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*Central Kentucky Agricultural Credit Association*

**FIRST QUARTER 2016**

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**CERTIFICATION**

The undersigned certify that we have reviewed the March 31, 2016 quarterly report of Central Kentucky Agricultural Credit Association, 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.



James W. Caldwell  
Chief Executive Officer



Marcus G. Barnett  
Chief Financial Officer



James A. Lyons  
Chairman of the Board

May 9, 2016

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*Central Kentucky Agricultural Credit Association*

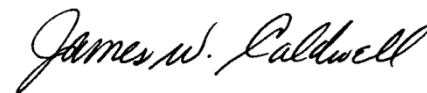
# Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2016. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of March 31, 2016, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2016.



James W. Caldwell  
Chief Executive Officer



Marcus G. Barnett  
Chief Financial Officer

May 9, 2016

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of Central Kentucky Agricultural Credit Association (the Association) for the period ended March 31, 2016. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2015 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## **LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region. The predominate enterprises are beef cattle and thoroughbred horses. Overall, the outlook for the beef cattle industry continues to be guarded due to increasing cattle numbers and weaker prices. Industry concerns also focus on economic factors impacting domestic demand and a strong U.S. dollar overseas. The thoroughbred horse industry has shown signs of improvement at recent sales, but the outlook also continues to be guarded, mirroring the general economic outlook. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm employment in the area, significantly reduces the level of dependency on a given commodity.

The gross loan volume of the Association as of March 31, 2016 was \$406,863, a decrease of \$1,000 as compared to \$407,863 at December 31, 2015. Net loans outstanding at March 31, 2016 were \$403,095 as compared to \$404,092 at December 31, 2015. Net loans accounted for 95.65 percent of total assets at March 31, 2016, as compared to 94.49 percent of total assets at December 31, 2015.

The decrease in gross and net loan volume during the reporting period is primarily due to seasonal paydowns on operating loans.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains

satisfactory. Nonaccrual loans increased from \$3,163 at December 31, 2015, to \$3,175 at March 31, 2016. This increase is primarily due to placing a few smaller loans into nonaccrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The \$3,768 allowance for loan losses at March 31, 2016 reflected a \$3 decrease from December 31, 2015, and was considered by management to be adequate to cover possible losses.

## **RESULTS OF OPERATIONS**

### ***For the three months ended March 31, 2016***

Net income for the three months ended March 31, 2016 totaled \$1,807, as compared to \$1,726 for the same period in 2015. Net interest income increased \$124 for the three months ended March 31, 2016 as compared to the same period in 2015. The Association recorded no provision for loan losses for the three months ended March 31, 2016, and no provision for loan losses for the same period in 2015.

At March 31, 2016, interest income on accruing loans increased \$410 compared to March 31, 2015. The Association recorded nonaccrual income of \$17 for the three months ended March 31, 2016, as compared to \$39 for the same period in 2015. Interest expense increased \$286 for the three months ended March 31, 2016 as compared to the comparable period of 2015. Movement in interest income and expense is primarily attributed to an increase in loan volume, and an early-year reduction in the Association's direct note from receipt of patronage from the AgFirst Farm Credit Bank (Bank). Noninterest income for the three months ended March 31, 2016 totaled \$853 as compared to \$803 for the same period of 2015, an increase of \$50. The primary factors in the increase in Noninterest income were increased loan fee income, and the receipt of a savings allocation from the Farm Credit System Association Captive Insurance Company that had not yet been received at this point in 2015.

Noninterest expense for the three months ended March 31, 2016 increased \$108 compared to the same period of 2015. The increase is due primarily increased salary expense, increased purchased services expenses, and an increase in the premiums paid to the Farm Credit System Insurance Corporation. The Association recorded a provision for income taxes of \$3 for the

three months ended March 31, 2016, as compared to a provision for income taxes of \$18 for the same period in 2015.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2016 was \$346,657 as compared to \$353,034 at December 31, 2015. The decrease during the period is primarily attributed to a decrease in loan volume and the receipt of patronage from the Bank.

