AgFirst

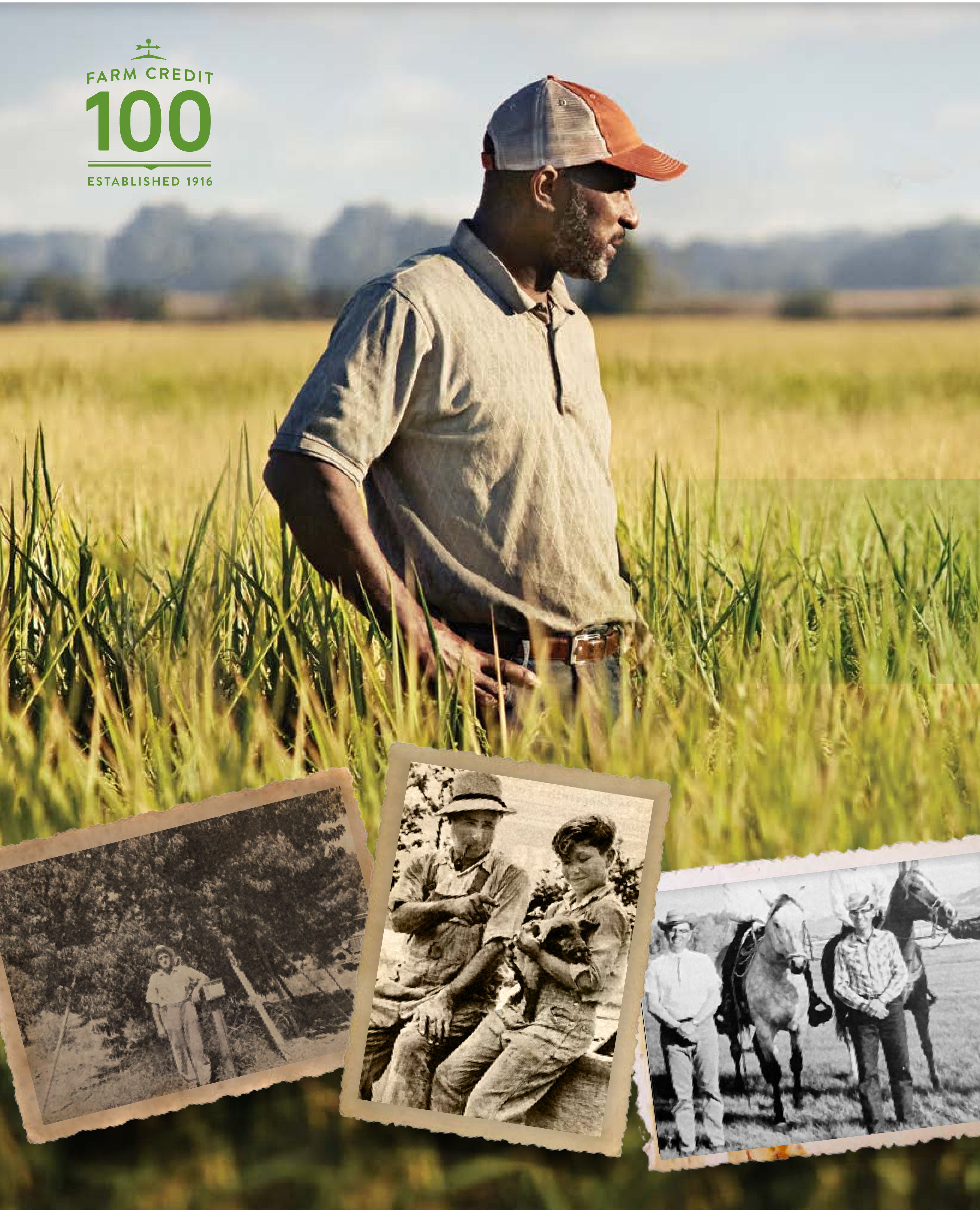
Foundations for the Future

Building on Our Success

2015 Annual Report

Farm Credit 100
Established 1916

AgFirst
Farm Credit Bank


FARM CREDIT
100
ESTABLISHED 1916

Contents

"It is from where we have come that we see what is ahead."

Message from the Chief Executive Officer & the Chairman of the Board

Leon T. Amerson
Chief Executive Officer

Dale R. Hershey
Chairman of the Board

Building Our Future on a Strong Foundation

The Farm Credit story started with a simple concept: provide reliable, consistent credit and financial services to rural communities and agriculture. We have been fulfilling this mission for 100 years through hard work, forward thinking and adaptability. As we look to the next 100 years, the AgFirst District is building on those same principles and taking steps to ensure that our Associations will remain the lender of choice, providing reliable and consistent credit and financial services to agriculture and rural communities, well into the future.

Financial Accountability

Financial accountability is critical to AgFirst's continued success.

AgFirst has enjoyed a period of unprecedented profitability over the last several years amid historically low interest rates. In 2015, strong earnings allowed AgFirst to declare patronage refunds of more than $240 million to our Associations, which reduced their net cost of funds, technology and services provided by AgFirst to only 94 basis points.

During 2015, we also enjoyed healthy loan growth and strong credit quality, both of which reflected improvements in general economic conditions in our service territory.

As we look ahead, we expect AgFirst's profitability to return to a lower, more sustainable level over the next several years due to an increase in costs of funds relative to yields on assets. We could also see some credit quality deterioration as borrowers deal with low prices for certain commodities. However, a return to more normal profitability and credit quality levels will still result in solid financial results.

True Value

While maintaining strong financial performance is vital, AgFirst's true value to Associations comes in our ability to leverage economies of scale. This allows AgFirst to provide a broad array of services – in areas such as technology, security, sales and marketing, and human resources – in an intensely efficient manner.

Through their partnership with AgFirst, each Association can leverage the resources of a much bigger organization, enabling them to effectively compete with the largest lenders in the nation. With AgFirst, relatively small organizations are able to attain the scale of a $30 billion institution.

As we look to the future – and the challenges we are sure to face – we are taking an innovative and proactive approach to providing solutions that will make fulfilling our mission easier.

Looking Back to Move Forward

As we prepare to move forward, it helps to look back at the past that has led us to this point. It is important to remember our history to help us build our house on solid ground so that it will not be devastated by the winds of change.

When the Farm Credit System was formed, it consisted of 12 Federal Land Banks making loans through a network of affiliated Federal Land Bank Associations. The System operated that way for many decades.

Fast forward to the early 1990s, and the System had been restructured to make Associations the retail lenders, with Banks providing wholesale funding to the Associations. This structure encourages Association autonomy. The resulting strategy at AgFirst at that time was to provide a very limited core package of technology and services to Associations and allow them to pick and choose additional products and services they wanted to pay for on a fee basis.

This strategy, however, lacked defensibility. We began to lose our economies of scale. We were giving up one of our chief benefits. As we realized how cumbersome and inefficient this approach was, we boldly reversed course and the full-service Bank concept that serves us well today began to evolve.

Bundling Services

By 2006, we had shifted our focus to modernizing technology and bulking up our service offerings, making an attractive and useful package available to the Associations. Today, we offer a broad suite of core services bundled to give Associations the power to operate effectively and efficiently while at the same time retaining their unique operating structures. In many cases, these are solutions we developed in partnership with Associations to serve their specific needs in a way that makes sense for them.

In the AgFirst District, the common credit analysis and approval packet is a prime example of the benefits of bundling. We had not planned on offering a credit package until several Associations expressed a need for one in recent years. We talked with Associations and they agreed that we could gain a good synergy throughout the District if Associations all began utilizing the same credit analysis package. It became part of our core services.

Like many of our products, we bought an off-the-shelf solution at the top of its class and enhanced it to meet the needs of Associations.

Integration and Innovation

The true value with this concept comes in the integration. Our systems are tied together to make them efficient and easy to use. The systems work together to make Bank and Association employees' jobs easier – whether they're processing loans or analyzing credit. We are continually working on new solutions to improve that workflow and the experience of our Associations.

Our innovation as a District comes in configuring new technology solutions and then integrating them so they are uniquely situated to serve the needs of the District. It is vital for the Bank to partner with Associations in configuring solutions so we can be sure these solutions fit with their autonomous operating models.

As important as it is for us to listen to our Associations' needs and respond to them, we are more than simply order fillers. Our team members understand the business intimately and are acutely tuned to Association needs. We believe our business is at its best when the Bank's team is able to bring solutions that Associations have not even asked for yet.

We proactively seek out solutions to benefit Associations – and we work with employees at those Associations to weave those solutions into the fabric of our District.

Our suite of services is configured and integrated to uniquely meet Association needs; and we work diligently every day to make sure that it stays that way.

Looking to the Future

Both the financial industry and agriculture are continually evolving with new regulations and emerging technologies. We must grow and change with these industries. We have to compete during good times – when farmers have many financing options – to remain viable during challenging times, when many lenders move away from agriculture and rural communities.

To do this, we must offer the best rates, services and technology. We must be willing to continue to be adaptable to the marketplace. And we must grow our strength as a District and continue to take advantage of the size of our institution.

Providing superior technology and services is an expensive proposition. We will look to leverage the AgFirst model as much as we can. As our District grows, everyone in it benefits.

When you boil it down to the basics, our mission is still much the same as it was 100 years ago: provide reliable, consistent credit and financial services to rural communities and agriculture today and tomorrow.

We do that by offering Associations the most comprehensive bundle of high quality services and technology available so that they can offer superior service to their area farmers and rural communities.

Together, we will build on our already strong foundation and create a future full of possibilities for future generations.

Dale R. Hershey
Chairman of the Board

Leon T. Amerson
Chief Executive Officer

March 10, 2016

Building the Pillars of Success through Services, Technology

The AgFirst District was built on a strong, stable foundation of Farm Credit principles that have taken us steadily through the past 100 years and have prepared us for a promising future. We are using our knowledge of agriculture, experience in lending and business savvy to build on our success and develop a business that responds to the needs of our customers and to the demands of a rapidly changing marketplace and technological environment.

At our core, AgFirst provides funding to Associations so they can lend support to rural communities and agriculture. Our Capital Markets department manages a complex commercial loan portfolio and partners with Associations, making it possible for them to participate in larger loans. In Correspondent Lending, we provide a range of services – from compliance review and underwriting to loan processing and servicing – to assist Associations in making home loans to rural communities.

However, AgFirst's mission is to go beyond basic services and partner with Associations to equip them for success. Following are just a few of the areas where we set ourselves apart:

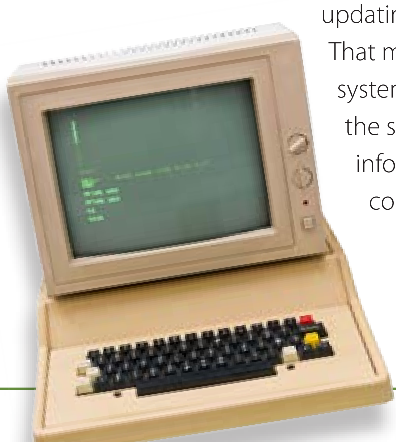
Technology

When Farm Credit was established 100 years ago, the latest in technology was Henry Ford's Model T assembly line. It would be more than 50 years before the first scientific calculator was introduced, nearly 65 years before computers became commonplace and 90 years before the first iPhone was released.

As technology has evolved, AgFirst has responded by making thoughtful decisions to modernize our systems and make technology work for our Associations. Through the years, we have implemented a range of specialized systems designed to streamline specific tasks, such as loan verification, email marketing and customer inquiry.

Today, technology is making it possible to integrate our systems for seamless workflow and ease of use for employees throughout the District.

Our Enterprise Data Warehouse (EDW) is the centerpiece of our integration efforts, storing customer and loan information that is input from various systems and updating that information daily. That means nearly all of our systems can securely pull from the same data source so that information is readily available, consistent and accurate.



"As technology has evolved, AgFirst has responded by making thoughtful decisions to modernize our systems and make technology work for our Associations."

"I welcome the drive toward data and technology integration. Farm Credit generates an incredible amount of data and it can be very difficult to mine that data in a meaningful way if it is spread across disparate systems," said Colonial Farm Credit Chief Information Officer Jim Belfield. "The Enterprise Data Warehouse has enabled us to find and report data more efficiently and to use that data to support our business decisions."

AgFirst uses the latest web and mobile technologies to provide Associations with detailed information on their customer accounts, which can be accessed from virtually anywhere. Associations can use our award-winning workflow management solution to automate and streamline key business processes. Technology has allowed AgFirst – along with its Associations – to come up with solutions that simply weren't available a decade ago.

"Keeping up with technological advancements and choosing the right investments for our District will be critical going forward," said Tim Amerson, president and CEO of AgFirst. "Employees are looking to technology to simplify procedures for a range of functions, such as dealing with complicated new home loan regulations. Association customers want to complete more transactions online. Sophisticated corporate customers are looking for lenders who give them the ability to move money around electronically."

We work to make today's solution the best available. It is engrained in our culture to also look to the future, seeking tomorrow's solutions for the betterment of our District. We do this in collaboration with our Associations to make our District strong and competitive in today's fast-changing marketplace.

"AgFirst's commitment to technology allows all of the District Associations to be successful and on the leading edge of technology in a way that none of us can do separately or on our own," Belfield said. "Colonial Farm Credit consistently has technology that is superior to many similar sized and larger competitors in our area thanks to the support from AgFirst."

In AgFirst's decades as an institution, we have moved from a world of paper documents, filing cabinets and mailed correspondence to electronic data storage, digital management systems and instant communications.

"Whatever tomorrow brings, we will be ready," Amerson said. "As a Bank, we strive to stay on the cutting edge of technology and respond to the demands of the marketplace with desirable solutions that satisfy the needs of Associations."

Sales and Marketing

Sales and marketing are the lifeblood of Associations' operations, and they go hand-in-hand to help drive profitability. It is our mission to position Associations' marketing and sales departments for success – from helping Associations find leads through market research to partnering with them to discover and develop tools that will help them create loyal customers.

While the purpose of sales and marketing has remained steadfast over the years, the way these functions operate in the AgFirst District has changed tremendously with the introduction of a range of technological tools.

In the pre-digital age, marketing was done in large part via the U.S. postal service, printed advertisements and in-person contact. Those leads were given to sales people, who kept and managed paper files as prospects made the transition to customers. Success depended on acute organizational skills and expert communication.

Today, Association marketing teams have added a range of tools to their arsenal – from websites and social media to targeted email campaigns that can be tracked for effectiveness. Marketing is often the first interaction a potential customer has with an AgFirst Association. It is vital to reach out to the right people, in the right places, at the right times to make the best possible first, second and third impressions.

> "While the purpose of sales and marketing has remained steadfast over the years, the way these functions operate in the AgFirst District has changed tremendously with the introduction of a range of technological tools."

Another tool that is available to Associations is Customer Relationship Management (CRM), which allows Associations to plan, organize, track and evaluate their marketing campaigns and also give sales teams the power to easily manage sales in all stages of the process.

"In the past, before we had CRM, if we needed to communicate with our customers or prospects, we could use the mail or our Leader magazine. It was expensive, cumbersome and hit or miss as to whether we actually connected with them," said Carolina Farm Credit Chief Marketing Officer Maggie Hamm. "Now, we can create emails whenever we have a need, and we can do it very selectively, targeting just the right people. It's a great tool."

Carolina also uses CRM to distribute a digital newsletter to farmers so they can have important information in a timely manner, rather than waiting on a quarterly mailed newsletter.

"These tools have helped us communicate better and in a more timely manner with our customers," Hamm said.

On the sales side, CRM has become a vital tool. It allows for a convenient dashboard view of all prospects as they work their way through the system. This makes the sales process transparent for all parties involved and allows managers to see how many deals are in the pipeline, what stage they are in and the potential value of each deal. This transparency facilitates better communication and increases the odds for success.

In addition, it allows sales people the flexibility to work in the field from digital devices so they can keep the process moving forward no matter where they are located and can more easily plan their time for greater efficiency.

CRM is effective on multiple fronts because it is an automated way for Associations to integrate marketing efforts with the sales process for seamless workflow.

"CRM is effective on multiple fronts because it is an automated way for Associations to integrate marketing efforts with the sales process for seamless workflow."

"What CRM allows you to do is link your marketing campaigns back to your sales so that you can better track the return on investment of your various campaigns," said Julia Richardson, who is in charge of the CRM for Association Services team at AgFirst.

Going forward, Richardson's team is working on a pilot program with several Associations to integrate prospect and market insight data into CRM.

"Instead of handing sales teams an Excel spreadsheet with a list of leads and no way to track follow-up, we can assign leads through CRM to specific loan officers, track the progress and ultimately compile reports detailing which leads turned into customers. CRM pulls it all together in an automated way."

Human Resources

Throughout most of the AgFirst District's 100 years, Human Resources – like personnel departments everywhere – was focused chiefly on two things: payroll and personnel. That largely meant maintaining records and making sure employees got their paychecks.

In the past 20 years, however, the role of the Human Resources department has evolved in a number of key ways with a primary focus on talent management and its affiliated technology advances.

"Competitive benefits are expected by today's job seekers. We have to offer the best benefits while constantly managing and corralling costs for the District," said Jeff Payne, vice president of Human Resources for AgFirst.

AgFirst's reach and impact enables even the smallest Associations to offer the same level of benefits as a much larger company. AgFirst's HR staff provides additional service by assisting those Associations with benefits information, helping them work through unusual or difficult situations.

Beyond payroll and benefits, the role of AgFirst's HR department is that of a conduit for idea sharing between Associations and a catalyst for helping bring best practices to the District.

For example, "HR departments are tasked with making sure there is a proper fit between the potential employee and the job they are asked to do," Payne said.

As the concepts of assessing and developing staff have evolved, AgFirst's HR department continues to meet Associations' needs – from helping them identify the best interview techniques to giving them tools to set their employees on a structured path for success and advancement within the company. "Today, there is a heavy focus on tomorrow's workforce," Payne said.

To help with workforce development, AgFirst established The Leadership Academy, initially to pull together all of the leadership opportunities into a formal structure. The academy also introduced two new levels of management and leadership training both for AgFirst and Association management. The academy lays a path for employees who want to advance in the organization by identifying and making available various training opportunities.

Another example of HR providing a central point of coordination was in the creation of a District Training Catalog. The catalog concept came out of an Associatoin survey suggestion, and a committee of District HR staff came together to create the concept of a universally accessible catalog of training that is available and in use throughout the District. AgFirst's HR and IT departments

"A diverse and inclusive workplace is also an engaged workplace. It's been said that a person is truly engaged when they can bring their whole self to work."

then created a technology platform to make the catalog a reality. The comprehensive catalog, launching in April, features more than 900 training topics.

AgFirst also has taken the lead in diversity and inclusion. "There is a recognition that we need to make a concerted effort to understand and utilize all of the skills of all employees, no matter their background," Payne said. "A diverse and inclusive workplace is also an engaged workplace. It's been said that a person is truly engaged when they can bring their whole self to work."

In response, AgFirst continues to enhance and implement a robust diversity and inclusion strategy, which is that AgFirst will "educate and equip employees with the tools they need to ensure a cohesive and respectful workplace." AgFirst HR is planning the District's first Diversity and Inclusion workshop this fall.

Another solid example of AgFirst HR coordinating efforts with its partner Associations is a recent project assisting ArborOne in moving their performance management process to an automated solution.

"AgFirst not only helped us implement the technology to move to a fully automated system, they also helped us facilitate a culture change, providing training that empowers managers and motivates staff to embrace core competencies that will help us better plan for the future," said Sarah Jackson, the Association's director of Human Resources. "They have been a great partner."

ArborOne also works closely with the Bank to ensure it remains in compliance with a changing legal landscape and exploring avenues for initiatives such as increasing its diversity.

"Our HR department is two people wearing many hats," Jackson said. "AgFirst is able to do a lot of upfront legwork that helps us greatly. Being able to call them and just have a conversation is a godsend."

Security

Security used to mean keeping our paper files under lock and key. It was as simple as having a secure building to store sensitive customer information when it was not in use – and keeping it away from prying eyes when it was in use.

The meaning of data security has undergone a wholesale change in the past few decades and is continuing to evolve as new technologies develop rapidly. Since home computer use became widespread in the 1990s, most businesses have changed the way they operate – and the way they secure sensitive customer data. AgFirst is no exception.

For more than 80 years, loan officers throughout the District took applications on paper forms. If a customer needed tax records, he wrote a letter to his Association or dropped by to take a look. If he wanted to transfer money, he went to a branch and completed the transaction with an employee. Now, nearly all of our business transactions can be done on a device that fits in your hand.

This dramatic change has happened in a relatively short time period, and AgFirst's challenge has been to respond rapidly to this changing technology. As a Bank, we have stepped up to the challenge in numerous ways.

The first step was formalizing a security team in 2006. Until then, we had three staff members who were responsible for enabling access to certain systems or applications.

"Security has been moved from the background to the forefront of daily processing," said AgFirst Chief Information Security Officer Chad Toney. "The visibility and support by the Board and senior management has enabled AgFirst to implement products and services that compete with most major organizations on the security front."

As technology has grown, so has our team. We have blossomed into a team of 10 people who are dedicated to focusing specifically on information technology – a 233 percent increase over the past decade.

In addition, we have implemented new technology and established relationships with trusted partners, allowing us to respond to potential threats in a timely manner and even identify potentially negative circumstances before they become a problem. We have a Data Center that rivals any in the industry in security.

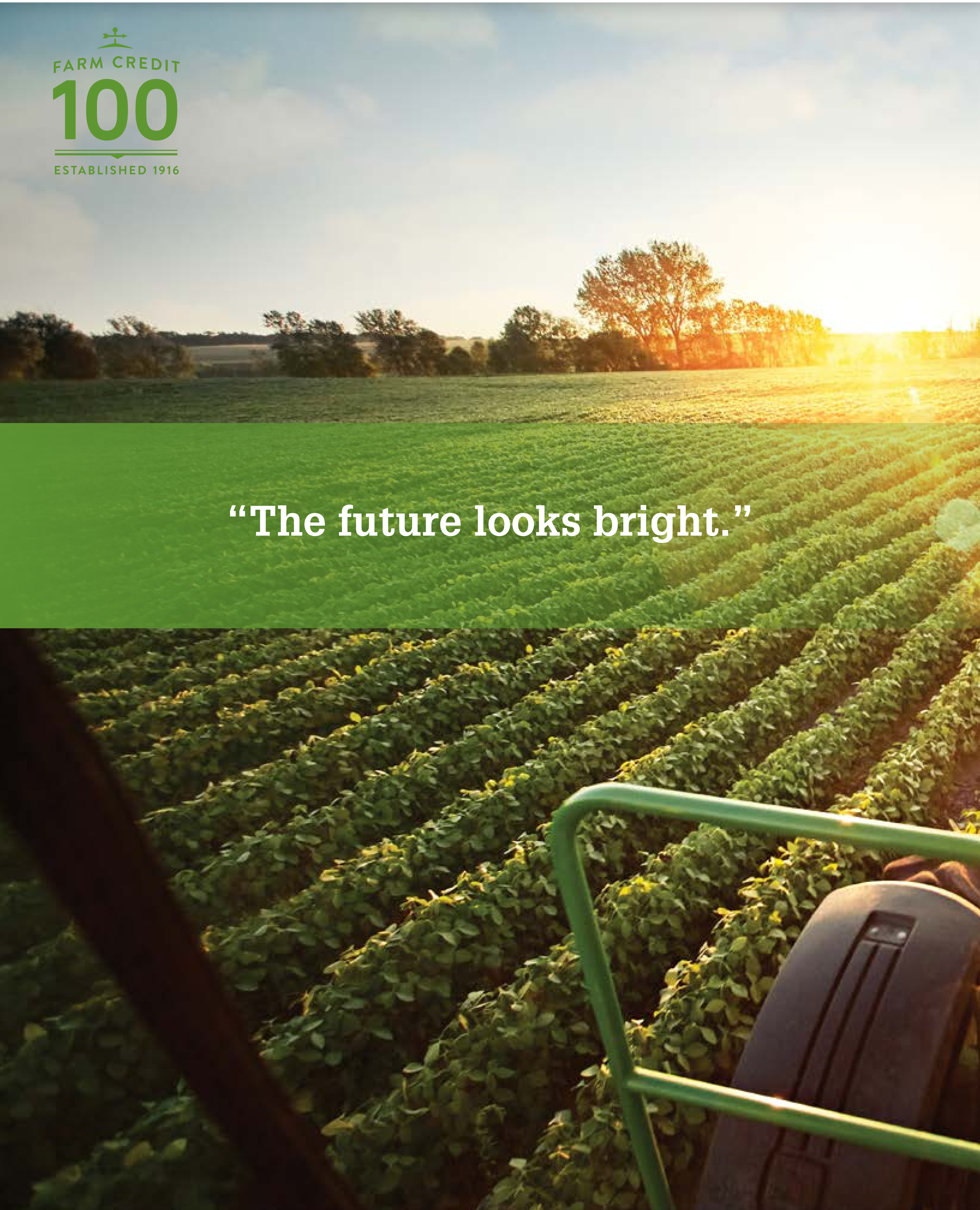
It does not stop there. Our teams are continually receiving training and certification to stay up to date and responsive on the newest technologies and latest threats. We have three team members who have gained the Certified Information Systems Security Professional designation and two who have achieved the Certified Information Security Manager accreditation. Both of these are considered among the most recognized credentials in the field.

> "Protecting our Association and borrower data is vital to maintaining and growing our business because without our reputation, our foundation crumbles."

"AgFirst has adapted to the ever-changing security trends of the past decade and makes a concerted effort to stay abreast of new risk and capabilities through memberships in numerous information security forums – both national and local," Toney said.

Protecting our Association and borrower data is vital to maintaining and growing our business because without our reputation, our foundation crumbles. As security breaches have become all too common, grabbing headlines and compromising the financial identities of millions of Americans year after year, we are here to reassure our customers that we are taking every reasonable measure to build up walls around our organization's data that aims to minimize the ever-changing security threat.

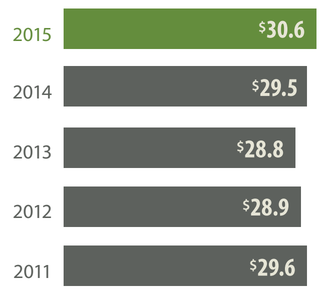
"It makes me feel very good that we have taken those steps and that data security is a major emphasis within the management team at AgFirst," said Reggie Holt, CEO and president of Farm Credit of Central Florida. "I think we're going in the right direction."


FARM CREDIT
100
ESTABLISHED 1916
"The future looks bright."

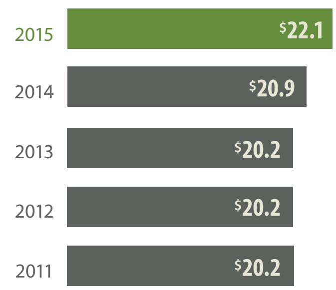
Five Year Summary

of selected financial data

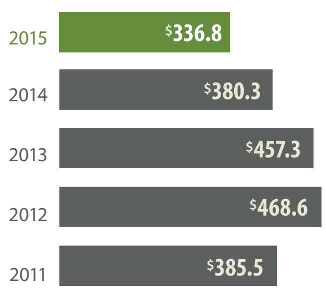
TOTAL ASSETS
$ IN BILLIONS



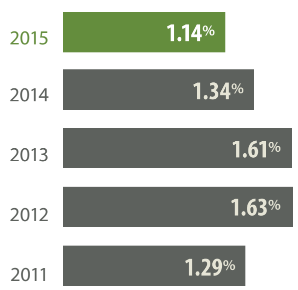
LOANS
$ IN BILLIONS



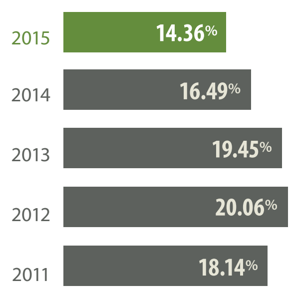
NET INCOME
$ IN MILLIONS



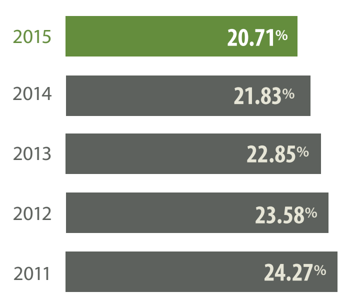
RETURN ON ASSETS



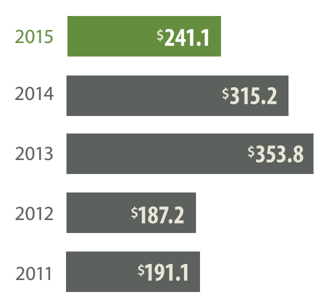
RETURN ON SHAREHOLDERS' EQUITY



PERMANENT CAPITAL RATIO



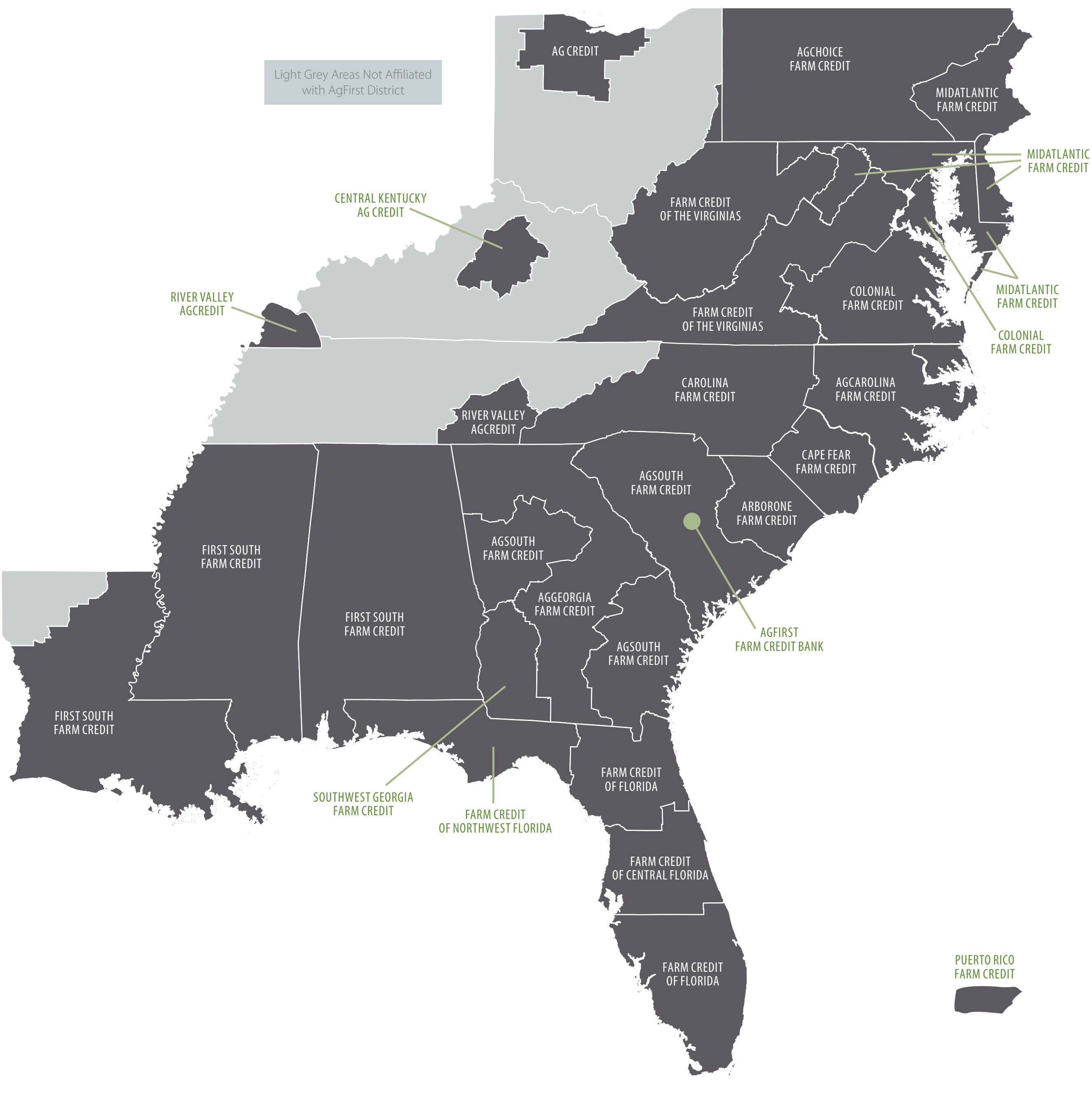
CASH PATRONAGE DECLARED
$ IN MILLIONS



(dollars in thousands)	2015	2014	2013	2012	2011
	As of or for the year ended December 31,				
BALANCE SHEET DATA					
Cash and cash equivalents	$ 672,622	$ 847,350	$ 1,183,755	$ 873,165	$ 1,301,569
Investment securities	7,511,810	7,413,939	7,152,788	7,484,411	7,780,272
Loans	22,140,758	20,893,619	20,200,449	20,208,689	20,151,942
Allowance for loan losses	(15,113)	(15,535)	(22,908)	(44,539)	(27,714)
Net loans	22,125,645	20,878,084	20,177,541	20,164,150	20,124,228
Other property owned	13,411	2,808	9,621	19,477	44,157
Other assets	297,112	340,764	297,035	326,171	306,522
Total assets	$ 30,620,600	$ 29,482,945	$ 28,820,740	$ 28,867,374	$ 29,556,748
Obligations with maturities of one year or less	$ 10,202,141	$ 10,977,525	$ 9,516,897	$ 10,904,749	$ 12,069,132
Obligations with maturities greater than one year	18,163,438	16,298,013	17,157,096	15,664,395	15,338,346
Total liabilities	28,365,579	27,275,538	26,673,993	26,569,144	27,407,478
Perpetual preferred stock	115,000	125,250	125,250	275,250	400,000
Capital stock and participation certificates	307,483	303,180	308,972	332,705	405,767
Additional paid-in-capital	39,988	36,580	36,580	36,580	—
Retained earnings					
Allocated	656	692	726	795	858
Unallocated	1,731,972	1,639,757	1,577,676	1,481,432	1,218,648
Accumulated other comprehensive income (loss)	59,922	101,948	97,543	171,468	123,997
Total shareholders' equity	2,255,021	2,207,407	2,146,747	2,298,230	2,149,270
Total liabilities and shareholders' equity	$ 30,620,600	$ 29,482,945	$ 28,820,740	$ 28,867,374	$ 29,556,748
STATEMENT OF INCOME DATA					
Net interest income	$ 454,061	$ 484,192	$ 538,058	$ 605,502	$ 596,434
Provision for (reversal of) loan losses	(3,157)	(8,451)	(10,589)	14,946	80,222
Noninterest income (expense), net	(120,410)	(112,294)	(91,311)	(121,946)	(130,754)
Net income	$ 336,808	$ 380,349	$ 457,336	$ 468,610	$ 385,458
KEY FINANCIAL RATIOS					
Rate of return on average:					
Total assets	1.14%	1.34%	1.61%	1.63%	1.29%
Total shareholders' equity	14.36%	16.49%	19.45%	20.06%	18.14%
Net interest income as a percentage of average earning assets	1.59%	1.76%	1.96%	2.19%	2.09%
Net (chargeoffs) recoveries to average loans	0.01%	0.01%	(0.06)%	0.01%	(0.33)%
Total shareholders' equity to total assets	7.36%	7.49%	7.45%	7.96%	7.27%
Debt to shareholders' equity (:1)	12.58	12.36	12.43	11.56	12.75
Allowance for loan losses to loans	0.07%	0.07%	0.11%	0.22%	0.14%
Permanent capital ratio	20.71%	21.83%	22.85%	23.58%	24.27%
Total surplus ratio	20.64%	21.80%	22.81%	23.55%	24.24%
Core surplus ratio	18.48%	19.38%	19.98%	20.04%	17.08%
Collateral ratio	106.93%	106.79%	106.83%	107.03%	106.49%
NET INCOME DISTRIBUTION					
Cash patronage declared	$ 241,079	$ 315,218	$ 353,813	$ 187,165	$ 191,060
Perpetual preferred stock dividend	1,743	1,729	6,347	17,978	27,413
Stock dividend patronage declared	1,771	1,324	932	683	648

