation certificates | | | | | | |
| issued/(retired), net | | (27) | | | | (27) |
| Patronage distribution | | | | | | |
| Cash | | | | (14,000) | | (14,000) |
| Nonqualified retained earnings | | | 8,890 | (8,890) | | — |
| Patronage distribution adjustment | | | (169) | 128 | | (41) |
| Balance at December 31, 2014 | $ 3 | $ 2,406 | $ 77,931 | $ 89,784 | $ (340) | $ 169,784 |
| **Comprehensive income** | | | | **19,602** | **33** | **19,635** |
| **Capital stock/participation certificates** | | | | | | |
| **issued/(retired), net** | | **5** | | | | **5** |
| **Patronage distribution** | | | | | | |
| **Cash** | | | | **(12,000)** | | **(12,000)** |
| **Nonqualified retained earnings** | | | **5,944** | **(5,944)** | | **—** |
| **Patronage distribution adjustment** | | | **(408)** | **407** | | **(1)** |
| **Balance at December 31, 2015** | **$ 3** | **$ 2,411** | **$ 83,467** | **$ 91,849** | **$ (307)** | **$ 177,423** |

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

# Consolidated Statements of Cash Flows

| *(dollars in thousands)* | For the year ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | **$ 19,602** | $ 24,087 | $ 22,996 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Depreciation on premises and equipment | **429** | 355 | 321 |
| Amortization (accretion) of net deferred loan costs (fees) | **(32)** | (22) | (28) |
| Premium amortization (discount accretion) on investments | **(9)** | (11) | (292) |
| Provision for loan losses | **622** | 174 | 1,367 |
| (Gains) losses on other property owned | **1,177** | 139 | 1,970 |
| (Gains) losses on sales of premises and equipment, net | **(55)** | (89) | 11 |
| (Gains) losses on sales of rural home loans, net | **(60)** | (52) | (85) |
| (Gains) losses on other transactions | **—** | (7) | (213) |
| Changes in operating assets and liabilities: | | | |
| Origination of loans held for sale | **(2,475)** | (2,179) | (3,994) |
| Proceeds from sales of loans held for sale, net | **2,535** | 2,231 | 4,462 |
| (Increase) decrease in accrued interest receivable | **(219)** | (1,243) | (331) |
| (Increase) decrease in accounts receivable | **2,771** | 1,406 | (7,751) |
| (Increase) decrease in other assets | **(227)** | 802 | 26 |
| Increase (decrease) in accrued interest payable | **124** | 5 | (58) |
| Increase (decrease) in accounts payable | **(1,073)** | 596 | 220 |
| Increase (decrease) in other liabilities | **836** | (2,290) | 2,804 |
| Total adjustments | **4,344** | (185) | (1,571) |
| Net cash provided by (used in) operating activities | **23,946** | 23,902 | 21,425 |
| **Cash flows from investing activities:** | | | |
| Purchases of investment securities, held to maturity | **(2,934)** | — | (1,750) |
| Proceeds from maturities of or principal payments received on investment securities, held to maturity | **224** | 2,573 | 86 |
| Net (increase) decrease in loans | **(39,125)** | (31,034) | (5,876) |
| (Increase) decrease in investment in other Farm Credit institutions | **(194)** | 128 | 22 |
| Proceeds from payments received on other investments | **—** | 5,523 | 5,521 |
| Purchases of premises and equipment | **(695)** | (699) | (237) |
| Proceeds from sales of premises and equipment | **48** | 104 | 22 |
| Proceeds from sales of other property owned | **2,141** | 2,960 | 2,648 |
| Net cash provided by (used in) investing activities | **(40,535)** | (20,445) | 436 |
| **Cash flows from financing activities:** | | | |
| Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net | **31,359** | 2,707 | (12,273) |
| Protected borrower stock retired | **—** | (1) | (30) |
| Capital stock and participation certificates issued/(retired), net | **5** | (27) | (12) |
| Patronage refunds and dividends paid | **(14,000)** | (7,596) | (8,938) |
| Net cash provided by (used in) financing activities | **17,364** | (4,917) | (21,253) |
| Net increase (decrease) in cash | **775** | (1,460) | 608 |
| Cash, beginning of period | **3,107** | 4,567 | 3,959 |
| Cash, end of period | **$ 3,882** | $ 3,107 | $ 4,567 |
| **Supplemental schedule of non-cash activities:** | | | |
| Financed sales of other property owned | **$ 287** | $ 65 | $ 762 |
| Receipt of property in settlement of loans | **—** | 3,103 | 2,827 |
| Estimated cash dividends or patronage distributions declared or payable | **12,000** | 14,000 | 7,500 |
| Employee benefit plans adjustments (Note 9) | **(33)** | 42 | (45) |
| **Supplemental information:** | | | |
| Interest paid | **$ 14,765** | $ 13,558 | $ 13,804 |
| Taxes (refunded) paid, net | **67** | 192 | 174 |

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

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

**Note 1 — Organization and Operations**

A. **Organization:** Cape Fear Farm Credit, ACA (Association) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Bladen, Brunswick, Columbus, Cumberland, Duplin, Harnett, Hoke, New Hanover, Pender, Robeson, Sampson, and Scotland in the state of North Carolina.

The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and Associations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These Associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of Associations within their districts. AgFirst and its related Associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year-end, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and Associations. The FCA examines the activities of the Associations and certain actions by the Associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its annual average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity and financial services that can be offered by the Association, and the persons eligible to borrow.

The Associations borrow from the Bank and in turn may originate and service short- and intermediate-term loans to their members, as well as, long-term real estate mortgage loans.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a General Financing Agreement (GFA) between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as: accounting, human resources, information systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

**Note 2 — Summary of Significant Accounting Policies**

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

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

A. **Cash:** Cash represents cash on hand and on deposit at banks.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

   Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

   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 and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

   Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

   When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected and the loan is not classified "doubtful" or "loss."

   Loans are charged off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

   In cases where a borrower experiences financial difficulties and the Association makes certain concessions to the borrower such as a modification to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

   The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

   The Association considers the following factors, among others, when determining the allowance for loan losses:

   - Credit risk classifications,
   - Collateral values,
   - Risk concentrations,
   - Weather related conditions,
   - Current production and economic conditions, and
   - Prior loan loss experience.

   A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date, which excludes loans included under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Association uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the 14 categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans originated and intended for sale are carried at the lower of cost or fair value.

Generally, only home loans that are to be sold on the secondary mortgage market through various lenders are held for sale.

D. **Other Property Owned:** Other property owned, consisting of real estate, personal property and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) from Other Property Owned, Net in the Consolidated Statements of Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-downs of property held for sale are recorded as other non-interest expense.

F. **Investments:** The Association may hold investments as described below.

***Investment Securities***
The Association holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of Other Comprehensive Income (OCI). Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method.

The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in OCI.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

***Other Investments***
Other investments include Tobacco Buyout Successor-in-Interest Contracts (SIIC), which qualify as Mission Related Investments under FCA regulations. Under the SIIC, the tobacco quota holders and producers may sell their rights to receive SIIC contract payments to a third party. The successor purchases the entire contract and all related rights and obligations associated with the contract. These investments in SIIC are purchased at a discount. Contract payments are made by the United States Department of Agriculture (USDA) in equal annual payments. Interest income is recognized from the accretion of discounts using the effective interest method.

As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the Consolidated Statements of Comprehensive Income and the balance of these investments, totaling $91, is included in Other Assets on the accompanying Consolidated Balance Sheet as of December 31, 2015.

***Investment in Other Farm Credit Institutions***
The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock, as presented on the consolidated Balance Sheet as Investments in Other Farm Credit Institutions. Accounting for this investment is on the cost plus allocated equities basis.

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as Other Liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** The Association participates in District and multi-District sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan.