## CAPITAL RESOURCES

Total members' equity at March 31, 2016 increased to \$68,942 from the December 31, 2015 total of \$68,109. The increase is primarily attributed to the Association's increase in retained earnings as a result of income recorded for the three months ended March 31, 2016, offset somewhat by a reduction in member stock brought about by a reduction in the maximum member stock requirement that became effective on March 1, 2016. Total capital stock and participation certificates were \$5,814 on March 31, 2016, compared to \$6,784 on December 31, 2015. This decrease is attributed to the reduction in the maximum member stock requirement mentioned above.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2016, the Association's permanent capital ratio was 17.83 percent and the total surplus ratio and core surplus ratio were 16.60 percent and 16.60 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

## REGULATORY MATTERS

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

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

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

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

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

## FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the Financial Regulatory Reform section of the Association's 2015 Annual Report.

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## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, “*Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*”, in the Notes to the Financial Statements, and the 2015 Annual Report to Shareholders for recently issued accounting pronouncements.

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**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst’s annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or by writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, [www.agfirst.com](http://www.agfirst.com). Copies of the Association’s annual and quarterly reports are also available upon request free of charge by calling 1-859-253-3249, or writing Marcus Barnett, Chief Financial Officer, Central Kentucky Agricultural Credit Association, P.O. Box 1290, Lexington, KY 40588-1290, or accessing the website [www.agcreditonline.com](http://www.agcreditonline.com). The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

# Central Kentucky Agricultural Credit Association

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2016 <i>(unaudited)</i>	December 31, 2015 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 524	\$ 1,250
Loans	406,863	407,863
Allowance for loan losses	(3,768)	(3,771)
Net loans	403,095	404,092
Loans held for sale	308	150
Accrued interest receivable	4,802	5,137
Investments in other Farm Credit institutions	7,130	7,079
Premises and equipment, net	2,932	2,926
Accounts receivable	729	4,930
Other assets	1,903	2,098
Total assets	<b>\$ 421,423</b>	<b>\$ 427,662</b>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 346,657	\$ 353,034
Accrued interest payable	760	756
Patronage refunds payable	163	2,711
Accounts payable	205	501
Other liabilities	4,696	2,551
Total liabilities	<b>352,481</b>	<b>359,553</b>
Commitments and contingencies (Note 7)		
<b>Members' Equity</b>		
Capital stock and participation certificates	5,814	6,784
Retained earnings		
Allocated	42,384	42,801
Unallocated	20,744	18,524
Total members' equity	<b>68,942</b>	<b>68,109</b>
Total liabilities and members' equity	<b>\$ 421,423</b>	<b>\$ 427,662</b>

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

# Central Kentucky Agricultural Credit Association

## Consolidated Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	<b>For the three months ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Interest Income</b>		
Loans	\$ 4,958	\$ 4,548
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	2,241	1,955
Net interest income	2,717	2,593
Provision for loan losses	—	—
Net interest income after provision for loan losses	2,717	2,593
<b>Noninterest Income</b>		
Loan fees	113	98
Lease income	2	7
Patronage refunds from other Farm Credit institutions	685	699
Gains (losses) on sales of rural home loans, net	2	(1)
Other noninterest income	51	—
Total noninterest income	853	803
<b>Noninterest Expense</b>		
Salaries and employee benefits	1,200	1,162
Occupancy and equipment	64	70
Insurance Fund premiums	117	87
(Gains) losses on other property owned, net	1	12
Other operating expenses	378	321
Total noninterest expense	1,760	1,652
Income before income taxes	1,810	1,744
Provision for income taxes	3	18
Net income	1,807	1,726
Other comprehensive income	—	—
Comprehensive income	\$ 1,807	\$ 1,726