The District

Associations of AgFirst Farm Credit Bank



AgFirst is a member of the Farm Credit System, the largest agricultural lending organization in the United States. As one of the four Banks in the Farm Credit System, we provide funding and services to 19 affiliated Agricultural Credit Associations in 15 eastern states and Puerto Rico. Our Associations, in turn, provide financing to 80,000 farmers, ranchers, rural homeowners and agribusinesses.

Board of Directors

Dale R. Hershey
Chairman
MIDATLANTIC FARM CREDIT

John S. Langford
Vice Chairman
FARM CREDIT OF CENTRAL FLORIDA

Jack W. Bentley Jr.
AGGEORGIA FARM CREDIT

James C. Carter, Jr.
AGSOUTH FARM CREDIT

Bonnie V. Hancock
OUTSIDE DIRECTOR

Curtis R. Hancock Jr.
RIVER VALLEY AGCREDIT

Walter C. Hopkins, Sr.
MIDATLANTIC FARM CREDIT

William K. Jackson
AGCHOICE FARM CREDIT

S. Jerry Layman
AG CREDIT

S. Alan Marsh
FIRST SOUTH FARM CREDIT

James L. May
CENTRAL KENTUCKY AG CREDIT

Fred R. Moore Jr.
MIDATLANTIC FARM CREDIT

James M. Norsworthy, III
FIRST SOUTH FARM CREDIT

Katherine A. Pace
OUTSIDE DIRECTOR

Thomas E. Porter Jr.
CAROLINA FARM CREDIT

William T. Robinson
AGSOUTH FARM CREDIT

Robert G. Sexton
FARM CREDIT OF FLORIDA

Robert H. Spiers Jr.
COLONIAL FARM CREDIT

Michael T. Stone
CAPE FEAR FARM CREDIT

Ellis W. Taylor
AGCAROLINA FARM CREDIT

AgFirst Farm Credit Bank
2015 Annual Report

Contents

Management

Leon T. Amerson . . . President and Chief Executive Officer
Charl L. Butler . . . Senior Vice President and Chief Financial Officer
Benjamin F. Blakewood . . . Senior Vice President and Chief Information Officer
Christopher L. Jones . . . Senior Vice President and Chief Credit Officer
Daniel E. LaFreniere . . . Senior Vice President and Chief Audit Executive
Isvara M. A. Wilson . . . Senior Vice President and General Counsel

Board of Directors

Dale R. Hershey . . . Chairman
John S. Langford . . . Vice Chairman
Jack W. Bentley, Jr. . . . Director
James C. Carter, Jr. . . . Director
Bonnie V. Hancock . . . Director
Curtis R. Hancock, Jr. . . . Director
Walter C. Hopkins, Sr. . . . Director
William K. Jackson . . . Director
S. Jerry Layman . . . Director
S. Alan Marsh . . . Director
James L. May . . . Director
Fred R. Moore, Jr. . . . Director
James M. Norsworthy, III . . . Director
Katherine A. Pace . . . Director
Thomas E. Porter, Jr. . . . Director
William T. Robinson . . . Director
Robert G. Sexton . . . Director
Robert H. Spiers, Jr. . . . Director
Michael T. Stone . . . Director
Ellis W. Taylor . . . Director

Report of Management

The accompanying Financial Statements and related financial information appearing throughout this Annual Report have been prepared by management of AgFirst Farm Credit Bank (Bank) 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 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 Financial Statements, and that the assets of the Bank 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 Bank 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 Audit Committee of the Board of Directors and to the Chief Executive Officer.

AgFirst has a Code of Ethics for its Chief Executive Officer, Senior Financial Officers, and other Senior Officers who are involved with preparation and distribution of financial statements and maintenance of the records supporting the financial statements. A copy of the AgFirst Code of Ethics may be viewed on the Bank's website at www.agfirst.com.

The Financial Statements have been audited by independent certified public accountants, whose report appears elsewhere in this Annual Report. The Bank is also subject to examination by the Farm Credit Administration.

The Financial Statements, in the opinion of management, fairly present the financial condition of the Bank. The undersigned certify that we have reviewed the 2015 Annual Report of AgFirst Farm Credit Bank, 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.

Dale R. Hershey
Chairman of the Board

Leon T. Amerson
President and Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 10, 2016

Report on Internal Control over Financial Reporting

The Bank'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 Bank's 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 Bank'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 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 Bank, (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 Bank, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its Financial Statements.

The Bank'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 Bank'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 Bank's management determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2015.

Leon T. Amerson
President and Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 10, 2016

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

AgFirst Farm Credit Bank (the Bank or AgFirst) is one of the banks of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to support rural communities and agriculture with reliable, consistent credit and financial services. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses. Consistent with the mission of supporting rural America, the System also makes rural residential real estate loans, finances rural communication, energy and water infrastructures and makes loans to support agricultural exports and to finance other eligible entities.

The nation is currently served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), each of which has specific lending authorities within its chartered territory. The ACB also has certain additional specific nationwide lending authorities. AgFirst is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of the states of Ohio, Tennessee, Kentucky and Louisiana.

Each FCB and the ACB serves one or more of either Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that originate both long-term and short-term and intermediate-term loans. PCAs, FLCAs and ACAs are collectively referred to as associations. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). The Associations are structured as cooperatives in which each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As of December 31, 2015, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with FLCA and PCA subsidiaries. The Bank and District Associations are regulated by the Farm Credit Administration (FCA).

The following commentary reviews the Financial Statements of condition and results of operations of AgFirst as of and for the years ended December 31, 2015, 2014, and 2013. This information should be read in conjunction with the accompanying Financial Statements, the Notes to the Financial Statements and other sections of this Annual Report. The Financial Statements were prepared under the oversight of the Audit Committee of the Bank's Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" included in this Annual Report. See Note 1, *Organization and Operations*, in the Notes to the Financial Statements for a discussion of the operations of AgFirst.

FORWARD-LOOKING INFORMATION

Certain sections of this Annual Report contain forward-looking statements concerning financial information and statements about future economic performance and events, plans and objectives and assumptions underlying these projections and statements. These projections and statements are not based on historical facts but instead represent the Bank's current assumptions and expectations regarding the Bank's business, the economy and other future conditions. However, actual results and developments may differ materially from the Bank's expectations and predictions due to a number of risks and uncertainties, many of which are beyond the Bank's control. Forward-looking statements can be identified by words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms that are intended to reference future periods.

These statements are not guarantees of future performance and involve certain risks and uncertainties and actual results may differ from those in the forward-looking statements as a result of various factors. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in United States (U.S.) government support of the agricultural industry and the System as a government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving the U.S. government, other GSEs and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the federal government that impact the financial services industry and the debt markets;
- credit, interest rate and liquidity risk inherent in lending activities; and
- changes in the Bank's assumptions for determining the allowance for loan losses, other than temporary impairment and fair value measurements.

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 AgFirst's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data in the AgFirst District.

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. However, 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, AgFirst'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, AgFirst'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 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.

SIGNIFICANT ACCOUNTING POLICIES

The Bank's financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Consideration of AgFirst's significant accounting policies is critical to the understanding of the Bank's results of operations and financial position because some accounting policies require complex or subjective judgments and estimates that may affect the reported amount of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management has to make judgments about matters that are inherently uncertain. For a complete discussion of the Bank's significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Financial Statements. The following is a summary of the Bank's most critical accounting policies:

- *Allowance for loan losses* — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in the Bank's 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.

  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 attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and current factors, internal risk ratings, regulatory oversight, and geographic, industry, and other factors.

  In addition to the allowance for loan losses attributable to specific loans, the Bank may also establish a general allowance for loan losses based on management's assessment of risk inherent in the loans in the Bank's portfolio that were not specifically evaluated. In establishing general reserves, factors affecting certain commodity types or industries may be taken into consideration, as well as other factors previously discussed. Certain loan pools purchased from various Associations are analyzed in accordance with the selling Associations' allowance methodologies for assigning general and specific allowances. Allowances are established on these pools based on that analysis after Bank management's determination that the methodologies employed are appropriate.

  Assessing the appropriateness of the allowance for loan losses is a dynamic process. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the level of the allowance for loan losses and have a direct impact on the provision for loan losses and the results of operations.

The overall adequacy of the allowance for loan losses is validated further through periodic evaluations of the loan portfolio, which generally consider historical charge-off experiences adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, collateral value, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active 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 active market exists. Management utilizes third party valuation services to obtain fair value prices for the majority of the Bank's investment securities. Management also utilizes significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, pension and other postretirement benefit obligations, certain derivatives, certain investment securities and 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 asset or liability values, which could have material positive or negative effects on the Bank'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. 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 the expected long-term rate of return on plan assets and a 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 future benefit obligations. The discount rate for 2015 was selected by reference to analysis and yield curves developed by the plans' actuary and industry norms. The yield curve selected follows the accounting guidance that the basis for discount rates should be higher-quality zero-coupon bonds with durations that match the expected cash flows of the plans that underlie the obligation.

LOAN PORTFOLIO

AgFirst's loan portfolio consists primarily of direct loans to District Associations (Direct Notes), loan participations/syndications purchased, Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to OFIs as shown below at December 31:

AgFirst Loan Portfolio

(dollars in thousands)	2015		2014		2013	
Direct Notes	$ 14,890,580	67.25%	$ 14,280,193	68.35%	$ 13,989,392	69.25%
Participations/Syndications Purchased, net	4,457,397	20.13	4,015,056	19.21	3,726,378	18.45
Correspondent Lending	2,684,761	12.13	2,502,858	11.98	2,401,563	11.89
Loans to OFIs	108,020	0.49	95,512	0.46	83,116	0.41
Total	$ 22,140,758	100.00%	$ 20,893,619	100.00%	$ 20,200,449	100.00%

The diversification of AgFirst's loan volume by type for each of the past three years at December 31 is shown below. In the table 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.

(dollars in thousands)	2015		2014 (as revised)		2013 (as revised)	
Direct Notes	$ 14,890,580	67.25 %	$ 14,280,193	68.35 %	$ 13,989,392	69.25 %
Rural Residential Real Estate	2,593,981	11.72	2,424,793	11.60	2,325,213	11.51
Real Estate Mortgage	1,188,460	5.37	1,222,601	5.85	1,225,483	6.07
Production and Intermediate-Term	1,158,432	5.23	977,834	4.68	960,312	4.75
Processing and Marketing	1,015,066	4.59	848,239	4.06	604,843	3.00
Energy and Water/Waste Disposal	468,152	2.11	433,738	2.07	453,361	2.25
Communication	238,681	1.08	184,529	0.88	198,692	0.98
Loans to Cooperatives	217,610	0.98	187,250	0.90	171,688	0.85
Farm-Related Business	185,707	0.84	168,827	0.81	127,546	0.63
Loans to OFIs	108,020	0.49	95,512	0.46	83,116	0.41
International	66,205	0.30	59,705	0.29	49,959	0.25
Other (including Mission Related)	9,864	0.04	10,398	0.05	10,844	0.05
Total	$ 22,140,758	100.00 %	$ 20,893,619	100.00 %	$ 20,200,449	100.00 %

Total loans outstanding were $22.141 billion at December 31, 2015, an increase of $1.247 billion, or 5.97 percent, compared to total loans outstanding at December 31, 2014. Loans outstanding at the end of 2014 had increased $693.2 million, or 3.43 percent, compared to December 31, 2013.

Bank loan demand in 2015 and 2014 increased due to economic conditions positively impacting borrowers in economically sensitive segments such as forestry and borrowers dependent on non-farm income. Also, loan demand benefitted from improved conditions in specific commodities such as the poultry, cattle, and swine sectors. Future Bank loan demand is difficult to predict; however, moderate growth is expected in 2016.

Each loan in the Bank's portfolio is classified according to a Uniform Classification System, which is used by all 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 AgFirst loans including accrued interest at December 31:

AgFirst Total Loans Credit Quality	2015	2014	2013
Acceptable	98.40%	95.16%	89.00%
OAEM	1.09	4.40	6.89
Adverse*	0.51	0.44	4.11
Total	100.00%	100.00%	100.00%

* *Adverse loans include substandard, doubtful, and loss loans.*

The changes in credit quality reflected in the table above were primarily due to changes in credit quality of the Direct Notes which is discussed in the *Direct Notes* section below. Loan portfolio credit quality at the producer level reflected improvement primarily due to incremental improvement of economic conditions. District real estate values have continued to improve. Grain prices have declined due to higher than expected inventory and harvest levels. This benefitted the poultry, cattle, and swine sectors but pressured margins of grain producers. Improved housing starts continue to positively impact certain housing-related segments such as forestry and nursery/greenhouse.

The credit conditions discussed above directly affect the credit quality of the Bank's participation/syndication loan portfolio. They also affect the credit quality of loan portfolios and earnings performance of the individual District Associations, which impacts the quality of the Bank's Direct Notes. Credit quality is expected to slightly deteriorate in 2016 given low prices in certain commodity segments.

Direct Notes

AgFirst's primary business is to provide funding, operational support, and technology services to District Associations. AgFirst provides a revolving line of credit, referred to as a Direct Note, to each of the District Associations. Each of the Associations funds its earning assets primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association. Refer to Note 1, *Organization and Operations*, in the Notes to the Financial Statements for further discussion.

At December 31, 2015, total Direct Note volume outstanding was $14.891 billion, an increase of $610.4 million, or 4.27 percent, compared to December 31, 2014. Direct Note volume of $14.280 billion at December 31, 2014, increased $290.8 million, or 2.08 percent, compared to December 31, 2013. See the *Loan Portfolio* section above for the primary reasons for the improved Direct Note volume.

AgFirst provides each Association with core operating systems and support, including a loan origination system, loan accounting and servicing systems, general ledger and related financial accounting systems, and a human resources/payroll system. With AgFirst providing such systems and other services, the Associations are able to achieve operating efficiencies ordinarily afforded to much larger organizations. In addition, having common systems supported by AgFirst provides an opportunity to automate the AgFirst/Association lending process. One of the most significant advantages of this is a match-funding mechanism that automatically creates Direct Note advances that match the repricing and maturity characteristics of each underlying Association loan. The Association's interest rate risk and operational risks are significantly reduced by employing these systems.

Ultimately, the Associations' ability to repay their Direct Note obligations is significantly dependent upon the repayment of loans made to their borrowers. Accordingly, AgFirst's direct and indirect credit exposure depends upon the creditworthiness of both the Associations that are direct borrowers and the underlying borrowers of the Associations whose loans, as well as the other assets of the Associations, secure their Direct Notes.

AgFirst continually monitors the risk-bearing capacity of each Association through a variety of mechanisms, including testing of the reliability of the Association's risk ratings assigned to each of their loans, periodic meetings with the Association's management and board, regular formalized risk assessments, and prior-approval of loan transactions that exceed the Association's delegated lending authority as determined by AgFirst.

All Associations are subject to an annual audit by independent certified public accountants and periodic examination by FCA. Each Association is required by regulatory mandate to perform continuous internal credit, appraisal, and audit reviews. Litigation in which Associations are involved is typically loan related and poses no material threat to their viability.

The following table presents selected statistics related to the credit quality of the Direct Note portfolio including accrued interest at December 31:

Direct Note Credit Quality

	2015		2014		2013	
	% Total	# Total	% Total	# Total	% Total	# Total
Acceptable	99.22%	18	94.71%	17	85.96%	14
OAEM	0.78	1	5.29	2	9.23	4
Adverse*	–	–	–	–	4.81	1
Total	100.00%	19	100.00%	19	100.00%	19

* *Adverse loans include substandard, doubtful, and loss loans.*

As reflected in the table above, since December 31, 2013, the classification of the Direct Notes for three District Associations improved from OAEM to Acceptable and one improved from Adverse to Acceptable due to sustained satisfactory financial and operational performance at those Associations.

Presently, collection of the full Direct Note amount due is expected from all Associations in accordance with the contractual terms of the debt arrangements, and no allowance has been recorded for Direct Notes. All assets of the various Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank should a Direct Note default.

As of December 31, 2015, one District Association with total assets of $170.5 million was operating under written supervisory agreement with the FCA. This agreement required the District Association to take corrective actions with respect to the following: asset quality, earnings and liquidity, senior management, collateral risk management, corporate governance and related items. Also, as of December 31, 2015, this District Association was operating under a special credit agreement pursuant to its GFA as a result of events of default under the GFA. In late February 2016, the FCA terminated the written supervisory agreement and returned this Association to normal supervision. Neither these enforcement actions nor GFA events of default are expected to have a significant adverse impact on the Bank's or District's financial condition or results of operations.

Associations employ a number of risk management techniques to limit credit exposures. Each Association has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to enhance the diversification of their portfolios. Some Associations utilize guarantees from U.S. government agencies/departments, including the Farm Service Agency, the Small Business Administration, and the Federal Agricultural Mortgage Corporation (Farmer Mac), to further limit credit exposures. At December 31, 2015, Associations collectively had $1.668 billion under such government or GSE guarantees, compared to $1.666 billion and $1.640 billion, at December 31, 2014 and 2013, respectively.

At year-end, the combined Associations' loans including accrued interest were classified as follows:

District Associations Credit Quality	2015	2014	2013
Acceptable	94.35%	93.61%	91.72%
OAEM	2.99	3.07	3.99
Adverse*	2.66	3.32	4.29
Total	100.00%	100.00%	100.00%

** Adverse loans include substandard, doubtful, and loss loans.*

Total Association loan delinquencies (loans 90 days or more past due) were 0.42 percent of the combined Association total loan assets at year-end 2015 compared to 0.59 percent and 0.94 percent at year-end 2014 and 2013, respectively.

Nonperforming assets for the combined Associations represented 1.89 percent of total loan assets or $360.8 million, compared to 2.35 percent or $423.5 million for 2014, and 3.06 percent or $528.1 million for 2013. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned.

Association net loan recoveries of $1.0 million for 2015 and net loan charge-offs of $1.5 million and $29.7 million for 2014 and 2013, respectively, were recognized. As a percentage of total average loans, net recoveries for the combined Associations were 0.01 percent for 2015 compared to net charge-offs of 0.01 percent and 0.18 percent in 2014 and 2013, respectively. Each Association maintains an allowance for loan losses determined by its management based upon its unique circumstances.

The following table illustrates the risk bearing capacity of the Associations at December 31, 2015:

Association	Regulatory Permanent Capital Ratio	Regulatory Core Surplus Ratio	Regulatory Total Surplus Ratio	Allowance/ Loans
AgCarolina	23.00%	19.22%	19.22%	1.17%
AgChoice	18.01	17.39	17.39	0.59
Ag Credit	19.85	17.05	18.32	0.81
AgGeorgia	25.92	21.40	25.46	0.67
AgSouth	20.68	16.31	20.23	0.84
ArborOne	20.83	19.36	20.45	1.92
Cape Fear	22.23	21.91	21.91	0.86
Carolina	21.62	18.52	21.03	0.53
Central Florida	20.42	18.86	20.21	1.53
Central Kentucky	17.58	16.28	16.28	0.92
Colonial	25.31	24.64	24.64	0.59
Farm Credit of Florida	21.62	21.49	21.49	0.64
Farm Credit of the Virginias	20.07	19.29	19.29	0.86
First South	17.78	16.60	17.19	0.67
MidAtlantic	20.58	19.86	20.23	1.01
Northwest Florida	28.26	26.95	27.98	1.78
Puerto Rico	35.11	34.76	34.76	0.99
River Valley	19.16	17.24	18.36	1.23
Southwest Georgia	15.64	14.22	15.34	1.05

The minimum regulatory capital ratios for System banks and associations are 7.00 percent for the permanent capital ratio, 3.50 percent for the core surplus ratio, and 7.00 percent for the total surplus ratio. See the *Regulatory Ratios* in the *Capital* section below for a discussion of the calculation of the permanent capital, core surplus, and total surplus ratios.

Affiliated Associations serve primarily all or a portion of fifteen states and Puerto Rico. The District's large footprint results in geographic diversity, which is a natural credit risk-reducing factor for AgFirst. The following table illustrates the geographic distribution of the Associations' loan volume outstanding by state for the past three years at December 31:

District Associations

State	2015	2014	2013
North Carolina	16%	17%	17%
Georgia	11	11	12
Virginia	11	11	11
Pennsylvania	9	9	11
Ohio	9	9	9
Florida	8	8	8
Maryland	7	7	7
South Carolina	6	6	6
Alabama	4	4	4
Kentucky	4	4	4
Mississippi	2	2	2
Louisiana	2	2	2
Delaware	2	2	2
West Virginia	2	2	2
Tennessee	1	1	1
New York	1	1	–
Texas	1	1	–
Illinois	1	-	–
Puerto Rico	1	1	1
Connecticut	1	1	-
Other	1	1	1
Total	100%	100%	100%

Only three states have loan volume representing 10.00 percent or more of the total at December 31, 2015. Commodity diversification, guarantees, and borrowers with significant reliance on non-farm income further mitigate the geographic concentration risk in these states.

The diversity of commodity types mitigates credit risk to AgFirst. The Associations' credit portfolios are comprised of a number of segments having varying, and in some cases complementary, agricultural characteristics. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer.

The following table illustrates the aggregate credit portfolio of the Associations by major commodity segments based on borrower eligibility at December 31:

District Associations

	Percent of Portfolio		
Commodity Group	**2015**	**2014**	**2013**
Forestry	14%	14%	15%
Poultry	13	13	13
Field Crops	11	11	10
Cattle	9	9	8
Grain	9	9	8
Corn	7	7	7
Other Real Estate	6	6	6
Dairy	5	6	6
Tree Fruits and Nuts	3	3	3
Cotton	3	3	3
Nursery/Greenhouse	3	3	3
Rural Home	3	3	3
Swine	3	3	3
Processing	2	2	2
Utilities	1	1	1
Other	8	7	9
Total	100%	100%	100%

As illustrated in the above chart, Associations had concentrations of 10.00 percent or greater in only three commodities: forestry, poultry, and field crops. All three commodities have geographic dispersion over the entire AgFirst footprint. Also, many of these borrowers have significant secondary income from off-farm employment by a family member.

Forestry is divided principally into hardwood and softwood production and value-added processing. The timber from hardwood production is further processed into furniture, flooring, and high-grade paper and is generally located at the more northern latitudes and higher elevations of the District. Softwood timber production is typically located in the coastal plains of the AgFirst footprint and is used for building materials for the housing market and pulp to make paper and hygiene products.

Timber producers at the Associations range in size from less than fifty acres to thousands of acres, with value-added processing being conducted at sawmills, planer mills, and paper mills.

Poultry concentrations within the Associations are further limited through the number of farm units producing poultry. Poultry concentration is further dispersed as production is segregated among chicken, turkey, and egg production.

The field crops commodity group represents a diverse group of commodities, including fruits, vegetables, and other non-grain crops, which are grown throughout the AgFirst District.

The diversity of income sources supporting Association loan repayments, including a prevalence of non-farm income among the borrowers, further mitigates credit risk to AgFirst as demonstrated by the following table as of December 31 of each year:

District Associations

	Percent of Portfolio		
Commodity Group	**2015**	**2014**	**2013**
Non-Farm Income	31%	32%	34%
Grains	15	15	14
Poultry	12	12	12
Timber	6	5	6
Dairy	5	6	5
Beef	4	4	3
Fruit & Vegetables	4	4	3
Cotton	3	3	3
Tobacco	3	2	2
Swine	3	3	3
Landlords	2	2	3
Farm Related Business	2	2	2
Nursery	2	2	2
Other	8	8	8
Total	100%	100%	100%

As mentioned previously, loans exceeding an Association's delegated lending authority must be pre-approved by AgFirst. As a result, larger agribusiness loans are typically analyzed by AgFirst's commercial lending staff as well as the Association's own lending staff prior to an Association committing to such loans.

Exposure to losses is reduced further through collateralization and other credit enhancements, including federal government guarantees. Typically, multiple loans to the same borrower are cross-collateralized and cross-defaulted. By law, all long-term loans must be secured by a first lien on real estate with an initial loan to appraised value not exceeding 85.00 percent. As of December 31, 2015, such loans represent over 60.09 percent of District Association loans.

Participations/Syndications

AgFirst has a Capital Markets Unit that purchases and sells loan participations and syndications. The Bank's credit officers work with the Associations to originate loans within the District's territory, provide commercial loan expertise to augment the Associations' staff, as needed, and provide an outlet for loans that exceed Associations' various hold limits. Additionally, the Capital Markets Unit actively pursues the purchase of participations and syndications originated outside of the District's territory by other System institutions, commercial banks, and other lenders. These loans may be held as earning assets of AgFirst or sub-participated to the Associations. The Capital Markets Unit also sells participations outside of the District to manage AgFirst's and the District Associations' loan concentrations and hold positions.

AgFirst's participation volume outstanding increased by 11.02 percent from year-end 2014 to 2015 and 7.75 percent from year-end 2013 to 2014. The increases were due to growth from new relationships and existing customers, both within the AgFirst District and outside the District. Borrower demand in this portfolio is anticipated to reflect modest improvement in 2016.

The following table shows total participations/syndications portfolio credit exposures at December 31, 2015, 2014, and 2013.