***Defined Contribution Plans***
Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

Additional information for the above may be found in Note 9 and the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

***Multi-Employer Defined Benefit Plans***
Substantially all employees hired before November 4, 2014 may participate in either the AgFirst Farm Credit Retirement Plan or the AgFirst Farm Credit Cash Balance Retirement Plan (collectively referred to as the "Plans"), which are defined benefit plans and considered multi-employer under FASB accounting guidance. The Plans are noncontributory and include eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of the Plans are allocated to each participating entity by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plan participants. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Association's Consolidated Balance Sheets.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Certain charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets. Since the foregoing plans are multi-employer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations.

Additional information for the above may be found in Note 9 and the Notes to the Combined Financial Statements of

AgFirst Farm Credit Bank and District Associations' Annual Report.

***Single Employer Defined Benefit Plans***
The Association also sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state, and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock, or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank on an accrual basis.

K. **Valuation Methodologies:** FASB guidance defines fair value 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. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

Level 2 inputs to the valuation methodology 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 to the valuation methodology 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 a third-party valuation or internal model pricing.

The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Please see further discussion in Note 8.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

M. **Accounting Standards Updates (ASUs):** In February, 2016, the FASB issued ASU 2016-02 Leases (Topic 842). The Update is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The ASU will require organizations that lease assets—referred to as "lessees"—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current guidance, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, the new ASU will require both types of leases to be recognized on the balance sheet. The Update also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The accounting by organizations that own the assets leased by the lessee—also known as lessor accounting—will remain largely unchanged from current guidance. However, the ASU contains some targeted improvements that are intended to align, where necessary, lessor accounting with the lessee accounting model and with the updated revenue recognition guidance issued in 2014. The amendments are effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other organizations, the ASU on leases will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application will be permitted for all organizations. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

In January, 2016, the FASB issued Accounting Standards Update (ASU) 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments are intended to improve the recognition and measurement of financial instruments. The Update affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities. The new guidance makes targeted improvements to existing GAAP by requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements, eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities, eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, and requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The ASU is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

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.

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.

In August, 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The Update defers by one year the effective date of ASU 2014-09, Revenue from Contracts with

Customers. The ASU reflects decisions reached by the FASB at its meeting on July 9, 2015.

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.

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 Update 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 may require modifications to footnote disclosures.

In April, 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the Update, debt issuance costs were required to be presented in the balance sheet as a deferred charge (asset). The recognition and measurement guidance for debt issuance costs are not affected by the amendments. For public business entities, these amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted for financial statements that have not been previously issued. The Association elected early adoption of this ASU. The required reclassifications from Other Assets to Systemwide Bonds Payable for the three years presented did not result in significant changes in the statements of financial condition or results of operations.

In February, 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments 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 modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, eliminate the presumption that a general partner should consolidate a limited partnership, affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and 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.

In January, 2015, the FASB issued ASU 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The Update eliminates the concept of extraordinary items. Currently, if an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently is being retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Association elected early adoption of this ASU. Retrospective application of the guidance did not result in any changes to the statements of financial condition or results of operations for the three years presented.

In November, 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. Under GAAP, features such as conversion rights, redemption rights, dividend payment preferences, and others that are included in instruments issued in the form of shares may qualify as derivatives. If so, the shares issued are considered hybrid financial instruments. To determine the proper accounting for hybrid financial instruments, investors and issuers in the instruments must determine whether the nature of the host contract containing the feature is more akin to debt or equity as well as whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to the host contract. The purpose of the Update is to eliminate diversity in accounting for hybrid financial instruments by both issuers and investors. When evaluating the host contract to determine whether it is more akin to debt or equity, the reporting entity should consider all relevant terms and features of the contract, including the embedded derivative feature that is being evaluated for separation. The amendments in this Update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. Application of this guidance is not expected to have a material impact on the Association's financial condition or results of operations.

In August, 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The Update is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. The Update provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments in this Update apply to all companies and not-for-profit organizations and become effective in the annual period ending after December 15, 2016, with early application permitted. It is expected that adoption will not have a material impact on the Association's financial condition or results of operations.

In August, 2014, the FASB issued ASU 2014-14, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. There was diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. The amendments require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1. The loan has a government guarantee that is not separable from the loan before foreclosure; 2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; 3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this Update were effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Adoption did not have a material impact on the Association's financial condition or results of operations.

In June, 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, which changed the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also required enhanced disclosures about repurchase agreements and other similar transactions. The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements such that, these transactions would all be accounted for as secured borrowings. The accounting changes in this Update were effective for public companies for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale was effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings was required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Earlier application for a public company was prohibited. The adoption did not have a material impact on the Association's financial condition or results of operations.

In May 2014, the FASB, responsible for U.S. Generally Accepted Accounting Principles (U.S. GAAP), and the International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS), jointly issued converged standards on the recognition of revenue from contracts with customers. ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and IFRS 15 "Revenue from Contracts with Customers" are intended to improve the financial reporting of revenue and comparability of the top line in financial statements globally and supersede substantially all previous revenue recognition guidance. The core principle of the new standards is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Because of the pervasive nature of the new guidance, the boards have established a joint transition resource group in order to aid transition to the new standard. For public entities reporting under U.S. GAAP, the amendments in the Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The amendments are to be applied retrospectively. The Association has identified ancillary revenues that will be affected by this Update. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

In April, 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in this Update change the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Public business entities should apply the amendments prospectively to both of the following: 1. All disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years, 2. All business activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Adoption of this guidance did not have a material impact on the Association's financial condition or results of operations.

In March 2014, the FASB issued ASU 2014-06, Technical Corrections and Improvements Related to Glossary Terms (Master Glossary). The amendments in this Update relate to glossary terms, cover a wide range of Topics in the Codification and were presented in four sections: Deletion of Master Glossary Terms, Addition of Master Glossary Term Links, Duplicate Master Glossary Terms, and Other Technical Corrections Related to Glossary Terms. These amendments did not have transition guidance and were effective upon issuance for both public entities and nonpublic entities.

In January 2014, the FASB issued ASU 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The objective of the amendments in this Update was to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments were effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Entities may elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. This guidance was adopted prospectively and did not have a material impact on the Association's financial condition or results of operations, but resulted in additional disclosures (see Note 3, *Loans and Allowance for Loan Losses*).

**Note 3 — Loans and Allowance for Loan Losses**

Prior to issuance of this 2015 Annual Report, management identified errors in classification of the loan portfolio among the various FCA loan type categories that are used to report disaggregated loan information in footnote disclosures. Upon further examination, management determined that the errors in loan category designation occurred as the controls designed around verification of loan data input did not adequately consider verification of this data field.

Management has evaluated the impact of these errors on the loan footnote disclosures, presented herein, and has concluded that these errors did not, individually or in the aggregate, result in a material misstatement of the Association's previously issued consolidated financial statements. Additionally, because these errors did not result in any out-of-period adjustment, there is no cumulative effect to be reflected in the 2015 financial statements. However, management concluded that a revision of FCA loan type information within the loan footnote for all years presented in the 2015 Annual Report is appropriate. As such, the revisions for these corrections are reflected in the financial information of the applicable prior periods and will be reflected in future issuances containing such financial information. These corrections of loan type information had no impact on the Association's financial position, results of operations, or regulatory capital ratios and resulted in no changes to the Balance Sheets, Statements of Income, Statements of Comprehensive Income, Statements of Changes in Shareholders' Equity, or Statements of Cash Flows for December 31, 2015 or as previously reported for December 31, 2014 and 2013. The revisions affected certain line items in the tabular disclosures within this footnote, but did not affect total participations, loan loss allowances or related provisions, impaired loans, nonperforming assets, charge-offs and recoveries, troubled debt restructurings, maturity, credit quality or aging presented herein.