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

**Central Kentucky Agricultural Credit Association**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2014	\$ 6,744	\$ 37,362	\$ 17,287	\$ 61,393
Comprehensive income			1,726	1,726
Capital stock/participation certificates issued/(retired), net	20			20
Patronage distribution adjustment		(122)	120	(2)
<b>Balance at March 31, 2015</b>	<b>\$ 6,764</b>	<b>\$ 37,240</b>	<b>\$ 19,133</b>	<b>\$ 63,137</b>
Balance at December 31, 2015	\$ 6,784	\$ 42,801	\$ 18,524	\$ 68,109
<b>Comprehensive income</b>			<b>1,807</b>	<b>1,807</b>
<b>Capital stock/participation certificates issued/(retired), net</b>	<b>(970)</b>			<b>(970)</b>
<b>Patronage distribution adjustment</b>		<b>(417)</b>	<b>413</b>	<b>(4)</b>
<b>Balance at March 31, 2016</b>	<b>\$ 5,814</b>	<b>\$ 42,384</b>	<b>\$ 20,744</b>	<b>\$ 68,942</b>

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



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*Central Kentucky Agricultural Credit Association*

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)  
(unaudited)

## Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

### *Organization*

The accompanying financial statements include the accounts of Central Kentucky Agricultural Credit Association, ACA and its Production Credit Association (PCA) and Federal Land Credit Association (FLCA) subsidiaries (collectively, the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2015, are contained in the 2015 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

### *Basis of Presentation*

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

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

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

### *Significant Accounting Policies*

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and

financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

### *Accounting Standards Updates (ASUs) Issued During the Period*

The following ASU was issued by the Financial Accounting Standards Board (FASB) since the most recent Annual Report:

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

### *ASUs Pending Effective Date*

For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

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

- 2016-01 Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities: In January, 2016, the FASB issued an update that is intended to improve the recognition and measurement of financial instruments. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.
- 2015-14 Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date: In August, 2015, the FASB issued an update that defers by one year the effective date of ASU 2014-09, Revenue from Contracts with Customers. The new ASU reflects decisions reached by the FASB at its meeting on July 9, 2015. The Association is in the process of evaluating what effects the guidance may have on the statements of financial condition and results of operations.

**Accounting Standards Effective During the Period**

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the standards below:

- 2015-07 Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) –The amendment was adopted prospectively. There were no changes to the Association’s statements of financial condition or results of operations as a result of this guidance. See Note 5, *Fair Value Measurement*, for the disclosures required by this guidance.
- 2015-01 Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement

Presentation by Eliminating the Concept of Extraordinary Items – The amendment was adopted retrospectively. There were no changes to the Association’s statements of financial condition or results of operations as a result of this guidance.

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

**Note 2 — Loans and Allowance for Loan Losses**

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

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

A summary of loans outstanding at period end follows:

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
Real estate mortgage	\$ 250,075	\$ 250,887
Production and intermediate-term	147,109	147,341
Loans to cooperatives	24	26
Processing and marketing	1,464	1,430
Farm-related business	481	500
Rural residential real estate	7,710	7,679
Total Loans	<u>\$ 406,863</u>	<u>\$ 407,863</u>

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

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

		March 31, 2016							
		Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
		Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$	–	18,680	–	–	–	3,251	–	21,931
Production and intermediate-term		–	7,698	–	–	–	737	–	8,435
Processing and marketing		1,416	–	–	–	–	–	1,416	–
Farm-related business		–	–	–	–	–	37	–	37
Total	\$	1,416	26,378	–	–	–	4,025	1,416	30,403

		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	\$	–	17,502	–	–	–	2,699	–	20,201
Production and intermediate-term		–	8,647	–	–	–	1,060	–	9,707
Processing and marketing		1,433	–	–	–	–	–	1,433	–
Farm-related business		–	–	–	–	–	38	–	38
Total	\$	1,433	26,149	–	–	–	3,797	1,433	29,946

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

		March 31, 2016			
		Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$	6,888	35,663	207,524	250,075
Production and intermediate-term		51,863	75,401	19,845	147,109
Loans to cooperatives		–	24	–	24
Processing and marketing		–	1,464	–	1,464
Farm-related business		34	131	316	481
Rural residential real estate		487	1,387	5,836	7,710
Total Loans	\$	59,272	114,070	233,521	406,863
Percentages		14.57%	28.04%	57.39%	100.00%