	AgFirst Participations		
(dollars in thousands)	**2015**	**2014**	**2013**
Participations Purchased	$ 5,877,894	$ 5,135,183	$ 4,651,806
Less: Participations Sold	1,420,497	1,120,127	925,428
Net Outstanding	4,457,397	4,015,056	3,726,378
Available Unused Commitments	2,941,012	2,796,829	2,750,453
Letters of Credit and Guarantees	67,755	74,906	88,762
Total Exposure	$ 7,466,164	$ 6,886,791	$ 6,565,593

Like the Associations, AgFirst employs a number of management techniques to limit credit risk, including underwriting standards, limits on the amounts of loans purchased from a single originator, and maximum hold positions to a single borrower and commodity. Although the participations/syndications portfolio is comprised of a small number of relatively large loans, it is diversified both geographically and on a commodity basis. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

The following table illustrates AgFirst's participation/syndication portfolio by geographic distribution at December 31:

	AgFirst Participations								
(dollars in thousands)	2015			2014			2013		
Georgia	$	625,661	14 %	$	418,561	10 %	$	339,317	9 %
Florida		483,445	11		500,161	12		490,283	13
Texas		293,074	7		270,499	7		160,072	4
North Carolina		292,439	7		288,577	7		256,537	7
New York		168,164	4		156,925	4		136,829	4
Pennsylvania		150,579	3		138,995	3		152,175	4
California		140,039	3		154,162	4		157,018	4
Colorado		139,227	3		141,369	4		114,339	3
Virginia		137,485	3		138,935	3		155,800	4
Minnesota		135,737	3		98,272	3		112,903	3
Illinois		132,284	3		85,513	2		95,394	3
New Jersey		130,770	3		95,689	2		75,154	2
Ohio		128,213	3		97,323	3		135,638	4
Washington		113,202	3		117,423	3		69,721	2
South Carolina		108,510	2		99,256	3		94,307	3
Missouri		100,630	2		99,194	3		97,608	3
Kentucky		97,973	2		97,279	2		98,618	3
Alabama		92,613	2		115,842	3		131,208	3
Connecticut		91,232	2		91,397	2		99,334	3
Mississippi		91,127	2		94,153	2		118,593	3
Louisiana		80,689	2		90,112	2		97,908	3
Oklahoma		75,208	2		5,871	–		5,396	–
Oregon		74,815	2		77,668	2		78,428	2
North Dakota		61,630	1		54,746	1		57,648	1
Arkansas		61,261	1		64,189	2		45,655	1
Nebraska		61,125	1		33,755	1		8,993	–
Massachusetts		49,331	1		51,149	1		42,692	1
Maryland		41,051	1		34,239	1		42,690	1
Wisconsin		36,577	1		15,520	–		7,201	–
Tennessee		28,479	1		33,099	1		40,864	1
Iowa		24,623	1		25,678	1		22,730	1
Puerto Rico		20,396	–		28,696	1		29,148	1
Indiana		12,157	–		51,447	1		26,736	1
Other		177,651	4		149,362	4		129,441	3
	$	4,457,397	100 %	$	4,015,056	100 %	$	3,726,378	100 %

The following participation/syndication table shows the various major commodity groups in the portfolio based on borrower eligibility and their percentage of the outstanding portfolio volume at December 31:

	Percent of Portfolio		
AgFirst Participations Commodity Group	**2015**	**2014**	**2013**
Forestry	21%	19%	19%
Processing	16	14	13
Utilities	15	16	18
Tree Fruits and Nuts	6	7	8
Cattle	4	5	3
Field Crops	4	5	4
Swine	3	4	4
Nursery/Greenhouse	3	3	3
Poultry	2	3	4
Grain	2	3	1
Dairy	2	2	2
Other Real Estate	2	2	2
Tobacco	2	1	1
Cotton	1	1	1
Corn	1	1	1
Other	16	14	16
Total	100%	100%	100%

The following table as of December 31 of each year segregates loans based upon repayment dependency by commodity:

	Percent of Portfolio		
AgFirst Participations Commodity Group	**2015**	**2014**	**2013**
Timber	18%	15%	14%
Rural Utilities	15	16	17
Non-Farm Income	9	11	12
Grains	8	7	5
Processing and Marketing	8	8	6
Fruit & Vegetables	7	7	7
Farm related Business	6	7	6
Beef	4	4	3
Dairy	4	4	3
Swine	4	2	4
Poultry	3	4	5
Wine	2	3	3
Nursery	2	3	3
Tobacco	2	2	1
Turkey	2	3	1
Citrus	1	2	2
Other	5	2	8
Total	100%	100%	100%

The following table represents the participation/syndication credit quality as of December 31:

Participation/Syndication Credit Quality	2015	2014	2013
Acceptable	94.70%	93.65%	93.14%
OAEM	2.82	4.09	2.64
Adverse*	2.48	2.26	4.22
Total	100.00%	100.00%	100.00%

* *Adverse loans include substandard, doubtful, and loss loans.*

Improvement in the credit quality of the participation/syndication portfolio is reflective of the incremental improvement in general economic conditions, including employment, the housing market, and real estate values.

Correspondent Lending

The Correspondent Lending portfolio (Correspondent Lending) consists primarily of first lien residential mortgages. Volume of this portfolio increased by 7.27 percent from year-end 2014 to 2015 and 4.22 percent from year-end 2013 to 2014.

Substantially all loans originated on or before July 31, 2013 in the Correspondent Lending portfolio have guarantees from the Federal National Mortgage Association (Fannie Mae) and/or Farmer Mac, thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. The Fannie Mae guarantee program in which AgFirst participated ended on July 31, 2013. Subsequent to this date, new loans in this portfolio purchased by the Bank are held without a Fannie Mae guarantee. At December 31, 2015, $1.798 billion (66.99% of the total) of loans in the Correspondent Lending portfolio were guaranteed and $886.3 million (33.01%) were unguaranteed. The discontinuation of the Fannie Mae guarantee program is reflected in the Bank's allowance for loan losses methodology related to this portfolio.

The table below illustrates the Correspondent Lending outstanding balance of loans at December 31:

	AgFirst Correspondent Lending					
(dollars in thousands)	2015		2014		2013	
Rural Home Loans – Guaranteed	$ 1,710,741	63.72%	$ 1,935,624	77.33%	$ 2,143,217	89.24%
Part-time Farm Loans – Guaranteed	87,240	3.25	74,996	3.00	75,075	3.13
Agricultural Loans – Guaranteed	434	0.02	470	0.02	515	0.02
Non-guaranteed Loans	886,346	33.01	491,768	19.65	182,756	7.61
Total	$ 2,684,761	100.00%	$ 2,502,858	100.00%	$ 2,401,563	100.00%

Rural home loans are underwritten to conform to Fannie Mae underwriting standards and are guaranteed by Fannie Mae. Part-time farm loans conform to Farmer Mac underwriting standards and are guaranteed by Farmer Mac. During 2015, AgFirst purchased $500.4 million of rural home and part-time farm loans.

AgFirst owned $1.711 billion in guaranteed rural home loans at December 31, 2015. These loans were added to the portfolio prior to the discontinuance of the Fannie Mae guarantee program on July 31, 2013 as discussed above.

AgFirst owned $87.2 million in part-time farm loans at December 31, 2015. Part-time farm loans represent first lien mortgages on homes with property characteristics (such as acreage or agricultural improvements) that may not conform to Fannie Mae standards. These loans are guaranteed by Farmer Mac.

At December 31, 2015, 2014, and 2013, non-guaranteed loans primarily consisted of rural home loans added to the portfolio subsequent to the discontinuation of the Fannie Mae guarantee program in which AgFirst participated on July 31, 2013 as discussed above.

The total volume owned as of December 31, 2015 was $2.685 billion. The total volume serviced but not owned as of December 31, 2015 was $46.2 million. The Correspondent Lending loans are sub-serviced through agreements with third parties.

At December 31, 2015, 99.89 percent of the total Correspondent Lending loans including accrued interest were classified as acceptable and 0.11 percent were classified adverse. There were none classified as OAEM.

Rural home loans, combined with Rural Home Mortgage-backed Securities (see *Mission Related Investments* section below), are limited to 15 percent of total loans outstanding as defined by FCA. Based on December 31, 2015 levels, the Bank has unused capacity of $260.5 million under a total limit of $3.316 billion. The Bank monitors this position and will consider options, should they become necessary, to manage the Rural Home asset level within the regulatory limit. See Note 4, *Investments*, for further discussion of Rural Home Mortgage-backed Securities.

MISSION RELATED INVESTMENTS

The FCA initiated a program in 2004 to allow System institutions to make and hold investments that stimulate economic growth and development in rural areas. The investments are subject to approval by the FCA on a case-by-case basis.

FCA approved the Rural Housing Mortgage-Backed Securities (RHMS) and Rural America Bonds pilot programs as described below. Effective December 31, 2014, the FCA ended these pilot programs approved as part of the Investment in Rural America program. The Bank has subsequently received permission from the FCA to continue to acquire RHMS.

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 ended, the FCA can consider future requests on a case-by-case basis.

Rural Housing Mortgage-Backed Securities

RHMS must be fully guaranteed by a government agency or GSE. The rural housing loans backing the RHMS must be conforming first-lien residential mortgage loans originated by non-System lenders in "rural areas" as defined by the Farm Security and Rural Investment Act of 2002, or eligible rural housing loans originated by System lenders under FCA regulations. Investment securities at December 31, 2015 included $462.0 million in RHMS classified as held-to-maturity, compared to $531.3 million at December 31, 2014 and $445.4 million at December 31, 2013. See the *Correspondent Lending* section above for discussion regarding volume limitation on RHMS.

Rural America Bonds

In recognition of the economic interdependence between agricultural and rural communities, AgFirst and the Associations seek to safely and soundly invest in debt obligations that support farmers, ranchers, agribusinesses, and their rural communities and businesses. In doing so, AgFirst and the Associations hope to increase the well-being and prosperity of American farmers, ranchers, and rural residents.

The Bank had $102.3 million invested in the program as of December 31, 2015, a decrease of $27.1 million from December 31, 2014. Of the $102.3 million, the Bank had $92.5 million reflected in investment securities and $9.8 million reflected as loans on the Balance Sheets at December 31, 2015.

RISK MANAGEMENT

The organizational structure of AgFirst facilitates communication of operational and risk management issues throughout all layers of management and across all functional areas. The Bank's Executive Committee is responsible for risk management, including:

- Providing overall leadership, vision, and direction for enterprise risk management;
- Establishing an integrated risk management framework for all aspects of risk across the organization;
- Ensuring development of risk management policies, including the quantification of management's risk appetite through specific risk limits;
- Implementing a set of risk metrics and reports, including key risk exposures and early warning indicators;
- Reviewing and approving recommendations for the allocation of capital to business activities based on risk, and optimizing the Bank's risk portfolio through business activities and risk transfer strategies;
- Improving the Bank's risk management readiness through coordination of communication and training programs, risk-based performance measurement and incentives, and other change management programs;
- Assigning responsibility for development of analytical systems and data management capabilities to support the risk management program; and
- Reporting periodically to the Board of Directors on actions taken to strengthen the Bank's system of internal controls.

Overview

The Bank is in the business of making agricultural and other loans that requires accepting certain risks in exchange for compensation for the risks undertaken. Proper management of the risks inherent in AgFirst's business is essential for current and long-term financial performance. Prudent and disciplined risk management includes an enterprise risk management structure to identify emerging risks and evaluate risk implications of decisions and actions taken. The objectives of risk management are to identify and assess risks, and to properly and effectively mitigate, measure, price, monitor, and report risks in the Bank's business activities. Stress testing represents a critical component of the Bank's risk management process. Stress testing is primarily an analysis performed under a wide range of economic scenarios, including unlikely but plausible economic scenarios, and is designed to determine whether the Bank has enough capital to withstand the impact of adverse developments. The Bank is required to perform stress tests with a level of sophistication appropriate to its size and complexity. The Executive Committee provides oversight of the Bank's risk management functions through an integrated management committee structure, including the Bank's Asset/Liability Management Committee (ALCO), Loan Committee, and Operations Committee.

Types of risk to which the Bank has exposure include:

- *structural risk* — risk inherent in the business and related to the System structures comprised of interdependent networks of cooperative lending institutions,
- *credit risk* — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed,
- *interest rate risk* — risk that changes in interest rates may adversely affect the Bank's operating results and financial condition,
- *liquidity risk* — risk arising from the inability to meet obligations when they come due without incurring unacceptable losses, including the ability to access the debt market,
- *operational risk* — risk of loss resulting from inadequate or failed internal processes or systems, errors by employees, fraud, or external events,
- *reputational risk* — risk of loss resulting from events, real or perceived, that shape the image of the Bank, the System, or any of its entities, including the impact of investors' perceptions about agriculture and rural financing, the reliability of Bank or System financial information, or the overt actions of any System institution, and
- *political risk* — risk of loss of support for the System and agriculture by federal and state governments

Structural Risk Management

Structural risk results from the fact that AgFirst, along with its related Associations, is part of the System, which is comprised of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. Because System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. The Federal Farm Credit Banks Funding Corporation (Funding Corporation) provides for the issuance, marketing, and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The System banks fund association loans with Systemwide debt. Refer to Note 6, *Debt*, in the Notes to the Financial Statements for further discussion. The banks are jointly and severally liable for the repayment of Systemwide Debt Securities, exposing each bank to the risk of default of the others. Although capital at the association level reduces the banks' credit exposures with respect to their related associations, that capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements executed by and among the banks— the Amended and Restated Contractual Interbank Performance Agreement (CIPA) and the Second Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated that measures the financial condition and performance of each district using various ratios that take into account each district's and bank's capital, asset quality, earnings, interest-rate risk, and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each district must achieve and maintain. The CIPA also establishes monetary penalties if the performance standard is not met. These penalties will occur at the same point at which a bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures for the banks that provide operational oversight and control over a bank's access to System funding if the creditworthiness of the bank declines below certain agreed-upon levels. The MAA provides for the identification and resolution of individual bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions for each bank's participation in each issuance of Systemwide Debt Securities.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in outstanding loans, letters of credit, unfunded loan commitments, the investment portfolio and derivative counterparty credit exposures. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of individual obligors. The Bank sets underwriting standards and lending policies consistent with FCA regulations, which provide direction to loan officers and are approved by the board of directors.

The credit risk management process begins with an analysis of a potential 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 loan rating structure, incorporating a 14-point risk rating scale to identify and track a borrower's probability of default and a separate scale addressing loss given default. The loan rating structure reflects estimates of loss through two components, 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).

Through their participation in loans or interests in loans to/from other institutions within the System and outside the System, the Bank and District Associations limit their exposure to both borrower and commodity concentrations. This also allows the Bank and District Associations to manage growth and capital, and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments. However, due to the geographic location of the District and the resulting types of agriculture, government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

As a result of the improved economy and the Bank's continued efforts to resolve problem assets, the Bank's high-risk assets have declined in 2015 and 2014 and continue to be a small percentage of the total loan volume and total assets. High-risk assets, including accrued interest, at December 31 are detailed in the following table:

(dollars in thousands)	2015	2014	2013
AgFirst High-risk Assets			
Nonaccrual loans	$ 26,649	$ 49,166	$ 59,594
Restructured loans	14,397	15,588	8,800
Accruing loans 90 days past due	1,161	2,688	2,215
Total high-risk loans	42,207	67,442	70,609
Other property owned	13,411	2,808	9,621
Total high-risk assets	$ 55,618	$ 70,250	$ 80,230
Ratios			
Nonaccrual loans to total loans	0.12%	0.24%	0.30%
High-risk assets to total assets	0.18%	0.24%	0.28%

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at December 31, 2015 were $26.6 million compared to $49.2 million at December 31, 2014. Nonaccrual loans decreased $22.5 million during 2015 due primarily to repayments of $21.5 million, Correspondent Lending loans sold to a guarantor (see *Correspondent Lending* section above) of $8.6 million, transfers to other property owned of $8.3 million, and reinstatements to accrual status of $3.9 million, partially offset by $14.4 million of loan balances transferred to nonaccrual status and $4.6 million of loan recoveries. The ten largest nonaccrual borrower relationships at December 31, 2015 accounted for 72.86 percent of the total nonaccrual balance. At December 31, 2015, total nonaccrual loans were primarily classified in the forestry (30.18 percent of the total), nursery/greenhouse (29.65 percent), and rural home loan (22.82 percent) segments. Nonaccrual loans were 0.12 percent of total loans outstanding at December 31, 2015 compared to 0.24 percent and 0.30 percent at December 31, 2014 and 2013, respectively.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs decreased $4.0 million since December 31, 2014 and totaled $31.4 million at December 31, 2015. TDRs were comprised of $14.4 million of accruing restructured loans and $17.0 million of nonaccrual restructured loans. Restructured loans were primarily in the nursery/greenhouse (28.15 percent of the total), forestry (20.32 percent), tree fruits and nuts (17.23 percent), and other real estate (12.99 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO increased $10.6 million since December 31, 2014 and totaled $13.4 million at December 31, 2015. The increase was primarily due to OPO transfers from nonaccrual of $14.0 million, partially offset by OPO disposals of $3.1 million. The increase in OPO resulted primarily from land holdings received in settlement of loans to one borrower in the forestry segment which also comprised the largest OPO holding at December 31, 2015, totaling $9.4 million (69.98 percent of the total). See discussion of OPO expense in the *Noninterest Expenses* section below.

ALLOWANCE FOR LOAN LOSSES

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The Bank increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan is uncollectible. Any subsequent recoveries are added to the allowance. Impaired and certain other significant loans were reviewed individually to determine that appropriate reserves were in place at year end. All other loans were analyzed collectively and general reserves were established based on that collective analysis including the risk rating and potential for loss given default of the underlying loans.

The following table presents the activity in the allowance for loan losses for the most recent three years at December 31. In the table 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.

AgFirst Allowance for Loan Losses Activity:

(dollars in thousands)	2015	2014*	2013*
Balance at beginning of year	$ 15,535	$ 22,908	$ 44,539
Charge-offs:			
Real Estate Mortgage	(254)	(46)	(8,864)
Production and Intermediate-Term	(452)	(326)	(631)
Agribusiness	(757)	–	(3,782)
Energy and Water/Waste Disposal	–	–	–
Rural Residential Real Estate	(362)	(188)	(413)
Other (including Mission Related)	–	–	–
Total charge-offs	(1,825)	(560)	(13,690)
Recoveries:			
Real Estate Mortgage	4,160	492	2,091
Production and Intermediate-Term	–	908	190
Agribusiness	400	–	320
Other (including Mission Related)	–	238	47
Total recoveries	4,560	1,638	2,648
Net (charge-offs) recoveries	2,735	1,078	(11,042)
Provision for (reversal of allowance for) loan losses	(3,157)	(8,451)	(10,589)
Balance at end of year	$ 15,113	$ 15,535	$ 22,908
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.01%	0.01%	(0.06)%

**as revised*

The allowance for loan losses was $15.1 million at December 31, 2015, as compared with $15.5 million and $22.9 million at December 31, 2014 and 2013, respectively. The decrease during 2015 of $422 thousand was due primarily to the reversal of provision expense of $3.2 million and charge-offs of $1.8 million, offset by recoveries of $4.6 million. The largest provision reversals related to one loan in the forestry segment ($3.1 million) and one loan in the nursery/greenhouse segment ($1.1 million). See *Provision for Loan Losses* section below for details regarding loan loss provision expense and reversals. During 2015, the forestry segment accounted for the majority of charge-offs (64.41 percent of the total) and recoveries (73.00 percent of the total). The allowance at December 31, 2015 included specific reserves of $1.3 million (8.84 percent of the total) primarily related to credits for a participation borrower relationship within the nursery/greenhouse industry and $13.8 million of general reserves (91.16 percent) attributed primarily to participation loans. The general reserves at December 31, 2015 included $1.7 million of allowance provided by the Bank for loans in the Correspondent Lending portfolio purchased after July 31, 2013 which are being held without a Fannie Mae guarantee. See further discussion in the *Correspondent Lending* section above. None of the allowance relates to the Direct Note portfolio. See further discussion in the *Direct Notes* section above. The total allowance at December 31, 2015 was comprised primarily of reserves for tree fruits and nuts (16.81 percent of the total), utilities (16.21 percent), rural home loan (11.75 percent), and forestry (10.25 percent) segments.

The allowance for loan losses by loan type for the most recent three years at December 31 is presented in the following table. In the table 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.

AgFirst Allowance for Loan Losses by Loan Type

(dollars in thousands)	2015	2014*	2013*
Real Estate Mortgage	$ 3,615	$ 5,989	$ 12,484
Production and Intermediate-Term	4,779	3,585	5,932
Agribusiness	2,243	2,785	1,867
Communication	777	579	498
Energy and Water/Waste Disposal	1,646	1,332	823
Rural Residential Real Estate	1,770	919	1,055
Loans to OFIs	43	117	–
International	79	54	90
Other (including Mission Related)	161	175	159
Total	$ 15,113	$ 15,535	$ 22,908

**as revised*

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators at December 31 is shown below:

	2015	2014	2013
Allowance for loan losses to loans	0.07%	0.07%	0.11%
Allowance for loan losses to nonaccrual loans	56.71%	31.60%	38.44%
Allowance for loan losses to participation loans and Correspondent Lending loans	0.21%	0.24%	0.37%

Improved asset quality positively impacted the allowance for loan losses. The financial positions of the Bank and District Associations' borrowers have generally remained strong as farmers' net cash income has been at favorable levels. Due to these factors combined with management's emphasis on underwriting standards, the credit quality of the Bank loan portfolio has remained sound. Periods of uncertainty in the general economic environment create the potential for prospective risks in the loan portfolio. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements and the *Significant Accounting Policies* section above for further information concerning the allowance for loan losses.

Interest Rate Risk Management

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. The objective of interest rate risk management is to generate a reliable level of net interest income in any interest rate environment. AgFirst uses a variety of analytical techniques to manage the complexities associated with offering numerous loan options. Interest rate sensitivity gap analysis is used to monitor the repricing characteristics of AgFirst's interest-earning assets and interest-bearing liabilities. Simulation analysis is used to determine the potential change in net interest income and in the market value of equity under various possible future market interest rate environments.

AgFirst and the District Associations adhere to a philosophy that loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or boards of directors. Therefore, District Association variable rate and adjustable rate loans are generally indexed to market rates, and fixed rate loans are priced based on market rates. Loan products offered by the Associations include prime-indexed variable rate loans, LIBOR-indexed variable rate loans, one-, three-, and five-year Treasury-indexed adjustable rate loans, and fixed rate loans. Variable rate and adjustable rate loans are offered with or without caps. Terms are available for up to 30 years. A variety of repayment options are offered, with the ability to pay on a monthly, quarterly, semi-annual or annual frequency. In addition, customized repayment schedules may be negotiated to fit a borrower's unique circumstances.

The following tables represent AgFirst's projected change in net interest income and market value of equity for various rate movements as of December 31, 2015:

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
+4.0% Shock	$417,410	(4.25)%
+2.0% Shock	$438,003	0.47%
Base line **	$435,946	–%
-50% of 3M Tbill ***	$434,343	(0.37)%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	$ $30,620,600	$ $28,480,579	$ $2,140,021	– %
+4.0% Shock	$ $27,842,071	$ $26,343,955	$ $1,498,116	(34.58)%
+2.0% Shock	$ $29,280,292	$ $27,363,427	$ $1,916,865	(16.29)%
Base line **	$ $30,751,829	$ $28,461,883	$ $2,289,946	– %
-50% of 3M Tbill ***	$ $30,805,655	$ $28,504,286	$ $2,301,369	0.50%

* *For interest rate risk management, the $115.0 million perpetual preferred stock is included in liabilities rather than equity.*

** *Base line uses rates as of the balance sheet date before application of any interest rate shocks.*

*** *When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock equal to one-half of the three-month Treasury bill rate.*

The following table sets forth the repricing characteristics of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2015. The amount of assets and liabilities shown in the table, which reprice or mature during a particular period, were determined in accordance with the earlier of term-to-repricing or contractual maturity, anticipated prepayments, and, in the case of liabilities, the exercise of call options.

Repricing/Maturity Gap Analysis

(dollars in thousands)	0 to 6 months	6 months to 1 Year	1 to 5 Years	Over 5 Years	Total
Floating Rate Loans					
Adjustable/Indexed Loans	$ 6,522,077	$ 11,779	$ 1,157	$ –	$ 6,535,013
Fixed Rate Loans					
Fixed Rate Loans	16,822	14,137	49,059	20,374	100,392
Fixed Rate Prepayable	3,052,449	2,339,107	6,770,392	3,316,756	15,478,704
Nonaccrual Loans					
Nonaccrual Loans	–	–	–	26,649	26,649
Total Loans	**9,591,348**	**2,365,023**	**6,820,608**	**3,363,779**	**22,140,758**
Total Investments *	**3,912,366**	**1,189,187**	**2,265,930**	**355,881**	**7,723,364**
TOTAL INTEREST EARNING ASSETS	**$ 13,503,714**	**$ 3,554,210**	**$ 9,086,538**	**$ 3,719,660**	**$ 29,864,122**
Interest-Bearing Liabilities					
Systemwide bonds and notes	$ 12,253,088	$ 2,450,000	$ 12,264,366	$ 1,005,653	$ 27,973,107
Interest rate swaps	150,000	(100,000)	(50,000)	–	–
TOTAL INTEREST-BEARING LIABILITIES	**$ 12,403,088**	**$ 2,350,000**	**$ 12,214,366**	**$ 1,005,653**	**$ 27,973,107**
Interest Rate Sensitivity Gap	**$ 1,100,626**	**$ 1,204,210**	**$ (3,127,828)**	**$ 2,714,007**	
Sensitivity Gap as a % of Total Earning Assets	3.69%	4.03%	(10.47)%	9.09%	
Cumulative Gap	$ 1,100,626	$ 2,304,836	$ (822,992)	$ 1,891,015	
Cumulative Gap as a % of Total Earning Assets	3.69%	7.72%	(2.76)%	6.33%	
Rate Sensitive Assets/Rate Sensitive Liabilities	1.09	1.51	0.74	3.70	

* *includes cash equivalents*

At December 31, 2015, the Cumulative Repricing/Maturity Gap position of the Bank was asset sensitive out to one year as repricing/maturing assets exceeded liabilities that mature or reprice during that time period. Asset sensitivity implies an increase in net interest income in rising interest rate scenarios and lower net interest income in falling interest rate scenarios. However, the Repricing/Maturity Gap Analysis is a "point in time" view and is representative of the interest rate environment at December 31, 2015. The Repricing/Maturity Gap Analysis must be used with other analysis methods as the maturity and repricing attributes of balance sheet accounts react differently in changing interest rate environments. During a period of rising interest rates, call options on fixed rate debt are not exercised and the debt terms extend to reflect the longer original maturity dates. Prepayment optionality on fixed rate assets also slows as the economic incentive for borrowers to refinance decreases and extends the asset's term.

To supplement the Repricing/ Maturity Gap Analysis the Bank utilizes financial simulation modeling. The simulations reflected an increase in net interest income for a +200 basis point parallel shift in interest rates. However the level of net interest income sensitivity was low with the increases less than a 1.0 percent change. Falling interest rate scenarios reflect very low impact to net interest income. Market value of equity reflected a negative sensitivity in rising interest rate scenarios due to the Bank's practice of utilizing equity as a long-term funding source. When equity is used as long-term funding, its market value behaves similarly to a fixed rate bond. Rising interest rates result in a loss of market value of equity. However, the negative 16.29 percent market value of equity sensitivity for a +200 basis point parallel shift in interest rates was within the Bank's targeted operating range and appropriate for this funding structure. The Bank's market value of equity sensitivity to falling interest rates was not significantly impacted due to the current low level of interest rates.

At December 31, 2015, AgFirst had outstanding interest rate swaps with notional amounts totaling $150.0 million. These derivative transactions were executed to create synthetic floating-rate debt to achieve a lower cost of funding. The Bank may under certain conditions also use derivatives for asset/liability management purposes to reduce interest rate risk.

AgFirst policy prohibits the use of derivatives for speculative purposes. See Note 14, *Derivative Financial Instruments and Hedging Activities*, in the Notes to the Financial Statements for additional information. The following table shows the activity in derivatives during the year ended December 31, 2015:

Notional amounts *(dollars in millions)*	**Receive Fixed**	**Forward Contracts**
Balance at December 31, 2014	$ 250	$ 1
Additions	–	4
Maturities/amortizations	(100)	(5)
Terminations	–	–
Balance at December 31, 2015	$ 150	$ –

The following table provides information about derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below represents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates.

December 31, 2015 *(dollars in millions)*	**Maturities of Interest Rate Derivative Products and Other Financial Instruments**							
	2016	**2017**	**2018**	**2019**	**2020**	**2021 and after**	**Total**	**Fair Value**
Systemwide Debt Securities:								
Fixed rate	$ 7,600	$ 3,021	$ 2,338	$ 1,974	$ 1,501	$ 4,757	$ 21,191	$ 21,193
Weighted average interest rate	0.46%	0.93%	1.20%	1.50%	1.77%	2.64%	1.29%	
Variable rate	2,238	2,847	1,669	28	–	–	6,782	6,764
Weighted average interest rate	0.28%	0.32%	0.34%	0.31%	–%	–%	0.31%	
Derivative Instruments:								
Receive fixed swaps								
Notional value	$ 100	$ 50	$ –	$ –	$ –	$ –	$ 150	$ 5
Weighted average receive rate	5.18%	4.95%	–%	–%	–%	–%	5.10%	
Weighted average pay rate	1.17%	1.45%	–%	–%	–%	–%	1.26%	
Total notional value	$ 100	$ 50	$ –	$ –	$ –	$ –	$ 150	$ 5
Total weighted average rates on swaps:								
Receive rate	5.18%	4.95%	–%	–%	–%	–%	5.10%	
Pay rate	1.17%	1.45%	–%	–%	–%	–%	1.26%	

Liquidity Risk Management

Liquidity risk management is necessary to ensure the Bank's ability to meet its financial obligations. One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several lines of credit with commercial banks as well as securities repurchase agreement facilities.

Cash, Cash Equivalents and Investments

As of December 31, 2015, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

Eligible liquidity investments are classified according to three liquidity quality levels with level 1 being the highest. The first 15 days of minimum liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of minimum liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. agency investments. Additionally, a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve is set to provide coverage to at least 120 days.

At December 31, 2015, AgFirst met all individual level criteria and had a total of 206 days of maturing debt coverage. The Bank's cash and cash equivalents position provided 20 days of the total liquidity coverage. Investment securities fully backed by the U.S. government provided an additional 166 days of liquidity. An additional 20 days of coverage were provided by a supplemental liquidity buffer. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

Cash, cash equivalents and investment securities as of December 31, 2015 totaled $8.184 billion compared to $8.261 billion and $8.337 billion at December 31, 2014 and 2013, respectively.

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. In 2015, the Bank purchased $42.4 million in U.S. Treasury securities which are held for that purpose. The remainder of the compensating balance is held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

AgFirst's cash, cash equivalents and investment portfolio consisted of the following security types as of December 31:

AgFirst Cash, Cash Equivalents and Investment Securities

(dollars in thousands)	2015		2014		2013	
Investment Securities Available-for-Sale						
U.S. Govt. Treasury Securities	$ 42,405	0.56%	$ –	–%	$ –	–%
U.S. Govt. Guaranteed	3,970,590	52.86	3,859,206	52.05	4,603,072	64.35
U.S. Govt. Agency Guaranteed	2,131,888	28.38	2,415,531	32.58	1,747,620	24.43
Non-Agency CMOs	126,860	1.69	153,011	2.06	173,486	2.43
Asset-Backed Securities	677,369	9.02	326,671	4.41	38,798	0.54
Total Available-for-Sale	$ 6,949,112	92.51%	$ 6,754,419	91.10%	$ 6,562,976	91.75%
Held to Maturity						
Rural Housing U.S. Govt. Agency Guaranteed	$ 462,031	6.15%	$ 531,284	7.17%	$ 445,380	6.23%
Farmer Mac Guaranteed	3,042	0.04	4,015	0.05	4,558	0.06
Other Mission Related Investments	97,625	1.30	124,221	1.68	139,874	1.96
Total Held to Maturity	562,698	7.49	659,520	8.90	589,812	8.25
Total Investment Securities	$ 7,511,810	100.00%	$ 7,413,939	100.00%	$ 7,152,788	100.00%
Cash and Cash Equivalents						
Cash	$ 461,068	68.55%	$ 622,503	73.46%	$ 1,038,870	87.76%
Repos	211,554	31.45	224,847	26.54	144,885	12.24
Total Cash and Cash Equivalents	$ 672,622	100.00%	$ 847,350	100.00%	$ 1,183,755	100.00%
Total Investment Securities and Cash and Cash Equivalents	$ 8,184,432		$ 8,261,289		$ 8,336,543	

Cash and cash equivalents, which decreased $174.7 million from December 31, 2014 to a total of $672.6 million at December 31, 2015, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings from a rating agency. Incremental movements in cash balances are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

FCA regulations provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its total loans outstanding. Based upon FCA guidelines, at December 31, 2015, the Bank's eligible available-for-sale investments were 32.80 percent of the total loans outstanding. These investments serve to provide liquidity to the Bank's operations, to manage short-term funds, and to manage interest rate risk. AgFirst maintains an investment portfolio for these purposes comprised primarily of short-duration, high-quality investments.