The following tables present the effect of these revisions of the disclosure of the summary of loans outstanding, by FCA loan type, as of December 31, 2014 and 2013. All of the tabular disclosures included in this footnote were impacted by these errors and have also been revised to reflect these new loan classifications as adjusted.

| | December 31, 2014 | | |
|---|---|---|---|
| *(dollars in thousands)* | As Previously Reported | Adjustment | As Revised |
| Real estate mortgage | $ 347,885 | $ 154,563 | $ 502,448 |
| Production and intermediate-term | 409,071 | (161,236) | 247,835 |
| Loans to cooperatives | 344 | (94) | 250 |
| Processing and marketing | 14,835 | 11,018 | 25,853 |
| Farm-related business | 10,178 | (4,537) | 5,641 |
| Communication | 3,123 | – | 3,123 |
| Energy and water/waste disposal | 276 | – | 276 |
| Rural residential real estate | 3,981 | 286 | 4,267 |
| Total Loans | $ 789,693 | $ – | $ 789,693 |

| | December 31, 2013 | | |
|---|---|---|---|
| *(dollars in thousands)* | As Previously Reported | Adjustment | As Revised |
| Real estate mortgage | $ 329,263 | $ 143,401 | $ 472,664 |
| Production and intermediate-term | 400,291 | (143,591) | 256,700 |
| Loans to cooperatives | 767 | (365) | 402 |
| Processing and marketing | 12,915 | 7,776 | 20,691 |
| Farm-related business | 10,796 | (6,781) | 4,015 |
| Communication | 3,461 | – | 3,461 |
| Energy and water/waste disposal | 276 | – | 276 |
| Rural residential real estate | 4,759 | (440) | 4,319 |
| Total Loans | $ 762,528 | $ – | $ 762,528 |

For a description of the Association's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2 subsection B above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. 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.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2 subsection B above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The Association's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans — generally to purchase farm real estate, refinance existing mortgages, construct various facilities used in agricultural operations, or purchase other rural residential/lifestyle real estate for both full-time and part-time farmers. In addition, credit for other agricultural purposes and family needs is available to full-time and part-time farmers. Real estate mortgage loans generally have maturities ranging from five to thirty years and must be secured by first liens on the real estate. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.

- Production and intermediate-term loans — for operating funds, equipment and other purposes. Eligible financing needs include operating inputs (such as labor, feed, fertilizer, and repairs), livestock, family living expenses, income taxes, debt payments on machinery or equipment, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically less than 12 months. Intermediate-term loans typically finance depreciable capital assets of a farm or ranch. Examples of the uses of intermediate-term loans are to purchase or refinance farm machinery, vehicles, equipment, breeding livestock, or farm buildings, to make improvements, or to provide working capital. Intermediate-term loans are made for a specific term, generally 10 years or less. These loans may be made on a secured or unsecured basis, but are normally secured.

- Loans to cooperatives — loans for any cooperative purpose other than for communication, energy, and water and waste disposal.

- Processing and marketing loans — for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.

- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.

- Rural residential real estate loans — to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans must be secured by a first lien on the property, except that it may be secured by a second lien if the institution also holds the first lien on the property.
- Communication loans — primarily to finance rural communication companies.

- Energy loans — primarily to finance electric generation, transmission and distribution systems serving rural areas.

- Water and waste disposal loans — primarily to finance water and waste disposal systems serving rural areas.

- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.

- Lease receivables — the net investment for all finance leases (such as direct financing leases, leveraged leases, and sales-type leases) where the Association is the lessor.

- Other (including Mission Related) — In addition to making loans to accomplish the System's Congressionally mandated mission to finance agriculture and rural America, the Association may make investments in rural America to address the diverse needs of agriculture and rural communities across the country. The FCA approves these investments on a program or a case-by-case basis. Examples of investment programs that the FCA will consider include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

| | December 31, 2015 | 2014 (as revised) | 2013 (as revised) |
|---|---|---|---|
| Real estate mortgage | $ 526,365 | $ 502,448 | $ 472,664 |
| Production and intermediate-term | 259,901 | 247,835 | 256,700 |
| Loans to cooperatives | 249 | 250 | 402 |
| Processing and marketing | 28,833 | 25,853 | 20,691 |
| Farm-related business | 6,376 | 5,641 | 4,015 |
| Communication | 2,751 | 3,123 | 3,461 |
| Energy and water/waste disposal | 276 | 276 | 276 |
| Rural residential real estate | 5,503 | 4,267 | 4,319 |
| Total Loans | $ 830,254 | $ 789,693 | $ 762,528 |

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

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

Notes to the Consolidated Financial Statements (dollars in thousands, except as noted)

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present the principal balance of participation loans at periods ended:

| | December 31, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 356 | $ 110,056 | $ – | $ – | $ – | $ 12,369 | $ 356 | $ 122,425 |
| Production and intermediate-term | 16,756 | 64,987 | 735 | – | 520 | – | 18,011 | 64,987 |
| Loans to cooperatives | 251 | – | – | – | – | – | 251 | – |
| Processing and marketing | 20,222 | 867 | – | – | – | – | 20,222 | 867 |
| Farm-related business | 4,546 | – | – | – | – | – | 4,546 | – |
| Communication | 2,756 | – | – | – | – | – | 2,756 | – |
| Energy and water/waste disposal | 276 | – | – | – | – | – | 276 | – |
| Total | $ 45,163 | $ 175,910 | $ 735 | $ – | $ 520 | $ 12,369 | $ 46,418 | $ 188,279 |

| | December 31, 2014 (as revised) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ 57 | $ 69,675 | $ – | $ – | $ – | $ 17,655 | $ 57 | $ 87,330 |
| Production and intermediate-term | 13,370 | 85,279 | – | – | 621 | – | 13,991 | 85,279 |
| Loans to cooperatives | 251 | – | – | – | – | – | 251 | – |
| Processing and marketing | 13,214 | 933 | – | – | – | – | 13,214 | 933 |
| Farm-related business | 3,442 | – | – | – | – | – | 3,442 | – |
| Communication | 3,124 | – | – | – | – | – | 3,124 | – |
| Energy and water/waste disposal | 276 | – | – | – | – | – | 276 | – |
| Total | $ 33,734 | $ 155,887 | $ – | $ – | $ 621 | $ 17,655 | $ 34,355 | $ 173,542 |

| | December 31, 2013 (as revised) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | $ – | $ 83,452 | $ – | $ – | $ – | $ 22,940 | $ – | $ 106,392 |
| Production and intermediate-term | 7,839 | 108,433 | – | – | 1,484 | – | 9,323 | 108,433 |
| Loans to cooperatives | 404 | – | – | – | – | – | 404 | – |
| Processing and marketing | 11,175 | 988 | – | – | – | – | 11,175 | 988 |
| Farm-related business | 1,368 | – | – | – | – | – | 1,368 | – |
| Communication | 3,461 | – | – | – | – | – | 3,461 | – |
| Energy and water/waste disposal | 276 | – | – | – | – | – | 276 | – |
| Total | $ 24,523 | $ 192,873 | $ – | $ – | $ 1,484 | $ 22,940 | $ 26,007 | $ 215,813 |

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:

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Due less than 1 year | Due 1 Through 5 years | Due after 5 years | Total |
| Real estate mortgage | $ 4,046 | $ 102,755 | $ 419,564 | $ 526,365 |
| Production and intermediate-term | 89,934 | 103,112 | 66,855 | 259,901 |
| Loans to cooperatives | – | – | 249 | 249 |
| Processing and marketing | 2,105 | 14,174 | 12,554 | 28,833 |
| Farm-related business | 663 | 4,042 | 1,671 | 6,376 |
| Communication | 1,737 | 1,014 | – | 2,751 |
| Energy and water/waste disposal | – | 276 | – | 276 |
| Rural residential real estate | 801 | 553 | 4,149 | 5,503 |
| Total Loans | $ 99,286 | $ 225,926 | $ 505,042 | $ 830,254 |
| Percentage | 11.96% | 27.21% | 60.83% | 100.00% |