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

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

	March 31, 2016	December 31, 2015		March 31, 2016	December 31, 2015
<b>Real estate mortgage:</b>			<b>Farm-related business:</b>		
Acceptable	96.15%	96.06%	Acceptable	100.00%	100.00%
OAEM	1.73	1.77	OAEM	-	-
Substandard/doubtful/loss	2.12	2.17	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Rural residential real estate:</b>		
Acceptable	96.36%	96.73%	Acceptable	92.27%	93.98%
OAEM	2.46	2.52	OAEM	2.96	3.24
Substandard/doubtful/loss	1.18	0.75	Substandard/doubtful/loss	4.77	2.78
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>Total Loans:</b>		
Acceptable	100.00%	100.00%	Acceptable	96.17%	96.28%
OAEM	-	-	OAEM	2.01	2.06
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	1.82	1.66
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>					
Acceptable	100.00%	100.00%			
OAEM	-	-			
Substandard/doubtful/loss	-	-			
	<u>100.00%</u>	<u>100.00%</u>			

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

	March 31, 2016					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 272	\$ 1,703	\$ 1,975	\$ 250,619	\$ 252,594	\$ 7
Production and intermediate-term	544	455	999	148,370	149,369	-
Loans to cooperatives	-	-	-	24	24	-
Processing and marketing	-	-	-	1,464	1,464	-
Farm-related business	-	-	-	485	485	-
Rural residential real estate	123	84	207	7,522	7,729	-
Total	\$ 939	\$ 2,242	\$ 3,181	\$ 408,484	\$ 411,665	\$ 7

	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	\$ 1,160	\$ 1,346	\$ 2,506	\$ 251,262	\$ 253,768	\$ 7
Production and intermediate-term	925	654	1,579	147,998	149,577	-
Loans to cooperatives	-	-	-	26	26	-
Processing and marketing	-	-	-	1,430	1,430	-
Farm-related business	-	-	-	501	501	-
Rural residential real estate	-	85	85	7,613	7,698	-
Total	\$ 2,085	\$ 2,085	\$ 4,170	\$ 408,830	\$ 413,000	\$ 7

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

	March 31, 2016	December 31, 2015
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 2,010	\$ 1,937
Production and intermediate-term	942	998
Rural residential real estate	223	228
Total	<u>\$ 3,175</u>	<u>\$ 3,163</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 198	\$ 198
Production and intermediate-term	100	100
Total	<u>\$ 298</u>	<u>\$ 298</u>
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ 7	\$ 7
Production and intermediate-term	-	-
Total	<u>\$ 7</u>	<u>\$ 7</u>
Total nonperforming loans	\$ 3,480	\$ 3,468
Other property owned	-	-
Total nonperforming assets	<u>\$ 3,480</u>	<u>\$ 3,468</u>
Nonaccrual loans as a percentage of total loans	0.78%	0.78%
Nonperforming assets as a percentage of total loans and other property owned	0.86%	0.85%
Nonperforming assets as a percentage of capital	<u>5.05%</u>	<u>5.09%</u>

The following table presents information related to the recorded investment of impaired loans at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	March 31, 2016	December 31, 2015
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 876	\$ 493
Past due	2,299	2,670
Total	<u>3,175</u>	<u>3,163</u>
<b>Impaired accrual loans:</b>		
Restructured	298	298
90 days or more past due	7	7
Total	<u>305</u>	<u>305</u>
Total impaired loans	<u>\$ 3,480</u>	<u>\$ 3,468</u>
Additional commitments to lend	-	-