Investment securities totaled $7.512 billion, or 24.53 percent of total assets at December 31, 2015, compared to $7.414 billion, or 25.15 percent, as of December 31, 2014. Investment securities increased $97.9 million, or 1.32 percent, compared to December 31, 2014. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines. In March 2015, the Bank sold 204 agency mortgage-backed securities totaling $28.0 million which resulted in gains of $1.1 million. The proceeds were used to purchase one U.S. government guaranteed security. These transactions benefitted the Bank by reducing carrying costs and improving liquidity. In order to maintain the portfolio size within revised regulatory limits, during the quarter ended March 31, 2013, the Bank sold $114.6 million of agency mortgage- backed securities which resulted in a gain of $7.6 million.

Investment securities classified as being available-for-sale totaled $6.949 billion at December 31, 2015. Available-for-sale investments included $42.4 million in U.S. Treasury securities, $3.971 billion in U.S. government guaranteed securities, $2.132 billion in U.S. government agency guaranteed securities, $126.9 million in non-agency collateralized mortgage obligations (CMOs), and $677.4 million in asset-backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities are risk weighted between 50 percent and 200 percent, instead of 20 percent which is applicable to eligible non-agency securities, and other securities are deducted completely from the calculation. The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating by the Nationally Recognized Statistical Rating Organizations (NRSROs) and requires System institutions to provide notification to FCA when a security becomes ineligible. Ineligible securities risk weighted between 50 percent and 200 percent had a fair value of $80.9 million and amortized cost of $61.7 million at December 31, 2015. Ineligible securities deducted completely from both capital and risk adjusted assets based on the extent of their below investment grade rating from NRSROs had a fair value of $32.1 million and amortized cost of $35.2 million at December 31, 2015. The fair value and amortized cost of ineligible non-agency reperformer CMO securities covered by Federal Housing Administration insurance, and therefore risk weighted at the standard 20 percent, was $44.5 million and $49.5 million, respectively, at December 31, 2015. See the *Regulatory Ratios* section below for further discussion of the regulatory ratios. In addition, all ineligible investments, except non-agency reperformer CMOs which meet certain conditions, are excluded from liquidity coverage as defined above.

AgFirst also maintains a portfolio of investments that are not held for liquidity purposes and are accounted for as a held-to-maturity portfolio. These investments are authorized by FCA regulations that allow investments in Farmer Mac securities and also in specific investments approved by the FCA as Mission Related Investments. The vast majority of this portfolio is comprised of Mission Related Investments for a program to purchase RHMS, which when combined with eligible rural home loans, must not exceed 15.00 percent of total outstanding loans. Investment securities classified as being held-to-maturity totaled $562.7 million at December 31, 2015. As discussed previously, the FCA ended each Mission Related Investment pilot program effective December 31, 2014, but can consider future requests on a case-by-case basis. See *Mission Related Investments* section above.

Net unrealized gains related to investment securities were $65.0 million at December 31, 2015, compared to $107.6 million at December 31, 2014. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of $1.7 million during the year ended December 31, 2015, which was included in Net Other-than-temporary Impairment Losses in the Statements of Income. See Note 2, *Summary of Significant Accounting Policies*, and Note 4, *Investments,* in the Notes to the Financial Statements for further information.

Systemwide Debt Securities

The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America. The implied link between the credit rating of the System and the U.S. government, given the System's status as a GSE and continued concerns regarding the government's borrowing limit and budget imbalances, could pose risk to the System in the future.

AgFirst's primary source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities, and to meet other obligations.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank (FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the FFB could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2016, unless otherwise renewed. The decision whether to seek funds from the FFB is at the discretion of the FCSIC. Each funding obligation of the FFB is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

Currently, Moody's Investor Service and Fitch Ratings have assigned long-term debt ratings for the System of Aaa and AAA and short-term debt ratings of P-1 and F1, respectively. These are the highest ratings available from these rating agencies. Standard & Poor's Ratings Services (S&P) maintains the long-term sovereign credit rating of the U.S. government at AA+, which directly corresponds to its AA+ long-term debt rating of the System. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a GSE. Negative changes to the System's credit ratings could reduce earnings by increasing debt funding costs, and could also have a material adverse effect on liquidity, the ability to conduct normal business operations, and the Bank's overall financial condition and results of operations. However, AgFirst anticipates continued access to funding necessary to support the District's and Bank's needs.

On September 25, 2015, S&P affirmed the Bank's AA-/A-1+ long- and short-term issuer credit ratings, the stand-alone credit profile of a+ and the BBB+ preferred stock rating. S&P revised their outlook on the Bank to negative from stable, reflecting their assessment of the Bank's capital position. On February 5, 2016, S&P revised their outlook on the Bank back to stable from negative based upon additional analysis of the strength of the Bank's capital position. Ratings and outlook for AgFirst by Fitch Ratings remain unchanged.

AgFirst's year-to-date average balance of Systemwide Debt Securities at December 31, 2015, was $26.882 billion. At December 31, 2015, AgFirst had $27.973 billion in total System debt outstanding compared to $26.827 billion at December 31, 2014 and $26.201 billion at December 31, 2013. Total interest-bearing liabilities increased slightly primarily due to additional funding needs related to increases in loans and liquidity investments as discussed elsewhere in this report.

AgFirst's recorded liability for outstanding Systemwide Debt Securities as of December 31, 2015 is shown in the following table:

	Bonds			Discount Notes			Total	
Maturities	**Amortized Cost**		**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**		**Weighted Average Interest Rate**
				(dollars in thousands)				
2016	$	4,204,985	0.58%	$ 5,633,413	0.31%	$	9,838,398	0.43%
2017		5,867,489	0.63	–	–		5,867,489	0.63
2018		4,007,102	0.84	–	–		4,007,102	0.84
2019		2,001,643	1.48	–	–		2,001,643	1.48
2020		1,501,562	1.77	–	–		1,501,562	1.77
2021 and after		4,756,913	2.64	–	–		4,756,913	2.64
Total	$	22,339,694	1.24%	$ 5,633,413	0.31%	$	27,973,107	1.05%

In the preceding table, weighted average interest rates include the effect of related derivative financial instruments.

Refer to Note 6, *Debt*, in the Notes to the Financial Statements, for additional information related to debt.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. AgFirst's and the Associations' boards of directors are required, by regulation, to adopt internal control policies that provide adequate direction to their respective institutions in establishing effective controls over and accountability for operations, programs, and resources. The policies must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess an institution's assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In addition, AgFirst has implemented a Risk Management Policy to ensure that business exposures to risk are identified, measured and controlled, using the most effective and efficient methods to mitigate such exposures. AgFirst's risk management structure was designed to ensure that an effective enterprise-wide risk management program is in place. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are developed with higher risk areas receiving more attention. AgFirst's operations rely on the secure processing, transmission and storage of confidential information in its computer systems and networks. Although AgFirst believes that it has robust information security procedures and controls, its technologies, systems, networks and customers' devices may be the target of cyber-attacks or information security breaches. Failure in or breach of AgFirst's operational or security systems or infrastructure, or those of its third party vendors and other service providers, including as a result of cyber-attacks, could disrupt AgFirst's businesses or the businesses of its customers, result in the unintended disclosure or misuse of confidential or proprietary information, damage the Bank's reputation, increase costs, and cause losses.

No control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control systems are met. Also, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or errors can be detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts of some persons, collusion of two or more people, or management override of the control. The design of any system of controls also is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may be inadequate because of changes in conditions, or compliance with policies or procedures may deteriorate.

Reputational Risk Management

Reputation risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the Bank, System or any of its entities. Such risks include impacts related to investors' perceptions about agriculture, the reliability of the Bank, System, or other System institution financial information or overt actions by the Bank or any other System institution. Entities that serve the System at the national level, including the Coordinating Committee, the Presidents' Planning Committee and The Farm Credit Council, will communicate guidance to the System for reputational issues that have broader consequences for the System as a whole. These entities support those business and other practices that are consistent with our mission.

Political Risk Management

Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government. System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that impacts the System directly, such as changes to the Farm Credit Act of 1971, as amended (the Farm Credit Act), or indirectly, such as agricultural appropriations bills. However, government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

The District addresses political risk by actively supporting the Farm Credit Council, which is a full-service, federal trade association representing the System before Congress, the Executive Branch, and others. The Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, the District takes an active role in representing the individual interests of System institutions and their borrowers before Congress. In addition to the Farm Credit Council, each district has its own Council, which is a member of the Farm Credit Council. The district Councils represent the interests of their members on a local and state level, as well as on a federal level.

RESULTS OF OPERATIONS

Net Income

AgFirst net income totaled $336.8 million for the year ended December 31, 2015, a decrease of $43.5 million from 2014. Net income of $380.3 million for the year ended December 31, 2014 was a decrease of $77.0 million from 2013. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Change in Net Income	**Year Ended December 31,**	
(dollars in thousands)	**2015**	**2014**
Net income (for prior year)	$ 380,349	$ 457,336
Increase (decrease) due to:		
Total interest income	9,319	(41,409)
Total interest expense	(39,450)	(12,457)
Net interest income	(30,131)	(53,866)
Provision for loan losses	(5,294)	(2,138)
Noninterest income	(3,798)	(13,053)
Noninterest expense	(4,318)	(7,930)
Total increase (decrease) in net income	(43,541)	(76,987)
Net income	$ 336,808	$ 380,349

Key Results of Operations Comparisons

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

	For the Year Ended December 31,		
Key Results of Operations Comparisons	**2015**	**2014**	**2013**
Return on average assets	1.14%	1.34%	1.61%
Return on average shareholders' equity	14.36%	16.49%	19.45%
Net interest income as a percentage of average earning assets	1.59%	1.76%	1.96%
Operating expense as a percentage of net interest income and noninterest income	27.44%	24.83%	20.43%
Net (charge-offs) recoveries to average loans	0.01%	0.01%	(0.06)%

The first three ratios above have declined in 2015 primarily due to a decrease in net interest income. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expense excluding losses (gains) from other property owned. This ratio was also negatively impacted by the decline in net interest income as well as an increase in operating expenses. Net recoveries in both 2015 and 2014 positively impacted the net (charge-offs) recoveries ratio. See *Allowance for Loan Losses, Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Interest Income

Total interest income for the year ended December 31, 2015 was $703.1 million, an increase of $9.3 million, as compared to the same period of 2014. Total interest income for 2014 was $693.8 million, a decrease of $41.4 million, as compared to the same period of 2013. The increase in interest income in 2015 was primarily due to higher earning asset balances. In 2014, the decrease was primarily the result of lower earning asset yields. The average yield on interest earning assets decreased 6 basis points from 2014 to 2015 and 16 basis points from 2013 to 2014.

The following table illustrates the impact of volume and yield changes on interest income:

Net Change in Interest Income	**Year Ended December 31,**	
(dollars in thousands)	**2015-2014**	**2014-2013**
Current year increase (decrease) in average earning assets	$ 1,018,983	$ 115,827
Prior year average yield	2.52%	2.68%
Interest income variance attributed to change in volume	25,693	3,108
Current year average earning assets	28,536,129	27,517,146
Current year increase (decrease) in average yield	(0.06)%	(0.16)%
Interest income variance attributed to change in yield	(16,374)	(44,517)
Net change in interest income	$ 9,319	$ (41,409)

Interest Expense

Total interest expense for the year ended December 31, 2015 was $249.1 million, an increase of $39.5 million, as compared to the same period of 2014. Total interest expense for the year ended December 31, 2014 was $209.6 million, an increase of $12.5 million, as compared to the same period of 2013. The increases in both 2015 and 2014 were primarily due to higher rates paid on System debt obligations.

The following table illustrates the impact of volume and rate changes on interest expense:

Net Change in Interest Expense	**Year Ended December 31,**	
(dollars in thousands)	**2015-2014**	**2014-2013**
Current year increase (decrease) in average interest-bearing liabilities	$ 1,042,223	$ (21,063)
Prior year average rate	0.81%	0.76%
Interest expense variance attributed to change in volume	8,455	(161)
Current year average interest-bearing liabilities	26,882,254	25,840,031
Current year increase (decrease) in average rate	0.12%	0.05%
Interest expense variance attributed to change in rate	30,995	12,618
Net change in interest expense	$ 39,450	$ 12,457

Net Interest Income

Net interest income decreased from 2014 to 2015 and from 2013 to 2014, as illustrated by the following table:

AgFirst Analysis of Net Interest Income

	Year Ended December 31,								
(dollars in thousands)	**2015**			**2014**			**2013**		
	Avg. Balance	**Interest**	**Avg. Yield**	**Avg. Balance**	**Interest**	**Avg. Yield**	**Avg. Balance**	**Interest**	**Avg. Yield**
Loans	$ 20,907,648	$ 588,823	2.82%	$ 20,196,691	$ 566,546	2.81%	$ 19,910,886	$ 589,573	2.96%
Cash & investments	7,628,481	114,318	1.50	7,320,455	127,276	1.74	7,490,433	145,658	1.94
Total earning assets	28,536,129	703,141	2.46	27,517,146	693,822	2.52	27,401,319	735,231	2.68
Interest-bearing liabilities	26,882,254	(249,080)	0.93	25,840,031	(209,630)	0.81	25,861,094	(197,173)	0.76
Spread			1.53			1.71			1.92
Impact of capital	$ 1,653,875		0.06	$ 1,677,115		0.05	$ 1,540,225		0.04
Net Interest Income (NII) & NII to average earning assets		$ 454,061	1.59%		$ 484,192	1.76%		$ 538,058	1.96%

Net interest income for the year ended December 31, 2015 was $454.1 million compared to $484.2 million for the same period of 2014, a decrease of $30.1 million or 6.22 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.59 percent and 1.76 percent in the current year and previous year, respectively, a decrease of 17 basis points. The decrease was primarily the result of higher rates paid on interest-bearing liabilities. During 2015, 2014, and 2013, the Bank called debt totaling $8.565 billion, $7.017 billion, and $6.806 billion, respectively, and was able to lower the cost of funds. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish. In 2015, the positive impact of higher average balances of earning assets partially offset some of the decline in net interest income.

Provision for Loan Losses

AgFirst measures risks inherent in its portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. Loan loss provision was a net reversal (recovery) of $3.2 million, $8.5 million, and $10.6 million for the years ended December 31, 2015, 2014, and 2013, respectively. The $3.2 million in reversals of loan loss expense for the year ended December 31, 2015 consisted of $5.3 million of reversals related to reserves for specific credits, offset by $2.2 million of provision expense related to general reserves. Total provision reversals for 2015 primarily related to borrowers in the forestry ($3.1 million) and nursery/greenhouse ($1.2 million) segments, partially offset by provision expense in the rural home loan ($1.2 million) and tree fruits and nuts ($1.0 million) segments.

The net provision reversals in 2015 and 2014 resulted primarily from a reduction in the overall level of problem assets. See the *Allowance for Loan Losses* section above and Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information.

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,**			**Increase (Decrease)**	
				2015/	**2014/**
(dollars in thousands)	**2015**	**2014**	**2013**	**2014**	**2013**
Loan fees	$ 7,820	$ 8,524	$ 10,070	$ (704)	$ (1,546)
Building lease income	3,473	3,311	4,355	162	(1,044)
Net impairment losses	(1,658)	(1,452)	(2,619)	(206)	1,167
Gains (losses) on investments, net	1,126	53	7,592	1,073	(7,539)
Gains (losses) on called debt	(12,330)	(7,724)	(5,360)	(4,606)	(2,364)
Gains (losses) on other transactions	(114)	(16)	868	(98)	(884)
Other noninterest income	7,890	7,309	8,152	581	(843)
Total noninterest income	$ 6,207	$ 10,005	$ 23,058	$ (3,798)	$ (13,053)

Total noninterest income decreased $ 3.8 million from 2014 to 2015 primarily due to increased called debt losses. Total noninterest income decreased $13.1 million from 2013 to 2014 primarily due to decreased gains on investments. See below for further discussion of significant variances in total noninterest income.

Loan fees decreased $704 thousand and $1.5 million for the twelve months ended December 31, 2015 and 2014, respectively, compared to the prior years. Competitive capital market conditions resulted in declines of $974 thousand in 2015 and $1.2 million in 2014 in fee income from the participation loan portfolio, primarily due to lower fee income on commitments and letters of credit.

Building lease income increased $162 thousand and decreased $1.0 million for the twelve months ended December 31, 2015 and 2014, respectively. Lease renegotiations in the second quarter of 2014 resulted in higher rental income received in 2015 from tenants of the Bank office building. The decline in building lease income in 2014 was primarily due to the Bank occupying space in its new office building in 2014 that was previously leased to tenants.

The net impairment losses on investments for all three years were due to the recognition of credit related other-than-temporary impairment on primarily asset-backed and non-agency CMO securities in the Bank's investment portfolio. Net impairment losses on investments increased $206 thousand and decreased $1.2 million for the twelve months ended December 31, 2015 and 2014, respectively. Estimating credit losses on these types of investments utilizes a number of assumptions and management judgment, and, therefore, cannot be precisely measured. The credit quality of the underlying collateral for these impaired securities has generally been improving in recent years. The increase in impairment losses for 2015 resulted from normal fluctuations in the value of underlying collateral from period to period. See further discussion in the *Cash, Cash Equivalents and Investments* section and Note 4, *Investments*, in the Notes to the Financial Statements for further information.

Gains on investments during 2015, 2014 and 2013 were the result of normal investment activities related to managing the composition and overall size of the investment portfolio. Gains on investments totaled $1.1 million, $53 thousand and $7.6 million for the twelve months ended December 31, 2015, 2014 and 2013, respectively. In March 2015, the Bank sold 204 agency mortgage-backed securities totaling $28.0 million which resulted in gains of $1.1 million. The proceeds were used to purchase one U.S. government guaranteed security. These transactions benefitted the Bank by reducing carrying costs and improving liquidity. The $7.6 million of securities gains recognized in 2013 resulted from bond sales that were made to manage the investment portfolio's size within regulatory guidelines. See discussion of investments in the *Cash, Cash Equivalents and Investments* section above and Note 4, *Investments*, in the Notes to the Financial Statements for further information.

Debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized issuance cost is expensed. Losses on called debt increased $4.6 million and $2.4 million for the years ended December 31, 2015 and 2014, respectively. Call options were exercised on bonds totaling $8.565 billion in 2015, $7.017 billion in 2014, and $6.806 billion in 2013. Debt is called to take advantage of favorable market interest rate changes. The amount of debt issuance cost expensed is dependent upon both the volume and remaining maturity of the debt when called. Losses on called debt are more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

Losses on other transactions increased $98 thousand and $884 thousand for the twelve months ended December 31, 2015 and 2014, respectively. The $98 thousand increase in 2015 was due primarily to a $564 thousand decline in gains on certain retirement plan trust assets partially offset by a decrease of $294 thousand in reserve expense for unfunded commitments and a $198 thousand reduction in losses on sale of rural home loans. The $884 thousand increase in losses for 2014 resulted primarily from an increase of $1.5 million in reserve expense for unfunded commitments and $284 thousand lower gains on certain retirement plan trust assets partially offset by $860 thousand lower losses on sale of rural home loans. Changes in the reserve for unfunded commitments resulted from fluctuations in both the balance and composition of unfunded commitments.

For the twelve months ended December 31, 2015 and 2014, other noninterest income increased $581 thousand and decreased $843 thousand, respectively. The increase in 2015 was due primarily to a $613 thousand increase in patronage received from other Farm Credit institutions. In 2014, the decrease primarily resulted from $967 thousand in lower income received from technology services provided to another entity in the Farm Credit system.

Noninterest Expenses

Noninterest expenses for each of the three years ended December 31 are shown in the following table:

Noninterest Expenses	**For the Year Ended December 31,**			**Increase/(Decrease)**	
(dollars in thousands)	**2015**	**2014**	**2013**	**2015/ 2014**	**2014/ 2013**
Salaries and employee benefits	$ 56,616	$ 54,947	$ 50,857	$ 1,669	$ 4,090
Occupancy and equipment	20,633	20,360	17,919	273	2,441
Insurance Fund premiums	11,677	9,484	6,457	2,193	3,027
Other operating expenses	37,356	37,916	39,430	(560)	(1,514)
Losses (gains) from other property owned	335	(408)	(294)	743	(114)
Total noninterest expenses	$ 126,617	$ 122,299	$ 114,369	$ 4,318	$ 7,930

Total noninterest expenses increased $4.3 million and $7.9 million from 2014 to 2015 and from 2013 to 2014, respectively, primarily due to increases in Insurance Fund premiums and salaries and employee benefits. See below for further discussion of significant variances in total noninterest expenses.

Salaries and employee benefits increased $1.7 million and $4.1 million for the years ended December 31, 2015 and 2014, respectively. The increase in 2015 resulted primarily from an increase of $1.5 million in salaries and incentives due mainly to normal salary administration. The increase in 2014 was primarily due to increases of $2.6 million in salaries and incentives as a result of normal salary administration and $1.1 million in pension and postretirement benefits which included $816 thousand in additional pension expense related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan. See further discussion in Note 9, *Employee Benefit Plans*, in the Notes to the Financial Statements.

Occupancy and equipment expense increased $273 thousand and $2.4 million for the years ended December 31, 2015 and 2014, respectively, compared to the prior years. The increase in both years resulted primarily from higher depreciation and software maintenance costs. The additional expense for 2014 related to the Bank's new data center. These costs were significantly offset by building lease income for all three years. See *Noninterest Income* section for additional information.

Insurance Fund premiums increased $2.2 million and $3.0 million for the years ended December 31, 2015 and 2014, respectively, compared to the prior years. This increase resulted primarily from an increase in the base annual premium rate and a change in the composition of the Bank's investment portfolio. The base annual premium rate was increased to 13 basis points in 2015 from 12 basis points in 2014 and 10 basis points in 2013. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks. The Bank's investment portfolio in 2015 has reflected a reduction in federally guaranteed investments and an increase in GSE guaranteed and other investments compared to 2014, resulting in less of the investment portfolio balance excluded from the insurance premium calculation. Also contributing to the increase in 2014 was a $1.4 million Insurance Fund premium reimbursement received in May 2013, after the FCSIC made a clarification that cash held in a deposit account at the Federal Reserve Bank qualifies as a deduction in the premium calculation. The reimbursement was for the periods July 1, 2008, when the premium methodology initially changed to a debt basis, through December 31, 2012. Insurance fund premiums increased to 16 basis points effective January 1, 2016.

Other operating expenses decreased $560 thousand and $1.5 million in 2015 and 2014, respectively. The decreases in 2015 and 2014 were primarily due to decreases of $460 thousand and $3.6 million, respectively, in Corresponding Lending servicing expenses related to guarantee fees. See *Correspondent Lending* section above. The decrease in 2014 was partially offset by increases totaling $1.2 million in consulting, professional fees, and service provider fees required for system enhancements. The remainder of the variance in other operating expenses for both years was comprised of numerous and varied expenses, none of which individually had a significant change compared to the prior year period.

Gains from other property owned decreased $743 thousand and increased $114 thousand for 2015 and 2014, respectively, compared to the prior year periods. In 2015, $2.9 million in lower gains on sales was partially offset by $1.6 million in lower writedowns and $515 thousand in lower operating expenses. In 2014, $2.7 million in lower deferred gains recognized was offset by $2.8 million lower writedowns. See additional discussion in the *Other Property Owned* section above.

CAPITAL

Capital serves to support future asset growth, investment in new products and services, and to provide protection against credit, interest rate, and other risks, and operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

The AgFirst Capitalization Plan (the "Plan") approved by the Bank's board of directors establishes guidelines 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. The Bank's capital objectives are considered adequate to support inherent risk. There were no significant changes to the Plan for 2015.

Total shareholders' equity at December 31, 2015 was $2.255 billion, compared to $2.207 billion and $2.147 billion at December 31, 2014 and 2013, respectively. The increase in 2015 of $47.6 million primarily resulted from net income of $336.8 million, partially offset by patronage declared of $241.1 million, unrealized losses on investments of $42.7 million, and redemption of preferred stock of $6.8 million. The increase in 2014 of $60.7 million primarily resulted from net income of $380.3 million and unrealized gains of $6.9 million on investments, partially offset by patronage declared of $315.2 million and the net retirement of $7.1 million in capital stock and participation certificates.

The Bank's patronage declared in 2015, 2014, and 2013 was based on paying Associations and OFIs a dividend equal to 75 basis points relative to their average Direct Note balance, paying Associations and OFIs a dividend equal to 75 basis points relative to their patronage-based Capital Markets participations, and paying a dividend to participants in Association capitalized participation pools in an amount of 100 percent of pool net income. Also, favorable earnings and minimal balance sheet growth in recent years have resulted in stronger than historical Bank capital levels. After considering current capital levels and projected capital needs, during 2015, 2014, and 2013, the Bank's Board of Directors declared additional patronage totaling $100.0 million, $175.0 million and $210.0 million, respectively.

Capital stock and participation certificates totaled $307.5 million at December 31, 2015, compared to $303.2 million and $309.0 million at December 31, 2014 and 2013, respectively. The increase of $4.3 million in 2015 was due primarily to the issuance of stock to OFIs. The decrease of $5.8 million in 2014 was due primarily to the net retirement of Association owned stock related to the Associations' participation in certain capitalized loan pools purchased by the Bank. The Associations are required to maintain ownership in the Bank in the form of Class B and Class C stock. At December 31, 2015, 2014, and 2013, the Associations' minimum stock requirement was 1.40 percent of Association Direct Note balances. A stock equalization computation is made annually. OFIs are required to capitalize their loans at the same level as District Associations.

In August 2015, the Bank repurchased, through a privately negotiated transaction, and subsequently cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $10.3 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by $10.3 million and to increase additional paid-in-capital by $3.4 million.

On May 15, 2013, the Bank redeemed and cancelled the entire $150.0 million of Perpetual Non-Cumulative Preferred Stock issued October 14, 2003. This redemption was in accordance with the Board approved capital plan. The stock was redeemed at its par value together with accrued and unpaid dividends.

See Note 7, *Shareholders' Equity*, in the Notes to the Financial Statements for further information.

Regulatory Ratios

The Bank's regulatory ratios at December 31 are shown in the following table:

	Regulatory Minimum	AgFirst Ratio as of December, 31, 2015	2014	2013
Permanent Capital Ratio	7.00%	20.71%	21.83%	22.85%
Total Surplus Ratio	7.00%	20.64%	21.80%	22.81%
Core Surplus Ratio	3.50%	18.48%	19.38%	19.98%
Net Collateral Ratio	103.00%	106.93%	106.79%	106.83%

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. These requirements are based on regulatory ratios as defined by the FCA, which include permanent capital, total surplus, core surplus, and for System banks only, net collateral. The permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. The total surplus ratio is calculated by dividing total surplus by a risk-adjusted asset base and the core surplus ratio is calculated by dividing core surplus by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. Unlike the permanent capital, total surplus and core surplus ratios, the net collateral ratio does not incorporate any risk-adjusted weighting of assets. The net collateral ratio is calculated by dividing the Bank's collateral, as defined by FCA regulations, by total liabilities. The permanent capital, total surplus, and core surplus ratios are calculated using three-month average daily balances and the net collateral ratio is calculated using period end balances.

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The Bank's permanent capital, total surplus, and core surplus ratios decreased at December 31, 2015 and 2014 compared to the prior years. The decrease in these ratios was due primarily to higher average risk-weighted asset balances which resulted from both higher average balances and a shift in the composition of loans and investments, reflecting higher balances of nonguaranteed loans and non-agency asset backed securities. See *Correspondent Lending* section above and Note 4, *Investments*, in the Notes to the Financial Statements for further information. The Bank's net collateral ratio remained relatively constant for all three years.

In September 2014, the FCA published a proposed rule to modify the regulatory capital requirements for System banks and associations. See *Regulatory Matters* section below for further discussion.

See Note 7, *Shareholders' Equity*, in the Notes to the Financial Statements for additional information regarding regulatory capitalization requirements and restrictions.

THE DISTRICTWIDE YOUNG, BEGINNING, AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

AgFirst is committed to providing sound and dependable credit to young, beginning, and small (YBS) farmers and ranchers. Because of the unique needs of these individuals, and their importance to the future growth of the Associations, the Associations have established annual marketing goals to increase market shares of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers' access to a stable source of credit. AgFirst and the District Associations recognize that YBS farmers are vitally important to the future of agriculture and are committed to continue offering programs to help educate, assist, and provide quality financial services to YBS farmers.

The FCA regulatory definitions for YBS farmers and ranchers are as follows:

Young Farmer – A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer – A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.

Small Farmer – A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that due to the regulatory definitions a farmer/rancher may be included in multiple categories as he/she would be included in each category in which the definition was met.

The following table summarizes information regarding the combined District's loans outstanding to Young and Beginning Farmers and Ranchers as of December 31, 2015:

Young and Beginning Farmers and Ranchers
Number/Volume of Loans Outstanding
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total loans and commitments outstanding at year-end	148,156	– %	$ 34,823,101	–%
2. Young farmers and ranchers	24,354	16.44%	$ 2,925,977	8.40%
3. Beginning farmers and ranchers	36,336	24.53%	$ 4,417,287	12.68%

The following table summarizes information regarding the combined District's loans outstanding to Small Farmers and Ranchers as of December 31, 2015:

Small Farmers and Ranchers
Number/Volume of Loans Outstanding by Loan Size
(dollars in thousands)

Number/Volume Outstanding	$0- $50,000	$50,001- $100,000	$100,001- $250,000	$250,001- and greater
1. Total number of loans and commitments outstanding at year-end	72,067	25,590	26,954	23,545
2. Total number of loans to small farmers and ranchers	47,905	14,488	13,123	5,848
3. Number of loans to small farmers and ranchers as a % of total number of loans	66.47%	56.62%	48,69%	24.84%
4. Total loan volume outstanding at year-end	$ 1,488,807	$ 1,894,837	$ 4,318,817	$ 27,120,640
5. Total loan volume to small farmers and ranchers	$ 954,186	$ 1,064,083	$ 2,051,609	$ 2,930,751
6. Loan volume to small farmers and ranchers as a % of total loan volume	64.09%	56.16%	47.50%	10,81%

The following table summarizes information regarding the combined District's new loans made to Young, and Beginning Farmers and Ranchers for the year ended December 31, 2015:

Young and Beginning Farmers and Ranchers
Gross New Business During 2015, Number/Volume of Loans
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total gross new loans and commitments made during 2015	46,452	–%	$ 11,733,073	–%
2. Total loans and commitments made during 2015 to young farmers and ranchers	8,511	18.32%	$ 1,125,737	9.59%
3. Total loans and commitments made during 2015 to beginning farmers and ranchers	11,610	24.99%	$ 1,623,213	13.83%

The following table summarizes information regarding the combined District's new loans made to Small Farmers and Ranchers for the year ended December 31, 2015:

Small Farmers and Ranchers
Gross New Business by Loan Size, Number/Volume of Loans
(dollars in thousands)

Number/Volume	$0- $50,000	$50,001 - $100,000	$100,001- $250,000	$250,001- and greater
1. Total number of new loans and commitments made during 2015	22,059	7,914	8,613	7,866
2. Total number of loans made to small farmers and ranchers during 2015	14,977	4,008	3,483	1,832
3. Number of loans to small farmers and ranchers as a % of total number of loans	67.90%	50.64%	40.44%	23.29%
4. Total gross loan volume of all new loans and commitments made during 2015	$ 495,327	$ 591,461	$ 1.433.483	$ 9,212,802
5. Total gross loan volume to small farmers and ranchers	$ 314,401	$ 293,756	$ 555,565	$ 976,220
6. Loan volume to small farmers and ranchers as a % of total gross new loan volume	63.47%	49.67%	38.76%	10.60%

COMMITMENTS AND CONTINGENCIES

On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from legal actions pending against AgFirst would be immaterial in relation to the financial position of AgFirst. Refer to Note 11, *Commitments and Contingencies*, in the Notes to the Financial Statements for additional information.

