Alabama Farm Credit

2015 ANNUAL REPORT

December 31, 2015

Part of the Farm Credit System

FARM CREDIT 100 ESTABLISHED 1916

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REPORT OF MANAGEMENT

The consolidated financial statements of Alabama Farm Credit, ACA (Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent accountants, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The board of directors has overall responsibility for the Association's systems of internal control and financial reporting. The board consults regularly with management and reviews the results of the audits and examinations referred to previously.

The undersigned certify that we have reviewed this annual report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge or belief.

K. Ben Gore, Chief Executive Officer/President
March 11, 2016

Loyd Rutherford, Chairman, Board of Directors
March 11, 2016

Karri H. Sumrall, Chief Financial Officer/Ex. Vice President
March 11, 2016

John R. Adams, CPA, Chairman, Audit Committee
March 11, 2016

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of John R. Adams, CPA, Larry Don McGee and Matthew Christjohn, DVM, who are directors of Alabama Farm Credit, ACA. In 2015, six committee meetings were held. The committee oversees the scope of Alabama Farm Credit, ACA's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The committee's approved responsibilities are described more fully in the Audit Committee Charter, which is available on request or on Alabama Farm Credit, ACA's website. The committee approved the appointment of PricewaterhouseCoopers LLP for 2015.

Management is responsible for Alabama Farm Credit, ACA's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements are prepared under the oversight of the committee. PricewaterhouseCoopers LLP is responsible for performing an independent audit of Alabama Farm Credit, ACA's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The committee's responsibilities include monitoring and overseeing the processes.

In this context, the committee reviewed and discussed Alabama Farm Credit, ACA's audited consolidated financial statements for the year ended December 31, 2015 (audited consolidated financial statements) with management and PricewaterhouseCoopers LLP. The committee also reviews with PricewaterhouseCoopers LLP the matters required to be discussed by authoritative guidance "The Auditor's Communication With Those Charged With Governance," and both PricewaterhouseCoopers LLP's and Alabama Farm Credit, ACA's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PricewaterhouseCoopers LLP its independence from Alabama Farm Credit, ACA. The committee also reviewed the nonaudit services provided by PricewaterhouseCoopers LLP and concluded that these services were not incompatible with maintaining the independent accountant's independence. The committee has discussed with management and PricewaterhouseCoopers LLP such other matters and received such assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in Alabama Farm Credit, ACA's Annual Report to Stockholders for the year ended December 31, 2015.

John R. Adams, CPA, Chairman
March 11, 2016

Larry Don McGee, Member
March 11, 2016

Matthew Christjohn, DVM, Member
March 11, 2016

ALABAMA FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2015	2014	2013	2012	2011
Balance Sheet Data					
Assets					
Cash	**$ 42**	$ 85	$ 18	$ 27	$ 388
Loans	**624,847**	560,348	487,033	445,769	413,847
Less: allowance for loan losses	**3,782**	3,775	2,697	3,326	2,311
Net loans	**621,065**	556,573	484,336	442,443	411,536
Investment in and receivable from the Farm Credit Bank of Texas	**10,275**	8,982	8,171	7,752	7,193
Other property owned, net	**1,454**	1,503	2,998	3,414	3,143
Other assets	**10,676**	9,736	8,754	8,658	9,068
Total assets	**$ 643,512**	$ 576,879	$ 504,277	$ 462,294	$ 431,328
Liabilities					
Obligations with maturities of one year or less	**$ 12,050**	$ 11,195	$ 9,965	$ 8,494	$ 8,043
Obligations with maturities greater than one year	**533,625**	475,760	409,734	373,419	346,762
Total liabilities	**545,675**	486,955	419,699	381,913	354,805
Members' Equity					
Capital stock and participation certificates	**2,416**	2,263	2,088	2,671	2,524
Unallocated retained earnings	**95,672**	88,200	82,579	78,066	74,129
Accumulated other comprehensive loss	**(251)**	(539)	(89)	(356)	(130)
Total members' equity	**97,837**	89,924	84,578	80,381	76,523
Total liabilities and members' equity	**$ 643,512**	$ 576,879	$ 504,277	$ 462,294	$ 431,328
Statement of Income Data					
Net interest income	**$ 19,204**	$ 17,540	$ 16,171	$ 15,105	$ 13,640
Provision for loan losses	**(198)**	(1,533)	(514)	(1,352)	(1,561)
Income from the Farm Credit Bank of Texas	**2,277**	2,050	1,849	1,730	1,643
Other noninterest income	**335**	1,021	337	820	422
Noninterest expense	**(7,967)**	(7,003)	(7,055)	(7,030)	(6,229)
Net income	**$ 13,651**	$ 12,075	$ 10,788	$ 9,273	$ 7,915
Key Financial Ratios for the Year					
Return on average assets	**2.2%**	2.2%	2.1%	2.1%	1.9%
Return on average members' equity	**14.0%**	13.2%	12.6%	11.4%	10.2%
Net interest income as a percentage of average earning assets	**3.3%**	3.4%	3.5%	3.5%	3.4%
Net charge-offs as a percentage of average loans	**0.0%**	0.1%	0.2%	0.1%	0.2%

ALABAMA FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	2015	2014	2013	2012	2011
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**15.2%**	15.6%	16.8%	17.4%	17.7%
Debt as a percentage of members' equity	**557.7%**	541.5%	496.2%	475.1%	463.7%
Allowance for loan losses as a percentage of loans	**0.6%**	0.7%	0.6%	0.7%	0.6%
Permanent capital ratio	**16.8%**	17.5%	18.8%	19.5%	20.3%
Core surplus ratio	**16.4%**	17.0%	18.3%	18.8%	19.6%
Total surplus ratio	**16.4%**	17.0%	18.3%	18.8%	19.6%
Net Income Distribution					
Patronage dividends:					
Cash	**$ 6,455**	$ 6,275	$ 5,334	$ 4,929	$ 3,637

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of ALABAMA FARM CREDIT, ACA, including its wholly-owned subsidiaries, Alabama Farm Credit, PCA and Alabama Farm Credit, FLCA (Association), for the years ended December 31, 2015, 2014 and 2013, and should be read in conjunction with the accompanying consolidated financial statements. The accompanying financial statements were prepared under the oversight of the Association's audit committee.

Forward-Looking Information:

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

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international and farm-related business sectors;
- weather-related, disease-related and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

Significant Events:

In March 2015, the Association paid patronage distributions in the amount of $6,455,041. This was an increase of $179,720, or 2.9 percent, compared to 2014. Also in December 2015, the Association accrued a $6,178,500 patronage distribution to its stockholders. The payment resolution was approved in January 2016 and will be disbursed in March 2016. The Association was able to return these funds to its members due to strong earnings over the past three years.

In December 2015, the Association received a direct loan patronage of $2,112,809 from the Bank, representing 42 basis points on the average daily balance of the Association's direct loan with the Bank. During 2015, the Association received $163,705 in patronage payments from the Bank, based on the Association's stock investment in the Bank.

During 2015, the Association has recognized charge-offs of $180,422 and $3,409 in recoveries. Also during 2015, the Association acquired five properties through foreclosure proceedings or deed in lieu of foreclosure, with a net carrying value of $1,502,708 and sold five properties and one partial property with a net carrying value of $1,396,883. At December 31, 2015, the Association held six properties totaling $1,453,743, net of allowance, in Other Property Owned on the balance sheet.

At a July 2013 Special Stockholders Meeting, the Association's stockholders approved an amendment to the Association's capitalization bylaws addressing the amount of stock a borrower must purchase as a condition of borrowing from the Association. The change affected the range within which the board of directors is authorized to set the stock requirement, and also the manner in which the stock requirement is calculated.

In August 2013, the board of directors approved a stock reduction to equalize the stock of all borrowers to the lesser of 2 percent of the aggregate amount of all of the stockholder's loans or $1,000. The stock reduction was paid in September 2013, in the amount of $782,125. Further details are discussed in Note 9, "Capital," to the consolidated financial statements included in this annual report.

On July 9, 2012 the Farm Credit Administration granted the name change of Federal Land Bank of North Alabama, FLCA, which is a subsidiary of Alabama Farm Credit, ACA, to Alabama Farm Credit, FLCA, effective July 1, 2012. The Association charter and the title of the Articles of Association were properly amended to reflect the change.

For more than 26 years, the Association has continued to provide its members with quality financial services. The board of directors and management remain committed to maintaining the financial integrity of the Association while offering competitive loan products that meet the financial needs of agricultural producers.

Loan Portfolio:

The Association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed, adjustable, LIBOR-based and prime-based interest rates. Loan maturities range from one to 30 years, with annual operating loans comprising the majority of the commercial loans and 20- to 30-year maturities comprising the majority of the mortgage loans. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

The composition of the Association's loan portfolio, including principal less funds held of $624,846,651, $560,348,482 and $487,032,576 as of December 31, 2015, 2014 and 2013, respectively, is described more fully in detailed tables in Note 3 to the consolidated financial statements, "Loans and Allowance for Loan Losses," included in this annual report. The Association was able to show an increase in total loan volume of $64,498,169 or 11.5 percent as compared to 2014. These increases are the result of the Association expanding its PCA loan growth, an increase in capital markets activity, an overall improvement of economic and financial markets and increased demand within the Association's territory.

The Association's largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 49.6 percent or $310,104,890. The industry is presently stable with market prices for poultry remaining stable and feed cost leveling off. This has resulted in the integrators showing marginal profits for the year. Production in 2016 should remain steady as markets both in the states and overseas continue to show signs of sufficient poultry meat supplies. Some integrators are offering new grower contracts in order to meet their market demands, with egg and chick placements in Alabama increasing slightly each week. Overall credit quality has improved and the industry remained relatively consistent within the market throughout the year. The Association has $95,438,492, or 30.8 percent guaranteed, which helps to reduce loss exposure in this commodity. Poultry farm sales during 2015 have been few in number, but a sufficient demand remains in the marketplace. Most integrators did some expansion in 2015 due to a decrease in feed costs (i.e. corn and soybeans) and better market conditions for poultry. Projections for poultry are that the market will remain relatively stable to improving in the coming year. This is due primarily to the export markets expanding (i.e. Cuba) improving along with higher price meat from hogs and cattle causing more demand for less expensive poultry. The Association continues to experience some isolated concerns in its portfolio as evidenced by some due date changes to better match the individual growers' batch sales. Management feels that this loan servicing is probably due to changes in the poultry markets where integrators are adjusting their bird size as the market dictates.

Agricultural income has been stable to improving over the past few years, with fairly good growing conditions and commodity prices. Some downward pressure on row crop commodity prices has been noted in 2015 and projected into the 2016 growing season. Weather conditions for 2015 had above average moisture and improved over those experienced in the 2014 crop year. Fairly normal conditions existed throughout the Association's territory for the majority of the year. Cattle producers continued to see good demand and adequate prices, during 2015, due to overall fewer cattle in inventory, compared to historical averages. Profits from cattle operations have resulted in limited effect on the Association's loan portfolio, with mainly an increased demand for livestock loans.

Timber markets in 2015 continued to be soft, due to the decreased demand from the housing market. Indicators for 2016 are for timber prices to improve with industry leaders projecting increased demand for wood products in 2016. A closed sawmill in the northeast part of the Association's territory was purchased by some Canadian investors and reopened in 2014. This has shown a slight improvement for our land timber markets.

Overall land values have remained fairly stable in most all areas of the Association's territory based on the current economic climate. The agricultural economy, in general for the area, remained stable in 2015. Favorable weather conditions and average commodity prices have had a positive effect in stabilizing the farm economy for the year. The Association's credit quality grew to 99.4 percent non-adverse loan volume at 2015 year end, compared to 99.2 and 98.8 percent non-adverse loan volume at year-end 2014 and 2013, respectively. We will continue to work with our borrowers as all market segments make corrections with minimal restructuring.

Purchase and Sales of Loans:

During 2015, 2014 and 2013, the Association was participating in loans with other lenders. As of December 31, 2015, 2014 and 2013, these participations totaled $21,108,906, $11,858,089 and $10,707,869, or 3.4 percent, 2.1 percent and 2.2 percent of loans, respectively. There were no participations purchased from entities outside the district during the years ended December 31, 2015, 2014 and 2013. The increase in volume in 2015 is due to the Association purchasing 8 new participations in addition to refinancing of or draws on existing lines of credit during the year. The Association has not sold any participations as of December 31, 2015, 2014 and 2013.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net.