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

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of :

| | December 31, 2015 | 2014 (as revised) | 2013 (as revised) |
|---|---|---|---|
| **Real estate mortgage:** | | | |
| Acceptable | 93.72% | 94.25% | 95.49% |
| OAEM | 3.21 | 2.78 | 3.35 |
| Substandard/doubtful/loss | 3.07 | 2.97 | 1.16 |
| | 100.00% | 100.00% | 100.00% |
| **Production and intermediate-term:** | | | |
| Acceptable | 89.79% | 90.02% | 88.79% |
| OAEM | 4.96 | 5.60 | 6.67 |
| Substandard/doubtful/loss | 5.25 | 4.38 | 4.54 |
| | 100.00% | 100.00% | 100.00% |
| **Loans to cooperatives:** | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | – | – | – |
| Substandard/doubtful/loss | – | – | – |
| | 100.00% | 100.00% | 100.00% |
| **Processing and marketing:** | | | |
| Acceptable | 80.46% | 86.37% | 92.33% |
| OAEM | 11.80 | 2.77 | – |
| Substandard/doubtful/loss | 7.74 | 10.86 | 7.67 |
| | 100.00% | 100.00% | 100.00% |
| **Farm-related business:** | | | |
| Acceptable | 100.00% | 100.00% | 98.70% |
| OAEM | – | – | – |
| Substandard/doubtful/loss | – | – | 1.30 |
| | 100.00% | 100.00% | 100.00% |

| | December 31, 2015 | 2014 (as revised) | 2013 (as revised) |
|---|---|---|---|
| **Communication:** | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | – | – | – |
| Substandard/doubtful/loss | – | – | – |
| | 100.00% | 100.00% | 100.00% |
| **Energy and water/waste disposal:** | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | – | – | – |
| Substandard/doubtful/loss | – | – | – |
| | 100.00% | 100.00% | 100.00% |
| **Rural residential real estate:** | | | |
| Acceptable | 95.18% | 91.93% | 91.36% |
| OAEM | 3.22 | 5.51 | 5.90 |
| Substandard/doubtful/loss | 1.60 | 2.56 | 2.74 |
| | 100.00% | 100.00% | 100.00% |
| **Total Loans:** | | | |
| Acceptable | 92.11% | 92.72% | 93.16% |
| OAEM | 4.02 | 3.65 | 4.36 |
| Substandard/doubtful/loss | 3.87 | 3.63 | 2.48 |
| | 100.00% | 100.00% | 100.00% |

The following tables provide an age analysis of past due loans and related accrued interest as of:

| December 31, 2015 | 30 Through 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment 90 Days or More Past Due and Accruing Interest |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 5,666 | $ 6,192 | $ 11,858 | $ 518,853 | $ 530,711 | $ – |
| Production and intermediate-term | 2,224 | 4,084 | 6,308 | 256,423 | 262,731 | – |
| Loans to cooperatives | – | – | – | 250 | 250 | – |
| Processing and marketing | 1,500 | – | 1,500 | 27,402 | 28,902 | – |
| Farm-related business | – | – | – | 6,402 | 6,402 | – |
| Communication | – | – | – | 2,751 | 2,751 | – |
| Energy and water/waste disposal | – | – | – | 276 | 276 | – |
| Rural residential real estate | – | 56 | 56 | 5,464 | 5,520 | – |
| Total | $ 9,390 | $ 10,332 | $ 19,722 | $ 817,821 | $ 837,543 | $ – |

| December 31, 2014 (as revised) | 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 | $ 1,886 | $ 2,093 | $ 3,979 | $ 502,596 | $ 506,575 | $ – |
| Production and intermediate-term | 2,037 | 3,777 | 5,814 | 244,747 | 250,561 | – |
| Loans to cooperatives | – | – | – | 250 | 250 | – |
| Processing and marketing | – | – | – | 26,055 | 26,055 | – |
| Farm-related business | – | – | – | 5,648 | 5,648 | – |
| Communication | – | – | – | 3,123 | 3,123 | – |
| Energy and water/waste disposal | – | – | – | 276 | 276 | – |
| Rural residential real estate | 46 | 63 | 109 | 4,172 | 4,281 | – |
| Total | $ 3,969 | $ 5,933 | $ 9,902 | $ 786,867 | $ 796,769 | $ – |

Notes to the Consolidated Financial Statements (dollars in thousands, except as noted)

| | December 31, 2013 (as revised) | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 4,830 | $ 1,910 | $ 6,740 | $ 468,953 | $ 475,693 | $ – |
| Production and intermediate-term | 1,897 | 5,247 | 7,144 | 252,244 | 259,388 | – |
| Loans to cooperatives | – | – | – | 404 | 404 | – |
| Processing and marketing | – | – | – | 20,767 | 20,767 | – |
| Farm-related business | – | 53 | 53 | 3,972 | 4,025 | – |
| Communication | – | – | – | 3,461 | 3,461 | – |
| Energy and water/waste disposal | – | – | – | 276 | 276 | – |
| Rural residential real estate | – | 70 | 70 | 4,262 | 4,332 | – |
| Total | $ 6,727 | $ 7,280 | $ 14,007 | $ 754,339 | $ 768,346 | $ – |

Nonperforming assets (including related accrued interest) and related credit quality statistics were as follows:

| | December 31, | | |
|---|---|---|---|
| | 2015 | 2014 (as revised) | 2013 (as revised) |
| **Nonaccrual loans:** | | | |
| Real estate mortgage | $ 11,264 | $ 6,330 | $ 4,974 |
| Production and intermediate-term | 7,882 | 4,847 | 9,093 |
| Processing and marketing | 1,500 | – | |
| Farm-related business | – | – | 52 |
| Rural residential real estate | 56 | 63 | 71 |
| Total | $ 20,702 | $ 11,240 | $ 14,190 |
| **Accruing restructured loans:** | | | |
| Real estate mortgage | $ 1,304 | $ 712 | $ 678 |
| Production and intermediate-term | 2,144 | 571 | 565 |
| Total | $ 3,448 | $ 1,283 | $ 1,243 |
| Total nonperforming loans | $ 24,150 | $ 12,523 | $ 15,433 |
| Other property owned | 1,356 | 4,976 | 4,931 |
| Total nonperforming assets | $ 25,506 | $ 17,499 | $ 20,364 |
| Nonaccrual loans as a percentage of total loans | 2.49% | 1.42% | 1.86% |
| Nonperforming assets as a percentage of total loans and other property owned | 3.07% | 2.20% | 2.65% |
| Nonperforming assets as a percentage of capital | 14.38% | 10.31% | 12.74% |

There were no loans accruing and 90 days past due at December 31, 2015, 2014 and 2013.

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

| | December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| **Impaired nonaccrual loans:** | | | |
| Current as to principal and interest | $ 2,523 | $ 4,388 | $ 6,083 |
| Past due | 18,179 | 6,852 | 8,107 |
| Total | 20,702 | 11,240 | 14,190 |
| **Impaired accrual loans:** | | | |
| Restructured | 3,448 | 1,283 | 1,243 |
| 90 days or more past due | – | – | – |
| Total | 3,448 | 1,283 | 1,243 |
| Total impaired loans | $ 24,150 | $ 12,523 | $ 15,433 |
| Additional commitments to lend | $ 179 | $ 3 | $ 460 |