REGULATORY MATTERS

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 Financial Statements for recently issued accounting pronouncements.

Additional 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,* to the 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 & Analysis of Financial Condition & Results of Operations* included in this Annual Report to shareholders.

Unincorporated Business Entities

The Bank holds an equity investment at December 31, 2015 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 holding 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 Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Entity Purpose
CBF Holdings, LLC	LLC	Manage Acquired Property
Sequoyah Marina & Resort, LLC	LLC	Manage Acquired Property
Hardee Peaceful Horse Acquisition, LLC	LLC	Manage Acquired Property
Desoto Peaceful Acquisition, LLC	LLC	Manage Acquired Property
Desoto County Land Holding Acquisition, LLC	LLC	Manage Acquired Property
Ethanol Holding Company, LLC	LLC	Manage Acquired Property
First Kentucky Land, LLC	LLC	Manage Acquired Property
RAAC Land, LLC	LLC	Manage Acquired Property

Description of Property

The following table sets forth certain information regarding the properties owned by the Bank at December 31, 2015, all of which are located in Columbia, South Carolina:

Location	Description
1115 Calhoun Street	Bank operations facility
1901 Main Street	Bank office building and adjacent parking facility, partially leased to tenants

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

The description of liabilities and contingent liabilities to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9,11, and 13 to the Financial Statements included in this Annual Report to shareholders.

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

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

Senior Officers

The following represents certain information regarding the directors and senior officers of the Bank.

The chief executive officer and all other senior officers of the Bank, together with their length of service at their present position, as well as positions held currently and during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
Leon T. Amerson, *President and Chief Executive Officer*	3.5 years	President from April 2010 to Present.	Member of the Presidents Planning Committee of the Farm Credit System serving as Chairman of the Finance Committee and member of the Business Practices Committee; member of the Board of Directors of the Federal Farm Credit Banks Funding Corporation serving as vice chairman of the board and chairman of the Compensation Committee; member of the Farm Credit System Coordinating Committee: member of the Board of Trustees of the National 4-H Council; council member of the National Council of Farmer Cooperatives; member of the Midlands Business Leadership Group; member of the Board of Directors for Palmetto Agribusiness Council serving on the Executive Committee; member of the Finance Committee for United Way of the Midlands; member of the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee; member of the University of South Carolina Risk and Uncertainty Management Advisory Board.
Charl L. Butler, *Senior Vice President and Chief Financial Officer*	9 years		Chairman of the Board of the Farm Credit System Captive Insurance Company; Chairman of the AgFirst/FCBT Plan Fiduciary Committee; Board Member and Treasurer of Midlands Housing Alliance; Board Member and Treasurer of City Center Partnership; Board Member of the Columbia Chamber of Commerce.
Benjamin F. Blakewood, *Senior Vice President and Chief Information Officer*	17 years		
Christopher L. Jones, *Senior Vice President and Chief Credit Officer*	5 years	Senior Vice President and Chief Credit Officer South at United Community Banks from 2004 until 2011.	
Daniel E. LaFreniere, *Senior Vice President and Chief Audit Executive*	2.5 years	Director of Audit Services from 2007 to 2013 at SCANA Corporation.	
Isvara M. A. Wilson, *Senior Vice President and General Counsel*	3 years	Managing Director and Associate General Counsel at Bank of America from 2010 until December 2012.	Board Member of the Farm Credit System Captive Insurance Company; Board Member of the Columbia Urban League, Inc.; Board Member of the Columbia Museum of Art; Board Member of the Boys and Girls Club of the Midlands.

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	Incentives	Deferred Comp.	Change in Pension Value*(d)	Perq./ Other**	Total
Leon T. Amerson	2015	$ 700,027	$ 704,920	$ 25,280	$ 575,111	$ 21,091	$ 2,026,429
Leon T. Amerson	2014	$ 668,026	$ 641,878	$ 19,469	$ 1,522,025	$ 19,889	$ 2,871,287
Leon T. Amerson	2013	$ 630,024	$ 469,676	$ 16,941	$ 494,083 *(c)*	$ 17,978	$ 1,628,702
6 Officers *(a)*	2015	$ 1,692,345	$ 1,422,239	$ 65,955	$ 47,282	$ 176,608	$ 3,404,429
6 Officers	2014	$ 1,601,878	$ 1,214,238	$ 32,552	$ 296,786	$ 126,149	$ 3,271,603
7 Officers	2013	$ 1,422,980	$ 749,434	$ 22,417	$ 12,457	$ 407,593 *(b)*	$ 2,614,881

* *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. System banks and associations were required to comply with the rule for compensation reported in the table for the fiscal year ending 2015, and could implement the rule retroactively for the fiscal years ended 2014 and 2013. The Bank applied the rule for 2014 and retroactively to 2013, but this application had no effect on the 2013 amounts as previously reported in the 2013 Annual Report.*

** *Includes company contributions to 401 (k) plan (see Note 9, Employee Benefit Plans, to the Financial Statements), group life insurance premiums, spousal travel and bank-provided automobile.*

(a) *Disclosure of information on the total compensation paid during 2015 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.*

(b) *Includes payment of accrued annual leave of $68,445 upon the retirement of one officer. Also includes payment of accrued annual leave of $48,331, a one-time severance payment of $143,881, ownership of a company automobile valued at $26,028 and reimbursement of tax on value of company automobile of $13,082 upon the retirement of one highly-compensated employee.*

(c) *Amount revised from $157,034 presented in the 2013 Annual Report as a result of revised actuarial assumptions.*

(d) *The changes in pension values 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 Statements.*

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:					
Leon T. Amerson	2015	AgFirst Farm Credit Retirement Plan	29.42	$ 2,067,599	$ –
Leon T. Amerson	2015	AgFirst Farm Credit Bank Supplemental Retirement Plan	29.42	3,724,630	–
				$ 5,792,229	$ –
Senior Officers and Highly Compensated Employees:					
1 Officers, excluding the CEO	2015	AgFirst Farm Credit Retirement Plan	18.33*	$ 1,262,167	$ –
5 Officers, excluding the CEO	2015	AgFirst Farm Credit Cash Balance Retirement Plan	5.47*	162,616	–
6 Total				$ 1,424,783	$ –

* *Represents the average years of credited service for the group.*

Executive Incentive Compensation Plan

In addition to a base salary, certain named senior officers may earn additional compensation under the Bank's Executive Incentive Plan, which has a short-term and a long-term component. Participation in the plan is at the sole discretion of the CEO or in the case of the CEO at the sole discretion of the Board of Directors. The objectives of this plan are to provide a market-competitive financial rewards package to executives, provide incentive for the achievement of the AgFirst short- and long-term business objectives, and to provide the Bank the ability to attract and retain key executives. The plan's payments are based upon the Bank's achievement of minimum performance thresholds for net collateral ratio, net income sufficient to pay patronage and dividend distributions, achievement of a targeted threshold customer satisfaction score, and the senior officers' overall performance achievement as determined by an individual performance rating. Short-term incentive awards are shown in the year earned and payments are made in the first quarter of the following year.

Effective with the 2014 plan year, the long-term component of the plan is subject to forfeiture based upon AgFirst's performance during the three-year performance period immediately following the plan year. Specifically, the long-term award for a particular plan year will be reduced by an amount equal to one-third of the original award for each subsequent year during the three-year performance period in which any one of the performance thresholds are not achieved.

For the 2013 plan year, the long-term component of the plan is subject to forfeiture based upon AgFirst's performance during the two-year performance period immediately following the plan year. Specifically, the long-term award will be reduced by an amount equal to one-half of the original award for each subsequent year during the two-year performance period in which any one of the performance thresholds are not achieved.

A long-term incentive transition award, equal in calculation to the 2014 long-term component of the plan, was established for the 2014 plan year with a two-year performance period. The purpose of this transition award was to avoid an interruption in long-term award payments that would occur as a result of changing from a two-year performance period to a three-year performance period. The transition award is subject to the same forfeiture guidelines as described above for the 2013 plan year.

Long-term incentive award amounts are shown in the year accrued and are vested over a period of time composed of the plan year and the performance period subsequent to the end of the plan year. Incentive awards are forfeited if the participant fails to remain employed until the end of the performance period subsequent to the end of the plan year, unless the end of employment is due to the participant's death or disability, or the Board of Directors, in its sole discretion, determines that the participant should be paid all or a portion of the incentive awards.

Retirement and Deferred Compensation Plans

The Bank'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 Bank is to offer benefit plans that are market competitive and aligned with the Bank's strategic objectives. The plans are designed to enable the Bank to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that supports the Bank's mission and that allows the Bank to align the human capital needs with the Bank's overall strategic plan.

Employees hired before November 4, 2014 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" once age 55 is reached. 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, but prior to November 4, 2014, 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. Benefit accruals in the plan were frozen as of December 31, 2014, at which time active participants were fully vested regardless of years of credited service. The plan was terminated effective as of December 31, 2015, and has been submitted to the Internal Revenue Service for review. Benefits in the plan will be distributed to plan participants after receipt of a favorable determination letter from the Internal Revenue Service.

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. Beginning January 1, 2015, employees hired on or after January 1, 2003 also receive an employer nonelective contribution equal to 3 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees 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 Bank.

Chief Executive Officer

Mr. Amerson participates in the AgFirst Farm Credit Retirement Plan, as described above.

Mr. Amerson participates in the AgFirst Farm Credit Bank Supplemental Retirement Plan, a nonqualified supplemental executive retirement plan. Benefits that would have accrued in the qualified defined benefit retirement plan in the absence of Internal Revenue Code limitations are made up through the nonqualified supplemental executive retirement plan. At the election of the retiree, benefits are paid based upon various annuity terms.

Mr. Amerson participates in the Farm Credit Benefits Alliance 401(k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above.

Mr. Amerson was employed pursuant to an employment and retention agreement that expired on June 30, 2014. There is currently no employment agreement for Mr. Amerson.

Senior Officers

Senior officers participate in one of two qualified defined benefit retirement plans based upon date of hire, as described above.

Senior officers participate in the Farm Credit Benefits Alliance 401(k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above.

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

Bank compensation plans are reviewed annually by the Board of Directors' Compensation Committee.

AgFirst Farm Credit Bank Board of Directors

Name	Position	Year Term Expires
Dale R. Hershey	Chairman	December 31, 2019*
John S. Langford	Vice Chairman	December 31, 2019*
Jack W. Bentley, Jr.	Director	December 31, 2017
James C. Carter, Jr.	Director	December 31, 2018
Bonnie V. Hancock	Director	December 31, 2017
Curtis R. Hancock, Jr.	Director	December 31, 2016
Walter C. Hopkins, Sr.	Director	December 31, 2016
Paul M. House	Director	December 31, 2015
William K. Jackson	Director	December 31, 2016
S. Jerry Layman	Director	December 31, 2018
S. Alan Marsh	Director	December 31, 2017
James L. May	Director	December 31, 2017
Fred R. Moore, Jr.	Director	December 31, 2017
James M. Norsworthy, III	Director	December 31, 2019*
Katherine A. Pace	Director	December 31, 2019#
Thomas E. Porter, Jr.	Director	December 31, 2017
William T. Robinson	Director	December 31, 2019**
Robert G. Sexton	Director	December 31, 2016
Robert H. Spiers, Jr.	Director	December 31, 2017
Michael T. Stone	Director	December 31, 2018
Ellis W. Taylor	Director	December 31, 2019*

* *These directors were re-elected to a 4-year term commencing January 1, 2016.*
** *This director was newly elected in 2015 to a 4-year term commencing January 1, 2016.*
\# *This director was re-appointed to a 4-year term commencing January 1, 2016.*

Dale R. Hershey, 68, Chairman of the Board, is from Manheim, Pennsylvania, where he is a partner in Hershey Brothers Dairy Farms, and manages the operations' real estate and cropping enterprises. The operations include a dairy operation and corn, alfalfa, soybeans, barley, and rye and grass hay. He serves on the board of directors of MidAtlantic Farm Credit, ACA, and the national Farm Credit Council, a trade organization. Mr. Hershey has a Bachelor of Science in Community Development and a Master of Science in Ag Economics and Rural Sociology from Penn State University. Mr. Hershey was re-elected as Chairman of the Board for 2016 and will serve as an ex-officio member of all Board Committees.

John S. Langford, 66, Vice Chairman of the Board, is from Lakeland, Florida and owns and operates John Langford, Inc., a citrus farming operation. Mr. Langford also owns and operates John Langford Realty, Inc., which specializes in the sale of agricultural lands. He currently serves as a director on the boards of Farm Credit of Central Florida, ACA, Lake Wales Citrus Growers Association, a citrus growers' cooperative, and Polk County Florida Farm Bureau, which focuses on the promotion of agriculture. Mr. Langford obtained his Bachelor of Arts in History and Accounting from Emory University, his Master of Business Administration from Harvard Business School, and graduated from the Graduate School of Banking at Louisiana State University in 2014. He serves on the Board Compensation Committee. Mr. Langford was re-elected Vice Chairman of the Board for 2016.

Jack W. Bentley, Jr., 58, from Tignall, Georgia, owns and operates A&J Dairy, a dairy, pasture, crop and timberland operation. Mr. Bentley is a director of AgGeorgia Farm Credit, ACA. Mr. Bentley also serves on the boards of the following agricultural and dairy trade and promotion organizations: Southeast United Dairy Industry Association, American Dairy Association, Lone Star Milk Producers and the Wilkes County Farm Bureau. Mr. Bentley has a Bachelor of Science in Ag Mechanics and Business from Clemson University. He served on the Board Compensation Committee in 2015 and will serve on the Board Governance Committee in 2016. Mr. Bentley is also the Board-appointed member of both the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee.

James C. Carter, Jr., 69, from McDonough, Georgia, owns and operates Southern Belle Farm, Inc., a beef cattle and hay farm that includes fruit and vegetable crops and provides agriculturally related educational activities. Mr. Carter also operates a feed, mineral and supplements business from the farm and provides artificial insemination services and supplies for cattle as an independent sales representative for ABS Global. Mr. Carter is a director of AgSouth Farm Credit, ACA, and the national Farm Credit Council, a trade organization. He serves as chairman of the Henry County Water and Sewage Authority, a provider of water and sewer services, and he is a representative on the Ocmulgee River Basin Advisory Council, a water resource management council. Mr. Carter serves as vice president of the Henry County Farm Bureau which focuses on the promotion of agriculture. He is a member of the board for the Henry County Cattleman's Association, a cattle industry trade association. Mr. Carter has a Bachelor of Science in Agriculture and Master of Science in Animal Nutrition from the University of Georgia. Mr. Carter served on the Board Governance Committee in 2015 and will serve on the Board Compensation Committee in 2016.

Bonnie V. Hancock, 54, outside director for the Board, is from Wake Forest, North Carolina. Ms. Hancock is Executive Director of the Enterprise Risk Management Initiative at North Carolina State University (NCSU), and she teaches courses in financial management, enterprise risk management, and strategy and financial statement analysis. Prior to joining NCSU, Ms. Hancock worked with Progress Energy as senior vice president of finance and information technology and later as president of Progress Fuels, a subsidiary that produced and marketed gas, coal and synthetic fuels. Ms. Hancock has a Bachelor of Business Administration with an accounting major from the College of William and Mary and a Master of Science in Taxation from Georgetown University. She is a member of the boards of Powell Industries, designer and manufacturer of electrical equipment systems for industrial facilities, where she serves on the audit and compensation committees; the Office of Mortgage Settlement Oversight, which monitors servicers' obligations related to distressed borrowers, where she serves as chair of the audit committee; and the North Carolina Coastal Pines Girl Scout Council, a leadership development organization for girls, where she serves as chair of the audit committee. Ms. Hancock serves as chair of the Board Risk Policy Committee.

Curtis R. Hancock, Jr., 69, from Fulton, Kentucky, is owner and operator of Hancock Farms. His operations consist of row crops including corn, wheat and soybeans. He serves on the board of River Valley ACA; the national Farm Credit Council, a trade organization; Farm Credit Council Services, a Farm Credit System service provider; and Kentucky Small Grain Growers, a grain cooperative. Mr. Hancock received a Bachelor of Science in Agriculture from the University of Tennessee-Martin and a Master of Science in Agricultural Economics from the University of Tennessee. Mr. Hancock served on the Board Audit Committee in 2015 and will serve on the Board Governance Committee in 2016.

Walter C. Hopkins, Sr., 68, from Lewes, Delaware, is the owner and operator of Green Acres Farm, a dairy and grain farming operation. He also manages Lyons LLC, a land holding company. He serves on the board of directors of MidAtlantic Farm Credit, ACA, and is chair of both the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee. Mr. Hopkins has a Bachelor of Science in Agricultural Engineering from the University of Delaware. Mr. Hopkins serves as chair of the Board Compensation Committee.

Paul M. House, 67, is from Nokesville, Virginia, where he grows corn, soybeans, wheat, hay and turf grass. He also operates a dairy. He serves as a director of Farm Credit of the Virginias, ACA. Mr. House attended Glenville State and completed various courses in principles of real estate, turfgrass ecology and management. Mr. House served on the Board Compensation Committee. Mr. House's term expired December 31, 2015.

William K. Jackson, 60, from New Salem, Pennsylvania, is a partner in Jackson Farms, a dairy operation with other farming interests, including corn and alfalfa. He is president of Jackson Farms 2, LLC, a small dairy processing facility that produces milk and makes ice cream marketed to area stores and sold via an on-site convenience store. Mr. Jackson is also president of Jackson Farms 3, LLC and Jackson Farms Limited Partnership, which are involved in the production of natural gas. He serves on the boards of AgChoice Farm Credit, ACA; the Fay Penn Economic Development Council, a local economic development committee; the Fayette County Fair Board, a county fair; and the Penn State Fayette, Eberly Campus Advisory Board, which oversees campus community involvement. Mr. Jackson has a Bachelor of Science in Agricultural Business Management from Penn State University. Mr. Jackson served on the Board Risk Policy Committee in 2015 and will serve as chair of the Board Governance Committee in 2016.

S. Jerry Layman, 67, from Kenton, Ohio, assists with Layman Farms LLC, a no-till corn and soybean operation, and Layman Farm Drainage, an agricultural tile installation business. Mr. Layman currently serves as a board member of AgCredit, ACA. He represents AgCredit on the Independent Associations' Retirement Plan Sponsor Committee and is a member of both the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee. Mr. Layman is a stockholder in the following agricultural cooperatives: Truepointe Ag Coop and Heritage Farm Coop. Mr. Layman has a Bachelor of Science in Agriculture Education from the Ohio State University and a Master of Science of Education Leadership from the University of Dayton. Mr. Layman serves on the Board Compensation Committee.

S. Alan Marsh, 61, from Madison, Alabama, is a partner in Marsh Farms, an operation consisting of row crops including cotton, soybeans, wheat and corn. Mr. Marsh is a director of First South Farm Credit, ACA, and Limestone County Farmers Federation, an agricultural trade organization, and he is president and stockholder of South Limestone Co-op Gin, a cotton ginning operation and an association borrower. He is also an advisory board member for Staplcotn, a cotton cooperative association. Mr. Marsh received a Business Management Certification from Stratford Career Institute. Mr. Marsh serves on the Board Governance Committee.

James L. May, 66, from Waynesburg, Kentucky, is owner and operator of Mayhaven Farm. His cattle program consists of a beef cow herd and a back grounding program of feeder cattle. The farming operation also includes alfalfa hay, corn, soybeans and wheat. He also operates Mayhaven Seed Sales, an agricultural seed sales business. He currently serves on the boards of Central Kentucky Ag Credit, ACA, Lincoln County Extension Council, an education organization, and the Lincoln County Farm Bureau, an agricultural promotion organization. Mr. May has a Bachelor of Science in Agricultural Economics from the University of Kentucky. Mr. May serves on the Board Audit Committee.

Fred R. Moore, Jr., 63, from Eden, Maryland is president of Fred R. Moore & Sons, Inc. d/b/a Collins Wharf Sod, a turf and grain operation, which grows sod (turf), corn, soybeans and wheat. He is also partner of F&E Properties, LLC, a rental business. He currently serves on the boards of MidAtlantic Farm Credit, ACA, Wicomico Soil Conservation District, an environmental and conservation entity, and Wicomico County Farm Bureau, an agricultural promotion organization. He currently serves as an assistant chief of the Allen Volunteer Fire Company. Mr. Moore has a Bachelor of Science in Agriculture Education from the University of Maryland Eastern Shore. Mr. Moore serves on the Board Audit Committee.

James M. Norsworthy, III, 65, from Jackson, Louisiana, runs 100 Cedars Cattle Farm, a cow-calf operation with other farming interests including a commercial hay operation and a pine and hardwood timber operation. He is a member of the board of directors of First South Farm Credit, ACA. Mr. Norsworthy is a member of the board of directors for Centreville Academy, an educational institution, and served as a former mayor of the town of Jackson, Louisiana. Mr. Norsworthy has a Bachelor of Science in Vocational Agriculture Education from Louisiana State University. He served as chair of the Board Governance Committee in 2015 and will serve on the Board Risk Policy Committee in 2016.

Katherine A. Pace, 54, outside director for the Board, is from Orlando, Florida. Ms. Pace is a certified public accountant and principal of Family Business Consulting, LLC, which provides financial and strategic planning for closely-held businesses. Prior to forming her company, she was a tax partner with KPMG, LLP, from 1985-2005. While at KPMG, her practice included a variety of cooperative and agribusiness clients as well as participation in trade associations such as the National Society of Accountants for Cooperatives. Ms. Pace obtained her Bachelor of Science in Accounting from Furman

University. She is a member of the American Institute of Certified Public Accountants and the Florida Institute of Certified Public Accountants, and she is a current and past member and director of numerous trade and charitable organizations. Ms. Pace is the board designated financial expert and serves on the Board Audit Committee.

Thomas E. Porter, Jr., 62, from Concord, North Carolina, is president of Porter Farms, Inc., a farming operation consisting of a sow farrow unit and a wean swine operation, pullet houses, layer houses and a cow / calf operation. He also manages The Farm at Brush Arbor, LLC, an agritourism business on his farm. He currently serves on the Carolina Farm Credit, ACA board of directors. Mr. Porter also holds board and leadership positions with the following agricultural trade and promotion organizations: board member on the Cabarrus County Ag advisory board, president of Cabarrus County Farm Bureau and as chairman of Cabarrus County Extension advisory board. He also serves on the Commissioners Circle for the North Carolina Commissioner of Agriculture. Mr. Porter serves on the Board Governance Committee.

William T. Robinson, 48, from St. Matthews, South Carolina, is the owner/operator of Robinson Family Farm which consists of hay, cattle, and timber. Mr. Robinson is currently employed as the Market Development Officer for the SEFA group, an engineering, construction, and transportation company, and he retired from the department of Treasury and Corporate Financial Planning at Santee Cooper, South Carolina's state owned electric and water utility. He serves on the Parent Advisory Council for Wofford College. Mr. Robinson obtained a Bachelor of Science and a Master of Science in Civil Engineering from Clemson University and a Master of Business Administration from Charleston Southern University. He currently serves as chairman of the board of AgSouth Farm Credit, ACA. Mr. Robinson is a member of both the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee. Mr. Robinson became a director in 2016 and serves on the Board Audit Committee.

Robert G. Sexton, 56, from Vero Beach, Florida, is President of Oslo Citrus Growers Association, co-owner of Lost Legend, LLC, and owner of Orchid Island Juice Company. He serves as a director of Farm Credit of Florida, ACA, and the following citrus growers' organizations: Oslo Citrus Growers Association; Lost Legend, LLC; Florida Citrus Packers; Indian River Citrus League. Mr. Sexton also serves on the following boards: Highland Exchange Service Co-op, a packinghouse supply cooperative; McArthur Management Company, a management company for a large dairy, cattle and citrus agribusiness, and an association borrower; Sexton Grove Holdings, a family citrus company; Sexton Properties, Oslo Packing Company and Sexton, Inc., family commercial real estate companies. In addition, he is treasurer of the Citizens Scholarship Foundation of Indian River County, a non-profit organization. He obtained both his Bachelor of Science in Business Administration and his Master of Business Administration in Finance from the University of Florida. Mr. Sexton serves on the Board Risk Policy Committee.

Robert H. Spiers, Jr., 70, is from Stony Creek, Virginia. Mr. Spiers is the owner/operator of Spiers Farms, LLC, with a tobacco, corn, soybeans, milo, wheat and timber operation. He currently serves on the boards of Colonial Farm Credit, ACA; the national Farm Credit Council, a trade organization; Tobacco Associates, Inc., which promotes export of US tobacco; and Dinwiddie County Farm Bureau, which promotes agriculture. He is also a governor appointed director on the Virginia Flue-cured Tobacco Board, and the Virginia Tobacco Revitalization Commission. Mr. Spiers has a Bachelor of Science in Ag Economics from Virginia Tech University. He is Vice Chair of the AgFirst Plan Sponsor Committee and a member of the AgFirst/FCBT Plan Sponsor Committee. Mr. Spiers serves on the Board Risk Policy Committee.

Michael T. Stone, 44, from Rowland, North Carolina, owns and operates P & S Farms, Inc. and Bo Stone Farms, LLC. The row crop units produce corn, wheat, and soybeans and the operations include a swine finishing unit under contract with Murphy Brown, a cow/calf herd, timber management and small produce for a roadside stand. Mr. Stone is a director of Cape Fear Farm Credit, ACA, a director of Southeastern Health hospital, and a director of Dillon Christian School. Mr. Stone has a Bachelor of Science in Agricultural Business Management (with a minor in Animal Science) and a Master of Science in Agriculture from North Carolina State University. Mr. Stone served on the Board Governance Committee in 2015 and will serve on the Board Compensation Committee in 2016.

Ellis W. Taylor, 46, from Roanoke Rapids, North Carolina, is the owner/operator of a row crop operation, Mush Island Farms, LLC, which consists of cotton, soybeans, wheat, corn and timber. He is also part owner of Roanoke Cotton Company, LLC, which operates cotton gins and a warehouse. He is a director on the boards of AgCarolina Farm Credit, ACA, and Northampton County Farm Bureau, which promotes agriculture. Mr. Taylor has a Bachelor of Science in Agronomy, a Bachelor of Science in Agricultural Business Management and a Master of Economics from North Carolina State University. Mr. Taylor serves as chair of the Board Audit Committee.

Committees

The Board has established an audit committee, compensation committee, risk policy committee, and governance committee. All members of the Board, other than the Chairman, serve on a committee. The Chairman of the Board serves as an ex officio member of all Board committees, and the Vice Chairman serves as a member of the Board compensation committee. The Board has one designated financial expert who serves on the audit committee. The responsibilities for each committee are set forth in its respective board approved charter.

Compensation of Directors

Directors were compensated in 2015 in cash at the rate of $57,323 per year, payable at $4,776 per month. This is compensation for attendance at Board meetings, Board committee meetings, certain other meetings pre-approved by the Board, and other duties as assigned. Farm Credit Administration (FCA) regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. In this regard, additional compensation was paid for certain leadership positions on the Board, including the Chairman of the Board, Vice Chairman of the Board, Chair of each Board standing committee as well as to members of the Board audit committee in recognition of greater than normal participation in Board activities. Total cash compensation paid to all directors as a group during 2015 was $1,208,460. Directors received no non-cash compensation during 2015. Additional information for each director who served during 2015 is provided in the following table.

	Number of Days Served			
Name of Director	Board Meetings	Other Official Activities*	Farm Credit Council Bd. Activities	Total Comp. Paid During 2015
Jack W. Bentley, Jr.**	17.50	13.50	4.50	$ 57,323
James C. Carter, Jr.	17.50	13.25	4.50	57,323
Bonnie V. Hancock	17.50	13.75	4.50	62,323
Curtis R. Hancock, Jr.	17.50	18.00	4.50	62,323
Dale R. Hershey	17.50	19.75	4.50	69,323
Walter C. Hopkins, Sr.	17.50	17.00	4.50	62,323
Paul M. House	17.50	10.50	4.50	57,323
William K. Jackson	17.50	14.00	4.50	57,323
John S. Langford	17.50	17.00	4.50	62,323
S. Jerry Layman	17.50	13.50	4.50	57,323
S. Alan Marsh	17.50	13.50	4.50	57,323
James L. May	16.50	18.00	1.00	62,323
Fred R. Moore, Jr.	17.50	17.50	4.50	62,323
James M. Norsworthy, III	17.50	17.00	4.50	62,323
Katherine A. Pace	17.50	13.75	4.50	62,323
Thomas E. Porter, Jr.	17.50	13.50	4.50	57,323
Robert G. Sexton	17.50	14.00	4.50	57,323
Robert H. Spiers, Jr.	17.50	14.50	4.50	57,323
Michael T. Stone	17.50	10.50	4.50	57,323
Ellis W. Taylor	17.50	17.75	4.50	67,323
Total				$ 1,208,460

* *Other official activities include Board committee meetings and Board training.*

** *Does not include 4.5 days served as Board-appointed member of the AgFirst and AgFirst/FCBT Plan Sponsor Committees.*

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 upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $197,154 for 2015, $211,519 for 2014 and $226,664 for 2013.

Transactions with Senior Officers and Directors

The Bank's disclosure on loans to and transactions with its officers and directors, to be disclosed in this section, is incorporated herein by reference to Note 10, *Related Party Transactions,* to the Financial Statements included in this Annual Report to shareholders. Such loans are subject to special approval requirements contained in the FCA regulations and were made on the same terms, including interest rate, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons. No loan to a director, or to any organization affiliated with such person, or to any immediate family member who resides in the same household as such person or in whose loan or business operation such person has a material financial or legal interest, involved more than the normal risk of collectability.

There have been no transactions between the Bank 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 regarding 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 the Bank's independent certified public accountants on any matter of accounting principles or financial statement disclosure during this period.

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

	2015
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP	
Audit services	$ 494,366
Audit-related services	4,225
Non-audit services	137,501
Total	$ 636,092

Audit fees of $494,366 were for the annual audits of financial statements of the Bank and District, of which $100,103 related to the 2014 audit. Audit-related fees were for benefit plan audits. Non-audit fees were for agreed upon procedures for SOC 2 Readiness Assessments, Farmer Mac minimum servicing standards attestation, and agreed upon procedures for Board of Directors elections. Out of pocket expenses are included in the fee amounts reported above.

All non-audit services provided by PwC require pre-approval by the Audit Committee.

Financial Statements

The 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 to shareholders are incorporated herein by reference.

Borrower Information Regulations

FCA regulations require that borrower information be held in strict confidence by Farm Credit 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 Farm Credit 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 to shareholders. 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.

Shareholder Investment

Shareholder investment in a District 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 and combined information concerning AgFirst Farm Credit Bank and District Associations are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, Financial Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. This information can also be obtained at the Bank's website, **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 each Quarterly Report within 40 days after the end of each fiscal quarter, except that no report is 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 (the Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of AgFirst Farm Credit Bank (the Bank) and in the opinion of the Board of Directors, each is free of any relationship with the Bank 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 Bank's audited financial statements with management, which has primary responsibility for the financial statements. The financial statements were prepared under the oversight of the Committee.

PricewaterhouseCoopers LLP (PwC), the Bank's independent certified public accountants for 2015, is responsible for expressing an opinion on the conformity of the Bank's audited 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 to the Bank is compatible with PwC's independence.