The following table illustrates the Association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2015		2014		2013	
	Amount	**%**	Amount	%	Amount	%
Nonaccrual	**$ 2,339,527**	**47.5%**	$ 2,691,423	51.8%	$ 1,901,977	27.9%
Formally restructured	**966,385**	**21.0%**	999,367	19.3%	1,913,965	28.1%
Other property owned, net	**1,453,743**	**31.5%**	1,502,644	28.9%	2,998,355	44.0%
Total	**$ 4,759,655**	**100.0%**	$ 5,193,434	100.0%	$ 6,814,297	100.0%

High risk assets decreased in 2015 by $433,780, or 8.4 percent, as compared to 2014. During 2015, 13 loans totaling $2,540,893 were moved to nonaccrual status while five loans totaling $1,502,708 were moved to other property owned and eight loans totaling $777,133 were reinstated to accrual status as a result of their compliance with terms of their new loan agreement.

At December 31, 2015, 2014 and 2013, loans that were considered impaired were $3,305,912, $3,690,790 and $3,815,942, representing 0.5 percent, 0.7 percent and 0.8 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

The Association had five properties in Other Property Owned at the beginning of 2015. During 2015, the Association acquired five other properties from various counties in north Alabama. The Association disposed of four properties and two partial tracts of property during 2015 resulting in a net loss of $156,531. At December 31, 2015, the Association held six properties with a carrying value of $1,453,743, net of allowance, which consisted of approximately 188.0 acres of land.

Counterparty risk is continually monitored by management of the Association. The Association's primary counterparty risk comes from the poultry integrators with which its borrowers are associated and participation loans. Because the Association's portfolio has approximately a 49.6 percent concentration in poultry, it mitigates inherent risks in poultry and the integrators by heavy utilization of government guarantees. Also, the Association's lending territory has multiple integrators, which would minimize the risk of counterparty failure or lack of performance. Management analyzes the financial position and performance of these integrators by regularly gathering updated financials and other reports that are made available to the public. The Association, in the normal course of business, has participation loans with other farm credit associations and farm credit banks.

Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural real estate lender.

To help mitigate and diversify credit risk, the Association has employed practices including credit guarantees and engaging in loan participations. At December 31, 2015, the Association had approximately $100.0 million, or 16.0 percent, of its portfolio that had guarantees with the Farm Service Agency (FSA) or the Small Business Administration (SBA).

Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of, or for the year ended, December 31:

	2015	2014	2013
Allowance for loan losses	**$ 3,781,484**	$ 3,775,210	$ 2,697,084
Allowance for loan losses to total loans	**0.6%**	0.7%	0.6%
Allowance for loan losses to nonaccrual loans	**161.6%**	140.3%	141.8%
Allowance for loan losses to impaired loans	**114.4%**	102.3%	70.8%
Net charge-offs to average loans	**0.0%**	0.1%	0.2%

The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management considers the following factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences.

Based upon ongoing risk assessment and the allowance for loan losses procedures outlined above, the allowance for loan losses of $3,781,484, $3,775,210 and $2,697,084 at December 31, 2015, 2014 and 2013, respectively, is considered adequate by management to compensate for inherent losses in the loan portfolio at such dates. The $6,274 increase compared to 2014 is primarily due to the increase in general allowance due to the Association's increased outstanding loan volume offset by a decrease in the participation stress analysis based on the decrease in the five-year loss trend. It is management's assertion that the allowance coverage is adequate based on historical losses, portfolio stress testing, risk analysis, mitigation of losses due to having first lien real estate with minimal to no price appreciation and, as mentioned above, having approximately $100.0 million, or 16.0 percent, of its portfolio that had guarantees with the FSA or the SBA.

Results of Operations:

The Association's net income for the year ended December 31, 2015, was $13,651,051 as compared to $12,075,167 for the year ended December 31, 2014, reflecting an increase of $1,575,884, or 13.1 percent. The Association's net income for the year ended December 31, 2013 was $10,788,391. Net income increased $1,286,776, or 11.9 percent, in 2014 versus 2013. The primary increase in net income during 2015 and 2014 was the result of increased average loan volume offset by a slight decrease in spreads and a small increase in cost of funds charged by the Bank, which yielded higher net interest income. These spreads have been on the decline since 2013 and are expected to continue to decrease slightly in 2016. The increase in net income for 2014 was also attributable to an increase in gains on sales of other property owned and Association-owned property.

Net interest income for 2015, 2014 and 2013 was $19,204,162, $17,540,377 and $16,170,812, respectively, reflecting increases of $1,663,785, or 9.5 percent, for 2015 versus 2014 and $1,369,565, or 8.5 percent, for 2014 versus 2013. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2015		2014		2013	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Loans	**$ 588,397,488**	**$ 29,064,925**	$ 522,463,801	$ 26,155,423	$ 462,437,484	$ 23,722,592
Interest-bearing liabilities	**503,214,733**	**9,860,763**	443,684,851	8,615,046	389,214,446	7,551,780
Impact of capital	**$ 85,182,755**		$ 78,778,950		$ 73,223,038	
Net interest income		**$ 19,204,162**		$ 17,540,377		$ 16,170,812

	2015 Average Yield	2014 Average Yield	2013 Average Yield
Yield on loans	**4.9%**	5.0%	5.1%
Total yield on interest-earning assets	**4.9%**	5.0%	5.1%
Cost of interest-bearing liabilities	**2.0%**	1.9%	1.9%
Interest rate spread	**2.9%**	3.1%	3.2%

	2015 vs. 2014			2014 vs. 2013		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income - loans	**$ 3,300,772**	**$ (391,270)**	**$ 2,909,502**	$ 3,079,281	$ (646,450)	$ 2,432,831
Interest expense	**1,155,892**	**89,825**	**1,245,717**	1,056,889	6,377	1,063,266
Net interest income	**$ 2,144,880**	**$ (481,095)**	**$ 1,663,785**	$ 2,022,392	$ (652,827)	$ 1,369,565

Interest income for 2015 increased by $2,909,502, or 11.1 percent, compared to 2014, primarily due to an increase in average loan volume as a result of the active lending environment during 2015, 2014 and 2013. This increase was offset by a slight decrease in loan yields. Interest expense for 2015 increased by $1,245,717, or 14.5 percent, compared to 2014, again due to the increase in average loan volume and a slight increase in interest rates on the Association's direct note with the Bank. The interest rate spread decreased by -8 basis points to 2.98 percent in 2015 from 3.06 percent in 2014, primarily due to the competitive market for loan pricing within the Association territory. The interest rate spread decreased by -13 basis points to 3.06 percent in 2014 from 3.19 percent in 2013, again, due to the competitive market.

Noninterest income for 2015 decreased by $459,103, or 15.0 percent, compared to 2014, due primarily to the Association recording a net gain on sales of other property owned in 2014 in the amount of $696,812 compared to no net gains recorded on sales of other property owned in 2015. Additionally, there was a decrease in net gains on sales of premises and equipment as compared to 2014. These decreases are offset by an increase in patronage income from the Bank in the amount of $226,340, or 11.0 percent, as compared to 2014. Patronage income from the Bank was paid out at 42 basis points based on the Association's average note balance of $503,214,733.

Noninterest income for 2014 increased by $885,461, or 40.5 percent, compared to 2013, due primarily to gains on sales of other property owned and equipment and an increase in patronage income from the Bank. The Association sold its ownership in a participation loan for a net gain of $1,227,063 which, along with other property sales, was offset by acquired property expenses for a net gain on the sale of other property owned of $696,812. Patronage income from the Bank was paid out at 43 basis points on the Association's average note balance of $443,632,909. This is an increase in patronage income of $200,815, or 10.9 percent, over 2013.

Provisions for loan losses decreased by $1,334,915, or 87.1 percent, compared to 2014, due primarily to a decrease in the participation stress analysis and a decrease in the five-year loss trend, offset by an increase in general allowance due to the Association's increased outstanding loan volume. The Association's risk factors used in the calculation of the allowance were based on a conservative review of high-risk assets, actual loss history, delinquencies and an estimate of expected and inherent losses over the next 12 to 18 months.

Operating expenses consist primarily of salaries, employee benefits and purchased services. Expenses for purchased services may include administrative services, marketing, information systems, accounting and loan processing, among others. The increase in operating expenses of $963,713, or 13.8 percent, in 2015 as compared to 2014, was primarily due to an increase in salaries and employee benefits, travel, occupancy and equipment, FCSIC premiums and the Association recording a net loss on sales of other property owned. The increase in salaries and employee benefits is due to the addition of two credit analysts, a collateral evaluator and an administrative assistant position in 2015 due to Association needs. The increase in travel is due primarily to increased travel for training of new Association staff. The Association also expanded two offices, which resulted in an increase in occupancy and equipment. The increase in FCSIC premiums is a result of an increase in the premium base from 12 basis points in 2014 to 13 basis points in 2015. Authoritative accounting guidance requiring the capitalization and amortization of loan origination fees and costs resulted in the capitalization of $1,160,317, $1,276,259 and $964,945 for 2015, 2014 and 2013, respectively, in origination costs, which will be amortized over the life of the loans as an adjustment to yield in net interest income. The capitalized costs consisted of salaries and benefits totaling $1,188,480 related to the origination of loans.

The $51,115 decrease in operating expenses in 2014 compared to 2013 was primarily due to a decrease in salaries and employee benefits, purchased services, travel and other noninterest expenses. This decrease was offset by an increase in directors' expenses, occupancy and equipment, advertising, public and member relations, supervisory and exam expense, FCSIC premiums and business insurance premiums. The decrease in salaries and benefits was primarily due to the Association experiencing employee resignations and retirements resulting in a period of time where salaries were not incurred and due to increased capitalized loan origination fees reducing the amount of salaries and benefits expensed. The decrease in travel expenses is due to the decrease in travel costs along with less need for Association employees to travel during 2014. Advertising and public and member relations increased due to the Association's budgeted increase in funds allocated for these functions in 2014 based on 2013. FCSIC insurance increased due to a change in premium base from 10 basis points in 2013 to 12 basis points in 2014.

For the year ended December 31, 2015, the Association's return on average assets was 2.2 percent, as compared to 2.2 percent and 2.2 percent for the years ended December 31, 2014 and 2013, respectively. For the year ended December 31, 2015, the Association's return on average members' equity was 14.0 percent, as compared to 13.3 percent and 12.6 percent for the years ended December 31, 2014 and 2013, respectively. While the Association's return on average assets did not change from 2015 as compared to 2014, the increase in the return on average members' equity is a result of higher income primarily due to increased loan volume, a decrease in provision for loan losses and an increase in noninterest expenses. The increase in 2014 as compared to 2013 is the result of increased loan volume and increased noninterest income.

Because the Association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank may have an effect on the operations of the Association.

Liquidity and Funding Sources:

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "loanable funds." Interest rates on both variable and fixed rate notes payable are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio. The Association utilizes differential pricing for its loans based on credit risk, length of maturity, service cost, and market variables, thereby giving the Association the ability in large part to control its interest rate margins.

The primary source of liquidity and funding for the Association is the direct loan from the Bank. The outstanding balance of $532,731,825, $474,969,129 and $409,070,529 as of December 31, 2015, 2014 and 2013, respectively, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.0 percent, 1.9 percent and 1.8 percent at December 31, 2015, 2014 and 2013, respectively. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a general financing agreement. The increase in note payable to the Bank and related accrued interest payable since December 31, 2014, is due to the Association's loan portfolio growth. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $84,695,112, $78,103,948 and $72,906,570 at December 31, 2015, 2014 and 2013, respectively. The maximum amount the Association may borrow from the Bank as of December 31, 2015, was $627,943,072 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2018, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances, to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2016. As borrower payments are received, they are applied to the Association's note payable to the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the coming year.

Capital Resources:

The Association's capital position remains strong, with total members' equity of $97,836,706, $89,923,617 and $84,578,320 at December 31, 2015, 2014 and 2013, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond those provided in the allowance for loss accounts. The Association's permanent capital ratio at December 31, 2015, 2014 and 2013 was 16.8 percent, 17.5 percent and 18.8 percent, respectively.