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

| | December 31, 2015 | | | Year Ended December 31, 2015 | |
|---|---|---|---|---|---|
| Impaired loans: | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 6,076 | $ 6,073 | $ 754 | $ 3,516 | $ 211 |
| Production and intermediate-term | 5,497 | 5,573 | 919 | 3,180 | 190 |
| Processing and marketing | 1,500 | 1,500 | – | 868 | 52 |
| Rural residential real estate | 56 | 89 | 32 | 33 | 2 |
| Total | $ 13,129 | $ 13,235 | $ 1,705 | $ 7,597 | $ 455 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 6,492 | $ 6,954 | $ – | $ 3,757 | $ 225 |
| Production and intermediate-term | 4,529 | 4,983 | – | 2,620 | 158 |
| Processing and marketing | – | – | – | – | – |
| Rural residential real estate | – | – | – | – | – |
| Total | $ 11,021 | $ 11,937 | $ – | $ 6,377 | $ 383 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 12,568 | $ 13,027 | $ 754 | $ 7,273 | $ 436 |
| Production and intermediate-term | 10,026 | 10,556 | 919 | 5,800 | 348 |
| Processing and marketing | 1,500 | 1,500 | – | 868 | 52 |
| Rural residential real estate | 56 | 89 | 32 | 33 | 2 |
| Total | $ 24,150 | $ 25,172 | $ 1,705 | $ 13,974 | $ 838 |

| | December 31, 2014 (as revised) | | | Year Ended December 31, 2014 (as revised) | |
|---|---|---|---|---|---|
| Impaired loans: | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 1,656 | $ 1,674 | $ 208 | $ 1,859 | $ 46 |
| Production and intermediate-term | 2,696 | 2,808 | 618 | 3,026 | 76 |
| Farm-related business | – | – | – | – | – |
| Rural residential real estate | 60 | 91 | 31 | 67 | 2 |
| Total | $ 4,412 | $ 4,573 | $ 857 | $ 4,952 | $ 124 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 5,386 | $ 6,655 | $ – | $ 6,045 | $ 151 |
| Production and intermediate-term | 2,722 | 4,827 | – | 3,056 | 77 |
| Farm-related business | – | – | – | – | – |
| Rural residential real estate | 3 | 5 | – | 3 | – |
| Total | $ 8,111 | $ 11,487 | $ – | $ 9,104 | $ 228 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 7,042 | $ 8,329 | $ 208 | $ 7,904 | $ 197 |
| Production and intermediate-term | 5,418 | 7,635 | 618 | 6,082 | 153 |
| Farm-related business | – | – | – | – | – |
| Rural residential real estate | 63 | 96 | 31 | 70 | 2 |
| Total | $ 12,523 | $ 16,060 | $ 857 | $ 14,056 | $ 352 |

| | December 31, 2013 (as revised) | | | Year Ended December 31, 2013 (as revised) | |
|---|---|---|---|---|---|
| Impaired loans: | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 2,614 | $ 3,006 | $ 432 | $ 3,723 | $ 90 |
| Production and intermediate-term | 3,351 | 5,874 | 1,125 | 4,773 | 115 |
| Processing and marketing | – | – | – | – | – |
| Rural residential real estate | 64 | 91 | 32 | 91 | 2 |
| Total | $ 6,029 | $ 8,971 | $ 1,589 | $ 8,587 | $ 207 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 3,038 | $ 4,450 | $ – | $ 4,327 | $ 104 |
| Production and intermediate-term | 6,307 | 6,098 | – | 8,984 | 216 |
| Farm-related business | 52 | 58 | – | 75 | 2 |
| Rural residential real estate | 7 | 8 | – | 9 | – |
| Total | $ 9,404 | $ 10,614 | $ – | $ 13,395 | $ 322 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 5,652 | $ 7,456 | $ 432 | $ 8,050 | $ 194 |
| Production and intermediate-term | 9,658 | 11,972 | 1,125 | 13,757 | 331 |
| Farm-related business | 52 | 58 | – | 75 | 2 |
| Rural residential real estate | 71 | 99 | 32 | 100 | 2 |
| Total | $ 15,433 | $ 19,585 | $ 1,589 | $ 21,982 | $ 529 |

Notes to the Consolidated Financial Statements (dollars in thousands, except as noted)

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

| | Year Ended December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Interest income which would have been recognized under the original loan terms | $ 1,380 | $ 1,051 | $ 1,334 |
| Less: interest income recognized | 837 | 352 | 529 |
| Foregone interest income | $ 543 | $ 699 | $ 805 |

A summary of changes in the allowance for loan losses and period end recorded investment in loans for each reporting period follows (activity for the years ending December 31, 2014 and 2013 and balances as of December 31, 2014, 2013, and 2012 are presented as revised):

| | 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 December 31, 2014 | $ 3,087 | $ 2,032 | $ 184 | $ 18 | $ 2 | $ 55 | $ 5,378 |
| Charge-offs | (13) | (59) | (49) | – | – | – | (121) |
| Recoveries | 1,232 | 6 | – | – | – | – | 1,238 |
| Provision for loan losses | (104) | 621 | 92 | – | – | 13 | 622 |
| Balance at December 31, 2015 | $ 4,202 | $ 2,600 | $ 227 | $ 18 | $ 2 | $ 68 | $ 7,117 |
| Balance at December 31, 2013 | $ 3,213 | $ 2,615 | $ 149 | $ 21 | $ 2 | $ 57 | $ 6,057 |
| Charge-offs | (150) | (955) | – | – | – | – | (1,105) |
| Recoveries | 112 | 140 | – | – | – | – | 252 |
| Provision for loan losses | (88) | 232 | 35 | (3) | – | (2) | 174 |
| Balance at December 31, 2014 | $ 3,087 | $ 2,032 | $ 184 | $ 18 | $ 2 | $ 55 | $ 5,378 |
| Balance at December 31, 2012 | $ 3,939 | $ 2,958 | $ 454 | $ 17 | $ 6 | $ 51 | $ 7,425 |
| Charge-offs | (898) | (1,849) | (408) | – | – | (2) | (3,157) |
| Recoveries | 229 | 161 | 27 | – | – | 5 | 422 |
| Provision for loan losses | (57) | 1,345 | 76 | 4 | (4) | 3 | 1,367 |
| Balance at December 31, 2013 | $ 3,213 | $ 2,615 | $ 149 | $ 21 | $ 2 | $ 57 | $ 6,057 |
| **Allowance on loans evaluated for impairment:** | | | | | | | |
| Individually | $ 754 | $ 919 | $ – | $ – | $ – | $ 32 | $ 1,705 |
| Collectively | 3,448 | 1,681 | 227 | 18 | 2 | 36 | 5,412 |
| Balance at December 31, 2015 | $ 4,202 | $ 2,600 | $ 227 | $ 18 | $ 2 | $ 68 | $ 7,117 |
| Individually | $ 208 | $ 618 | $ – | $ – | $ – | $ 31 | $ 857 |
| Collectively | 2,879 | 1,414 | 184 | 18 | 2 | 24 | 4,521 |
| Balance at December 31, 2014 | $ 3,087 | $ 2,032 | $ 184 | $ 18 | $ 2 | $ 55 | $ 5,378 |
| Individually | $ 432 | $ 1,125 | $ – | $ – | $ – | $ 32 | $ 1,589 |
| Collectively | 2,781 | 1,490 | 149 | 21 | 2 | 25 | 4,468 |
| Balance at December 31, 2013 | $ 3,213 | $ 2,615 | $ 149 | $ 21 | $ 2 | $ 57 | $ 6,057 |
| **Recorded investment in loans evaluated for impairment:** | | | | | | | |
| Individually | $ 12,584 | $ 10,082 | $ 1,500 | $ – | $ – | $ 56 | $ 24,222 |
| Collectively | 518,135 | 252,641 | 34,054 | 2,751 | 276 | 5,464 | 813,321 |
| Balance at December 31, 2015 | $ 530,719 | $ 262,723 | $ 35,554 | $ 2,751 | $ 276 | $ 5,520 | $ 837,543 |
| Individually | $ 7,195 | $ 5,277 | $ – | $ – | $ – | $ 109 | $ 12,581 |
| Collectively | 499,380 | 245,284 | 31,953 | 3,123 | 276 | 4,172 | 784,188 |
| Balance at December 31, 2014 | $ 506,575 | $ 250,561 | $ 31,953 | $ 3,123 | $ 276 | $ 4,281 | $ 796,769 |
| Individually | $ 6,960 | $ 8,280 | $ – | $ – | $ – | $ 61 | $ 15,301 |
| Collectively | 468,733 | 251,108 | 25,195 | 3,461 | 276 | 4,272 | 753,045 |
| Balance at December 31, 2013 | $ 475,693 | $ 259,388 | $ 25,195 | $ 3,461 | $ 276 | $ 4,333 | $ 768,346 |