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

Ellis W. Taylor

Ellis W. Taylor
Chairman of the Audit Committee

Members of Audit Committee

James L. May
Fred R. Moore, Jr.
Katherine A. Pace
William T. Robinson

March 10, 2016

Report of Independent Certified Public Accountants

To the Board of Directors
of AgFirst Farm Credit Bank

We have audited the accompanying financial statements of AgFirst Farm Credit Bank (the Bank), which comprise the balance sheets as of December 31, 2015, 2014, and 2013, and the related statements of income, comprehensive income, changes in shareholders' 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 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Bank's preparation and fair presentation of the 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 Bank'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 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 financial statements referred to above present fairly, in all material respects, the financial position of AgFirst Farm Credit Bank as of December 31, 2015, 2014, and 2013, and the results of its operations and its 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 OlasBlvd, Suite 1800, Fort Lauderdale, FL33301
T:(954)764-7111, F:(954)525-4453, www.pwc.com/us

Balance Sheets

(dollars in thousands)	As of December 31, 2015	2014	2013
Assets			
Cash	**$ 461,068**	$ 622,503	$ 1,038,870
Cash equivalents	**211,554**	224,847	144,885
Investment securities:			
Available for sale (amortized cost of $6,884,126, $6,646,772, and $6,462,222, respectively)	**6,949,112**	6,754,419	6,562,976
Held to maturity (fair value of $576,764, $686,970, and $599,601, respectively)	**562,698**	659,520	589,812
Total investment securities	**7,511,810**	7,413,939	7,152,788
Loans	**22,140,758**	20,893,619	20,200,449
Allowance for loan losses	**(15,113)**	(15,535)	(22,908)
Net loans	**22,125,645**	20,878,084	20,177,541
Accrued interest receivable	**62,156**	63,945	63,856
Accounts receivable	**72,657**	98,864	55,933
Investments in other Farm Credit System institutions	**69,836**	69,949	69,482
Premises and equipment, net	**62,051**	66,568	52,599
Other property owned	**13,411**	2,808	9,621
Other assets	**30,412**	41,438	55,165
Total assets	**$ 30,620,600**	$ 29,482,945	$ 28,820,740
Liabilities			
Systemwide bonds payable	**$ 22,339,694**	$ 22,794,379	$ 24,292,174
Systemwide notes payable	**5,633,413**	4,032,590	1,909,103
Accrued interest payable	**56,340**	47,375	54,059
Accounts payable	**281,870**	345,342	368,670
Other liabilities	**54,262**	55,852	49,987
Total liabilities	**28,365,579**	27,275,538	26,673,993
Commitments and contingencies (Note 11)			
Shareholders' Equity			
Perpetual preferred stock	**115,000**	125,250	125,250
Capital stock and participation certificates	**307,483**	303,180	308,972
Additional paid-in-capital	**39,988**	36,580	36,580
Retained earnings			
Allocated	**656**	692	726
Unallocated	**1,731,972**	1,639,757	1,577,676
Accumulated other comprehensive income (loss)	**59,922**	101,948	97,543
Total shareholders' equity	**2,255,021**	2,207,407	2,146,747
Total liabilities and equity	**$ 30,620,600**	$ 29,482,945	$ 28,820,740

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

Statements of Income

(dollars in thousands)	For the year ended December 31, 2015	2014	2013
Interest Income			
Investment securities and other	**$ 114,318**	$ 127,276	$ 145,658
Loans	**588,823**	566,546	589,573
Total interest income	**703,141**	693,822	735,231
Interest Expense	**249,080**	209,630	197,173
Net interest income	**454,061**	484,192	538,058
Provision for (reversal of allowance for) loan losses	**(3,157)**	(8,451)	(10,589)
Net interest income after provision for (reversal of allowance for) loan losses	**457,218**	492,643	548,647
Noninterest Income			
Loan fees	**7,820**	8,524	10,070
Building lease income	**3,473**	3,311	4,355
Total other-than-temporary impairment losses	**—**	(74)	(2,652)
Reclassification to (from) other comprehensive income	**(1,658)**	(1,378)	33
Net other-than-temporary impairment losses	**(1,658)**	(1,452)	(2,619)
Gains (losses) on investments, net	**1,126**	53	7,592
Losses on called debt	**(12,330)**	(7,724)	(5,360)
Gains (losses) on other transactions	**(114)**	(16)	868
Other noninterest income	**7,890**	7,309	8,152
Total noninterest income	**6,207**	10,005	23,058
Noninterest Expenses			
Salaries and employee benefits	**56,616**	54,947	50,857
Occupancy and equipment	**20,633**	20,360	17,919
Insurance Fund premiums	**11,677**	9,484	6,457
Other operating expenses	**37,356**	37,916	39,430
Losses (gains) from other property owned	**335**	(408)	(294)
Total noninterest expenses	**126,617**	122,299	114,369
Net income	**$ 336,808**	$ 380,349	$ 457,336

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

Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2015	2014	2013
Net income	**$ 336,808**	$ 380,349	$ 457,336
Other comprehensive income:			
Unrealized gains (losses) on investments:			
Other-than-temporarily impaired	**2,519**	14,651	18,404
Not other-than-temporarily impaired	**(45,181)**	(7,702)	(92,253)
Change in value of cash flow hedges	**(409)**	(837)	(1,225)
Employee benefit plans adjustments	**1,045**	(1,707)	1,149
Other comprehensive income (loss) (Note 7)	**(42,026)**	4,405	(73,925)
Comprehensive income	**$ 294,782**	$ 384,754	$ 383,411

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

Statements of Changes in Shareholders' Equity

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2012	$ 275,250	$ 332,705	$ 36,580	$ 795	$ 1,481,432	$ 171,468	$ 2,298,230
Comprehensive income					457,336	(73,925)	383,411
Capital stock/participation certificates issued/(retired), net		(24,665)					(24,665)
Redemption of perpetual preferred stock (Note 7)	(150,000)						(150,000)
Stock dividends declared/paid		932			(932)		—
Dividends paid on perpetual preferred stock					(6,347)		(6,347)
Cash patronage declared					(353,813)		(353,813)
Retained earnings retired				(69)			(69)
Balance at December 31, 2013	$ 125,250	$ 308,972	$ 36,580	$ 726	$ 1,577,676	$ 97,543	$ 2,146,747
Comprehensive income					380,349	4,405	384,754
Capital stock/participation certificates issued/(retired), net		(7,111)					(7,111)
Stock dividends declared/paid		1,324			(1,324)		—
Dividends paid on perpetual preferred stock					(1,729)		(1,729)
Cash patronage declared					(315,218)		(315,218)
Retained earnings retired				(34)			(34)
Patronage distribution adjustment		(5)			3		(2)
Balance at December 31, 2014	$ 125,250	$ 303,180	$ 36,580	$ 692	$ 1,639,757	$ 101,948	$ 2,207,407
Comprehensive income					**336,808**	**(42,026)**	**294,782**
Capital stock/participation certificates issued/(retired), net		**2,532**					**2,532**
Redemption of perpetual preferred stock (Note 7)	**(10,250)**		**3,408**				**(6,842)**
Stock dividends declared/paid		**1,771**			**(1,771)**		**—**
Dividends paid on perpetual preferred stock					**(1,743)**		**(1,743)**
Cash patronage declared					**(241,079)**		**(241,079)**
Retained earnings retired				**(36)**			**(36)**
Balance at December 31, 2015	**$ 115,000**	**$ 307,483**	**$ 39,988**	**$ 656**	**$ 1,731,972**	**$ 59,922**	**$ 2,255,021**

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

Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2015	2014	2013
Cash flows from operating activities:			
Net income	**$ 336,808**	$ 380,349	$ 457,336
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	**8,278**	7,791	6,858
Premium amortization (discount accretion) on investment securities	**7,427**	9,358	12,983
(Premium amortization) discount accretion on bonds and notes payable	**9,332**	6,289	6,462
Provision for (reversal of allowance for) loan losses	**(3,157)**	(8,451)	(10,589)
(Gains) losses on other property owned, net	**318**	(939)	(519)
Net impairment losses on investments	**1,658**	1,452	2,619
(Gains) losses on investments, net	**(1,126)**	(53)	(7,592)
(Gains) losses on other transactions	**114**	16	(868)
Net change in loans held for sale	**10,096**	9,507	23,590
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**1,789**	97	9,479
(Increase) decrease in accounts receivable	**26,207**	(42,931)	20,324
(Increase) decrease in other assets	**(67)**	2,478	(2,634)
Increase (decrease) in accrued interest payable	**8,965**	(6,684)	13,378
Increase (decrease) in accounts payable	**10,709**	5,080	(12,531)
Increase (decrease) in other liabilities	**(619)**	4,304	1,835
Total adjustments	**79,924**	(12,686)	62,795
Net cash provided by (used in) operating activities	**416,732**	367,663	520,131
Cash flows from investing activities:			
Investment securities purchased	**(1,958,045)**	(1,722,885)	(1,842,621)
Investment securities sold or matured	**1,809,144**	1,457,090	2,091,160
Net (increase) decrease in loans	**(1,268,582)**	(703,691)	(43,195)
(Increase) decrease in investments in other Farm Credit System institutions	**113**	(467)	(743)
Purchase of premises and equipment, net	**(3,761)**	(21,684)	(17,814)
Proceeds from sale of other property owned	**3,121**	9,420	25,857
Net cash provided by (used in) investing activities	**(1,418,010)**	(982,217)	212,644
Cash flows from financing activities:			
Bonds and notes issued	**26,505,552**	22,226,973	21,360,156
Bonds and notes retired	**(25,357,653)**	(21,596,321)	(21,415,057)
Capital stock and participation certificates issued/(retired), net	**2,532**	(7,111)	(24,665)
Cash distribution to shareholders	**(315,260)**	(343,629)	(186,203)
Redemption of perpetual preferred stock	**(6,842)**	—	(150,000)
Dividends paid on perpetual preferred stock	**(1,743)**	(1,729)	(6,347)
Retained earnings retired	**(36)**	(34)	(69)
Net cash provided by (used in) financing activities	**826,550**	278,149	(422,185)
Net increase (decrease) in cash and cash equivalents	**(174,728)**	(336,405)	310,590
Cash and cash equivalents, beginning of period	**847,350**	1,183,755	873,165
Cash and cash equivalents, end of period	**$ 672,622**	$ 847,350	$ 1,183,755
Supplemental schedule of non-cash investing and financing activities:			
Receipt of property in settlement of loans	**$ 14,042**	$ 1,668	$ 15,482
Change in unrealized gains (losses) on investments, net	**(42,662)**	6,949	(73,849)
Employee benefit plans adjustments	**(1,045)**	1,707	(1,149)
Non-cash changes related to interest rate hedging activities:			
Increase (decrease) in bonds and notes	**$ (11,093)**	$ (11,248)	$ (13,870)
Decrease (increase) in other assets	**11,093**	11,248	13,870
Supplemental information:			
Interest paid	**$ 230,783**	$ 210,025	$ 177,333

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

Notes to the Financial Statements

Note 1 — Organization and Operations

Organization: AgFirst Farm Credit Bank (the Bank or AgFirst) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers. The Bank is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of Ohio, Tennessee, Kentucky and Louisiana.

AgFirst is a lending institution in the Farm Credit System (the System), a nationwide network of cooperatively owned banks, associations and related service organizations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the 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. The System Banks obtain a substantial majority of the funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion from internally generated earnings, the issuance of common and preferred stock and, to a lesser extent, the issuance of subordinated debt.

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, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As of year end, the AgFirst District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (FCSIC) 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 FCSIC to provide assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the Associations, 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 FCSIC at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC 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.

Premiums are charged based upon each bank's pro rata share of outstanding Insured Debt. Premiums of up to 20 basis points on adjusted Insured Debt obligations can be assessed along with a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments. For 2015, 2014 and 2013, the premium was 13, 12, and 10 basis points, respectively. Effective January 1, 2016, the premium was increased to 16 basis points, and will increase to 18 basis points effective July 1, 2016.

AgFirst, in conjunction with other System Banks, jointly owns organizations that were created to provide a variety of services for the System:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) – provides for the issuance, marketing and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- FCS Building Association – leases premises and equipment to the FCA.
- Farm Credit System Association Captive Insurance Company – being a reciprocal insurer, provides insurance services to its member organizations.

In addition, the Farm Credit Council acts as a full-service federated trade association, which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

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

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

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 lending agreement 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 loan funds, 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 interest charges to the Associations, or in some cases billed directly to certain Associations that use a specific service.

The Bank is also authorized to provide, in participation with other lenders and the secondary market, 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 Bank may also lend to other financial institutions qualified to engage in lending to eligible borrowers.

Note 2 — Summary of Significant Accounting Policies

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

The accompanying Financial Statements include the accounts of the Bank, and reflect the investments in and allocated earnings of the service organizations in which the Bank has partial ownership interests.

Certain amounts in the prior year 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.

A. **Cash and Cash Equivalents:** Cash and Cash Equivalents include cash on hand and short-term investments with original maturities of three months or less.

B. **Loans and Allowance for Loan Losses:** The loan portfolio includes Direct Notes, loan participations/syndications purchased, Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to OFIs.

   Long-term real estate mortgage loans generally have original maturities up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

   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 is deferred as part of the carrying amount of the loan and the net difference is 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 or more (unless adequately secured 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) and/or charged against the allowance for loan losses (if accrued in prior years).

   When loans are in nonaccrual status, 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, the interest portion of payments received in cash is generally recognized as interest income. Otherwise, loan payments are applied against the recorded investment in the loan asset. 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 at the time they are determined to be uncollectible.

   In cases where a borrower experiences financial difficulties and the Bank makes certain monetary concessions to the borrower through modifications 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 Bank 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 Bank 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.

   Certain loan pools acquired from several of the District Associations are analyzed in accordance with the selling Association's allowance methodologies for assigning general and specific allowances.

   The Bank 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 Bank's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Bank 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 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 or into a securitization 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 Losses (Gains) from Other Property Owned in the 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, which range from 3 to 40 years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements that extend the useful life of the asset 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 Bank holds investments and investment securities as described below.

Investments in Other Farm Credit System 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. These investments are accounted for using the cost method and are analyzed for impairment similar to investment securities as discussed in the section below.

Investment Securities
The Bank 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 Bank has the intent and ability to hold to maturity are classified as held-to-maturity 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 Bank 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. 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 Bank 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 Bank 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 Bank will record an additional other-than-temporary impairment (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.

G. **Debt Issuance Cost:** Direct expenses incurred in issuing debt and mandatorily redeemable preferred stock are deferred and amortized using the straight-line method (which approximates the interest method) over the term of the related indebtedness or term of the mandatorily redeemable preferred stock.

H. **Employee Benefit Plans:** Employees participate in District and multi-District sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

Defined Contribution Plans
Substantially all employees are eligible to participate in a defined contribution 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 plan are expensed as funded.

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

Multi-Employer Defined Benefit Plans
Certain employees may participate in one or more defined benefit plans. The Plans are noncontributory and include eligible Bank 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 Bank over the cost allocated to the Bank is reflected as prepaid retirement expense, a component of Other Assets in the Bank's Balance Sheets.

The Bank provides certain health care and life insurance benefits for retired employees (Other Postretirement Benefits) through a retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Bank. Certain charges related to this plan are an allocation of District charges based on the Bank'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 Bank over the amounts funded by the Bank is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Bank's Balance Sheets.

Since the foregoing plans are multi-employer, the Bank does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in their 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 in the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

Single Employer Defined Benefit Plans
The Bank also sponsors a defined benefit postretirement plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Bank 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 Bank 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 or tax-exempt entity.

J. **Derivative Instruments and Hedging Activity:** The Bank is party to derivative financial instruments, primarily interest rate swaps, which are principally used to reduce funding costs. The Bank may also enter into forward contracts to create a fixed purchase price. Derivatives are included in the Balance Sheets as assets and liabilities and reflected at fair value.

Changes in the fair value of a derivative are recorded in current period earnings or Accumulated Other Comprehensive Income (AOCI) depending on the risk being hedged. For fair-value hedge transactions, which hedge changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value and changes reported in earnings. For cash-flow hedge transactions, which hedge the variability of future cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in AOCI. The gains and losses on the derivative that are deferred and reported in AOCI will be reclassified into earnings in the periods during which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recorded in current period earnings. For derivatives not designated as a hedging instrument, if any, the related change in fair value is recorded in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. The Bank also formally assesses at the hedge's inception whether the derivatives that are used in hedging transactions will be highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Bank uses regression analysis (or other statistical analysis) to assess the effectiveness of its hedges on an ongoing basis. The Bank discontinues hedge accounting prospectively when the Bank determines that a derivative has not been or is not expected to be effective as a hedge. For cash flow hedges, any remaining AOCI would be amortized into earnings over the remaining life of the original hedged item. For fair value hedges, changes in the fair value of the derivative would be recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

The Bank may occasionally purchase a financial instrument in which a derivative instrument is "embedded." Upon purchasing the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and may be designated as either a fair value or cash flow hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

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 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter 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 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Level 3 assets and liabilities could include investments and derivative contracts whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, and other instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets and liabilities could also include investments and derivative contracts whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

The Bank may use 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.

Unfunded commitments, and other 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 Bank 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 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 OCI 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 Bank 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 Bank's financial condition or results of operations.

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 Bank'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 Bank elected early adoption of this ASU. The required reclassifications from Other Assets to Systemwide Bonds Payable for the three years presented, as detailed below, did not result in significant changes in the statements of financial condition or results of operations.

Reduction of Other Assets and Systemwide Bonds Payable due to Reclassification of Debt Issuance Costs

	2015	2014	2013
Amount Reclassified (in millions)	$22.3	$20.3	$23.6

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 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 Bank'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 Bank 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 Bank'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 Bank'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 Bank'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 Bank'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 Bank 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 Bank's financial condition or results of operations, but may result in additional disclosures.

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 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 businesses 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 Bank's financial condition or results of operations.

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 Bank'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 Bank's previously issued 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 Bank'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**
Direct notes	$ 14,280,193	$ –	$ 14,280,193
Real estate mortgage	1,024,693	197,908	1,222,601
Production and intermediate-term	1,193,281	(215,447)	977,834
Loans to cooperatives	223,074	(35,824)	187,250
Processing and marketing	846,318	1,921	848,239
Farm-related business	177,453	(8,626)	168,827
Communication	184,405	124	184,529
Energy and water/waste disposal	433,738	–	433,738
Rural residential real estate	2,424,554	239	2,424,793
International	–	59,705	59,705
Loans to OFIs	95,512	–	95,512
Other (including Mission Related)	10,398	–	10,398
Total Loans	$ 20,893,619	$ –	$ 20,893,619

	December 31, 2013		
(dollars in thousands)	**As Previously Reported**	**Adjustment**	**As Revised**
Direct notes	$ 13,989,392	$ –	$ 13,989,392
Real estate mortgage	971,017	254,466	1,225,483
Production and intermediate-term	1,215,480	(255,168)	960,312
Loans to cooperatives	202,142	(30,454)	171,688
Processing and marketing	610,065	(5,222)	604,843
Farm-related business	141,530	(13,984)	127,546
Communication	198,546	146	198,692
Energy and water/waste disposal	453,361	–	453,361
Rural residential real estate	2,324,956	257	2,325,213
International	–	49,959	49,959
Loans to OFIs	83,116	–	83,116
Other (including Mission Related)	10,844	–	10,844
Total Loans	$ 20,200,449	$ –	$ 20,200,449

For a description of the Bank'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 Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank 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 Bank's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Direct Notes — direct loans to District Associations (see further discussion in Note 1).

- 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 Bank is the lessor.

- Loans to OFIs — loans to other financing institutions with which the Bank has a lending relationship.

- Other (including Mission Related) — In addition to making loans to accomplish the System's Congressionally mandated mission to finance agriculture and rural America, the Bank 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 follows:

	December 31,		
(dollars in thousands)	**2015**	**2014 (as revised)**	**2013 (as revised)**
Direct notes	$ 14,890,580	$ 14,280,193	$ 13,989,392
Real estate mortgage	1,188,460	1,222,601	1,225,483
Production and intermediate-term	1,158,432	977,834	960,312
Loans to cooperatives	217,610	187,250	171,688
Processing and marketing	1,015,066	848,239	604,843
Farm-related business	185,707	168,827	127,546
Communication	238,681	184,529	198,692
Energy and water/waste disposal	468,152	433,738	453,361
Rural residential real estate	2,593,981	2,424,793	2,325,213
International	66,205	59,705	49,959
Loans to OFIs	108,020	95,512	83,116
Other (including Mission Related)	9,864	10,398	10,844
Total Loans	$ 22,140,758	$ 20,893,619	$ 20,200,449

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations. As described in Note 1, these notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to the Bank.

The Bank 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	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct notes	$ –	$ –	$ –	$ 449,660	$ –	$ –	$ –	$ 449,660
Real estate mortgage	963,088	53,072	271,563	54,252	–	–	1,234,651	107,324
Production and intermediate-term	884,552	239,287	550,286	188,962	135,318	10,375	1,570,156	438,624
Loans to cooperatives	6,929	2,070	209,255	–	4,000	–	220,184	2,070
Processing and marketing	113,046	441,053	704,194	274,193	925,387	8,700	1,742,627	723,946
Farm-related business	29,697	58,248	83,593	–	131,023	–	244,313	58,248
Communication	103	100,018	339,329	–	–	–	339,432	100,018
Energy and water/waste disposal	–	15,088	478,822	–	6,137	–	484,959	15,088
Rural residential real estate	–	–	–	–	–	–	–	–
International	–	3,849	70,078	–	–	–	70,078	3,849
Other (including Mission Related)	10,008	–	–	–	–	–	10,008	–
Total	$ 2,007,423	$ 912,685	$ 2,707,120	$ 967,067	$ 1,201,865	$ 19,075	$ 5,916,408	$ 1,898,827

	December 31, 2014 (as revised)							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct notes	$ –	$ –	$ –	$ 210,159	$ –	$ –	$ –	$ 210,159
Real estate mortgage	964,794	46,753	259,504	25,312	14,141	–	1,238,439	72,065
Production and intermediate-term	766,832	188,194	425,815	184,665	143,884	7,500	1,336,531	380,359
Loans to cooperatives	14,604	2,231	169,414	–	6,000	–	190,018	2,231
Processing and marketing	121,934	355,898	534,577	174,020	739,839	5,000	1,396,350	534,918
Farm-related business	36,546	48,072	98,693	–	82,193	–	217,432	48,072
Communication	125	67,861	252,729	–	–	–	252,854	67,861
Energy and water/waste disposal	–	14,622	443,628	–	6,524	–	450,152	14,622
Rural residential real estate	431	–	–	–	–	–	431	–
Other (including Mission Related)	10,545	–	59,839	–	–	–	70,384	–
Total	$ 1,915,811	$ 723,631	$ 2,244,199	$ 594,156	$ 992,581	$ 12,500	$ 5,152,591	$ 1,330,287

	December 31, 2013 (as revised)							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct notes	$ –	$ –	$ –	$ 200,000	$ –	$ –	$ –	$ 200,000
Real estate mortgage	1,043,038	49,318	187,743	39,280	15,607	–	1,246,388	88,598
Production and intermediate-term	821,836	183,175	322,894	189,055	184,176	18,333	1,328,906	390,563
Loans to cooperatives	3,124	4,425	177,024	–	8,000	–	188,148	4,425
Processing and marketing	100,126	294,031	363,984	40,651	505,113	–	969,223	334,682
Farm-related business	30,052	21,075	75,000	–	43,089	–	148,141	21,075
Communication	146	63,728	253,034	–	9,950	–	263,130	63,728
Energy and water/waste disposal	–	22,357	470,753	–	6,870	–	477,623	22,357
Rural residential real estate	458	–	–	–	–	–	458	–
International	–	–	33,249	–	–	–	33,249	–
Other (including Mission Related)	10,911	–	–	–	–	–	10,911	–
Total	2,009,691	638,109	1,883,681	468,986	772,805	18,333	4,666,177	1,125,428

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

	December 31, 2015			
(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Direct notes	$ 612,007	$ 2,962,734	$ 11,315,839	$ 14,890,580
Real estate mortgage	103,989	265,549	818,922	1,188,460
Production and intermediate-term	239,756	661,419	257,257	1,158,432
Loans to cooperatives	31,852	113,798	71,960	217,610
Processing and marketing	25,134	530,670	459,262	1,015,066
Farm-related business	28,430	126,753	30,524	185,707
Communication	22,474	135,156	81,051	238,681
Energy and water/waste disposal	975	169,131	298,046	468,152
Rural residential real estate	29,250	8,779	2,555,952	2,593,981
International	56,501	9,704	–	66,205
Loans to OFIs	98,020	10,000	–	108,020
Other (including Mission Related)	41	64	9,759	9,864
Total Loans	$ 1,248,429	$ 4,993,757	$ 15,898,572	$ 22,140,758
Percentage	5.64%	22.55%	71.81%	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)
Direct notes:			
Acceptable	99.22%	94.71%	85.96%
OAEM	0.78	5.29	9.23
Substandard/doubtful/loss	–	–	4.81
	100.00%	100.00%	100.00%
Real estate mortgage:			
Acceptable	93.16%	86.79%	86.20%
OAEM	3.36	8.05	3.94
Substandard/doubtful/loss	3.48	5.16	9.86
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	91.60%	95.92%	90.98%
OAEM	2.58	1.92	5.30
Substandard/doubtful/loss	5.82	2.16	3.72
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	99.10%	99.30%	100.00%
OAEM	–	0.70	–
Substandard/doubtful/loss	0.90	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	99.24%	99.99%
OAEM	–	–	–
Substandard/doubtful/loss	–	0.76	.01
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	99.59%	99.41%
OAEM	–	0.41	0.59
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	2015	2014 (as revised)	2013 (as revised)
Communication:			
Acceptable	97.15%	96.93%	100.00%
OAEM	2.85	3.07	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Energy and water/waste disposal:			
Acceptable	89.50%	90.96%	100.00%
OAEM	10.50	9.04	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	99.90%	99.92%	99.97%
OAEM	–	–	–
Substandard/doubtful/loss	0.10	0.08	0.03
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Loans to OFIs:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	100.00%	100.00%	96.98%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	3.02
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	98.40%	95.16%	89.00%
OAEM	1.09	4.40	6.89
Substandard/doubtful/loss	0.51	0.44	4.11
	100.00%	100.00%	100.00%

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

	December 31, 2015					
(dollars in thousands)	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
Direct notes	$ –	$ –	$ –	$ 14,921,735	$ 14,921,735	$ –
Real estate mortgage	2,533	4,636	7,169	1,188,698	1,195,867	217
Production and intermediate-term	135	7,485	7,620	1,154,793	1,162,413	–
Loans to cooperatives	–	–	–	218,025	218,025	–
Processing and marketing	–	–	–	1,017,428	1,017,428	–
Farm-related business	–	–	–	186,327	186,327	–
Communication	–	–	–	238,950	238,950	–
Energy and water/waste disposal	–	–	–	469,084	469,084	–
Rural residential real estate	32,286	4,499	36,785	2,563,519	2,600,304	944
International	–	–	–	66,195	66,195	–
Loans to OFIs	–	–	–	108,181	108,181	–
Other (including Mission Related)	–	–	–	9,978	9,978	–
Total	$ 34,954	$ 16,620	$ 51,574	$ 22,142,913	$ 22,194,487	$ 1,161

(dollars in thousands)	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
Direct notes	$ –	$ –	$ –	$ 14,308,680	$ 14,308,680	$ –
Real estate mortgage	3,601	18,041	21,642	1,209,181	1,230,823	306
Production and intermediate-term	2,533	2,647	5,180	976,141	981,321	–
Loans to cooperatives	–	–	–	187,734	187,734	–
Processing and marketing	–	1,229	1,229	848,906	850,135	–
Farm-related business	–	–	–	169,292	169,292	–
Communication	–	–	–	184,691	184,691	–
Energy and water/waste disposal	–	–	–	435,673	435,673	–
Rural residential real estate	34,972	4,155	39,127	2,394,234	2,433,361	2,382
International	–	–	–	59,631	59,631	–
Loans to OFIs	–	–	–	95,646	95,646	–
Other (including Mission Related)	–	–	–	10,516	10,516	–
Total	$ 41,106	$ 26,072	$ 67,178	$ 20,880,325	$ 20,947,503	$ 2,688

(dollars in thousands)	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
Direct notes	$ –	$ –	$ –	$ 14,018,100	$ 14,018,100	$ –
Real estate mortgage	5,859	30,455	36,314	1,196,822	1,233,136	564
Production and intermediate-term	(4,542)	3,629	(913)	964,878	963,965	–
Loans to cooperatives	–	–	–	172,211	172,211	–
Processing and marketing	6	1,229	1,235	605,007	606,242	–
Farm-related business	–	–	–	127,960	127,960	–
Communication	–	–	–	198,867	198,867	–
Energy and water/waste disposal	–	–	–	454,410	454,410	–
Rural residential real estate	38,526	3,057	41,583	2,291,874	2,333,457	1,651
International	–	–	–	50,000	50,000	–
Loans to OFIs	–	–	–	83,228	83,228	–
Other (including Mission Related)	–	–	–	10,965	10,965	–
Total	$ 39,849	$ 38,370	$ 78,219	$ 20,174,322	$ 20,252,541	$ 2,215

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

(dollars in thousands)	December 31, 2015	2014 (as revised)	2013 (as revised)
Nonaccrual loans:			
Real estate mortgage	$ 12,697	$ 39,140	$ 44,416
Production and intermediate-term	9,208	7,240	12,789
Rural residential real estate	4,744	2,786	2,389
Total	$ 26,649	$ 49,166	$ 59,594
Accruing restructured loans:			
Real estate mortgage	$ 6,795	$ 7,203	$ 4,218
Production and intermediate-term	2,046	2,912	–
Rural residential real estate	1,150	976	–
Other (including Mission Related)	4,406	4,497	4,582
Total	$ 14,397	$ 15,588	$ 8,800
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 217	$ 306	$ 564
Rural residential real estate	944	2,382	1,651
Total	$ 1,161	$ 2,688	$ 2,215
Total nonperforming loans	$ 42,207	$ 67,442	$ 70,609
Other property owned	13,411	2,808	9,621
Total nonperforming assets	$ 55,618	$ 70,250	$ 80,230
Nonaccrual loans as a percentage of total loans	0.12%	0.24%	0.30%
Nonperforming assets as a percentage of total loans and other property owned	0.25%	0.34%	0.40%
Nonperforming assets as a percentage of capital	2.47%	3.18%	3.74%

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

(dollars in thousands)	December 31, 2015	2014	2013
Impaired nonaccrual loans:			
Current as to principal and interest	$ 10,054	$ 21,376	$ 23,234
Past due	16,595	27,790	36,360
Total impaired nonaccrual loans	26,649	49,166	59,594
Impaired accrual loans:			
Restructured	14,397	15,588	8,800
90 days or more past due	1,161	2,688	2,215
Total impaired accrual loans	15,558	18,276	11,015
Total impaired loans	$ 42,207	$ 67,442	$ 70,609
Additional commitments to lend	$ 3,857	$ 3,359	$ 2,570

Additional impaired loan information at period end is summarized as follows:

(dollars in thousands)	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	$ 3,427	$ 3,796	$ 378	$ 7,613	$ –
Production and intermediate-term	6,837	16,683	749	9,918	–
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	832	–
Rural residential real estate	168	169	56	147	–
Other (including Mission Related)	4,359	4,313	153	4,310	273
Total	$ 14,791	$ 24,961	$ 1,336	$ 22,820	$ 273
With no related allowance for credit losses					
Real estate mortgage	$ 16,282	$ 19,589	$ –	$ 15,262	$ 1,915
Production and intermediate-term	4,417	5,916	–	6,239	354
Processing and marketing	–	828	–	–	–
Farm-related business	–	–	–	1,454	–
Rural residential real estate	6,670	6,623	–	3,833	184
Other (including Mission Related)	47	48	–	131	2
Total	$ 27,416	$ 33,004	$ –	$ 26,919	$ 2,455
Total					
Real estate mortgage	$ 19,709	$ 23,385	$ 378	$ 22,875	$ 1,915
Production and intermediate-term	11,254	22,599	749	16,157	354
Processing and marketing	–	828	–	–	–
Farm-related business	–	–	–	2,286	–
Rural residential real estate	6,838	6,792	56	3,980	184
Other (including Mission Related)	4,406	4,361	153	4,441	275
Total	$ 42,207	$ 57,965	$ 1,336	$ 49,739	$ 2,728

(dollars in thousands)	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	$ 13,911	$ 22,264	$ 2,605	$ 14,714	$ 52
Production and intermediate-term	4,921	6,441	1,165	6,546	2
Processing and marketing	–	–	–	–	–
Rural residential real estate	89	89	15	123	–
Other (including Mission Related)	4,438	4,451	153	4,074	279
Total	$ 23,359	$ 33,245	$ 3,938	$ 25,457	$ 333
With no related allowance for credit losses					
Real estate mortgage	$ 32,738	$ 45,357	$ –	$ 29,321	$ 205
Production and intermediate-term	5,231	13,073	–	4,812	698
Processing and marketing	–	1,229	–	7	–
Rural residential real estate	6,055	6,003	–	6,341	209
Other (including Mission Related)	59	–	–	503	–
Total	$ 44,083	$ 65,662	$ –	$ 40,984	$ 1,112
Total					
Real estate mortgage	$ 46,649	$ 67,621	$ 2,605	$ 44,035	$ 257
Production and intermediate-term	10,152	19,514	1,165	11,358	700
Processing and marketing	–	1,229	–	7	–
Rural residential real estate	6,144	6,092	15	6,464	209
Other (including Mission Related)	4,497	4,451	153	4,577	279
Total	$ 67,442	$ 98,907	$ 3,938	$ 66,441	$ 1,445

(dollars in thousands)	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	$ 22,774	$ 31,146	$ 6,001	$ 18,870	$ –
Production and intermediate-term	10,079	14,142	2,374	19,177	14
Processing and marketing	–	–	–	5,192	–
Rural residential real estate	–	–	–	169	–
Other (including Mission Related)	4,557	4,535	153	903	–
Total	$ 37,410	$ 49,823	$ 8,528	$ 44,311	$ 14
With no related allowance for credit losses					
Real estate mortgage	$ 26,424	$ 42,670	$ –	$ 27,239	$ 257
Production and intermediate-term	2,710	3,290	–	8,442	374
Processing and marketing	–	1,229	–	2,368	–
Rural residential real estate	4,040	4,040	–	4,338	104
Other (including Mission Related)	25	–	–	347	284
Total	$ 33,199	$ 51,229	$ –	$ 42,734	$ 1,019
Total					
Real estate mortgage	$ 49,198	$ 73,816	$ 6,001	$ 46,109	$ 257
Production and intermediate-term	12,789	17,432	2,374	27,619	388
Processing and marketing	–	1,229	–	7,560	–
Rural residential real estate	4,040	4,040	–	4,507	104
Other (including Mission Related)	4,582	4,535	153	1,250	284
Total	$ 70,609	$ 101,052	$ 8,528	$ 87,045	$ 1,033

Unpaid principal balance represents the contractual principal balance of the loan.