The core surplus ratio measures available core surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The Association's core surplus ratio at December 31, 2015, 2014 and 2013 was 16.4 percent, 17.0 percent and 18.3 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent.

The total surplus ratio measures available surplus capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect borrowers' investments in the Association. The Association's total surplus ratio at December 31, 2015, 2014 and 2013 was 16.4 percent, 17.0 percent and 18.3 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

On September 4, 2014, the Farm Credit Administration published a proposed rule to modify the regulatory capital requirements for System Banks and associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that the 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 and
- To meet the requirements of section 939A of the Dodd-Frank Act.

The initial public comment period ended on February 16, 2015 and was reopened from June 26 to July 10, 2015. A final rule is expected in the first quarter of 2016, which is expected to become effective for 2017.

The decrease in permanent capital, core surplus and total surplus ratios over the past three years is due to the Association's rapid average loan volume growth combined with the Association returning 60 percent of its earnings for 2014, 2013 and 2012 in the form of cash patronage distributions.

The Association's members' equity includes accumulated other comprehensive loss (AOCL) related to certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. The AOCL includes net actuarial losses and prior service costs/credits that have been included in liabilities, but have not yet been amortized into earnings. In October 2014, the Society of Actuaries issued revised mortality tables (RP 2014) and a mortality improvement scale (MP 2014) for use by actuaries, insurance companies, governments, benefit plan sponsors and others in setting assumptions regarding life expectancy in the United States for purposes of estimating pension and other postemployment benefit obligations, costs and required contribution amounts. The new mortality tables indicate substantial life expectancy improvements since the last study published in 2000 (RP 2000). The Association recorded an increase to accumulated other comprehensive income in the amount of $288,103 for the year ended December 31, 2015.

In 2015, 2014 and 2013, the Association paid patronage distributions of $6,455,041, $6,275,321 and $5,334,088, respectively. In December 2015, the board of directors approved a $6,178,500 patronage distribution based on a declaration by the board of directors in December 2015 to be paid in March 2016. See Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

Relationship With the Bank:

The Association's statutory obligation to borrow only from the Bank is discussed in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis and in Note 8 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all district associations. In addition, each Association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 12 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the Association can utilize, such as administrative, marketing, information systems and accounting services. Additionally, the Bank bills district expenses to the associations, such as the Farm Credit System Insurance Corporation insurance premiums.

Summary:

Over the past 26 years, regardless of the state of the agricultural economy, your Association's board of directors and management, as well as the board of directors and management of the Bank, have been committed to offering their borrowers a ready source of financing at a competitive price. Your continued support will be critical to the success of this Association.

pwc

Independent Auditor's Report

To the Board of Directors of Alabama Farm Credit, ACA:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alabama Farm Credit, ACA and its subsidiaries 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 11, 2016

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ALABAMA FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEET

	December 31,		
	2015	2014	2013
Assets			
Cash	**$ 42,156**	$ 85,367	$ 17,899
Loans (includes $817,646, $748,249 and $69,447 at fair value held under fair value option)	**624,846,651**	560,348,482	487,032,576
Less: allowance for loan losses	**3,781,484**	3,775,210	2,697,084
Net loans	**621,065,167**	556,573,272	484,335,492
Accrued interest receivable	**6,411,251**	5,597,281	4,762,024
Investment in and receivable from the Farm Credit Bank of Texas:			
Capital stock	**9,974,710**	8,772,450	7,734,035
Other	**299,467**	209,493	436,848
Other property owned, net	**1,453,743**	1,502,644	2,998,355
Premises and equipment	**3,803,825**	3,622,066	3,549,737
Other assets	**461,222**	516,011	442,622
Total assets	**$ 643,511,541**	$ 576,878,584	$ 504,277,012
Liabilities			
Note payable to the Farm Credit Bank of Texas	**$ 532,731,825**	$ 474,969,129	$ 409,070,529
Accrued interest payable	**892,844**	791,299	663,449
Drafts outstanding	**1,835,248**	1,192,048	798,535
Patronage distributions payable	**6,178,849**	6,455,390	6,275,551
Other liabilities	**4,036,069**	3,547,101	2,890,628
Total liabilities	**545,674,835**	486,954,967	419,698,692
Members' Equity			
Capital stock and participation certificates	**2,415,825**	2,263,390	2,088,100
Unallocated retained earnings	**95,672,059**	88,199,508	82,579,501
Accumulated other comprehensive loss	**(251,178)**	(539,281)	(89,281)
Total members' equity	**97,836,706**	89,923,617	84,578,320
Total liabilities and members' equity	**$ 643,511,541**	$ 576,878,584	$ 504,277,012

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2015	2014	2013
Interest Income			
Loans	**$ 29,064,925**	$ 26,155,423	$ 23,722,592
Interest Expense			
Note payable to the Farm Credit Bank of Texas	**9,860,763**	8,615,046	7,551,780
Net interest income	**19,204,162**	17,540,377	16,170,812
Provision for Loan Losses	**198,123**	1,533,038	513,673
Net interest income after provision for losses	**19,006,039**	16,007,339	15,657,139
Noninterest Income			
Income from the Farm Credit Bank of Texas:			
Patronage income	**2,276,514**	2,050,174	1,849,359
Loan fees	**185,254**	148,004	172,105
Financially related services income	**22,030**	24,700	24,806
Gain on other property owned, net	**-**	696,812	66,389
Gain on sale of premises and equipment, net	**64,356**	100,708	9,986
Other noninterest income	**64,041**	50,900	63,192
Total noninterest income	**2,612,195**	3,071,298	2,185,837
Noninterest Expenses			
Salaries and employee benefits	**4,662,382**	4,176,107	4,384,234
Directors' expense	**259,758**	223,467	198,529
Purchased services	**337,115**	359,217	371,968
Travel	**456,809**	397,568	444,619
Occupancy and equipment	**440,501**	395,518	367,212
Communications	**133,363**	121,014	120,199
Advertising	**291,961**	267,439	246,686
Public and member relations	**253,948**	232,476	209,746
Supervisory and exam expense	**161,975**	148,674	136,703
Insurance Fund premiums	**511,767**	412,925	298,316
Business insurance premiums	**84,470**	83,525	78,285
Loss on other property owned, net	**156,531**	-	-
Other noninterest expense	**216,603**	185,540	198,088
Total noninterest expenses	**7,967,183**	7,003,470	7,054,585
NET INCOME	**13,651,051**	12,075,167	10,788,391
Other comprehensive income:			
Change in postretirement benefit plans	**288,103**	(450,000)	266,491
Other comprehensive income (loss), net of tax	**288,103**	(450,000)	266,491
COMPREHENSIVE INCOME	**$ 13,939,154**	$ 11,625,167	$ 11,054,882

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2012	$ 2,670,725	$ 78,066,477	$ (355,772)	$ 80,381,430
Comprehensive income	-	10,788,391	266,491	11,054,882
Capital stock/participation certificates issued	490,950	-	-	490,950
Capital stock/participation certificates retired	(291,450)	-	-	(291,450)
Stock equalization	(782,125)	-	-	(782,125)
Patronage declared:				
Cash	-	(6,275,367)	-	(6,275,367)
Balance at December 31, 2013	2,088,100	82,579,501	(89,281)	84,578,320
Comprehensive income (loss)	-	12,075,167	(450,000)	11,625,167
Capital stock/participation certificates issued	346,415	-	-	346,415
Capital stock/participation certificates retired	(171,125)	-	-	(171,125)
Patronage declared:				
Cash	-	(6,455,160)	-	(6,455,160)
Balance at December 31, 2014	2,263,390	88,199,508	(539,281)	89,923,617
Comprehensive income	-	13,651,051	288,103	13,939,154
Capital stock/participation certificates issued	335,715	-	-	335,715
Capital stock/participation certificates retired	(183,280)	-	-	(183,280)
Patronage declared:				
Cash	-	(6,178,500)	-	(6,178,500)
Balance at December 31, 2015	**$ 2,415,825**	**$ 95,672,059**	**$ (251,178)**	**$ 97,836,706**

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	**$ 13,651,051**	$ 12,075,167	$ 10,788,391
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**198,123**	1,533,038	513,673
Provision for acquired property	**112,928**	547,434	121,106
Gain on other property owned, net	**(21,918)**	(1,316,148)	(227,347)
Depreciation	**298,215**	280,398	285,790
Accretion) of net discounts in investments	**(69,720)**	(9,203)	(22,401)
Gain on sale of premises and equipment, net	**(64,356)**	(100,708)	(9,663)
(Increase) decrease in accrued interest receivable	**(813,970)**	(835,257)	14,624
(Increase) decrease in other receivables from the Farm Credit Credit Bank of Texas	**(89,974)**	227,355	69,010
Increase in other assets	**(103,011)**	(28,894)	(116,575)
Increase in accrued interest payable	**101,545**	127,850	5,647
Increase in other liabilities	**762,235**	253,745	343,483
Net cash provided by operating activities	**13,961,148**	12,754,777	11,765,738
Cash flows from investing activities:			
Increase in loans, net	**(64,987,015)**	(74,754,520)	(44,982,187)
Cash recoveries of loans previously charged off	**3,409**	734	-
Proceeds from purchase of investment in the Farm Credit Bank of Texas	**(1,202,260)**	(1,038,415)	(487,525)
Purchases of premises and equipment	**(526,540)**	(412,107)	(245,338)
Proceeds from sales of premises and equipment	**110,922**	160,088	16,750
Proceeds from sales of other property owned	**493,835**	3,164,829	3,070,818

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2015	2014	2013
Cash flows from financing activities:			
Net draws on note payable to the Farm Credit Bank of Texas	**57,762,696**	65,898,600	36,309,583
Increase in drafts outstanding	**643,200**	393,513	459,595
Issuance of capital stock and participation certificates	**335,715**	346,415	490,950
Retirement of capital stock and participation certificates	**(183,280)**	(171,125)	(1,073,575)
Patronage distributions paid	**(6,455,041)**	(6,275,321)	(5,334,088)
Net cash provided by financing activities	**52,103,290**	60,192,082	30,852,465
Net (decrease) increase in cash	**(43,211)**	67,468	(9,279)
Cash at the beginning of the year	**85,367**	17,899	27,178
Cash at the end of the year	**$ 42,156**	$ 85,367	$ 17,899
Supplemental schedule of noncash investing and financing activities:			
Net decrease (increase) in unrealized (gains) losses	**$ 11,599**	$ (163,361)	$ -
Financed sales of other property owned	**1,112,965**	1,364,615	340,150
Loans transferred to other property owned	**1,502,708**	1,990,857	2,938,752
Loans charged off	**180,422**	445,626	1,142,753
Accumulated other comprehensive income	**288,103**	450,000	266,491
Patronage distributions declared	**6,178,500**	6,455,160	6,275,367
Net (decrease) increase in FSA receiveable	**(39,767)**	369,758	49,191
Transfer of allowance for loan losses into reserve for unfunded commitments	**(14,836)**	(10,020)	-
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 9,860,763**	$ 8,487,196	$ 7,546,133

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

ALABAMA FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Alabama Farm Credit, ACA, including its wholly-owned subsidiaries, Alabama Farm Credit, PCA and Alabama Farm Credit, FLCA (collectively called "the Association"), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in the counties of Blount, Calhoun, Cherokee, Clay, Cleburne, Colbert, Cullman, DeKalb, Etowah, Fayette, Franklin, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, Randolph, Shelby, St. Clair, Talladega, Walker and Winston in the state of Alabama.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act). At December 31, 2015, the System consisted of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the "district." The Bank provides funding to all associations within the district and is responsible for supervising certain activities of the district associations. At December 31, 2015, the district consisted of the Bank, one FLCA and 13 ACA parent companies, which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

The Act 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, (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 the discretionary uses by the FCSIC of providing 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 Association, into the Insurance Fund, based on its annual average adjusted outstanding insured debt until the monies in the Insurance Fund reach the "secure base amount," which 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 other such percentage of the aggregate obligations as the Insurance Corporation in 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 as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that can be offered by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The Association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank.