**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.

| | Year Ended December 31, 2015 | | | | |
|---|---|---|---|---|---|
| Outstanding Recorded Investment | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ – | $ 1,707 | $ – | $ 1,707 | |
| Production and intermediate-term | – | 2,046 | – | 2,046 | |
| Total | $ – | $ 3,753 | $ – | $ 3,753 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ – | $ 1,715 | $ – | $ 1,715 | $ – |
| Production and intermediate-term | – | 2,046 | – | 2,046 | – |
| Total | $ – | $ 3,761 | $ – | $ 3,761 | $ – |

| | Year Ended December 31, 2014 (as revised) | | | | |
|---|---|---|---|---|---|
| Outstanding Recorded Investment | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ – | $ 60 | $ – | $ 60 | |
| Production and intermediate-term | – | 1,320 | – | 1,320 | |
| Total | $ – | $ 1,380 | $ – | $ 1,380 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ – | $ 60 | $ – | $ 60 | $ – |
| Production and intermediate-term | – | 1,321 | – | 1,321 | – |
| Total | $ – | $ 1,381 | $ – | $ 1,381 | $ – |

| | Year Ended December 31, 2013 (as revised) | | | | |
|---|---|---|---|---|---|
| Outstanding Recorded Investment | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ – | $ 1,207 | $ – | $ 1,207 | |
| Production and intermediate-term | – | 476 | 500 | 976 | |
| Total | $ – | $ 1,683 | $ 500 | $ 2,183 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ – | $ 1,207 | $ – | $ 1,207 | $ – |
| Production and intermediate-term | – | 476 | 500 | 976 | – |
| Total | $ – | $ 1,683 | $ 500 | $ 2,183 | $ – |

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 | | |
|---|---|---|---|---|---|---|
| | December 31, | | | December 31, | | |
| | 2015 | 2014 (as revised) | 2013 (as revised) | 2015 | 2014 (as revised) | 2013 (as revised) |
| Real estate mortgage | $ 1,725 | $ 3,027 | $ 3,935 | $ 421 | $ 2,314 | $ 3,258 |
| Production and intermediate-term | 2,774 | 1,665 | 5,458 | 630 | 1,095 | 4,892 |
| Total Loans | $ 4,499 | $ 4,692 | $ 9,393 | $ 1,051 | $ 3,409 | $ 8,150 |
| Additional commitments to lend | $ 178 | $ – | $ 435 | | | |

The following table presents information as of period end:

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

Notes to the Consolidated Financial Statements (dollars in thousands, except as noted)

## Note 4 — Investments

### *Investment Securities*

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. At December 31, 2015, the Association held no RABs whose credit quality had deteriorated beyond the program limits.

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

| December 31, 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
|---|---|---|---|---|---|
| RABs | $ 7,366 | – | (279) | 7,087 | 4.40% |

| December 31, 2014 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
|---|---|---|---|---|---|
| RABs | $ 4,647 | – | (335) | 4,312 | 4.89% |

| December 31, 2013 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
|---|---|---|---|---|---|
| RABs | $ 7,220 | – | (1,088) | 6,132 | 5.20% |

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

| December 31, 2015 | Amortized Cost | Fair Value | Weighted Average Yield |
|---|---|---|---|
| In one year or less | $ 2,934 | $ 2,929 | 3.75% |
| After one year through five years | – | – | – |
| After five years through ten years | 1,434 | 1,382 | 2.49 |
| After ten years | 2,998 | 2,776 | 5.95 |
| Total | $ 7,366 | $ 7,087 | 4.40% |

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

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

| December 31, 2015 | Less than 12 Months | | 12 Months or Greater | |
|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| RABs | $ 2,929 | $ (5) | $ 4,158 | $ (274) |

| December 31, 2014 | Less than 12 Months | | 12 Months or Greater | |
|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| RABs | $ – | $ – | $ 4,312 | $ (335) |

| December 31, 2013 | Less than 12 Months | | 12 Months or Greater | |
|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| RABs | $ 4,413 | $ (442) | $ 1,719 | $ (646) |

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

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

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

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

The Association has not recognized any credit losses in 2015 or prior years as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

***Investments in Other Farm Credit Institutions***
Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. Accounting for this investment is on the cost plus allocated equities basis.

The Association's investment in the Bank totaled $9,083 for 2015, $8,890 for 2014 and $9,018 for 2013. The Association owns 3.54 percent of the issued stock of the Bank as of December 31, 2015 net of any reciprocal investment. As of that date, the Bank's assets totaled $30.6 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $337 million for 2015. In addition, the Association had an investment of $1 related to other Farm Credit institutions at December 31, 2015.

***Other Investments***
On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota, and provided an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers received 10 equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also included a provision that allowed the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that the quota holder or producer could obtain a lump sum or other payment. On April 4, 2005, the USDA issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions were "financial institutions" within the meaning of the Tobacco Act and were, therefore, eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout had significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal was to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

At December 31, 2015, 2014, and 2013, the Association held Tobacco Buyout SIIC of $0, $0, and $5,512, respectively, net of discount. Final payments to financial institutions under SIIC arrangements occurred in January 2014.

**Note 5 — Real Estate and Other Property**

***Premises and Equipment***
Premises and equipment consists of the following:

| | December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Land | $ 1,031 | $ 978 | $ 979 |
| Buildings and improvements | 3,834 | 3,773 | 3,701 |
| Furniture and equipment | 2,944 | 2,667 | 2,491 |
| | 7,809 | 7,418 | 7,171 |
| Less: accumulated depreciation | 4,455 | 4,337 | 4,419 |
| Total | $ 3,354 | $ 3,081 | $ 2,752 |

***Other Property Owned***
Net (gains) losses on other property owned consist of the following:

| | December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| (Gains) losses on sale, net | $ (1) | $ (128) | $ (280) |
| Carrying value unrealized (gains) losses | 1,178 | 267 | 2,250 |
| Operating (income) expense, net | (103) | 348 | 484 |
| (Gains) losses on other property owned, net | $ 1,074 | $ 487 | $ 2,454 |

OPO consisted of 4, 10, and 7 properties with book values of $1,356, $4,976 and $4,931 at December 31, 2015, 2014 and 2013, respectively. All OPO properties at December 31, 2015 were added to the portfolio before 2015. During 2015, 10 properties (including parcels) were sold, representing a book value of $2,419 for a net gain of $23.

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. Deferred gains totaled $91, $106, and $0 at December 31, 2015, 2014, and 2013, respectively.

**Note 6 — Debt**

***Notes Payable to AgFirst Farm Credit Bank***
Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a GFA. The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2015, the Association's notes payable were within the specified limitations.

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 and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

Notes to the Consolidated Financial Statements (dollars in thousands, except as noted)

The weighted average interest rates on the variable rate advances were 1.56 percent for LIBOR-based loans and 1.60 percent for Prime-based loans, and the weighted average remaining maturities were 3.2 years and 4.2 years, respectively, at December 31, 2015. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.55 percent, and the weighted average remaining maturity was 7.6 years at December 31, 2015. The weighted-average interest rate on all interest-bearing notes payable was 2.36 percent and the weighted-average remaining maturity was 6.7 years at December 31, 2015. Variable rate and fixed rate notes payable represent approximately 3.21 percent and 96.79 percent, respectively, of total notes payable at December 31, 2015. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

**Note 7 — Members' Equity**

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **Protected Borrower Stock:** Protection of certain borrower stock is provided under the Farm Credit Act which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 200 shares ($1,000.00) or one (1) share for each $250.00 (or fraction thereof) of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. **Regulatory Capitalization Requirements and Restrictions:** FCA regulations require that certain minimum standards for capital be achieved and maintained. These standards are measured based on capital as a percentage of risk-adjusted assets and off-balance-sheet commitments and surplus levels as a percentage of risk-adjusted assets.