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,		
(dollars in thousands)	**2015**	**2014**	**2013**
Interest income which would have been recognized under the original loan terms	$ 5,238	$ 8,064	$ 8,322
Less: interest income recognized	2,648	1,302	996
Foregone interest income	$ 2,590	$ 6,762	$ 7,326

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as 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):

(dollars in thousands)	Direct Note	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Other**	Total
Activity related to the allowance from credit losses:										
Balance at December 31, 2014	$ –	$ 5,989	$ 3,585	$ 2,785	$ 579	$ 1,332	$ 919	$ 54	$ 292	$ 15,535
Charge-offs	–	(254)	(452)	(757)	–	–	(362)	–	–	(1,825)
Recoveries	–	4,160	–	400	–	–	–	–	–	4,560
Provision for loan losses	–	(4,527)	562	(854)	198	314	1,213	25	(88)	(3,157)
Loan type reclassification	–	(1,753)	1,084	669	–	–	–	–	–	–
Balance at December 31, 2015	$ –	$ 3,615	$ 4,779	$ 2,243	$ 777	$ 1,646	$ 1,770	$ 79	$ 204	$ 15,113
Balance at December 31, 2013	$ –	$ 12,484	$ 5,932	$ 1,867	$ 498	$ 823	$ 1,055	$ 90	$ 159	$ 22,908
Charge-offs	–	(46)	(326)	–	–	–	(188)	–	–	(560)
Recoveries	–	492	908	–	–	–	–	–	238	1,638
Provision for loan losses	–	(6,941)	(2,929)	918	81	509	52	(36)	(105)	(8,451)
Balance at December 31, 2014	$ –	$ 5,989	$ 3,585	$ 2,785	$ 579	$ 1,332	$ 919	$ 54	$ 292	$ 15,535
Balance at December 31, 2012	$ –	$ 26,850	$ 9,593	$ 6,417	$ 406	$ 764	$ 4	$ 127	$ 378	$ 44,539
Charge-offs	–	(8,864)	(631)	(3,782)	–	–	(413)	–	–	(13,690)
Recoveries	–	2,091	190	320	–	–	–	–	47	2,648
Provision for loan losses	–	(7,216)	(3,597)	(1,088)	92	59	1,464	(37)	(266)	(10,589)
Loan type reclassification	–	(377)	377	–	–	–	–	–	–	–
Balance at December 31, 2013	$ –	$ 12,484	$ 5,932	$ 1,867	$ 498	$ 823	$ 1,055	$ 90	$ 159	$ 22,908
Allowance on loans evaluated for impairment:										
Individually	$ –	$ 378	$ 749	$ –	$ –	$ –	$ 56	$ –	$ 153	$ 1,336
Collectively	–	3,237	4,030	2,243	777	1,646	1,714	79	51	13,777
Balance at December 31, 2015	$ –	$ 3,615	$ 4,779	$ 2,243	$ 777	$ 1,646	$ 1,770	$ 79	$ 204	$ 15,113
Individually	$ –	$ 2,605	$ 1,165	$ –	$ –	$ –	$ 15	$ –	$ 153	$ 3,938
Collectively	–	3,384	2,420	2,785	579	1,332	904	54	139	11,597
Balance at December 31, 2014	$ –	$ 5,989	$ 3,585	$ 2,785	$ 579	$ 1,332	$ 919	$ 54	$ 292	$ 15,535
Individually	$ –	$ 6,001	$ 2,374	$ –	$ –	$ –	$ –	$ –	$ 153	$ 8,528
Collectively	–	6,483	3,558	1,867	498	823	1,055	90	6	14,380
Balance at December 31, 2013	$ –	$ 12,484	$ 5,932	$ 1,867	$ 498	$ 823	$ 1,055	$ 90	$ 159	$ 22,908
Recorded investment in loans evaluated for impairment:										
Individually	$ 14,921,735	$ 104,515	$ 11,246	$ –	$ –	$ –	$ 1,785,135	$ –	$ 4,359	$ 16,826,990
Collectively	–	1,091,352	1,151,167	1,421,780	238,950	469,084	815,169	66,195	113,800	5,367,497
Ending balance at December 31, 2015	$ 14,921,735	$ 1,195,867	$ 1,162,413	$ 1,421,780	$ 238,950	$ 469,084	$ 2,600,304	$ 66,195	$ 118,159	$ 22,194,487
Individually	$ 14,308,680	$ 122,839	$ 10,143	$ –	$ –	$ –	$ 1,976,124	$ –	$ 4,438	$ 16,422,224
Collectively	–	1,107,984	971,178	1,207,161	184,691	435,673	457,237	59,631	101,724	4,525,279
Ending balance at December 31, 2014	$ 14,308,680	$ 1,230,823	$ 981,321	$ 1,207,161	$ 184,691	$ 435,673	$ 2,433,361	$ 59,631	$ 106,162	$ 20,947,503
Individually	$ 14,018,100	$ 198,709	$ 35,757	$ 86	$ –	$ –	$ 2,332,989	$ –	$ 4,557	$ 16,590,198
Collectively	–	1,034,427	928,208	906,327	198,867	454,410	468	50,000	89,636	3,662,343
Ending balance at December 31, 2013	$ 14,018,100	$ 1,233,136	$ 963,965	$ 906,413	$ 198,867	$ 454,410	$ 2,333,457	$ 50,000	$ 94,193	$ 20,252,541

**Includes the loan types: Loans to cooperatives, Processing and marketing, and Farm-related business.*
***Includes Loans to OFIs and Mission Related loans.*

To mitigate risk of loan losses, the Bank and Associations may enter into guarantee arrangements with certain government-sponsored enterprises (GSEs), including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Bank or the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $3.479 billion, $3.692 billion, and $3.872 billion at December 31, 2015, 2014, and 2013, respectively. Fees paid for such guarantee commitments totaled $6.6 million, $7.3 million, and $11.0 million for 2015, 2014, and 2013, respectively. These amounts are classified as noninterest expense.

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 modifications that occurred during the periods presented. The tables do not include any purchased credit impaired loans.

(dollars in thousands)	Year Ended December 31, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 3,339	$ –	$ 3,339	
Rural residential real estate	184	507	–	691	
Total	$ 184	$ 3,846	$ –	$ 4,030	
Post-modification:					
Production and intermediate-term	$ –	$ 3,339	$ –	$ 3,339	$ –
Rural residential real estate	187	527	–	714	–
Total	$ 187	$ 3,866	$ –	$ 4,053	$ –

(dollars in thousands)	Year Ended December 31, 2014 (as revised)				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 293	$ –	$ 293	
Production and intermediate-term	–	6,652	–	6,652	
Total	$ –	$ 6,945	$ –	$ 6,945	
Post-modification:					
Real estate mortgage	$ –	$ 293	$ –	$ 293	$ –
Production and intermediate-term	–	6,652	–	6,652	–
Total	$ –	$ 6,945	$ –	$ 6,945	$ –

(dollars in thousands)	Year Ended December 31, 2013 (as revised)				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 15,575	$ 2,488	$ –	$ 18,063	
Other (including Mission Related)	–	4,535	–	4,535	
Total	$ 15,575	$ 7,023	$ –	$ 22,598	
Post-modification:					
Real estate mortgage	$ 10,365	$ 2,488	$ –	$ 12,853	$ (7,824)
Production and intermediate-term	2,499	–	–	2,499	–
Other (including Mission Related)	–	4,535	–	4,535	–
Total	$ 12,864	$ 7,023	$ –	$ 19,887	$ (7,824)

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

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Year Ended December 31,		
(dollars in thousands)	**2015**	**2014 (as revised)**	**2013 (as revised)**
Defaulted troubled debt restructurings:			
Real estate mortgage	$ –	$ 503	$ –
Rural residential real estate	904	–	–
Total	$ 904	$ 503	$ –

The following table provides information at each 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,		
(dollars in thousands)	2015	2014 (as revised)	2013 (as revised)	2015	2014 (as revised)	2013 (as revised)
Real estate mortgage	$ 14,881	$ 23,588	$ 23,623	$ 8,086	$ 16,385	$ 19,405
Production and intermediate-term	9,891	5,546	8,631	7,845	2,634	8,631
Processing and marketing	–	–	–	–	–	–
Rural residential real estate	2,202	1,727	–	1,052	751	–
Other (including Mission Related)	4,406	4,497	4,582	–	–	–
Total	$ 31,380	$ 35,358	$ 36,836	$ 16,983	$ 19,770	$ 28,036
Additional commitments to lend	$ 3,263	$ 2,893	$ 2,325			

The following table presents foreclosure information as of period end:

(dollars in thousands)	December 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 723
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ –

Note 4 — Investments

Investments in Other Farm Credit System 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.

Investment Securities

AgFirst's investments consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential and commercial mortgages. They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

Included in the available-for-sale investments are non-agency collateralized mortgage obligations (CMOs) and asset backed securities (ABSs). These securities must meet the applicable FCA regulatory guidelines, which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance. All of the non-agency securities owned have one or more credit enhancement features.

The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to provide notification to the FCA when a security becomes ineligible. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at December 31, 2015 had a fair value of $125.9 million and $31.6 million, respectively.

Held-to-maturity investments consist of Mission Related Investments, acquired primarily under the Rural Housing Mortgage-Backed Securities (RHMS) and Rural America Bond (RAB) pilot programs. RHMS must be fully guaranteed by a government agency or government sponsored enterprise. RABs are private placement securities, which generally have some form of credit enhancement.

In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At December 31, 2015, the Bank held one Rural America Bond whose credit quality had deteriorated beyond the program limits.

Effective December 31, 2014, the FCA ended each pilot program approved after 2004 as part of the Investment in Rural America initiative. 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. The FCA can consider future participation in these programs on a case-by-case basis.

An agreement with a commercial bank requires AgFirst to maintain $50.0 million as a compensating balance. In 2015, the Bank purchased $42.4 million in U.S. Treasury securities which are held for that purpose. The remainder of the compensating balance is held in cash in a demand deposit account. These securities are excluded when calculating the amount of eligible liquidity investments.

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments at each period end follows:

	December 31, 2015				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Treasury Securities	$ 42,405	$ –	$ –	$ 42,405	0.68%
U.S. Govt. Guaranteed	3,924,073	55,715	(9,198)	3,970,590	1.69
U.S. Govt. Agency Guaranteed	2,123,526	16,050	(7,688)	2,131,888	0.98
Non-Agency CMOs (a)	140,516	51	(13,707)	126,860	0.75
Non-Agency ABSs	653,606	25,084	(1,321)	677,369	1.24
Total	$ 6,884,126	$ 96,900	$ (31,914)	$ 6,949,112	1.40%

(dollars in thousands)	December 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 3,774,428	$ 91,316	$ (6,538)	$3,859,206	1.85%
U.S. Govt. Agency Guaranteed	2,400,460	21,608	(6,537)	2,415,531	0.84
Non-Agency CMOs (b)	171,290	23	(18,302)	153,011	0.64
Non-Agency ABSs	300,594	26,523	(446)	326,671	0.87
Total	$ 6,646,772	$ 139,470	$ (31,823)	$6,754,419	1.41%

(dollars in thousands)	December 31, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 4,499,265	$ 109,799	$ (5,992)	$4,603,072	1.97%
U.S. Govt. Agency Guaranteed	1,741,732	20,351	(14,463)	1,747,620	1.04
Non-Agency CMOs (c)	200,246	18	(26,778)	173,486	0.63
Non-Agency ABSs	20,979	18,502	(683)	38,798	6.38
Total	$ 6,462,222	$ 148,670	$ (47,916)	$6,562,976	1.69%

(a) *Gross unrealized losses included non-credit related other-than-temporary impairment included in AOCI of $9.2 million for Non-Agency CMOs.*

(b) *Gross unrealized losses included non-credit related other-than temporary impairment included in AOCI of $13.1 million for Non-Agency CMOs.*

(c) *Gross unrealized losses included non-credit related other-than temporary impairment included in AOCI of $19.7 million for Non-Agency CMOs.*

Held-to-maturity

A summary of the amortized cost and fair value of debt securities held as held-to-maturity investments at each period end follows:

(dollars in thousands)	December 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 465,073	$ 14,891	$ (5,978)	$ 473,986	3.50%
RABs and Other	97,625	5,945	(792)	102,778	6.06
Total	$ 562,698	$ 20,836	$ (6,770)	$ 576,764	3.94%

(dollars in thousands)	December 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 535,299	$ 22,151	$ (4,164)	$ 553,286	3.63%
RABs and Other	124,221	9,828	(365)	133,684	6.01
Total	$ 659,520	$ 31,979	$ (4,529)	$ 686,970	4.07%

(dollars in thousands)	December 31, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 449,938	$ 22,065	$ (16,819)	$ 455,184	4.23%
RABs and Other (a)	139,874	7,619	(3,076)	144,417	6.02
Total	$ 589,812	$ 29,684	$ (19,895)	$ 599,601	4.65%

(a) *Gross unrealized losses included no non-credit related other-than-temporary impairment in AOCI of $56 thousand for RABs and Other.*

Proceeds from sales and realized gains and losses on all sales of investment securities are as follows:

(dollars in thousands)	Year Ended December 31, 2015	2014	2013
Proceeds from sales	$ 29,084	$ 2,713	$ 122,165
Realized gains	1,126	53	7,592
Realized losses	–	–	–

A summary of the contractual maturity, estimated fair value, and amortized cost of investment securities at December 31, 2015 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Treasury Securities	$ 12,473	0.30 %	$ 29,932	0.84 %	$ –	– %	$ –	– %	$ 42,405	0.68 %
U.S. Govt. Guaranteed	–	–	5	0.47	96,260	0.78	3,874,325	1.71	3,970,590	1.69
U.S. Govt. Agency Guaranteed	29	0.04	198,600	1.12	149,293	0.96	1,783,966	0.97	2,131,888	0.98
Non-Agency CMOs	–	–	–	–	989	0.99	125,871	0.75	126,860	0.75
Non-Agency ABSs	6,545	0.57	639,216	0.83	–	–	31,608	40.51	677,369	1.24
Total fair value	$ 19,047	0.40 %	$ 867,753	0.89 %	$ 246,542	0.89 %	$ 5,815,770	1.51 %	$ 6,949,112	1.40 %
Total amortized cost	$ 19,049		$ 868,609		$ 246,358		$ 5,750,110		$ 6,884,126	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ –	– %	$ 156	4.46 %	$ –	– %	$ 464,917	3.50 %	$ 465,073	3.50 %
RABs and Other	–	–	16,452	5.81	40,778	6.26	40,395	5.97	97,625	6.06
Total amortized cost	$ –	– %	$ 16,608	5.80 %	$ 40,778	6.26 %	$ 505,312	3.69 %	$ 562,698	3.94 %
Total fair value	$ –		$ 17,358		$ 42,936		$ 516,470		$ 576,764	

A substantial portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities will 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. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following tables show the fair value and gross unrealized losses for all investments that have been 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		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 1,110,754	$ (5,606)	$ 449,637	$ (3,592)	$ 1,560,391	$ (9,198)
U.S. Govt. Agency Guaranteed	925,228	(6,849)	478,018	(6,817)	1,403,246	(13,666)
Non-Agency CMOs	753	(2)	121,417	(13,705)	122,170	(13,707)
Non-Agency ABSs	600,067	(955)	2,064	(366)	602,131	(1,321)
RABs and Other	10,644	(614)	3,604	(178)	14,248	(792)
Total	$ 2,647,446	$ (14,026)	$ 1,054,740	$ (24,658)	$ 3,702,186	$ (38,684)

	December 31, 2014					
	Less than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 679,802	$ (2,094)	$ 504,943	$ (4,444)	$ 1,184,745	$ (6,538)
U.S. Govt. Agency Guaranteed	504,898	(1,306)	816,972	(9,395)	1,321,870	(10,701)
Non-Agency CMOs	14,324	(647)	137,670	(17,655)	151,994	(18,302)
Non-Agency ABSs	181,809	(178)	2,068	(268)	183,877	(446)
RABs and Other	–	–	21,084	(365)	21,084	(365)
Total	$ 1,380,833	$ (4,225)	$ 1,482,737	$ (32,127)	$ 2,863,570	$ (36,352)

	December 31, 2013					
	Less than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 880,174	$ (4,540)	$ 146,638	$ (1,452)	$ 1,026,812	$ (5,992)
U.S. Govt. Agency Guaranteed	935,615	(23,928)	380,282	(7,354)	1,315,897	(31,282)
Non-Agency CMOs	–	–	173,289	(26,778)	173,289	(26,778)
Non-Agency ABSs	–	–	7,915	(683)	7,915	(683)
RABs and Other	42,919	(2,745)	2,282	(331)	45,201	(3,076)
Total	$ 1,858,708	$ (31,213)	$ 710,406	$ (36,598)	$ 2,569,114	$ (67,811)

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 Bank 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 Bank 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 Bank performs periodic credit reviews, including other-than-temporary impairment (OTTI) analyses, on its investment securities 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 Bank 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 Bank obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party.

Following are the assumptions used for the periods presented:

Assumptions Used	MBSs	ABSs
December 31, 2015		
Default rate by range	1.24% to 25.28%	24.03% to 39.76%
Prepayment rate by range	3.11% to 15.56%	2.35% to 10.41%
Loss severity by range	4.37% to 59.66%	86.04% to 100.65%
December 31, 2014		
Default rate by range	0.83% to 31.49%	6.72% to 52.16%
Prepayment rate by range	6.17% to 16.72%	5.36% to 12.04%
Loss severity by range	4.37% to 68.03%	64.72% to 100.00%
December 31, 2013		
Default rate by range	0.46% to 46.36%	7.77% to 61.91%
Prepayment rate by range	4.59% to 10.37%	5.02% to 15.08%
Loss severity by range	4.16% to 64.28%	57.46% to 100.00%

Based on the results of all analyses, the Bank has recognized credit-related OTTI of $1.7 million for 2015, which is included in Net Other-than-temporary Impairment Losses in the Statements of Income. Since the Bank does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total OTTI is reflected in the Statements of Income with: (1) a net OTTI amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from OCI.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings for which a portion of an other-than-temporary impairment was recognized in other comprehensive income:

	For the Year Ended December 31,		
(dollars in thousands)	2015	2014	2013
Amount related to credit loss-beginning balance	$ 57,459	$ 57,131	$ 55,654
Additions for initial credit impairments	–	–	408
Additions for subsequent credit impairments	1,658	1,452	2,211
Reductions for increases in expected cash flows	(2,425)	(786)	(1,042)
Reductions for securities sold/settled/matured	–	(338)	(100)
Amount related to credit loss-ending balance	56,692	57,459	57,131
Life to date incurred credit losses	(21,026)	(19,217)	(19,404)
Remaining unrealized credit losses	$ 35,666	$ 38,242	$ 37,727

For all other impaired investments, the Bank has not recognized any credit losses as the impairments are deemed temporary and result from non-credit related factors. The Bank has the ability and intent to hold these 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. Substantially all of these investments were in U.S. government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consisted of the following:

	December 31,		
(dollars in thousands)	2015	2014	2013
Land	$ 11,469	$ 11,460	$ 11,353
Buildings and improvements	41,695	41,313	28,172
Furniture and equipment	61,833	60,797	56,240
Work in progress	242	934	15,952
	115,239	114,504	111,717
Less: accumulated depreciation	53,188	47,936	59,118
Total	$ 62,051	$ 66,568	$ 52,599

Other Property Owned

Net losses (gains) from other property owned and held for sale consisted of the following:

	December 31,		
(dollars in thousands)	2015	2014	2013
Losses (gains) on sale, net	$ –	$ (2,882)	$ (5,420)
Carrying value adjustments	318	1,943	4,901
Operating (income) expense, net	17	531	225
Net Total	$ 335	$ (408)	$ (294)

There were no deferred gains on sales of other property owned at December 31, 2015 and 2014. At December 31, 2013, deferred gains on sales of other property owned totaled $2.4 million. Gains were deferred as the sales involved financing from the Bank and did not meet the criteria for immediate recognition.

Note 6 — Debt

Bonds and Notes

AgFirst, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued jointly by the System banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks. The System banks and the Funding Corporation have entered into the Second Amended and Restated Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liabilities. At December 31, 2015, AgFirst was in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

In accordance with FCA regulations, each issuance of Systemwide Debt Securities ranks equally with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the following types of Systemwide Debt Securities:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes,
- Federal Farm Credit Banks Global Debt Securities, and
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes.

Additional information regarding Systemwide Debt Securities can be found in their respective offering circulars.

The following table provides a summary of AgFirst's recorded liability for outstanding Systemwide Debt Securities by maturity. Weighted average interest rates include the effect of related derivative financial instruments.

	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
			(dollars in thousands)			
2016	$ 4,204,985	0.58%	$ 5,633,413	0.31%	$ 9,838,398	0.43%
2017	5,867,489	0.63	–	–	5,867,489	0.63
2018	4,007,102	0.84	–	–	4,007,102	0.84
2019	2,001,643	1.48	–	–	2,001,643	1.48
2020	1,501,562	1.77	–	–	1,501,562	1.77
2021 and after	4,756,913	2.64	–	–	4,756,913	2.64
Total	$ 22,339,694	1.24%	$ 5,633,413	0.31%	$ 27,973,107	1.05%

Discount notes are issued with maturities of one year or less. The average maturity of discount notes at December 31, 2015 was 103 days.

Systemwide debt includes callable bonds consisting of the following:

Amortized Cost	First Call Date	Year of Maturity
(dollars in thousands)		
$ 12,882,546	2016	2016 – 2030
$ 12,882,546	Total	

Most callable debt may be called on the first call date and any time thereafter.

As described in Note 1, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide Debt Securities (Insured Debt) of System banks to the extent net assets are available in the Insurance Fund and not designated for specific use. All other liabilities on the financial statements are uninsured. At December 31, 2015, the assets of the Insurance Fund aggregated $4.039 billion; however, due to the other authorized uses of the Insurance Fund there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal or interest on an Insured Debt obligation in the event of a default by any System bank having primary liability thereon.

Note 7 — Shareholders' Equity

Descriptions of the Bank's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

A. **Description of Equities:** In accordance with the Farm Credit Act and the Bank's capitalization bylaws, the Bank is authorized to issue and have outstanding Classes B, C, and D Common Stock, Participation Certificates, Preferred Stock, and other classes of equity as may be provided for in the bylaws. All Common Stock and Participation Certificates have a par or face value of five dollars ($5.00) per share.

The Bank had the following shares of common equities outstanding at December 31, 2015:

		Shares Outstanding (dollars in thousands)	
Class	Protected Status	Number	Aggregate Par Value
B Common/Non-OFI	No	1,371,773	$ 6,859
C Common/Voting	No	56,161,592	280,808
D Common/Nonvoting	No	3,045,816	15,229
Participation Certificates/Nonvoting	No	917,437	4,587
Total Capital Stock and Participation Certificates		61,496,618	$ 307,483

B. **Perpetual Preferred Stock:** On October 14, 2003, AgFirst issued $150.0 million of Perpetual Non-Cumulative Preferred Stock at a par value of $1 thousand per share. Dividends on the stock were non-cumulative and payable on the 15th day of June and December in each year, commencing December 15, 2003, at an annual rate equal to 7.30 percent. In the event dividends were not declared on the preferred stock for payment on any dividend payment date, then such dividends did not cumulate and ceased to accrue and be payable. On or after the dividend payment date in December 2008, AgFirst could, at its option, redeem the preferred stock in whole or in part at any time at the redemption price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption. On May 15, 2013, the Bank redeemed and cancelled the entire $150.0 million of Perpetual Non-Cumulative Preferred Stock issued October 14, 2003. The stock was redeemed at its par value together with accrued and unpaid dividends.

On June 8, 2007, AgFirst issued $250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. Dividends on the stock are non-cumulative and are payable semi-annually in arrears on the 15th day of June and December in each year, commencing December 15, 2007, and ending on June 15, 2012, at an annual rate equal to 6.585 percent of the par value of $1 thousand per share, and will thereafter, commencing September 15, 2012, be payable quarterly in arrears on the 15th day of March, June, September, and December in each year, at an annual rate equal to 3-Month USD LIBOR plus 1.13 percent. In the event dividends are not declared on the Class B, Series 1 Preferred Stock for payment on any dividend payment date, then such dividends shall not accumulate and shall cease to accrue and be payable. The stock may be redeemed on any five-year anniversary of its issuance at a price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption.

In August 2015, the Bank repurchased, through a privately negotiated transaction, and subsequently cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $10.3 million. The effect of the repurchase on shareholders' equity was to reduce preferred stock outstanding by $10.3 million and to increase additional paid-in-capital by $3.4 million.

During 2012, the Bank repurchased, through privately negotiated transactions, and cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $124.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $124.8 million and increase additional paid-in-capital by $36.6 million.

Payment of dividends or redemption price on the Preferred Stock may be restricted if the Bank fails to satisfy applicable minimum capital adequacy, surplus, and collateral requirements.

C. **Capital Stock:** District Associations are required to maintain ownership in the Bank in the form of Class B or Class C Common Stock as determined by the Bank. At December 31, 2015, 2014, and 2013, the Associations' minimum stock requirement was 1.40 percent of Association Direct Note balances, and a stock equalization computation is made annually. The Bank may require additional capital contributions to maintain its capital levels.

Additionally, the Bank has issued Class D Common Stock in connection with participations purchased by the Bank from other System institutions. Class D Common Stock issued in connection with participations has no voting rights. Such Stock may be retired at the discretion of the Board, and if retired, shall be retired at book value not to exceed its par value.

Class D Common Stock shall also be purchased by borrowers eligible to hold it as a condition for obtaining a loan in an amount as may be determined by the Board at its discretion within a range between a minimum of two percent (2.00 percent) of the loan amount or $1 thousand, whichever is less, and a maximum not to exceed ten percent (10.00 percent) of the loan amount. The Bank currently has no such loans outstanding.

D. **Other Equity:** OFIs are required to capitalize their loans at the same level as the District Associations. See section C above.

E. **Order of Priority Upon Impairment or Liquidation:**

Impairment

Net losses, to the extent they exceed unallocated surplus, shall, except as otherwise provided in the Act, be treated as impairing Stock in the following order:

First, Class B Common Stock, Class C Common Stock, Class D Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until such Stock is fully impaired; and

Second, Preferred Stock in proportion to the number of shares of each class and series thereof then issued and outstanding (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in reverse order of priority first to the most junior ranking series and then successively to each next most junior ranking series) and consistent with the terms of each such class or series until such Stock is fully impaired; and

Third, subject to the Act, as amended, and the regulations thereunder, in such manner as shall be determined by the Board.

Liquidation

In the event of liquidation or dissolution of AgFirst, any assets of AgFirst remaining after payment or retirement of all liabilities shall be distributed in the following order or priority:

First, to the holders of Preferred Stock, in proportion to the number of shares of each class and series thereof then issued and outstanding and consistent with the terms of each such series until an amount equal to the liquidation preference provided for in the terms of such series of Preferred Stock has been distributed to such holders (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in order of priority first to the most senior ranking series and then successively to each next most senior ranking series); and

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

Third, in accordance with the memorandum accounting established in the Agreement and Plan of Consolidation between The Farm Credit Bank of Columbia and The Farm Credit Bank of Baltimore, dated as of October 31, 1994; and

Fourth, all remaining assets of AgFirst after such distributions shall be to the extent practicable distributed to all Stockholders and holders of Participation Certificates on a patronage basis.

F. **Regulatory Capitalization Requirements and Restrictions:** FCA's capital adequacy regulations require the Bank to achieve permanent capital of seven percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent permanent capital requirement can lead to the initiation of certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Bank's operations and financial statements. The Bank is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. FCA regulations also require all System institutions to achieve and maintain additional capital adequacy ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and core surplus as a percentage of risk-adjusted assets of three and one-half percent. The Bank's permanent capital, total surplus and core surplus ratios at December 31, 2015 were 20.71 percent, 20.64 percent and 18.48 percent, respectively. The FCA notified AgFirst that the June 2007 issuance of $250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock could be included in core surplus only up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. At December 31, 2015 and 2014, the remaining amount of this preferred stock issuance could be included in core surplus.