The Association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The Association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the Association. Upon request, stockholders of the Association will be provided with the Farm Credit Bank of Texas and District Associations' Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the district Associations. The district's annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the Bank and the district. In addition, the district's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

The lending and financial services offered by the Bank are described in Note 1, "Organization and Operations," of the district's annual report to stockholders.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Association conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. The consolidated financial statements include the accounts of Alabama Farm Credit, PCA and Alabama Farm Credit, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements:

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance entitled "Leases." The guidance requires the recognition by lessees of lease assets and lease liabilities on the balance sheet for the rights and obligations created by those leases. Leases with lease terms of more than 12 months are impacted by this guidance. This guidance becomes effective for interim and annual periods beginning after December 15, 2018, with early application permitted. The Association will evaluate the impact of adoption on the Association's financial condition and its results of operations.

In January 2016, the FASB issued guidance entitled "Recognition and Measurement of Financial Assets and Liabilities." This guidance becomes effective for interim and annual periods beginning after December 15, 2017. The adoption of this guidance is not expected to impact the Association's financial condition or its results of operations.

In August 2014, the FASB issued guidance entitled "Presentation of Financial Statements — Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

In May 2014, the FASB issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. In August 2015, the FASB issued an update that defers this guidance by one year, which results in the new revenue standard becoming effective for interim and annual reporting periods beginning after December 15, 2017. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations.

B. Cash: Cash, as included in the statement of cash flows, represents cash on hand and on deposit at local banks.

C. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five 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 and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield.

Impaired loans are loans for which it is probable that not all principal and interest will 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 shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest and penalty interest incurred as a result of past-due status, is collected or otherwise discharged in full.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is either reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in prior years). Loans are charged off at the time they are determined to be uncollectible.

A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. A concession is generally granted in order to minimize the Association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Payments received on nonaccrual loans are generally applied to the recorded investment in the loan asset. 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 is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

The Bank and related associations use a two-dimensional loan rating model based on an 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 probability of default 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 (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) rating indicates that the probability of default is almost certain.

The credit risk-rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into its loan underwriting standards and internal lending limit. The allowance for loan losses is maintained at a level considered adequate by management to provide for probable losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions and economic conditions, and prior loan loss experience. Management considers the following factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by their nature, contain elements of uncertainty and imprecision. Changes in the agricultural economy and their impact on borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the institutions' expectations and predictions of those circumstances.

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

D. Capital Stock Investment in the Farm Credit Bank of Texas: The Association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the Association's proportional utilization of the Bank compared to other district associations. The Bank requires a minimum stock investment of 2 percent of the Association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

   If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

E. Other Property Owned, Net: Other property owned, net, consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition or the related loan's carrying amount. 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. On at least an annual basis, 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 and expenses from operations and carrying value adjustments are included in net gains (losses) on other property owned in the statements of comprehensive income.

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

G. Advance Conditional Payments: The Association is authorized under the Act to accept advance payments from borrower's funds held. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors.

H. Employee Benefit Plans: Employees of the Association participate in either the district defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan). All eligible employees may participate in the Farm Credit Benefits Alliance 401(k) Plan. Also, the Association sponsors the nonqualified 401(k) plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "projected unit credit" actuarial method is used for financial reporting and funding purposes for the DB plan.

   Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2015, made on their behalf into various investment alternatives.

   The structure of the district's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the Associations. No portion of any surplus assets is available to the Associations, nor are the Associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the Associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. The Association recognized pension costs for the DC plan of $150,266, $136,424 and $127,042 for the years ended December 31, 2015, 2014 and 2013, respectively. For the DB plan, the Association recognized pension costs of $503,767, $626,947 and $900,567 for the years ended December 31, 2015, 2014 and 2013, respectively.

The Association also participates in the Farm Credit Benefits Alliance 401(k) Plan, which requires the associations to match 100 percent of employee contributions up to 3 percent of eligible earnings and to match 50 percent of employee contributions for the next 2 percent of employee contributions, up to a maximum employer contribution of 4 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The Association's contributions to the 401(k) plan were $127,939, $121,814 and $119,005 for the years ended December 31, 2015, 2014 and 2013, respectively.

In addition to pension benefits, the Association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Employees hired prior to January 1, 2004 and who are at least 55 years of age (or at least age 50 with 30 years of service) may retire and have their medical premium paid on a percentage of cost sharing basis predicated on length of employment service. Employees hired before this date that have reached the age requirement and have 25 years of service will receive 100 percent of their medical premium paid. Employees hired after January 1, 2004 will be eligible for access only to retiree medical benefits for themselves, but will be responsible for 100 percent of the premium. For further information on the Association's employee benefit plans, see Note 11, "Employee Benefit Plans."

I. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. Deferred taxes are provided on the Association's taxable income on the basis of a proportionate share of the tax effect of temporary differences not allocated in patronage form. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the Association's expected patronage program, which reduces taxable earnings.

J. Patronage Refunds From the Farm Credit Bank of Texas: The Association records patronage refunds from the Bank on an accrual basis.

K. Fair Value Measurement: The FASB guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds, which relate to deferred compensation and our supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are actively traded, are also included in Level 1.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly; (c) inputs other than quoted prices that are observable, such as interest rates and yield curves, prepayment speeds, credit risks and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities, and derivative contracts. Pension plan assets that are derived from observable inputs, including corporate bonds and mortgage-backed securities, are reported in Level 2.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, certain loans and other property owned. Pension plan assets such as certain mortgage-backed securities that are supported by little or no market data in determining the fair value are included in Level 3.

The fair value disclosures are presented in Note 13, "Fair Value Measurements."

L. Off-balance-sheet credit exposures: 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. Commercial letters of credit are conditional 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. The credit risk associated with commitments to extend credit and commercial 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.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

	2015		2014		2013	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 549,375,708**	**87.9%**	$ 510,376,979	91.1%	$ 451,232,815	92.6%
Production and intermediate term	**44,677,617**	**7.2%**	32,612,212	5.8%	21,692,856	4.4%
Agribusiness:						
Processing and marketing	**13,618,336**	**2.2%**	6,340,714	1.1%	5,896,475	1.2%
Farm-related business	**1,140,026**	**0.2%**	292,201	0.1%	303,038	0.1%
Rural residential real estate	**12,593,263**	**2.0%**	9,300,737	1.6%	7,550,278	1.6%
Communication	**2,348,598**	**0.4%**	345,991	0.1%	-	0.0%
Energy	**934,312**	**0.1%**	844,168	0.2%	-	0.0%
Water and waste water	**158,791**	**0.0%**	235,480	0.0%	357,114	0.1%
Total	**$ 624,846,651**	**100.0%**	$ 560,348,482	100.0%	$ 487,032,576	100.0%

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold as of December 31, 2015:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Agribusiness	$ 14,506,948	$ -	$ -	$ -	$ 14,506,948	$ -
Production and intermediate term	2,401,337	-	-	-	2,401,337	-
Communication	2,348,598	-	-	-	2,348,598	-
Energy	934,312	-	-	-	934,312	-
Real estate mortgage	758,920	-	-	-	758,920	-
Water and waste water	158,791	-	-	-	158,791	-
Total	$ 21,108,906	$ -	$ -	$ -	$ 21,108,906	$ -

Geographic Distribution:

County	**2015**	2014	2013
De Kalb	**20.8%**	21.0%	22.5%
Marshall	**10.1%**	11.1%	10.7%
Lawrence	**6.7%**	6.4%	5.4%
Cullman	**4.8%**	4.5%	4.5%
Jackson	**4.8%**	4.5%	4.9%
Etowah	**4.6%**	4.3%	4.3%
Limestone	**4.2%**	4.4%	4.6%
Madison	**4.1%**	4.3%	3.3%
Cherokee	**4.0%**	4.0%	3.7%
Other States	**5.6%**	5.1%	2.4%
Other Counties With Less Than 4%	**30.3%**	30.4%	33.7%
	100.0%	**100.0%**	**100.0%**

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized, and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

	2015		2014		2013	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Poultry and eggs	**$ 310,104,890**	**49.7%**	$ 279,300,337	49.8%	$ 243,589,086	50.0%
Livestock, except dairy and poultry	**113,157,651**	**18.1%**	104,635,398	18.7%	98,170,134	20.2%
Timber	**61,793,119**	**9.9%**	57,332,525	10.2%	51,032,736	10.5%
Cash grains	**47,028,666**	**7.5%**	41,609,178	7.5%	25,414,333	5.2%
Field crops except cash grains	**43,331,269**	**6.9%**	43,313,099	7.7%	43,679,948	9.0%
Other	**49,431,056**	**7.9%**	34,157,945	6.1%	25,146,339	5.1%
Total	**$ 624,846,651**	**100.0%**	$ 560,348,482	100.0%	$ 487,032,576	100.0%

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

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

	December 31, 2015	December 31, 2014	December 31, 2013
Nonaccrual loans:			
Real estate mortgage	**$ 2,304,953**	$ 2,679,530	$ 1,901,977
Production and intermediate term	**34,574**	11,893	-
Total nonaccrual loans	**2,339,527**	2,691,423	1,901,977
Accruing restructured loans:			
Real estate mortgage	**966,385**	999,367	1,913,965
Total nonperforming loans	**3,305,912**	3,690,790	3,815,942
Other property owned	**1,453,743**	1,502,644	2,998,355
Total nonperforming assets	**$ 4,759,655**	$ 5,193,434	$ 6,814,297

One credit quality indicator utilized by the Bank and the Association is the Farm Credit Administration's Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- 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 factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest classified under the Farm Credit Administration's Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of December 31:

	2015	2014	2013
Real estate mortgage			
Acceptable	**97.5** %	97.1 %	97.1 %
OAEM	**1.9**	2.0	1.6
Substandard/doubtful	**0.6**	0.9	1.3
	100.0	100.0	100.0
Production and intermediate term			
Acceptable	**99.3**	97.7	99.1
OAEM	**0.5**	2.1	0.9
Substandard/doubtful	**0.2**	0.2	-
	100.0	100.0	100.0
Processing and marketing			
Acceptable	**93.6**	100.0	100.0
OAEM	**6.4**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Farm-related business			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Communication			
Acceptable	**100.0**	100.0	-
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	-
Energy			
Acceptable	**100.0**	100.0	-
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	-
Water and waste water			
Acceptable	**100.0**	100.0	100.0
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Rural residential real estate			
Acceptable	**98.5**	100.0	100.0
OAEM	**1.5**	-	-
Substandard/doubtful	**-**	-	-
	100.0	100.0	100.0
Total Loans			
Acceptable	**97.6**	97.2	97.3
OAEM	**1.8**	2.0	1.5
Substandard/doubtful	**0.6**	0.8	1.2
	100.0 %	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of December 31, 2015, 2014 and 2013:

December 31, 2015:	**30-89 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 and Accruing**
Real estate mortgage	**$ 2,255,952**	**$ 699,850**	**$ 2,955,802**	**$ 552,119,811**	**$ 555,075,613**	**$ -**
Production and intermediate term	**-**	**34,574**	**34,574**	**45,299,659**	**45,334,233**	**-**
Processing and marketing	**-**	**-**	**-**	**13,634,871**	**13,634,871**	**-**
Farm-related business	**-**	**-**	**-**	**1,142,122**	**1,142,122**	**-**
Communication	**-**	**-**	**-**	**2,350,351**	**2,350,351**	**-**
Energy	**-**	**-**	**-**	**936,014**	**936,014**	**-**
Water and waste water	**-**	**-**	**-**	**158,836**	**158,836**	**-**
Rural residential real estate	**10,151**	**-**	**10,151**	**12,615,711**	**12,625,862**	**-**
Total	**$ 2,266,103**	**$ 734,424**	**$ 3,000,527**	**$ 628,257,375**	**$ 631,257,902**	**$ -**

December 31, 2014:	30-89 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 and Accruing
Real estate mortgage	$ 1,121,862	$ 1,403,797	$ 2,525,659	$ 512,971,465	$ 515,497,124	$ -
Production and intermediate term	-	-	-	33,058,562	33,058,562	-
Processing and marketing	-	-	-	6,345,370	6,345,370	-
Farm-related business	-	-	-	293,096	293,096	-
Communication	-	-	-	346,101	346,101	-
Energy	-	-	-	844,240	844,240	-
Water and waste water	-	-	-	235,505	235,505	-
Rural residential real estate	-	-	-	9,325,765	9,325,765	-
Total	$ 1,121,862	$ 1,403,797	$ 2,525,659	$ 563,420,104	$ 565,945,763	$ -

December 31, 2013:	30-89 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 and Accruing
Real estate mortgage	$ 1,825,079	$ 1,154,779	$ 2,979,858	$ 452,690,747	$ 455,670,605	$ -
Production and intermediate term	-	-	-	21,996,111	21,996,111	-
Processing and marketing	-	-	-	5,899,977	5,899,977	-
Farm-related business	-	-	-	303,038	303,038	-
Water and waste water	-	-	-	357,292	357,292	-
Rural residential real estate	-	-	-	7,567,577	7,567,577	-
Total	$ 1,825,079	$ 1,154,779	$ 2,979,858	$ 488,814,742	$ 491,794,600	$ -

Note: The recorded investment in the 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.