Failure to meet the capital requirements can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's consolidated financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

| | 2015 | 2014 | 2013 | Regulatory Minimum |
|---|---|---|---|---|
| Permanent capital ratio | 22.23% | 23.30% | 22.25% | 7.00% |
| Total surplus ratio | 21.91% | 22.96% | 21.88% | 7.00% |
| Core surplus ratio | 21.91% | 22.96% | 21.88% | 3.50% |

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

D. **Description of Equities:** The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A, B and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The Association had the following shares outstanding at December 31, 2015:

| | | Shares Outstanding | |
|---|---|---|---|
| Class | Protected | Number | Aggregate Par Value |
| B Common/Nonvoting | Yes | 580 | $ 3 |
| C Common/Voting | No | 468,613 | 2,343 |
| C Participation Certificates/Nonvoting | No | 13,621 | 68 |
| Total Capital Stock and Participation Certificates | | 482,814 | $ 2,414 |

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

*Retained Earnings*

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2015, allocated members' equity consisted of $83,467 of nonqualified retained surplus.

*Dividends*

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class D Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

*Patronage Distributions*

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned on patronage loans by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

*Transfer*

Class D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

*Impairment*

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

(a) ***First,*** allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

(b) ***Second,*** allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;

(c) ***Third,*** Class A Common Stock, Class B Common Stock, Class C Common Stock and Class C Participation Certificates issued and outstanding, pro rata until such stock is fully impaired; and

(d) ***Fourth,*** Class D Preferred Stock issued and outstanding, if any.

**Notes to the Consolidated Financial Statements** (dollars in thousands, except as noted)

Impairments shall be considered as being applied pro rata to each share and/or unit outstanding in the class.

*Liquidation*

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

(a) ***First,*** to the holders of Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;

(b) ***Second,*** to the holders of Class A Common, Class B Common, Class C Common, Class B Participation Certificates and Class C Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;

(c) ***Third,*** to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;

(d) ***Fourth,*** to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed; and

(e) ***Fifth,*** any remaining assets of the Association after such distributions shall be distributed to past and present Patrons on a patronage basis, to the extent practicable.

E. **Accumulated Other Comprehensive Income (AOCI):**

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

| | For the years ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| **Employee Benefit Plans:** | | | |
| Balance at beginning of period | $ (340) | $ (298) | $ (343) |
| Other comprehensive income before reclassifications | 17 | (57) | 28 |
| Amounts reclassified from AOCI | 16 | 15 | 17 |
| Net current period OCI | 33 | (42) | 45 |
| Balance at end of period | $ (307) | $ (340) | $ (298) |

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

| | **2015** | **2014** | **2013** | **Income Statement Line Item** |
|---|---|---|---|---|
| **Defined Benefit Pension Plans:** | | | | |
| Periodic pension costs | $ (16) | $ (15) | $ (17) | See Note 9. |
| Amounts reclassified | $ (16) | $ (15) | $ (17) | |

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

## Note 8 — 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.

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities.

The classifications within the fair value hierarchy (See Note 2) are as follows:

**Level 1**
Assets held in trust funds, related to deferred compensation plans, and assets held in mutual funds, related to the Association's Corporate Giving Fund, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

**Level 2**
The Association had no Level 2 assets and liabilities measured at fair value on a recurring basis.

**Level 3**
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with

similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, and specific issues relating to the collateral and other matters.

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

For investment securities held to maturity, which consists of RABs, fair value is determined by discounting the expected future cash flows using prevailing rates for similar assets.

For other investments, which consist of Tobacco Buyout SIIC, fair value is determined by discounting the expected future cash flows using prevailing rates for similar assets.

There were no Level 3 assets and 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 Year ended December 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value | Fair Value Effects On Earnings |
| **Recurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Assets held in Trust funds | $ 91 | $ 91 | $ – | $ – | $ 91 | |
| Recurring Assets | $ 91 | $ 91 | $ – | $ – | $ 91 | |
| **Liabilities:** | | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans | $ 22,445 | $ – | $ – | $ 22,445 | $ 22,445 | $ 270 |
| Other property owned | 1,356 | – | – | 1,485 | 1,485 | (1,177) |
| Nonrecurring Assets | $ 23,801 | $ – | $ – | $ 23,930 | $ 23,930 | $ (907) |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 3,882 | $ 3,882 | $ – | $ – | $ 3,882 | |
| Investment securities, held-to-maturity | 7,366 | – | – | 7,087 | 7,087 | |
| Loans | 800,692 | – | – | 804,157 | 804,157 | |
| Other Financial Assets | $ 811,940 | $ 3,882 | $ – | $ 811,244 | $ 815,126 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 667,938 | $ – | $ – | $ 667,143 | $ 667,143 | |
| Other Financial Liabilities | $ 667,938 | $ – | $ – | $ 667,143 | $ 667,143 | |

Notes to the Consolidated Financial Statements (dollars in thousands, except as noted)

| | 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 | $ 107 | $ 107 | $ – | $ – | $ 107 | |
| Recurring Assets | $ 107 | $ 107 | $ – | $ – | $ 107 | |
| **Liabilities:** | | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans | $ 11,666 | $ – | $ – | $ 11,666 | $ 11,666 | $ (122) |
| Other property owned | 4,976 | – | – | 5,319 | 5,319 | (139) |
| Nonrecurring Assets | $ 16,642 | $ – | $ – | $ 16,985 | $ 16,985 | $ (261) |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 3,107 | $ 3,107 | $ – | $ – | $ 3,107 | |
| Investment securities, held-to-maturity | 4,647 | – | – | 4,312 | 4,312 | |
| Loans | 772,649 | – | – | 766,846 | 766,846 | |
| Other Financial Assets | $ 780,403 | $ 3,107 | $ – | $ 771,158 | $ 774,265 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 636,579 | $ – | $ – | $ 628,738 | $ 628,738 | |
| Other Financial Liabilities | $ 636,579 | $ – | $ – | $ 628,738 | $ 628,738 | |

| | At or for the Year ended December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 118 | $ 118 | $ – | $ – | $ 118 | |
| Recurring Assets | $ 118 | $ 118 | $ – | $ – | $ 118 | |
| **Liabilities:** | | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans | $ 13,844 | $ – | $ – | $ 13,844 | $ 13,844 | $ (21) |
| Other property owned | 4,931 | – | – | 5,160 | 5,160 | (1,970) |
| Nonrecurring Assets | $ 18,775 | $ – | $ – | $ 19,004 | $ 19,004 | $ (1,991) |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 4,567 | $ 4,567 | $ – | $ – | $ 4,567 | |
| Investment securities, held-to-maturity | 7,220 | – | – | 6,132 | 6,132 | |
| Loans | 742,627 | – | – | 734,878 | 734,878 | |
| Other investments | 5,512 | – | – | 5,519 | 5,519 | |
| Other Financial Assets | $ 759,926 | $ 4,567 | $ – | $ 746,529 | $ 751,096 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 633,872 | $ – | $ – | $ 623,617 | $ 623,617 | |
| Other Financial Liabilities | $ 633,872 | $ – | $ – | $ 623,617 | $ 623,617 | |

## SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

***Investment Securities***

The fair values of predominantly all level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the repayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these level 3 assets.