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

	March 31, 2016			Quarter Ended March 31, 2016	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans:</b>					
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 788	\$ 709	\$ -	\$ 792	\$ 4
Production and intermediate-term	539	607	98	543	3
Total	<u>\$ 1,327</u>	<u>\$ 1,316</u>	<u>\$ 98</u>	<u>\$ 1,335</u>	<u>\$ 7</u>
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,427	\$ 1,542	\$ -	\$ 1,436	\$ 8
Production and intermediate-term	503	526	-	505	2
Rural residential real estate	223	251	-	224	1
Total	<u>\$ 2,153</u>	<u>\$ 2,319</u>	<u>\$ -</u>	<u>\$ 2,165</u>	<u>\$ 11</u>
<b>Total:</b>					
Real estate mortgage	\$ 2,215	\$ 2,251	\$ -	\$ 2,228	\$ 12
Production and intermediate-term	1,042	1,133	98	1,048	5
Rural residential real estate	223	251	-	224	1
Total	<u>\$ 3,480</u>	<u>\$ 3,635</u>	<u>\$ 98</u>	<u>\$ 3,500</u>	<u>\$ 18</u>

Impaired loans:	December 31, 2015			Year Ended December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	
<b>With a related allowance for credit losses:</b>						
Real estate mortgage	\$ 787	\$ 709	\$ –	\$ 725	\$	13
Production and intermediate-term	812	878	154	748		13
Total	\$ 1,599	\$ 1,587	\$ 154	\$ 1,473	\$	26
<b>With no related allowance for credit losses</b>						
Real estate mortgage	\$ 1,355	\$ 1,448	\$ –	\$ 1,249	\$	22
Production and intermediate-term	286	308	–	263		5
Rural residential real estate	228	253	–	210		4
Total	\$ 1,869	\$ 2,009	\$ –	\$ 1,722	\$	31
<b>Total:</b>						
Real estate mortgage	\$ 2,142	\$ 2,157	\$ –	\$ 1,974	\$	35
Production and intermediate-term	1,098	1,186	154	1,011		18
Rural residential real estate	228	253	–	210		4
Total	\$ 3,468	\$ 3,596	\$ 154	\$ 3,195	\$	57

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	Total
<b>Activity related to the allowance for credit losses:</b>					
Balance at December 31, 2015	\$ 2,204	\$ 1,486	\$ 18	\$ 63	\$ 3,771
Charge-offs	–	(3)	–	–	(3)
Recoveries	–	–	–	–	–
Provision for loan losses	(43)	43	–	–	–
Balance at March 31, 2016	\$ 2,161	\$ 1,526	\$ 18	\$ 63	\$ 3,768
Balance at December 31, 2014	\$ 2,184	\$ 1,629	\$ 7	\$ 72	\$ 3,892
Charge-offs	–	(3)	–	–	(3)
Recoveries	–	–	–	–	–
Provision for loan losses	114	(109)	–	(5)	–
Balance at March 31, 2015	\$ 2,298	\$ 1,517	\$ 7	\$ 67	\$ 3,889
<b>Allowance on loans evaluated for impairment:</b>					
Individually	\$ –	\$ 98	\$ –	\$ –	\$ 98
Collectively	2,161	1,428	18	63	3,670
Balance at March 31, 2016	\$ 2,161	\$ 1,526	\$ 18	\$ 63	\$ 3,768
Individually	\$ –	\$ 154	\$ –	\$ –	\$ 154
Collectively	2,204	1,332	18	63	3,617
Balance at December 31, 2015	\$ 2,204	\$ 1,486	\$ 18	\$ 63	\$ 3,771
<b>Recorded investment in loans evaluated for impairment:</b>					
Individually	\$ 2,017	\$ 2,137	\$ –	\$ 223	\$ 4,377
Collectively	250,577	147,232	1,973	7,506	407,288
Balance at March 31, 2016	\$ 252,594	\$ 149,369	\$ 1,973	\$ 7,729	\$ 411,665
Individually	\$ 2,227	\$ 463	\$ –	\$ 225	\$ 2,915
Collectively	251,541	149,114	1,957	7,473	410,085
Balance at December 31, 2015	\$ 253,768	\$ 149,577	\$ 1,957	\$ 7,698	\$ 413,000

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

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

Outstanding Recorded Investment	Three months ended March 31, 2016				Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Pre-modification:</b>					
Rural residential real estate	\$ —	\$ 46	\$ —	\$ 46	
Total	\$ —	\$ 46	\$ —	\$ 46	
<b>Post-modification:</b>					
Rural residential real estate	\$ —	\$ 46	\$ —	\$ 46	\$ —
Total	\$ —	\$ 46	\$ —	\$ 46	\$ —