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of December 31, 2015, the total recorded investment of troubled debt restructured loans was $966,385, all of which were classified as accrual. Troubled debt restructurings are analyzed for allowance for loan losses using the specific analysis method. No specific allowances for loan losses were recorded for troubled debt restructurings as of December 31, 2015. Also, as of December 31, 2015, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no troubled debt restructurings that occurred during the years ended December 31, 2015, 2014 and 2013.

The predominant form of concession granted for troubled debt restructuring includes the extension of terms due to cash flow constrictions enabling the borrower to fund the original payment amount. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

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

	Loans Modified as TDRs		
	December 31, 2015	December 31, 2014	December 31, 2013
Troubled debt restructurings:			
Real estate mortgage	**$ 966,385**	$ 999,367	$ 1,913,965

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/2015	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 832,282	$ 832,282	$ 17,247	$ 345,243	$ -
Production and intermediate term	34,574	34,574	31,963	6,915	-
Total	$ 866,856	$ 866,856	$ 49,210	$ 352,158	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,439,056	$ 2,446,731	$ -	$ 1,959,862	$ 78,894
Production and intermediate term	-	-	-	987	-
Total	$ 2,439,056	$ 2,446,731	$ -	$ 1,960,849	$ 78,894
Total impaired loans:					
Real estate mortgage	$ 3,271,338	$ 3,279,013	$ 17,247	$ 2,305,105	$ 78,894
Production and intermediate term	34,574	34,574	31,963	7,902	-
Total	$ 3,305,912	$ 3,313,587	$ 49,210	$ 2,313,007	$ 78,894

	Recorded Investment at 12/31/2014	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 883,559	$ 883,559	$ 135,310	$ 459,806	$ -
Production and intermediate term	-	-	-	6,584	-
Total	$ 883,559	$ 883,559	$ 135,310	$ 466,390	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,795,337	$ 3,229,382	$ -	$ 3,274,327	$ 197,717
Production and intermediate term	11,894	11,894	-	5,031	75
Total	$ 2,807,231	$ 3,241,276	$ -	$ 3,279,358	$ 197,792
Total impaired loans:					
Real estate mortgage	$ 3,678,896	$ 4,112,941	$ 135,310	$ 3,734,133	$ 197,717
Production and intermediate term	11,894	11,894	-	11,615	75
Total	$ 3,690,790	$ 4,124,835	$ 135,310	$ 3,745,748	$ 197,792

[a] Unpaid principal balance represents the recorded principal legal balance of the loan.

	Recorded Investment at 12/31/2013	Unpaid Principal Balance[a]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 291,177	$ 305,972	$ 221,730	$ 1,275,484	$ -
Production and intermediate term	-	-	-	543,524	-
Farm-related business	-	-	-	7,858	-
Total	$ 291,177	$ 305,972	$ 221,730	$ 1,826,866	$ -
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,524,765	$ 3,956,831	$ -	$ 4,174,104	$ 161,266
Production and intermediate term	-	-	-	541,872	-
Farm-related business	-	-	-	2,448	-
Rural residential real estate	-	-	-	3,484	-
Total	$ 3,524,765	$ 3,956,831	$ -	$ 4,721,908	$ 161,266
Total impaired loans:					
Real estate mortgage	$ 3,815,942	$ 4,262,803	$ 221,730	$ 5,449,588	$ 161,266
Production and intermediate term	-	-	-	1,085,396	-
Farm-related business	-	-	-	10,306	-
Rural residential real estate	-	-	-	3,484	-
Total	$ 3,815,942	$ 4,262,803	$ 221,730	$ 6,548,774	$ 161,266

[a] Unpaid principal balance represents the recorded principal legal balance of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2015, 2014 and 2013.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	2015	2014	2013
Interest income which would have been recognized under the original terms	**$ 162,925**	$ 351,091	$ 371,062
Less: interest income recognized	**(78,894)**	(197,792)	(161,266)
Foregone interest income	**$ 84,031**	$ 153,299	$ 209,796

A summary of the changes in the allowance for credit losses and the ending balance of loans outstanding (including accrued interest) are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2014	$ 3,729,445	$ 30,325	$ 8,499	$ 83	$ 772	$ 6,086	$ 3,775,210
Charge-offs	(180,422)	-	-	-	-	-	(180,422)
Recoveries	3,409	-	-	-	-	-	3,409
Provision for loan losses	132,916	34,917	21,118	2,467	1,427	5,278	198,123
Other	(2,319)	(1,575)	(9,424)	-	(1,518)	-	(14,836)
Balance at December 31, 2015	$ 3,683,029	$ 63,667	$ 20,193	$ 2,550	$ 681	$ 11,364	$ 3,781,484
Ending Balance: individually evaluated for impairment	$ 31,963	$ 17,247	$ -	$ -	$ -	$ -	$ 49,210
Ending Balance: collectively evaluated for impairment	$ 3,651,066	$ 46,420	$ 20,193	$ 2,550	$ 681	$ 11,364	$ 3,732,274
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2015	$ 555,075,613	$ 45,334,233	$ 14,776,993	$ 2,350,351	$ 1,094,850	$ 12,625,862	$ 631,257,902
Ending balance for loans individually evaluated for impairment	$ 3,271,339	$ 34,574	$ -	$ -	$ -	$ -	$ 3,305,913
Ending balance for loans collectively evaluated for impairment	$ 551,804,274	$ 45,299,659	$ 14,776,993	$ 2,350,351	$ 1,094,850	$ 12,625,862	$ 627,951,989

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2013	$ 2,657,650	$ 19,224	$ 12,497	$ -	$ 650	$ 7,063	$ 2,697,084
Charge-offs	(441,838)	(3,788)	-	-	-	-	(445,626)
Recoveries	734	-	-	-	-	-	734
Provision for loan losses	1,514,452	17,775	195	83	1,510	(977)	1,533,038
Other	(1,553)	(2,886)	(4,193)	-	(1,388)	-	(10,020)
Balance at December 31, 2014	$ 3,729,445	$ 30,325	$ 8,499	$ 83	$ 772	$ 6,086	$ 3,775,210
Ending Balance: individually evaluated for impairment	$ 135,310	$ -	$ -	$ -	$ -	$ -	$ 135,310
Ending Balance: collectively evaluated for impairment	$ 3,594,135	$ 30,325	$ 8,499	$ 83	$ 772	$ 6,086	$ 3,639,900
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2014	$ 515,497,124	$ 33,058,562	$ 6,638,466	$ 346,101	$ 1,079,745	$ 9,325,765	$ 565,945,763
Ending balance for loans individually evaluated for impairment	$ 3,678,898	$ 11,893	$ -	$ -	$ -	$ -	$ 3,690,791
Ending balance for loans collectively evaluated for impairment	$ 511,818,226	$ 33,046,669	$ 6,638,466	$ 346,101	$ 1,079,745	$ 9,325,765	$ 562,254,972

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Water and Waste Water	Rural Residential Real Estate	Total
Allowance for Credit Losses:							
Balance at December 31, 2012	$ 2,830,928	$ 22,138	$ 467,703	$ -	$ -	$ 5,395	$ 3,326,164
Charge-offs	(677,004)	-	(458,183)	-	-	(7,566)	(1,142,753)
Recoveries	-	-	-	-	-	-	-
Provision for loan losses	503,726	(2,914)	2,977	-	650	9,234	513,673
Balance at December 31, 2013	$ 2,657,650	$ 19,224	$ 12,497	$ -	$ 650	$ 7,063	$ 2,697,084
Ending Balance: individually evaluated for impairment	$ 335,660	$ -	$ -	$ -	$ -	$ -	$ 335,660
Ending Balance: collectively evaluated for impairment	$ 2,321,990	$ 19,224	$ 12,497	$ -	$ 650	$ 7,063	$ 2,361,424
Recorded Investment in Loans Outstanding:							
Ending Balance at December 31, 2013	$ 455,670,605	$ 21,996,111	$ 6,203,015	$ -	$ 357,292	$ 7,567,577	$ 491,794,600
Ending balance for loans individually evaluated for impairment	$ 4,366,060	$ -	$ -	$ -	$ -	$ -	$ 4,366,060
Ending balance for loans collectively evaluated for impairment	$ 451,304,545	$ 21,996,111	$ 6,203,015	$ -	$ 357,292	$ 7,567,577	$ 487,428,540

NOTE 4 — INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities, not fair value, in the accompanying balance sheet. Estimating the fair value of the Association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The Association owns 3.9 percent of the issued stock of the Bank as of December 31, 2015. As of that date, the Bank's assets totaled $20.0 billion and members' equity totaled $1.6 billion. The Bank's earnings were $192.2 million during 2015.

NOTE 5 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2015	2014	2013
Land and improvements	**$ 746,869**	$ 746,869	$ 746,868
Building and improvements	**3,126,657**	2,770,631	2,752,250
Furniture and equipment	**550,689**	505,060	492,211
Computer equipment and software	**262,953**	238,498	242,808
Automobiles	**607,240**	672,947	584,540
Construction in progress	**-**	5,300	-
	5,294,408	4,939,305	4,818,677
Accumulated depreciation	**(1,490,583)**	(1,317,239)	(1,268,940)
Total	**$ 3,803,825**	$ 3,622,066	$ 3,549,737

The Association leased office space in Moulton, Alabama on a month-to-month basis during 2015. The Association does not have a binding contract and the lease can be terminated by the Association at any time without prejudice. Lease expense was $600 for each of the three years ended December 31, 2015, 2014 and 2013. There are no minimum annual lease payments for the next five years.

The Association also entered into new operating leases for office equipment for all branch offices during 2015. Lease expense was $14,507 for the year ended December 31, 2015, with no lease expense for 2014 or 2013. Minimum annual lease payments for the next five years are as follows:

	Operating
2016	$ 41,437
2017	41,437
2018	25,047
2019	-
2020	-
Thereafter	-
Total	$ 107,921

NOTE 6 — OTHER PROPERTY OWNED, NET:

Net gain (loss) on other property owned, net, consists of the following for the years ended December 31:

	2015	2014	2013
Gain on sale, net	**$ 21,917**	$ 1,316,148	$ 244,224
Carrying value adjustments	**(112,928)**	(547,434)	(121,106)
Operating expense, net	**(65,520)**	(71,902)	(56,729)
Net gain (loss) on other property owned	**$ (156,531)**	$ 696,812	$ 66,389

The Association had five properties in Other Property Owned at the beginning of 2015. During 2015, the Association acquired five other properties from various counties in north Alabama. The Association disposed of four properties and two partial tracts during 2015 resulting in a net loss of $156,531. At December 31, 2015, the Association held six properties with a carrying value of $1,453,743, net of allowance, which consisted of approximately 188.0 acres of land.