Capital adequacy is also evaluated using a ratio of net collateral to total liabilities. FCA requires a minimum net collateral ratio of 103.00 percent. At December 31, 2015, the Bank's net collateral ratio was 106.93 percent. For purposes of calculating this ratio, net collateral is not risk adjusted.

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 Bank has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

G. **Accumulated Other Comprehensive Income:** The following presents activity related to AOCI for the periods presented.

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

	For the Years Ended December 31,		
(dollars in thousands)	**2015**	**2014**	**2013**
Investment Securities:			
Balance at beginning of period	$ 107,647	$ 100,698	$ 174,547
OCI before reclassifications	(43,194)	5,550	(68,876)
Amounts reclassified from AOCI	532	1,399	(4,973)
Net current period OCI	(42,662)	6,949	(73,849)
Balance at end of period	$ 64,985	$ 107,647	$ 100,698
Cash Flow Hedges:			
Balance at beginning of period	$ (548)	$ 289	$ 1,514
OCI before reclassifications	103	214	–
Amounts reclassified from AOCI	(512)	(1,051)	(1,225)
Net current period OCI	(409)	(837)	(1,225)
Balance at end of period	$ (957)	$ (548)	$ 289
Employee Benefit Plans:			
Balance at beginning of period	$ (5,151)	$ (3,444)	$ (4,593)
OCI before reclassifications	644	(1,975)	776
Amounts reclassified from AOCI	401	268	373
Net current period OCI	1,045	(1,707)	1,149
Balance at end of period	$ (4,106)	$ (5,151)	$ (3,444)
Total AOCI:			
Balance at beginning of period	$ 101,948	$ 97,543	$ 171,468
OCI before reclassifications	(42,447)	3,789	(68,100)
Amounts reclassified from AOCI	421	616	(5,825)
Net current period OCI	(42,026)	4,405	(73,925)
Balance at end of period	$ 59,922	$ 101,948	$ 97,543

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

(dollars in thousands)	**2015**	**2014**	**2013**	**Income Statement Line Item**
Investment Securities:				
Sales gains & losses	$ 1,126	$ 53	$ 7,592	Gains (losses) on investments, net
Holding gains & losses	(1,658)	(1,452)	(2,619)	Net other-than-temporary impairment
Net amounts reclassified	(532)	(1,399)	4,973	
Cash Flow Hedges:				
Interest income	409	837	1,225	See Note 14.
Gains (losses) on other transactions	103	214	–	See Note 14.
Net amounts reclassified	512	1,051	1,225	
Employee Benefit Plans:				
Periodic pension costs	(401)	(268)	(373)	See Note 9.
Net amounts reclassified	(401)	(268)	(373)	
Reclassifications for the period	$ (421)	$ (616)	$ 5,825	

(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. See Note 2, *Summary of Significant Accounting Policies*, Section K, *Valuation Methodologies*, for further information.

Estimating the fair value of Investments in Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is carried at cost plus allocated equities.

The classifications within the fair value hierarchy are as follows:

Level 1
Level 1 assets consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. 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 and cash equivalents, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2
The fair value of substantially all investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

Level 2 assets include investments in U.S. government and agency mortgage-backed securities and U.S. agency debt securities, all of which use unadjusted values from third parties or internal pricing models. The underlying loans for these investment securities are residential mortgages. Also included are federal funds sold, securities purchased under resale agreements, and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash, and short-term in nature.

The fair value of derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models which use an income approach. These models incorporate benchmark interest rate curves (primarily the LIBOR swap curve), potential volatilities of future interest rate movements, and other inputs which are observable directly or indirectly in the marketplace. The Bank compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

Collateral liabilities are also considered Level 2. The majority of derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. Face value approximates the fair value of collateral liabilities.

Level 3
Because no active market exists for the Bank's loans, fair value is estimated by discounting the expected future cash flows using interest rates at which similar loans would currently be made to borrowers with similar credit risk. For purposes of determining fair value of accruing loans, the 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, specific issues relating to the collateral and other matters.

In 2009, the Bank began adjusting the pricing it received for the Non-Agency ABS and CMO securities from the third party pricing service with that obtained from an investment analysis consultant due to the inherent illiquidity and dislocation in the market for these bonds. At that time, these securities were also reclassified and reported as Level 3 fair value measurements because of this market unobservable pricing input. Over time, this valuation input was discontinued because of a reduction in volatilities and risk, as measured by the pricing differences and changes over time, for these bonds. Documentation from the third party pricing service indicates market observable inputs, which would be considered Level 2, are used in their valuations of these securities. On June 30, 2015, the Non-Agency ABS and CMO bonds were transferred to Level 2 of the fair value hierarchy.

For other investments, fair value is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

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 primarily 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 Bank'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.

Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between Systemwide Debt Securities and Treasury securities. An appropriate yield-spread is estimated, taking into consideration selling group member (banks and securities dealers) yield indications, observed new GSE debt security pricing, and pricing levels in the related U.S. Dollar (USD) interest rate swap market.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. Except as described above, the Bank had no other transfers of assets or liabilities measured on a recurring basis into or out of Level 1 or Level 2 during the reporting period.

(dollars in thousands)	Non-Agency ABSs	Non-Agency CMOs
Balance at December 31, 2014	$ 34,783	$ 153,011
Gains/(Losses) included in earnings	–	(213)
Gains/(Losses) included in OCI	(153)	1,910
Purchases	–	–
Sales	–	–
Settlements	(1,088)	(13,909)
Transfers in and/or out of Level 3	(33,542)	(140,799)
Balance at December 31, 2015	$ –	$ –

(dollars in thousands)	Non-Agency ABSs	Non-Agency CMOs
Balance at December 31, 2013	$ 38,798	$ 173,486
Gains/(Losses) included in earnings	–	(1,321)
Gains/(Losses) included in OCI	8,405	8,481
Purchases	–	–
Sales	–	–
Settlements	(12,420)	(27,635)
Transfers in and/or out of Level 3	–	–
Balance at December 31, 2014	$ 34,783	$ 153,011

(dollars in thousands)	Non-Agency ABSs	Non-Agency CMOs
Balance at December 31, 2012	$ 33,390	$ 204,699
Gains/(Losses) included in earnings	(106)	(2,174)
Gains/(Losses) included in OCI	10,648	14,720
Purchases	–	–
Sales	–	–
Settlements	(5,134)	(43,759)
Transfers in and/or out of Level 3	–	–
Balance at December 31, 2013	$ 38,798	$ 173,486

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					
(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Treasury Securities	$ 42,405	$ –	$ 42,405	$ –	$ 42,405	
U.S. Govt. Guaranteed	3,970,590	–	3,970,590	–	3,970,590	
U.S. Govt. Agency Guaranteed	2,131,888	–	2,131,888	–	2,131,888	
Non-Agency CMOs	126,860	–	126,860	–	126,860	
Non-Agency ABSs	677,369	–	677,369	–	677,369	
Total investments available-for-sale	6,949,112	–	6,949,112	–	6,949,112	
Federal funds sold, securities purchased under resale agreements, and other	211,554	–	211,554	–	211,554	
Interest rate swaps and other derivative instruments	5,174	–	5,174	–	5,174	
Assets held in trust funds	8,697	8,697	–	–	8,697	
Recurring Assets	$ 7,174,537	$ 8,697	$ 7,165,840	$ –	$ 7,174,537	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 40,871	$ –	$ –	$ 40,871	$ 40,871	$ 5,337
Other property owned	13,411	–	–	15,180	15,180	(318)
Nonrecurring Assets	$ 54,282	$ –	$ –	$ 56,051	$ 56,051	$ 5,019
Other Financial Instruments						
Assets:						
Cash	$ 461,068	$ 461,068	$ –	$ –	$ 461,068	
Investments held to maturity	562,698	–	473,986	102,778	576,764	
Loans	22,084,774	–	–	22,029,490	22,029,490	
Other Financial Assets	$ 23,108,540	$ 461,068	$ 473,986	$ 22,132,268	$ 23,067,322	
Liabilities:						
Systemwide debt securities	$ 27,973,107	$ –	$ –	$ 27,956,673	$ 27,956,673	
Other Financial Liabilities	$ 27,973,107	$ –	$ –	$ 27,956,673	$ 27,956,673	

(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
	At or for the Year Ended December 31, 2014					
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 3,859,206	$ –	$ 3,859,206	$ –	$ 3,859,206	
U.S. Govt. Agency Guaranteed	2,415,531	–	2,415,531	–	2,415,531	
Non-Agency CMOs	153,011	–	–	153,011	153,011	
Non-Agency ABSs	326,671	–	291,888	34,783	326,671	
Total investments available-for-sale	6,754,419	–	6,566,625	187,794	6,754,419	
Federal funds sold, securities purchased under resale agreements, and other	224,847	–	224,847	–	224,847	
Interest rate swaps and other derivative instruments	16,267	–	16,267	–	16,267	
Assets held in trust funds	7,689	7,689	–	–	7,689	
Recurring Assets	$ 7,003,222	$ 7,689	$ 6,807,739	$ 187,794	$ 7,003,222	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 63,504	$ –	$ –	$ 63,504	$ 63,504	$ 5,668
Other property owned	2,808	–	–	3,071	3,071	939
Nonrecurring Assets	$ 66,312	$ –	$ –	$ 66,575	$ 66,575	$ 6,607
Other Financial Instruments						
Assets:						
Cash	$ 622,503	$ 622,503	$ –	$ –	$ 622,503	
Investments held to maturity	659,520	–	553,286	133,684	686,970	
Loans	20,814,850	–	–	20,768,834	20,768,834	
Other Financial Assets	$ 22,096,603	$ 622,503	$ 553,286	$ 20,902,518	$ 22,078,307	
Liabilities:						
Systemwide debt securities	$ 26,826,969	$ –	$ –	$ 26,799,032	$ 26,799,032	
Other Financial Liabilities	$ 26,826,969	$ –	$ –	$ 26,799,032	$ 26,799,032	

(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
	At or for the Year Ended December 31, 2013					
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 4,603,072	$ –	$ 4,603,072	$ –	$ 4,603,072	
U.S. Govt. Agency Guaranteed	1,747,620	–	1,747,620	–	1,747,620	
Non-Agency CMOs	173,486	–	–	173,486	173,486	
Non-Agency ABSs	38,798	–	–	38,798	38,798	
Total investments available-for-sale	6,562,976	–	6,350,692	212,284	6,562,976	
Federal funds sold, securities purchased under resale agreements, and other	144,885	–	144,885	–	144,885	
Interest rate swaps and other derivative instruments	27,514	–	27,514	–	27,514	
Assets held in trust funds	6,533	6,533	–	–	6,533	
Recurring Assets	$ 6,741,908	$ 6,533	$ 6,523,091	$ 212,284	$ 6,741,908	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 62,081	$ –	$ –	$ 62,081	$ 62,081	$ 4,577
Other property owned	9,621	–	–	10,387	10,387	519
Nonrecurring Assets	$ 71,702	$ –	$ –	$ 72,468	$ 72,468	$ 5,096
Other Financial Instruments						
Assets:						
Cash	$ 1,038,870	$ 1,038,870	$ –	$ –	$ 1,038,870	
Investments held to maturity	589,812	–	455,184	144,417	599,601	
Loans	20,115,460	–	–	19,937,538	19,937,538	
Other Financial Assets	$ 21,744,142	$ 1,038,870	$ 455,184	$ 20,081,955	$ 21,576,009	
Liabilities:						
Systemwide debt securities	$ 26,201,277	$ –	$ –	$ 25,994,336	$ 25,994,336	
Other Financial Liabilities	$ 26,201,277	$ –	$ –	$ 25,994,336	$ 25,994,336	

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

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

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

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

Derivative Instruments

Level 3 derivative instruments consist of forward contracts that represent a hedge of an unrecognized firm commitment to purchase agency securities at a future date. The value of the forward is the difference between the fair value of the security at inception of the forward and the measurement date. Significant inputs for these valuations would be discount rate and volatility. These Level 3 derivatives would decrease (increase) in value based upon an increase (decrease) in the discount rate.

Generally, for derivative instruments which are subject to changes in the value of the underlying referenced instrument, change in the assumption used for default rate is accompanied by 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 prepayment rates.

Unobservable inputs for discount rate and volatility do not increase or decrease based on movements in other significant unobservable inputs for these Level 3 instruments.

Inputs to Valuation Techniques

Management determines the Bank's valuation policies and procedures. Internal valuation processes are calibrated annually by an independent consultant. Fair value measurements are analyzed on a periodic basis. Documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing.

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

(dollars in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Forward contracts-when issued securities	$ –	Broker/Consensus pricing	Offered quotes	None outstanding
Impaired loans and other property owned	$ 56,051	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Investments available-for-sale	Discounted cash flow	Constant prepayment rate
		Probability of default
		Loss severity
	Quoted prices	Price for similar security
Federal funds sold, securities purchased under resale agreements and other	Carrying value	Par/principal and appropriate interest yield
Interest rate swaps	Discounted cash flow	Annualized volatility
		Counterparty credit risk
		Own credit risk

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Cash and cash equivalents	Carrying value	Par/principal and appropriate interest yield
RABs and other	Discounted cash flow	Risk adjusted spread
		Prepayment rates
		Probability of default
		Loss severity
Assets held in trust funds	Quoted prices	Price for identical security
Bonds and notes	Discounted cash flow	Benchmark yield curve
		Derived yield spread
		Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

Note 9 — Employee Benefit Plans

The Bank 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 Bank 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 Bank chooses to stop participating in some of its multiemployer plans, the Bank may be required to contribute to eliminate the underfunded status of the plan related to its participants.

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.
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 Bank'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 Bank's participation in the multiemployer defined benefit plans for the annual periods ended December 31, 2015, 2014 and 2013 is 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 Bank'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%	$8,441	$5,434	$7,498	14.61%	14.31%	14.90%
AgFirst Farm Credit Cash Balance Retirement Plan	102.72%	100.07%	95.06%	$0.00	$1,318	$469	0.00%	26.48%	26.55%

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%	$937	$1,074	$1,011	13.76%	13.89%	14.55%

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required to be filed. 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 Bank 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 Bank 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. See above for a discussion of changes in the CB Plan. The actuarially-determined costs of these plans are allocated to each participating entity, including the Bank, 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 $8.0 million for 2015, $9.5 million for 2014, and $8.8 million for 2013. The cumulative excess of amounts funded by the Bank over the cost allocated to the Bank is reflected as prepaid retirement expense, a component of Other Assets in the Balance Sheets.

In addition to providing pension benefits, the Bank provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Bank employees may become eligible for the benefits if they reach early retirement age while working for the Bank. 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. Additionally, employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Bank charges related to this plan are an allocation of District charges based on the Bank'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 $1.8 million for 2015, $1.1 million for 2014, and $1.1 million for 2013. The cumulative excess of cost allocated to the Bank over the amounts funded by the Bank is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Bank's Balance Sheets.

The Bank also participates in a defined contribution plan, as described in Note 2, 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 Bank 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 Bank 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 $2.3 million, $1.6 million, and $1.3 million 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.

In addition to the multi-employer plans above, the Bank 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 Bank's Balance Sheets in Other Liabilities. The Bank funded the benefit payments of $577 thousand each year for the years ended December 31, 2015, 2014, and 2013, for the defined benefit supplemental retirement plan. The supplemental retirement plan is unfunded and had a projected benefit obligation of $12.0 million and a net under-funded status of $12.0 million at December 31, 2015. Assumptions used to determine the projected benefit obligation as of December 31, 2015 included a discount rate of 4.60 percent and a rate of compensation increase of 4.50 percent. The expenses of these nonqualified plans included in the Bank's employee benefit costs were $1.1 million, $1.1 million, and $941 thousand for the years ended December 31, 2015, 2014, and 2013, respectively.

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, $1.0 million, $(1.7) million and $1.1 million, respectively, has been recognized as a net credit, a net debit, and a 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 Bank enters into loan transactions with related parties, including but not limited to officers and directors, their immediate families and other organizations with which such persons may be affiliated.

As discussed in Note 1, the Bank lends funds to the District Associations primarily to fund their loan portfolios. Further disclosure regarding these related party transactions is found in Notes 3, 7, and 11.

Interest income recognized on direct notes receivable from District Associations and OFIs was $350.9 million, $327.3 million and $330.7 million for 2015, 2014, and 2013, respectively.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Bank in which claims for money damages are asserted. On at least a quarterly basis, the Bank 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 and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Bank. Because it is not probable that the Bank 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 Bank may participate in credit related financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers or the borrowers of the District Associations. These financial instruments may include commitments to extend credit, letters of credit, or various guarantees. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the 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 financial instruments have off-balance-sheet credit risk because their amounts could be drawn upon at the option of the borrower. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. 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 loan collateral 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, $2.989 billion of commitments to extend credit were outstanding with a related reserve for unfunded commitments of $1.1 million included in Other Liabilities in the Balance Sheets.

The Bank 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 $65.4 million, with expiration dates ranging from January 2016 to December 2020. The maximum potential amount of future payments the Bank may be required to make under these existing guarantees is $65.4 million.

Under the Farm Credit Act, each System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the four banks are jointly and severally liable for the bonds and notes of the other System banks under the terms of the Joint and Several Liability Allocation Agreement. Published in the Federal Register, the agreement prescribes the payment mechanisms to be employed in the event one of the banks is unable to meet its debt obligations.

In the event a bank is unable to timely pay principal or interest on an insured debt obligation for which the bank is primarily liable, the FCSIC must expend amounts in the Insurance Fund to the extent available to ensure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once the joint and several liability provisions are initiated, the FCA is required to make "calls" to satisfy the liability first on all non-defaulting banks in the proportion that each non-defaulting bank's available collateral (collateral in excess of the aggregate of the banks' collateralized obligations) bears to the aggregate available collateral of all non-defaulting banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting bank's remaining assets. Upon making a call on non-defaulting banks with respect to a Systemwide Debt Security issued on behalf of a defaulting bank, the FCA is required to appoint the FCSIC as the receiver for the defaulting bank. The receiver would be required to expeditiously liquidate the bank.

AgFirst did not anticipate making any payments on behalf of its co-obligors under the Joint and Several Liability Allocation Agreement for any of the periods presented. The total amount outstanding and the carrying amount of the Bank's liability under the agreement are as follows:

	December 31,		
(dollars in billions)	2015	2014	2013
Total System bonds and notes	$ 243.335	$ 225.331	$ 207.375
AgFirst bonds and notes	27.973	26.827	26.201

The Bank also guarantees certain loans held by District Associations in the amount of $1.6 million expiring in less than one year. The notional amounts of these guarantees represent the maximum amount of exposure the Bank has related to these instruments as of December 31, 2015.

Note 12 — Income Taxes

The Bank is exempt from federal and other income taxes as provided in the Farm Credit Act.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2015				
(dollars in thousands)	First	Second	Third	Fourth	Total
Net interest income	$ 113,796	$ 113,823	$ 114,208	$ 112,234	$ 454,061
Provision for (reversal of allowance for) loan losses	1,369	(324)	(3,130)	(1,072)	(3,157)
Noninterest income (expense), net	(28,941)	(29,762)	(31,695)	(30,012)	(120,410)
Net income	$ 83,486	$ 84,385	$ 85,643	$ 83,294	$ 336,808

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 116,728	$ 120,975	$ 122,747	$ 123,742	$ 484,192
Provision for (reversal of allowance for) loan losses	549	(2,416)	(2,017)	(4,567)	(8,451)
Noninterest income (expense), net	(27,701)	(28,388)	(26,483)	(29,722)	(112,294)
Net income	$ 88,478	$ 95,003	$ 98,281	$ 98,587	$ 380,349

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 140,284	$ 136,337	$ 131,840	$ 129,597	$ 538,058
Provision for (reversal of allowance for) loan losses	334	(1,814)	(5,732)	(3,377)	(10,589)
Noninterest income (expense), net	(18,762)	(27,319)	(19,508)	(25,722)	(91,311)
Net income	$ 121,188	$ 110,832	$ 118,064	$ 107,252	$ 457,336

Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

	December 31,		
(dollars in thousands)	2015	2014	2013
Other assets:			
Derivative assets	$ 5,174	$ 16,267	27,514
Prepaid retirement expenses	13,336	12,919	15,709
Other	11,902	12,252	11,942
Total	$ 30,412	$ 41,438	$ 55,165
Other liabilities:			
Postretirement benefits other than pensions	$ 16,775	$ 15,916	$ 15,901
Payroll liabilities	6,131	6,719	6,838
Bank drafts payable	7,868	11,250	10,770
Other	23,488	21,967	16,478
Total	$ 54,262	$ 55,852	$ 49,987

Offsetting of Financial and Derivative Assets

	December 31, 2015					
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 5,174	$ –	$ 5,174	$ –	$ –	$ 5,174
Reverse repurchase and similar arrangements	211,554	–	211,554	(211,554)	–	–
Total	$ 216,728	$ –	$ 216,728	$ (211,554)	$ –	$ 5,174

	December 31, 2014					
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 16,267	$ –	$ 16,267	$ –	$ –	$ 16,267
Reverse repurchase and similar arrangements	224,847	–	224,847	(224,847)	–	–
Total	$ 241,114	$ –	$ 241,114	$ (224,847)	$ –	$ 16,267

December 31, 2013						
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 27,514	$ –	$ 27,514	$ (8,589)	$ –	$ 18,925
Reverse repurchase and similar arrangements	144,885	–	144,885	(144,885)	–	–
Total	$ 172,399	$ –	$ 172,399	$ (153,474)	$ –	$ 18,925

There were no liabilities subject to master netting arrangements or similar agreements during the reporting periods.

A description of the rights of setoff associated with recognized derivative assets and liabilities subject to enforceable master netting arrangements is located in Note 14, *Derivative Financial Instruments and Hedging Activities*.

The reverse repurchase agreements are accounted for as collateralized lending.

Combined ACA Only Financial Data (Unaudited)

Condensed financial information for the combined District Associations follows. All significant transactions and balances between the Associations are eliminated in combination.

Combined financial statements of the District Associations and the Bank are included in the AgFirst Farm Credit Bank and District Associations' Annual Report. Eliminations for all significant transactions and balances between the Bank and the District Associations are reflected in the combined financial statements included in that report. In addition, the multiemployer structure of certain of the District's retirement and benefit plans results in the recording of these plans only in the District's combined financial statements.

Balance Sheets	As of December 31,		
(dollars in thousands)	2015	2014	2013
Cash and investment securities	$ 155,625	$ 178,930	$ 189,749
Loans	18,934,719	17,830,639	17,085,679
Allowance for loan losses	(163,504)	(159,317)	(164,529)
Net loans	18,771,215	17,671,322	16,921,150
Other assets	979,153	1,026,453	1,154,217
Total assets	$19,905,993	$ 18,876,705	$18,265,116
Direct note	$15,340,972	$ 14,492,284	$14,191,404
Other liabilities	511,010	524,142	460,363
Total liabilities	15,851,982	15,016,426	14,651,767
Capital stock and participation certificates	192,467	193,495	197,452
Additional paid-in-capital	23,691	23,691	23,691
Retained earnings	3,868,053	3,675,811	3,412,241
Accumulated other comprehensive income (loss)	(30,200)	(32,718)	(20,035)
Total shareholders' equity	4,054,011	3,860,289	3,613,349
Total liabilities and shareholders' equity	$19,905,993	$ 18,876,705	$18,265,116

Statements of Income	Year Ended December 31,		
(dollars in thousands)	2015	2014	2013
Interest income	$ 899,191	$ 874,626	$ 853,451
Interest expense	352,509	328,954	330,827
Net interest income	546,682	545,672	522,624
Provision for (reversal of allowance for) loan losses	3,162	(3,717)	25,277
Net interest income after provision for (reversal of allowance for) loan losses	543,520	549,389	497,347
Noninterest income	276,925	352,657	391,776
Noninterest expenses			
Salaries and employee benefits	266,932	252,239	250,612
Occupancy and equipment	20,121	19,985	19,891
Insurance Fund premiums	17,467	15,608	12,848
Other operating expenses	79,765	77,521	74,851
Losses (gains) from other property owned	3,004	5,355	18,357
Total noninterest expenses	387,289	370,708	376,559
Income (loss) before taxes	433,156	531,338	512,564
Provision for income taxes	595	2,095	1,264
Net income	$ 432,561	$ 529,243	$ 511,300

Note 14 — Derivative Financial Instruments and Hedging Activities

One of the Bank's goals is to minimize interest rate sensitivity by managing the repricing characteristics of assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. The Bank maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to achieve that goal. Currently, the primary derivative type used by the Bank is interest rate swaps, which convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. They may allow the Bank to lower funding costs, diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Under these arrangements, the Bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

The Bank may also purchase interest rate derivatives such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt, and floors, in order to reduce the impact of falling interest rates on its floating-rate assets. In addition, the Bank may also fix a price to be paid in the future which qualifies as a derivative forward contract.

As a result of interest rate fluctuations, interest income and interest expense related to hedged variable-rate assets and liabilities, respectively, will increase or decrease. Another result of interest rate fluctuations is that hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effects of any earnings variability or unrealized changes in market value are expected to be substantially offset by the Bank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The Bank considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The primary type of derivative instrument used and the amount of activity for each year ended is summarized in the following table:

Notional Amounts *(dollars in millions)*	2015 Receive-Fixed Swaps	2015 Forward Contracts	2014 Receive-Fixed Swaps	2014 Forward Contracts	2013 Receive-Fixed Swaps	2013 Forward Contracts
Balance at beginning of period	$ 250	$ 1	$ 250	$ –	$ 360	$ –
Additions	–	4	–	13	–	–
Maturities/amortization	(100)	(5)	–	(12)	(110)	–
Terminations	–	–	–	–	–	–
Balance at end of period	$ 150	$ –	$ 250	$ 1	$ 250	$ –

By using derivative instruments, the Bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Bank, thus creating a repayment risk for the Bank. When the fair value of the derivative contract is negative, the Bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the Bank transacts with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of, and levels of exposure to, individual counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties.

Counterparty exposure related to derivatives at:

(dollars in millions)	December 31, 2015	2014	2013
Estimated Gross Credit Risk	$5.2	$16.3	$27.5
Percent of Notional	3.45%	6.51%	11.01%
Cash Collateral Held *(on balance sheet)*	$–	$–	$–
Securities Collateral Held *(off balance sheet)*	$–	$–	$8.6
Cash Collateral Posted *(off balance sheet)*	$–	$–	$–
Securities Collateral Posted *(on balance sheet)*	$–	$–	$–

The Bank's derivative activities are monitored by its Asset/Liability Management Committee (ALCO) as part of the Committee's oversight of the Bank's asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed within parameters established by the Board of Directors through the analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Bank's overall interest rate risk-management strategies.

Fair-Value Hedges
For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the year ended December 31, 2015 was $11.1 million, while the amount of the gain on the Systemwide Debt Securities was $11.1 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges
From time to time, the Bank may acquire when-issued securities, generally government agency guaranteed bonds. The when-issued transactions are contracts to purchase securities that will not be delivered until 30, or more, days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Any difference in market value of the contracted securities, between the purchase and reporting or settlement date, represent the value of the forward contracts. These amounts are included in OCI, and Other Liabilities or Other Assets as appropriate, as firm commitments in the Bank's Balance Sheet for each period end. At December 31, 2015, 2014, and 2013, the Bank had no commitments to purchase any when-issued bonds.

For derivative instruments that are designated and qualify as a cash flow hedge, such as the Bank's forward contracts, the effective portion of the gain or loss on the derivative is reported as a component of OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Fair Values of Derivative Instruments
The following tables represent the fair value of derivatives designated as hedging instruments at periods ended:

(dollars in thousands)	Balance Sheet Classification Assets	12/31/15 Fair Value	Balance Sheet Classification Liabilities	12/31/15 Fair Value
Receive-fixed swaps	Other Assets	$ 5,174	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 5,174		$ –

(dollars in thousands)	Balance Sheet Classification Assets	12/31/14 Fair Value	Balance Sheet Classification Liabilities	12/31/14 Fair Value
Receive-fixed swaps	Other Assets	$ 16,267	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 16,267		$ –

(dollars in thousands)	Balance Sheet Classification Assets	12/31/13 Fair Value	Balance Sheet Classification Liabilities	12/31/13 Fair Value
Receive-fixed swaps	Other Assets	$ 27,514	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 27,514		$ –

The following table sets forth the amount of net gain (loss) on derivatives recognized in earnings and, for cash flow hedges, the amount of net gain (loss) recognized in AOCI for the periods presented. See Note 7, *Shareholders' Equity*.

(dollars in thousands)	Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income	Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income **			Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)			Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		
		2015	2014	2013	2015	2014	2013	2015	2014	2013
Fair Value Hedges:										
Receive-fixed swaps	Noninterest income	$ –	$ –	$ –						
Cash Flow Hedges:										
Firm Commitments	Interest Income	$ 409	$ 837	$ 1,225	$ –	$ –	$ –	$ –	$ –	$ –
Forward Contracts	Gains (Losses) on Other Transactions	103	214	–	–	–	–	103	214	–

***Represents total gain or loss for fair value hedges and effective portion for cash flow hedges.*

Note 15 — Subsequent Events

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

Effective February 1, 2016, the Bank sold an additional participation interest of approximately $187.0 million in a Direct Note to another System bank, bringing the total amount sold to approximately $650.3 million, or 34.4 percent of the Direct Note.

Glossary of Certain Acronyms

ABO	Accumulated benefit obligation
ABS	Asset backed security
ACA	Agricultural Credit Association
ACB	Agricultural Credit Bank
AFS	Available- for- sale
ALCO	Asset/Liability Management Committee
ALM	Asset and liability management
AOCI	Accumulated Other Comprehensive Income
ARM	Adjustable rate mortgage
ASU	Accounting Standards Update
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
CFTC	Commodity Futures Trading Commission
CIPA	Contractual Interbank Performance Agreement
CMO	Collateralized Mortgage Obligation
EIN	Employee Identification Number
FAMC	Federal Agricultural Mortgage Corporation (Farmer Mac)
FASB	Financial Accounting Standards Board
FCA	Farm Credit Administration
FCB	Farm Credit Bank
FCBA	Farm Credit Benefits Alliance
FCSIC	Farm Credit System Insurance Corporation
FHA	Federal Housing Administration
FHLMC	Federal Home Loan Mortgage Corporation (Freddie Mac)
FIP	Financial improvement plan
FLCA	Federal Land Credit Association
FNMA	Federal National Mortgage Association (Fannie Mae)
FSA	Farm Service Agency
GAAP	Generally Accepted Accounting Principles
GCFI	Gross cash farm income
GFA	General Financing Agreement
GNMA	Government National Mortgage Association (Ginnie Mae)
GSE	Government-sponsored enterprise
HTM	Held to maturity
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
LIBOR	London Inter-Bank Offered Rate
LLC	Limited liability company
MAA	Market Access Agreement
MBS	Mortgage-backed security
MD&A	Management's Discussion and Analysis
NII	Net interest income
NRSRO	Nationally Recognized Statistical Rating Organization
OAEM	Other Assets Especially Mentioned
OCI	Other Comprehensive Income
OFI	Other financing institution
OPO	Other property owned
OTTI	Other-than-temporary impairment
PBO	Projected benefit obligation
PCA	Production Credit Association
PPA	Pension Protection Act
RAB	Rural America Bond
RBIC	Rural Business Investment Company
RHMS	Rural Housing Mortgage-Backed Securities
RP	Rehabilitation plan
SEC	Securities and Exchange Commission
SIIC	Successor-in-Interest Contract
TDR	Troubled debt restructuring
UBE	Unincorporated business entity
USD	U.S. dollar
USDA	United States Department of Agriculture
YBS	Young, beginning, and small