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	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Real estate mortgage	\$ 240	\$ 198	\$ 42	\$ —
Production and intermediate-term	100	100	—	—
Total Loans	\$ 340	\$ 298	\$ 42	\$ —
Additional commitments to lend	\$ —	\$ —		

The following table presents information as of period end:

	March 31, 2016	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	\$ —	\$ —
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	\$ 494	\$ 496

### Note 3 — Investments

#### Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owned 1.80 percent of the issued stock of the Bank as of March 31, 2016 net of any reciprocal investment. As of that date, the Bank's assets totaled \$31.0 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$72 million for the first three months of 2016. In addition, the Association had an investment of \$223 related to other Farm Credit institutions.

### Note 4 — Debt

#### Notes Payable to AgFirst Farm Credit Bank

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

## Note 5 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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

At or for the Three Months Ended March 31, 2016						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$ —	\$ —	\$ —	\$ —	\$ —	
<b>Liabilities:</b>						
Recurring Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 3,382	\$ —	\$ —	\$ 3,382	\$ 3,382	\$ 53
Other property owned	—	—	—	—	—	—
Nonrecurring Assets	\$ 3,382	\$ —	\$ —	\$ 3,382	\$ 3,382	\$ 53
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 524	\$ 524	\$ —	\$ —	\$ 524	
Loans	400,021	—	—	396,266	396,266	
Other Financial Assets	\$ 400,545	\$ 524	\$ —	\$ 396,266	\$ 396,790	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 346,657	\$ —	\$ —	\$ 345,229	\$ 345,229	
Other Financial Liabilities	\$ 346,657	\$ —	\$ —	\$ 345,229	\$ 345,229	



**At or for the Year Ended December 31, 2015**

	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Fair Value Effects On Earnings</b>
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 3,314	\$ -	\$ -	\$ 3,314	\$ 3,314	\$ (7)
Other property owned	-	-	-	-	-	(22)
Nonrecurring Assets	\$ 3,314	\$ -	\$ -	\$ 3,314	\$ 3,314	\$ (29)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 1,250	\$ 1,250	\$ -	\$ -	\$ 1,250	
Loans	400,928	-	-	399,306	399,306	
Other Financial Assets	\$ 402,178	\$ 1,250	\$ -	\$ 399,306	\$ 400,556	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 353,034	\$ -	\$ -	\$ 351,294	\$ 351,294	
Other Financial Liabilities	\$ 353,034	\$ -	\$ -	\$ 351,294	\$ 351,294	

**SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS**

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

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

certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

**Inputs to Valuation Techniques**

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

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

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

	<b>Fair Value</b>	<b>Valuation Technique(s)</b>	<b>Unobservable Input</b>	<b>Range</b>
Impaired loans and other property owned	\$ 3,382	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**

	<b>Valuation Technique(s)</b>	<b>Input</b>
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

**Note 6 — Employee Benefit Plans**

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

	<b>For the three months ended March 31,</b>	
	<b>2016</b>	<b>2015</b>
Pension	\$ 205	\$ 209
401(k)	44	40
Other postretirement benefits	39	48
Total	<u>\$ 288</u>	<u>\$ 297</u>

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

	<b>Actual YTD Through 3/31/16</b>	<b>Projected Contributions For Remainder of 2016</b>	<b>Projected Total Contributions 2016</b>
Pension	\$ —	\$ 567	\$ 567
Other postretirement benefits	20	62	82
Total	<u>\$ 20</u>	<u>\$ 629</u>	<u>\$ 649</u>

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2016.

Further details regarding employee benefit plans are contained in the 2015 Annual Report to Shareholders, including a discussion of benefit plan changes related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan.

**Note 7 — Commitments and Contingent Liabilities**

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions,

would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

**Note 8 — Subsequent Events**

The Association evaluated subsequent events and determined there were none requiring disclosure through May 9, 2016, which was the date the financial statements were issued.