NOTE 7 — OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2015	2014	2013
Guaranteed loan receivables	$ **46,688**	$ 204,488	$ 168,342
Investment in FCS association captive insurance	**295,701**	260,057	231,595
Other	**118,833**	51,466	42,685
Total	$ **461,222**	$ 516,011	$ 442,622

Other liabilities comprised the following at December 31:

	2015	2014	2013
Accumulated postretirement benefit obligation	$ **1,823,417**	$ 2,010,276	$ 1,533,982
Accounts payable other	**1,007,028**	758,750	723,617
Accrued leave	**246,865**	242,980	225,616
FCS insurance premium	**511,767**	412,925	298,316
Other	**446,992**	122,170	109,097
Total	$ **4,036,069**	$ 3,547,101	$ 2,890,628

NOTE 8 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The Association's indebtedness to the Bank represents borrowings by the Association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the Association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2018, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The total amount and the weighted average interest rate of the Association's direct loan from the Bank at December 31, 2015, 2014 and 2013, was $532,731,825 at 1.9 percent, $474,969,129 at 1.9 percent and $409,070,529 at 1.8 percent, respectively.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2015, 2014 and 2013, the Association's note payable was within the specified limitations. The maximum amount the Association may borrow from the Bank as of December 31, 2015, was $627,943,072 as defined by the general financing agreement.

In addition to borrowing limits, the financing agreement establishes certain covenants, including limits on leases, investments, other debt, and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and provisions for conducting business, maintaining records, reporting financial information, and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, or reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2015, 2014 and 2013, the Association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 9 — MEMBERS' EQUITY:

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

Protection of certain borrower equity is provided under the Act that requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities that were outstanding as of January 6, 1988, or were issued or allocated prior to

October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

In accordance with the Act and the Association's capitalization bylaws, each borrower is required to invest in the Association as a condition of borrowing. The investment in Class A capital stock (for farm loans) and participation certificates (for rural home and farm-related business loans) is equal to 2.0 percent of the loan amount, prior to 2004. In March 2004, on new loans only, the Association changed its stock investment requirement to the lesser of 2.0 percent of the loan amount, or $1,000. In November 2005, the board of directors approved a stock reduction to equalize the stock of all borrowers to 2.0 percent or $1,000, whichever is less.

At a July 2013 special stockholders meeting, the Association's stockholders approved an amendment to the Association's capitalization bylaws addressing the amount of stock a borrower must purchase as a condition of borrowing from the Association. The change affected the range within which the board of directors is authorized to set the stock requirement, and also the manner in which the stock requirement is calculated.

Effective September 1, 2013, the stock requirement changed. This change requires stock requirements to be applied at the borrower level instead of the loan level. The requirement is measured as 2 percent of the aggregate of all of a borrower's loans, up to a maximum of $1,000. Further, if needed to meet regulatory capital adequacy requirements, the maximum amount to which the board of directors may increase the stock requirement is 10 percent of the amount of each of the borrower's loans.

In August 2013, the board of directors approved a "stock equalization" action, or refund of excess stock amounts to borrowers impacted by the conversion of the stock requirement from the loan level to the borrower level. The stock equalization refund had a minimal impact on the Association's permanent capital ratio. The stock equalization refund of $782,125 was paid in the third quarter of 2013.

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

If needed to meet regulatory capital adequacy requirements, the board of directors of the Association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class A capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the Association capital bylaws require the conversion of any borrower's outstanding Class A to Class C stock. Class C stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of Class C shares is made solely at the discretion of the Association's board of directors. At December 31, 2015, 2014 and 2013, the Association had no Class C stock.

All borrower stock is at-risk. As such, losses that result in impairment of capital stock or participation certificates shall be borne on a pro rata basis by all holders of Class A capital stock and participation certificates. In the event of liquidation of the Association, capital stock and participation certificates would be utilized as necessary to satisfy any remaining obligations in excess of the amounts realized on the sale or liquidation of assets. Any excess of the amounts realized on the sale or liquidation of assets over the Association's obligations to external parties and to the Bank would be distributed to the Association's stockholders.

Patronage distributions may be paid on the capital stock and participation certificates of the Association, as the board of directors may determine by resolution, subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following dividends and patronage distributions were declared and paid in 2015, 2014 and 2013, respectively:

Date Declared	Date Paid	Patronage
December 2015	**March 2016**	**$6,178,500**
December 2014	March 2015	$6,455,041
December 2013	March 2014	$6,275,321
December 2012	March 2013	$4,928,805

The FCA's capital adequacy regulations require the Association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2015, the Association is not prohibited from retiring stock or distributing earnings. The Association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2015, were 16.8 percent, 16.4 percent and 16.4 percent, respectively.

As described in Note 2, "Summary of Significant Accounting Policies," included in this annual report, the Bank may increase the percentage of stock held by an association from 2.0 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5.0 percent of the average outstanding balance of borrowings from the Bank. Currently, the required stock investment in the Bank is 2.0 percent of the average borrowings from the previous 12 months. This stock investment reduces the amount of Association capital available for inclusion in the Association's capital adequacy calculations.

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

At December 31, the Association had the following shares of Class A capital stock and participation certificates outstanding at a par value of $5 per share:

	2015	2014	2013
Class A stock	**462,252**	433,873	400,414
Participation certificates	**20,913**	18,805	17,206
Total	**483,165**	452,678	417,620

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes as follows:

Accumulated Other Comprehensive Loss			
December 31, 2015	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ (251,178)**	**$ -**	**$ -**
December 31, 2014	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (539,281)	$ -	$ -
December 31, 2013	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ (89,281)	$ -	$ -

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive loss and the location on the income statement for the year ended December 31:

	2015	2014	2013
Accumulated other comprehensive loss at January 1	**$ (539,281)**	$ (89,281)	$ (355,772)
Amortization of prior service (credit) costs included in salaries and employee benefits	**288,103**	(450,000)	266,491
Accumulated other comprehensive loss at December 31	**$ (251,178)**	$ (539,281)	$ (89,281)

NOTE 10 — INCOME TAXES:

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2015	2014	2013
Federal tax at statutory rate	**$ 4,777,868**	$ 4,226,301	$ 3,775,937
State tax, net	**887,318**	784,885	701,245
Effect of nontaxable FLCA subsidiary	**(6,033,729)**	(5,450,841)	(4,572,993)
Change in valuation allowance	**368,543**	439,655	95,811
Provision for (benefit from) income taxes	**$ -**	$ -	$ -

Deferred tax assets and liabilities in accordance with accounting guidance, "Accounting for Income Taxes," are comprised of the following at December 31:

	2015	2014	2013
Deferred Tax Assets			
Allowance for loan losses	**$ 27,697**	$ 14,062	$ 9,005
Loss carryforwards	**1,395,348**	940,156	351,688
Deferred origination fees	**(280,977)**	(180,694)	(26,823)
Gross deferred tax assets	**1,142,068**	773,524	333,870
Deferred tax asset valuation allowance	**(1,142,068)**	(773,524)	(333,870)
Net deferred tax asset (liability)	**$ -**	$ -	$ -

At December 31, 2015, the Association has a net operating loss carryforward of $3,362,284 available to offset against future taxable income that will expire in 2035.

The Association recorded valuation allowances of $1,142,068, $773,524 and $333,870 during 2015, 2014 and 2013, respectively. The Association will continue to evaluate the realizability of the deferred tax assets and adjust the valuation allowance accordingly.

The Association adopted FASB guidance on accounting for uncertainty in income taxes (originally effective January 1, 2007) when the Association became an ACA in 2010. Upon adoption, the Association did not need to recognize a tax liability for any uncertain tax positions and, at December 31, 2015, 2014 and 2013, the Association did not recognize a tax liability for any uncertain tax position.

NOTE 11 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the Association participate in either the defined benefit retirement plan (DB plan) or the defined contributions plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. These plans are described more fully in section I of Note 2, "Summary of Significant Accounting Policies." The structure of the district's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and Associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon district combination only. The Association records current contributions to the DB plan as an expense in the current year.

The CEO and certain executive or highly compensated employees in the Association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (supplemental 401(k) plan). This plan allows district employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

There were no contributions made to this plan for the years ended December 31, 2015, 2014 and 2013. There were no payments made from the supplemental 401(k) plan to active employees during 2015, 2014 or 2013.

The DB plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by a percentage approved by the plan sponsor. The plan sponsor is the board of the Farm Credit Bank of Texas. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan to facilitate reorganization and/or restructuring. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the district as a whole and is presented in the district's Annual Report to Stockholders. The actuarial present value of vested and nonvested accumulated benefit obligation exceeded the net assets of the DB plan as of December 31, 2015.

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. If the Association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The following table includes additional information regarding the funded status of the plan, the Association's contributions, and the percentage of Association contribution to total plan contributions for the years ended December 31, 2015, 2014 and 2013:

	2015	2014	2013
Funded status of plan	**66.8** %	67.5 %	77.3 %
Association's contribution	**$ 503,767**	$ 626,946	$ 900,567
Percentage of Association's contribution to total contributions	**4.7** %	5.1 %	5.5 %

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 72.5 percent, 74.5 percent and 86.1 percent at December 31, 2015, 2014 and 2013, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in other liabilities. Employees hired prior to January 1, 2004 and who are at least 55 years of age (or at least age 50 with 30 years of service) may retire and have their medical premium paid on a percentage of cost sharing basis predicated on length of employment service. Employees hired before this date, that have reached the age requirement and have 25 years of service will receive 100 percent of their medical premium paid. Employees hired after January 1, 2004, will be eligible for access only to retiree medical benefits for themselves, but will be responsible for 100 percent of the premium.

In October 2014, the Society of Actuaries issued revised mortality tables (RP 2014) and a mortality improvement scale (MP 2014) for use by actuaries, insurance companies, governments, benefit plan sponsors and others in setting assumptions regarding life expectancy in the United States for purposes of estimating pension and other postemployment benefit obligations, costs and required contribution amounts. The new mortality tables indicate substantial life expectancy improvements since the last study published in 2000 (RP 2000).

The following table reflects the benefit obligation, cost and actuarial assumptions for the Association's other postretirement benefits:

Retiree Welfare Benefit Plans

Disclosure Information Related to Retirement Benefits	**2015**	2014	2013
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 2,014,649**	$ 1,533,982	$ 1,737,353
Service cost	**41,741**	31,719	36,791
Interest cost	**90,562**	78,537	75,443
Plan participants' contributions	**7,259**	14,340	10,878
Actuarial loss (gain)	**(274,589)**	416,771	(273,162)
Benefits paid	**(58,782)**	(60,700)	(53,321)
Accumulated postretirement benefit obligation, end of year	**$ 1,820,840**	$ 2,014,649	$ 1,533,982
Change in Plan Assets			
Company contributions	**$ 51,523**	$ 46,360	$ 42,443
Plan participants' contributions	**7,259**	14,340	10,878
Benefits paid	**(58,782)**	(60,700)	(53,321)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Funded status of the plan	**$ (1,820,840)**	$ (2,014,649)	$ (1,533,982)
Amounts Recognized in Statement of Financial Position			
Current liabilities	**$ (53,710)**	$ (54,558)	$ (57,786)
Noncurrent liabilities	**(1,767,130)**	(1,960,091)	(1,476,196)
	$ (1,820,840)	**$ (2,014,649)**	**$ (1,533,982)**
Amounts Recognized in Accumulated Other Comprehensive Income			
Net actuarial loss	**$ 319,411**	$ 637,359	$ 227,731
Prior service credit	**(68,233)**	(98,078)	(138,450)
Total	**$ 251,178**	$ 539,281	$ 89,281
Weighted-Average Assumptions Used to Determine Obligations at Year End			
Measurement date	**12/31/2015**	12/31/2014	12/31/2013
Discount rate	4.7%	4.6%	5.2%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.0%/6.5%	7.3%/6.8%	7.5%/6.5%
Health care cost trend rate assumed for next year - Rx	6.5%	6.8%	6.5%
Ultimate health care cost trend rate	4.5%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2025	2024	2024