***Inputs to Valuation Techniques***

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

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

**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

| | Fair Value | Valuation Technique(s) | Unobservable Input | Range |
|---|---|---|---|---|
| Impaired loans and other property owned | $ 23,930 | Appraisal | Income and expense | * |
| | | | Comparable sales | * |
| | | | Replacement costs | * |
| | | | Comparability adjustments | * |

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

**Information about Other Financial Instrument Fair Value Measurements**

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

**Note 9 — Employee Benefit Plans**

The Association participates in four District sponsored benefit plans. These plans include two multiemployer defined benefit pension plans, the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP Plan) and the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB Plan). In addition, the Association participates in a multiemployer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan and a defined contribution 401(k) plan. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

In November 2014, the AgFirst Plan Sponsor Committee approved and executed amendments to the CB Plan that included the following changes:

1. The CB Plan was closed to new participants effective as of December 31, 2014. Based on the plan's eligibility provisions, this change affected employees hired on or after November 4, 2014.

2. Employer contributions were discontinued effective as of January 1, 2015.

3. All participants who were not already fully vested in the CB Plan became fully vested as of December 31, 2014.

Notes to the Consolidated Financial Statements (dollars in thousands, except as noted)

4. The CB Plan was terminated effective as of December 31, 2015 and has been submitted to the Internal Revenue Service for review.

As a result of the termination of the CB Plan, vested benefits will be distributed to participants after receipt of a favorable determination letter from the Internal Revenue Service. Participants will continue to receive interest credits to their hypothetical cash balance accounts following the termination of the plan through the month immediately preceding the month in which the vested benefits are distributed from the plan.

Curtailment accounting, as prescribed in ASC 715 "Compensation – Retirement Benefits", was initiated upon execution of the plan amendments and did not have a material impact on the Association's financial condition or results of operations.

Beginning on January 1, 2015, for participants in the CB Plan and eligible employees hired on or after November 4, 2014, additional employer contributions are made to the 401(k) Plan equal to 3.00 percent of the participants' eligible compensation.

The Association's participation in the multiemployer defined benefit plans for the annual periods ended December 31, are outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Association's respective amounts.

| Pension Plan | Percentage Funded to Projected Benefit Obligation | | | Contributions | | | Percentage of Total Contributions | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| AgFirst Farm Credit Retirement Plan | 85.73% | 84.56% | 89.47% | $2,346 | $1,588 | $2,109 | 4.06% | 4.18% | 4.19% |
| AgFirst Farm Credit Cash Balance Retirement Plan | 102.72% | 100.07% | 95.06% | $– | $138 | $45 | 0.00% | 2.77% | 2.55% |

| Other Postretirement Benefit Plan | Percentage Funded to Accumulated Postretirement Benefit Obligation | | | Contributions | | | Percentage of Total Contribution | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans | 0.00% | 0.00% | 0.00% | $235 | $247 | $232 | 3.46% | 3.19% | 3.33% |

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number

2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association hired before November 4, 2014 are eligible to participate in either the FAP Plan or the CB Plan. These two plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003 through November 3, 2014, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. Prior to January 1, 2015, when employer contributions were discontinued as discussed above, the employer contribution into the CB Plan was based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $2,159 for 2015, $2,318 for 2014, and $2,170 for 2013. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $625 for 2015, $355 for 2014, and $354 for 2013. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $298, $205, and $206 for the years ended December 31, 2015, 2014, and 2013, respectively. Beginning in 2015, contributions include additional amounts related to the discontinuation of the CB Plan as discussed above.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2015, 2014, and 2013, $33, $(45) and $45, respectively, has been recognized as a net credit, net debit and net credit to AOCI to reflect these elements.

Additional information can be found in Note 9 of the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

**Note 10 — Related Party Transactions**

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortized schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2015 amounted to $5,720. During 2015, $4,247 of new loans were made and repayments totaled $10,394. In the opinion of management, none of these loans outstanding at December 31, 2015 involved more than a normal risk of collectability.

**Note 11 — Commitments and Contingencies**

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.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2015, $120,164 of commitments to extend credit and no commercial letters of credit were outstanding. There was no reserve for unfunded commitments included in other liabilities on the balance sheet at December 31, 2015.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2015, standby letters of credit outstanding totaled $240 with expiration dates ranging from January 6, 2016 to January 14, 2019. The maximum potential amount of future payments that may be required under these guarantees was $240.

**Note 12 — Income Taxes**

The provision (benefit) for income taxes follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2015 | 2014 | 2013 |
| Current: | | | |
| Federal | $ 150 | $ 198 | $ 276 |
| State | – | (48) | (13) |
| Total provision (benefit) for income taxes | $ 150 | $ 150 | $ 263 |

Notes to the Consolidated Financial Statements (dollars in thousands, except as noted)

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

| | December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Federal tax at statutory rate | $ 6,913 | $ 8,483 | $ 8,140 |
| State tax, net | – | (31) | (9) |
| Patronage distributions | (4,200) | (4,900) | (2,625) |
| Tax-exempt FLCA earnings | (3,440) | (3,583) | (5,516) |
| Change in valuation allowance | 1,082 | (169) | 294 |
| Adjustment to deferred-prior period | (62) | 96 | 57 |
| Other | (143) | 254 | (78) |
| Provision (benefit) for income taxes | $ 150 | $ 150 | $ 263 |

Deferred tax assets and liabilities are comprised of the following at:

| | December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Deferred income tax assets: | | | |
| Allowance for loan losses | $ 1,608 | $ 1,353 | $ 1,890 |
| Net operating loss – carryforward | 2,140 | 1,396 | 1,090 |
| Nonaccrual loan interest | 646 | 563 | 501 |
| Gross deferred tax assets | 4,394 | 3,312 | 3,481 |
| Less: valuation allowance | (4,394) | (3,312) | (3,481) |
| Gross deferred tax assets, net of valuation allowance | – | – | – |
| Deferred income tax liabilities: | | | |
| Future Bank equity redemption | – | – | – |
| Loan fees | – | – | – |
| Gross deferred tax liability | – | – | – |
| Net deferred tax asset (liability) | $ – | $ – | $ – |

At December 31, 2015, deferred income taxes have not been provided by the Association on approximately $3.6 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $4,394, $3,312, and $3,481 as of December 31, 2015, 2014 and 2013, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2015 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2012 and forward.

## Note 13 — Additional Financial Information

***Quarterly Financial Information (Unaudited)***

| 2015 | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Net interest income | $ 6,077 | $ 6,234 | $ 6,265 | $ 6,117 | $ 24,693 |
| Provision for (reversal of allowance for) loan losses | 278 | 299 | 95 | (50) | 622 |
| Noninterest income (expense), net | (1,822) | (2,100) | (1,951) | 1,404 | (4,469) |
| Net income (loss) | $ 3,977 | $ 3,835 | $ 4,219 | $ 7,571 | $ 19,602 |

| 2014 | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Net interest income | $ 6,008 | $ 6,112 | $ 6,203 | $ 6,013 | $ 24,336 |
| Provision for (reversal of allowance for) loan losses | 110 | 241 | (57) | (120) | 174 |
| Noninterest income (expense), net | (1,477) | (1,528) | (2,031) | 4,961 | (75) |
| Net income (loss) | $ 4,421 | $ 4,343 | $ 4,229 | $ 11,094 | $ 24,087 |

| 2013 | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Net interest income | $ 5,976 | $ 6,217 | $ 6,197 | $ 6,048 | $ 24,438 |
| Provision for (reversal of allowance for) loan losses | 505 | 1,459 | 66 | (663) | 1,367 |
| Noninterest income (expense), net | (773) | (3,368) | (1,930) | 5,996 | (75) |
| Net income (loss) | $ 4,698 | $ 1,390 | $ 4,201 | $ 12,707 | $ 22,996 |

## Note 14 — Regulatory Matters

As stated in previous Quarterly Reports to Stockholders, the Association was operating under a Supervisory Agreement with FCA. On November 24, 2015 the Supervisory Agreement with FCA that the Association was previously operating under was lifted.

## Note 15 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 10, 2016, which was the date the financial statements were issued.

Cape Fear Farm Credit
PO Box 2405 | Fayetteville, NC 28302

PRSRT STD
U.S. POSTAGE
PAID
COLUMBIA SC
PERMIT 1160