Total Cost		**2015**		2014		2013
Service cost	**$**	**41,741**	$	31,719	$	36,791
Interest cost		**90,562**		78,537		75,443
Amortization of:						
Unrecognized prior service cost		**(29,845)**		(40,372)		(40,372)
Unrecognized net loss		**43,359**		7,143		33,701
Net postretirement benefit cost	**$**	**145,817**	$	77,027	$	105,563
Accounting for settlements/curtailments/special termination benefits	**$**	**-**	$	-	$	-
Other Changes in Plan Assets and Projected Benefit Obligation Recognized in Other Comprehensive Income						
Net actuarial loss (gain)	**$**	**(274,589)**	$	416,771	$	(273,162)
Amortization of net actuarial gain		**(43,359)**		(7,143)		(33,701)
Prior service cost		**29,845**		40,372		40,372
Total recognized in other comprehensive income	**$**	**(288,103)**	$	450,000	$	(266,491)
AOCI Amounts Expected to be Amortized Into Expense in 2015						
Unrecognized prior service cost	**$**	**(24,811)**	$	(29,845)	$	(40,372)
Unrecognized net loss		**13,126**		43,359		7,143
Total	**$**	**(11,685)**	$	13,514	$	(33,229)
Weighted-Average Assumptions Used to Determine Benefit Cost						
Measurement date		**12/31/2014**		12/31/2013		12/31/2012
Discount rate		**4.6%**		5.2%		4.4%
Health care cost trend rate assumed for next year (pre-/post-65) - medical		**7.3%/6.8%**		7.5%/6.5%		7.3%/6.5%
Health care cost trend rate assumed for next year - Rx		**6.8%**		6.5%		7.8%
Ultimate health care cost trend rate		**5.0%**		5.0%		5.0%
Year that the rate reaches the ultimate trend rate		**2024**		2024		2018

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)		
Fiscal 2016	**$**	**53,710**
Fiscal 2017		**60,685**
Fiscal 2018		**73,480**
Fiscal 2019		**79,729**
Fiscal 2020–2024		**81,521**
Fiscal 2021–2025		**412,501**
Expected Contributions		
Fiscal 2016	**$**	**53,710**

NOTE 12 — RELATED PARTY TRANSACTIONS:

Directors of the Association, except for any director-elected directors, are required to be borrowers/stockholders of the Association. Also, in the ordinary course of business, the Association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors, or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the Association amounted to $8,760,690, $9,905,264 and $9,136,015 at December 31, 2015, 2014 and 2013, respectively. During 2015, $2,576,371 of new loans were made, repayments totaled $2,187,656, and $1,533,289 in net transfers out due to resignation and hiring of directors and termination and hiring of Association employees. In the opinion of management, no such loans outstanding at December 31, 2015, 2014 and 2013 involved more than a normal risk of collectability.

Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems and accounting services and allocations of expenses incurred by the Bank and passed through to the Associations, such as FCSIC expenses. The Bank charges the individual Associations directly for these services based on each Association's proportionate usage. These expenses totaled $557,266, $461,756 and $339,211 in 2015, 2014 and 2013, respectively.

The Association received patronage payments from the Bank totaling $2,276,514, $2,050,174 and $1,849,359 during 2015, 2014 and 2013, respectively.

NOTE 13 — FAIR VALUE MEASUREMENTS:

Accounting 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. See Note 2, "Summary of Significant Accounting Policies," for additional information.

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Information about Other Financial Instrument Fair Value Measurements:

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Note payable to Farm Credit Bank of Texas	Discounted cash flow	Benchmark yield curve Derived yield spread Own credit risk

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

December 31, 2015	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans	**$ -**	**$ -**	**$ 817,646**	**$ 817,646**
Other property owned	**-**	**-**	**1,537,458**	**1,537,458**

December 31, 2014	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 748,249	$ 748,249
Other property owned	-	-	1,562,694	1,562,694

December 31, 2013	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans	$ -	$ -	$ 69,447	$ 69,447
Other property owned	-	-	2,998,355	2,998,355

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the balance sheet for each of the fair value hierarchy values are summarized as follows:

	December 31, 2015 Fair Value Measurement Using				
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets:					
Cash	**$ 42,156**	**$ 42,156**	**$ -**	**$ -**	**$ 42,156**
Net loans	**620,247,521**	**-**	**-**	**622,584,934**	**622,584,934**
Total Assets	**$ 620,289,677**	**$ 42,156**	**$ -**	**$ 622,584,934**	**$ 622,627,090**
Liabilities:					
Note payable to Farm Credit Bank of Texas	**$ 532,731,825**	**$ -**	**$ -**	**$ 534,724,657**	**$ 534,724,657**
Total Liabilities	**$ 532,731,825**	**$ -**	**$ -**	**$ 534,724,657**	**$ 534,724,657**

	December 31, 2014 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 85,367	$ 85,367	$ -	$ -	$ 85,367
Net loans	555,825,023	-	-	560,128,169	560,128,169
Total Assets	$ 555,910,390	$ 85,367	$ -	$ 560,128,169	$ 560,213,536
Liabilities:					
Note payable to Farm Credit Bank of Texas	$ 474,969,129	$ -	$ -	$ 478,616,612	$ 478,616,612
Total Liabilities	$ 474,969,129	$ -	$ -	$ 478,616,612	$ 478,616,612

	December 31, 2013 Fair Value Measurement Using				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$ 17,899	$ 17,899	$ -	$ -	$ 17,899
Net loans	484,266,045	-	-	485,313,574	485,313,574
Total Assets	$ 484,283,944	$ 17,899	$ -	$ 485,313,574	$ 485,331,473
Liabilities:					
Note payable to Farm Credit Bank of Texas	$ 409,070,529	$ -	$ -	$ 409,950,374	$ 409,950,374
Total Liabilities	$ 409,070,529	$ -	$ -	$ 409,950,374	$ 409,950,374

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting guidance 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. The following represents a brief summary of the valuation techniques used by the Association for assets and liabilities:

Loans

For certain loans evaluated for impairment under impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. 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. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Note Payable

The note payable to the Bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the Association's and Bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the Association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair value would be indicative of the value negotiated in an actual sale.

NOTE 14 — COMMITMENTS AND CONTINGENCIES

In addition to those commitments and contingencies discussed in Note 2, "Summary of Significant Accounting Policies," the Association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial 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. At December 31, 2015, the Association had $51,475,380 of unfunded credit commitments and no commercial letters of credit outstanding.

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

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. At December 31, 2015, $506,290 of standby letters of credit were issued primarily in conjunction with participation loans. The fair value of these obligations at December 31, 2015 is based on the fees for the unexpired period remaining, which are negligible.

NOTE 15 — QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 (in thousands) follow:

	2015				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 4,743**	**$ 4,749**	**$ 4,800**	**$ 4,912**	**$ 19,204**
(Provision for) reversal of loan losses	**120**	**(151)**	**(202)**	**35**	**(198)**
Noninterest income (expense), net	**(1,389)**	**(1,537)**	**(1,455)**	**(974)**	**(5,355)**
Net income	**$ 3,474**	**$ 3,061**	**$ 3,143**	**$ 3,973**	**$ 13,651**

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 4,284	$ 4,286	$ 4,385	$ 4,585	$ 17,540
(Provision for) reversal of loan losses	(58)	75	(1,397)	(153)	(1,533)
Noninterest income (expense), net	(1,114)	(1,177)	(133)	(1,508)	(3,932)
Net income	$ 3,112	$ 3,184	$ 2,855	$ 2,924	$ 12,075

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 3,973	$ 3,958	$ 4,073	$ 4,167	$ 16,171
(Provision for) reversal of loan losses	(56)	15	(743)	270	(514)
Noninterest income (expense), net	(1,348)	(966)	(1,387)	(1,168)	(4,869)
Net income	$ 2,569	$ 3,007	$ 1,943	$ 3,269	$ 10,788

NOTE 16 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through March 11, 2016, which is the date the financial statements were issued or available to be issued.

There are no subsequent events requiring disclosure as of March 11, 2016.

DISCLOSURE INFORMATION AND INDEX

Disclosures Required by Farm Credit Administration Regulations

DESCRIPTION OF BUSINESS

The description of the territory served, the persons eligible to borrow, the types of lending activities engaged in and the financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report.

The descriptions of significant developments that had or could have a material impact on earnings, interest rates to borrowers, patronage, or dividends and acquisitions or dispositions of material assets, changes in the reporting entity, changes in patronage policies or practices and financial assistance provided by or to the Association through loss sharing or capital preservation agreements or from any other source, if any, required to be disclosed in this section are incorporated herein by reference from "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

The Alabama Farm Credit, ACA (Association) serves its 27-county territory through its main administrative and lending office at 1740 Eva Road NE, Cullman, Alabama 35055. Additionally, there are five branch lending offices located throughout the territory. The Association owns the office buildings in Albertville, Athens, Cullman, Talladega and Tuscumbia, free of debt. The Association leases an outpost in Moulton.

LEGAL PROCEEDINGS

In the ordinary course of business, the Association is involved in various legal proceedings. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the consolidated financial statements of the Association.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference from Note 9 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 8, "Note Payable to the Bank," Note 11, "Employee Benefit Plans" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Notes 2 and 14 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The Association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

The annual and quarterly stockholder reports of the Farm Credit Bank of Texas (Bank) and of the Texas Farm Credit District (district) are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the Bank and district annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditBank.com*. The annual and quarterly stockholder reports are also available on its website at *www.farmcreditBank.com*.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Alabama Farm Credit, ACA, PO Box 639, Cullman, Alabama 35056 or calling (256) 737-7128. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *karri.sumrall@alabamafarmcredit.com*. The Association's annual stockholder report is available on its website at *www.alabamafarmcredit.com* 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2015, required to be disclosed, is incorporated herein by reference to the "Five-Year Summary of Selected Consolidated Financial Data" included in this annual report to stockholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis," which precedes the consolidated financial statements in this annual report, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The Association's member-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	DATE ELECTED/ EMPLOYED	TERM EXPIRES	TIME IN CURRENT POSITION
Loyd Rutherford	Chairman	1990	2016	-
Matthew J. Christjohn, DVM	Vice Chairman	2005	2017	-
Larry Don McGee	Member	1997	2018	-
John Walton Anderson	Member	1998	Vacated 9/22/2015	-
Stewart McGill	Member	Appointed 1/1/2016	2016	-
Jimmy Wayne Harvey	Member	2006	2015	-
Danny R. Baugh	Member	2015	2018	
Benny Neal Smith	Member	1996	2017	-
John R. Adams, CPA	Director – Elected Director	2006	2018	-
Hugh C. Harris	Director – Elected Director	2014	2017	-
K. Ben Gore	President /Chief Executive Officer	1989	-	7.3 years
Ralph D. Stewart	Executive Vice President/Chief Credit Officer	2009	-	6.5 years
Karri H. Sumrall, CPA	Executive Vice President/Chief Financial Officer	2003	-	12.5 years
C. Greg Copeland	Senior Vice President	1989	-	1.3 years

The Association currently has a vacant position on the board. This position was vacated on September 22, 2015 by Mr. John Walton Anderson. On December 16, 2015, the board appointed Mr. Stewart McGill to replace Mr. Anderson and serve out the remaining term expiring in 2016. Mr. McGill's appointment was effective January 1, 2016.

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Loyd Rutherford, age 74. Mr. Rutherford is semi-retired living in Lawrence County. Before retiring he worked for 32 years with a local cooperative along with raising cotton, soybeans, cattle and broilers. He has been on the Association board since 1990 and has served as chairman since 1995. He currently serves as the chairman of the Association's compensation committee. Mr. Rutherford serves on the stockholders' advisory committee and the district benefits administrative committee for the Farm Credit Bank of Texas. He is a member of the Farm Credit Benefit Alliance plan sponsor committee, which services both AgFirst Bank and the Farm Credit Bank of Texas. He also serves on the Tenth District Farm Credit Council board and the National Farm Credit Council board headquartered in Washington D.C. (currently serving as chair of the FCC audit committee). He also serves on the board of the Farm Credit Council Services board headquartered in Denver, Colorado. Mr. Rutherford owns and operates JRL, Inc., a construction and development company in Moulton, Alabama.

Matthew J. Christjohn, DVM, age 44. Dr. Christjohn is the owner and operator of Large Animal Veterinary Services, LLC, a practice concentrating on farm animals – mainly cattle and horses. The business covers territory in Alabama, Georgia, Florida and Oklahoma. Dr. Christjohn received his Animal & Dairy Science degree from Auburn University in 1992, Doctor of Veterinary Medicine degree from Auburn University in 1995 and Master of Business Administration from the University of Phoenix in January 2008. In addition to his business, he presently owns and operates a 360-acre cattle farm in Wedowee, Alabama operating as Sandy Creek Branch, LLC. Dr. Christjohn is a member of the American and Alabama Veterinary Medical Associations, Society for Theriogenology, American Association of Bovine Practitioners, Academy of Veterinary Consultants, National Cattleman's Beef Association, Alabama Cattlemen's Association and the Florida Cattlemen's Association. Dr. Christjohn is also a member of the Association's audit committee. The primary function of the audit committee is to assist the board of directors in fulfilling its oversight responsibilities relating to the quality of financial reporting, the system of internal controls, the audit process, and the Association's process for monitoring compliance with laws and regulations and the code of conduct.

Danny Ray Baugh, age 59. Mr. Baugh is a full-time cattle and poultry farmer from Marshall County. He owns and operates a 285-acre farm in Marshall County. Mr. Baugh runs an approximately 160-head cow-calf operation, along with a 200-acre hay operation on rented lands. He currently grows for Wayne Farms, operating eight broiler houses with a farm capacity of 176,000. Mr. Baugh retired from Albertville Municipal Utilities Board in 2005 as their water plant manager after 30 years of service. He is a member of the Alabama Poultry and Egg Association, Alabama Cattlemen's Association, Marshall County Farmers Cooperative and Marshall/DeKalb Electric Cooperative.

Larry Don McGee, age 66. Mr. McGee is a full-time poultry and cattle farmer from Jackson County. He owns and operates 500 acres in Jackson and DeKalb counties. He has approximately 200 head of brood cows along with three pullet houses with a capacity of 21,000. He has been the owner/operator of L&D Farms for the past 29 years. He is a member of DeKalb County Cattlemen's Association and the Alabama Poultry & Egg Association. Mr. McGee serves on the Association's audit committee. The primary function of the audit committee is to assist the board of directors in fulfilling its oversight responsibilities relating to the quality of financial reporting, the system of internal controls, the audit process, and the Association's process for monitoring compliance with laws and regulations and the code of conduct.

Benny Neal Smith, age 77. Mr. Smith is retired from Synergy Gas Company after 33 years as a route salesman. He operates an approximately 100-acre cattle and poultry farm in Etowah County. He has approximately 50 brood cows along with a broiler contract from Pilgrims Poultry Company having a farm capacity of 110,000 broilers. He has been in the poultry business for over 45 years. He is a member of the Alabama Poultry and Egg Association, the Alabama Cattlemen's Association and a director for Cherokee County Electric Cooperative. Mr. Smith is also a member of the Association's compensation committee. The primary function of the compensation committee is to provide assistance to the board of directors in fulfilling the board's responsibilities on matters relating to compensating the board and the Association's CEO, reviewing the compensation policies and plans for senior officers and employees, including incentive compensation plans and benefits, overseeing the Association's management succession planning, and engaging in such other matters as may from time to time be specifically delegated to the committee by the board.

John Walton Anderson, age 70. Mr. Anderson is a full-time row crop farmer in Limestone County. He has been farming for the past 40 years and his operation consists of approximately 4,000 acres of cropland, pasture and timber. His current operation includes 2,000 acres of row crops. Mr. Anderson is owner or part owner in Andy Anderson Farms, JWA, Inc., BJI Inc. and Anderson Farms, Inc., all which are farming operations. Mr. Anderson is also a member of the Association's compensation committee. The primary function of the compensation committee is to provide assistance to the board of directors in fulfilling the board's responsibilities on matters relating to compensating the board and the Association's CEO, reviewing the compensation policies and plans for senior officers and employees, including incentive compensation plans and benefits, overseeing the Association's management succession planning, and engaging in such other matters as may from time to time be specifically delegated to the committee by the board. Mr. Anderson vacated his board position on September 22, 2015.

Stewart McGill, age 34. Mr. McGill is the owner and operator of McGill Farms. McGill Farms is an approximately 515-acre row crop operation in Madison County farming wheat, soybeans and corn. Additionally, Mr. McGill is the Operations Manager of Tate Farms Row Crop and Agritourism Management and an agent with State Tate Insurance. Mr. McGill is a member of the Alabama Farmers Federation – Young Farmers. Mr. McGill was appointed by the board to fill the position vacated by Mr. John Walton Anderson at a special meeting held on December 16, 2015. Mr. McGill's appointment was effective January 1, 2016.

John R. Adams, CPA, age 56. Mr. Adams is a certified public accountant with over 30 years' experience in public accounting. He is a partner in a local accounting firm in Decatur, Alabama. Mr. Adams received his Bachelor of Science degree with a major in accounting from the University of Alabama. He is a member of the American Institute of Certified Public Accountants, Alabama Society of Certified Public Accountants and National Society of Accountants for Cooperatives. Mr. Adams is also the chairman of the Association's audit committee. The primary function of the audit committee is to assist the board of directors in fulfilling its oversight responsibilities relating to the quality of financial reporting, the system of internal controls, the audit process, and the Association's process for monitoring compliance with laws and regulations and the code of conduct.

Hugh C. Harris, age 64. Mr. Harris is a practicing attorney with over 38 years in the legal profession. Mr. Harris received both his undergraduate and juris doctorate degrees from the University of Alabama. He spent his first 11 years as deputy district attorney for Cullman County, Alabama and has been in the private practice of law since 1987. He practices in the law firm of Bland, Harris & McClellan, in Cullman, Alabama, and is a member of the Cullman County Bar Association, Alabama State Bar and the Alabama Defense Lawyers Association. Mr. Harris is also a member of the Association's compensation committee. The primary function of the compensation committee is to provide assistance to the board of directors in fulfilling the board's responsibilities on matters relating to compensating the board and the Association's CEO, reviewing the compensation policies and plans for senior officers and employees, including incentive compensation plans and benefits, overseeing the Association's management succession planning, and engaging in such other matters as may from time to time be specifically delegated to the committee by the board. He serves as a director of the East Cullman Water Board and is an active member of the Alabama and Cullman Cattlemen's Association. Mr. Harris operates a small part-time cow-calf farm in Cullman County.

K. Ben Gore, age 63, President/Chief Executive Officer. Mr. Gore has been CEO since January 1, 2009. Mr. Gore has a total of 40 years' experience with the Farm Credit System.

Ralph D. Stewart, age 43, Executive Vice President/Chief Credit Officer. Mr. Stewart was employed by the Association in September 2009. Mr. Stewart has over 17 years' experience with the Farm Credit System.

Karri H. Sumrall, CPA, age 44, Executive Vice President/Chief Financial Officer. Ms. Sumrall is a certified public accountant with over eight years of experience in public accounting with an emphasis in financial institutions and has over 12 years' experience with the Farm Credit System. Additionally, Ms. Sumrall is a director/member of Sumrall Holdings, LLC, an insurance agency operated solely by Ms. Sumrall's spouse, and she has no direct part in its operation.

C. Greg Copeland, age 55, Senior Vice President/Branch Manager. Mr. Copeland has been the Branch Manager of the Albertville branch since January 1, 2009. Mr. Copeland has a total of 32 years' experience with the Farm Credit System.

COMPENSATION OF DIRECTORS

Directors were compensated for their service to the Association in the form of an honorarium at the rate of $750 per month and $500 per day for regular, special and committee meetings. Directors receive an additional $150 for special and committee meetings held on the same day as the regular board meeting. Additionally, the directors receive $100 for each conference call meeting. Certain expenses incurred by directors while representing the Association in an official capacity were reimbursed. Mileage for attending official meetings during 2015 was paid at the IRS-approved rate of 57.5 cents per mile. A copy of the travel policy is available to stockholders of the Association upon request.

Director	Board Meetings	Other Official Activities	2015 Total Compensation
Loyd Rutherford	12	33	$ 31,200
Matthew J. Christjohn, DVM	12	14	22,050
Larry Don McGee	12	14	22,050
John Walton Anderson	7	5	12,350
Jimmy Wayne Harvey	3	12	9,350
Danny Baugh	9	10	15,850
Benny Neal Smith	12	11	19,700
John R. Adams, CPA	12	18	24,050
Hugh C. Harris	12	12	20,600
			$ 177,200

The aggregate compensation paid to directors in 2015, 2014 and 2013 was $177,200, $163,850 and $147,350, respectively. Additionally, no director received noncash compensation exceeding $5,000 in 2015, 2014 or 2013.

Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

	Committee	
Director	**Audit**	**Compensation**
John Adams, CPA	$ 1,950	
Loyd Rutherford		$ 1,000
John Walton Anderson		100
Larry Don McGee	1,950	
Matthew J. Christjohn, DVM	1,950	
Hugh Harris		1,000
Jimmy Harvey		100
Benny Neal Smith		1,100
	$ 5,850	$ 3,300

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $82,558, $59,617 and $51,179 in 2015, 2014 and 2013, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Chief Executive Officer (CEO) and Senior Officers

Overview

A critical factor to the Association's success is its ability to attract, develop and retain staff that is knowledgeable and efficient in their ability to support the Association in the execution of its strategic objectives and delivery of Association results that maximize the value to the stockholders. This objective holds particularly true for the Association's Chief Executive Officer (CEO) and senior officer group. The Association operates utilizing a compensation program which focuses on the performance and contributions of its employees in achieving the Association's financial and operational objectives, all for the ultimate benefit of its stockholder/members. The Association's board of directors, through its compensation committee, establishes salary and incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure that salary and incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for the Association's evaluation and establishment of salary and incentive plans used by the Association.

Association employees, including senior officers, can earn compensation above base salary through an annual success-sharing incentive plan. The term of the plan is each calendar year beginning January 1 through December 31. The plan is based upon the achievement of predetermined Association performance goals for return on assets, net loan growth, credit quality and delinquency volume. The plan places more emphasis on earnings (return on assets) than any other factor in the plan and is approved by the board of directors annually. All full-time employees that have been employed at least three months are eligible to earn an individual incentive up to 30 percent of their annual salary based upon their individual performance objectives. The following criteria is also used for determining eligibility for the incentive pay: (1) the Association must not be in default of the General Financing Agreement with the Farm Credit Bank of Texas; (2) the Association cannot receive an overall rating of "unsatisfactory" on credit administration by the Internal Credit Review and/or FCA examinations; (3) the employee's branch office cannot receive an overall rating of "unsatisfactory" on credit administration; (4) there must be material income from operations beyond what is needed to fund the incentive plan; and (5) eligible employees must receive an annual performance rating of "meets" on his/her individual performance review.

Association employees have the opportunity to earn commissions on revenue generated from sales of credit life, term life and crop insurance. The Association participates in a program with outside insurance companies to provide borrowers the opportunity to purchase the insurance. Employees who generate the insurance sales receive a portion of the commissions received by the Association. Amounts paid under these plans are paid no later than January following the close of the plan term and are included in "Other" in the table on the following page.

The Association provides certain employees use of Association automobiles. The employees' personal use of these automobiles is governed by the Association's board-approved travel and vehicle policy as well as IRS rules. Employees assigned a vehicle are required to maintain a business mileage log. Personal use of these vehicles is calculated and reported in compliance with current IRS regulations. Amounts for personal use of an Association vehicle are included in "Deferred/Perquisite" in the table below.

Employees who use their personal automobile for business purposes were reimbursed during 2015 at the IRS-approved rate of 57.5 cents per mile.

The Association's travel policy allows spousal travel in some instances. Travel expenses reimbursed for spousal travel are considered to be paid to the employee or director under a nonaccountable plan and are therefore included in their gross income or IRS Form 1099 in accordance with IRS guidelines. Amounts relating to reimbursed travel expenses are included in "Deferred/Perquisite" in the table below.

As discussed in Note 2, "Summary of Significant Accounting Policies," and Note 11, "Employee Benefit Plans," the Association participates in the Farm Credit Benefits Alliance 401(k) Plan and the Defined Contribution (DC) Plan. Amounts contributed by the Association to the 401(k) and DC plans on behalf of the CEO and senior officers are included in the "Deferred/Perquisite" column in the compensation table below.

Association policy allows for reimbursement of tuition and related education expenses incurred in connection with approved undergraduate and/or graduate level coursework. The program is available to all full-time, permanent employees.

The Association also provides group term life insurance to all employees in an amount equal to double the employees' respective salaries. To the extent that the value of this life insurance exceeds $50,000, an amount is added to each respective employee's taxable earnings using the IRS-approved calculation. These payments are included in "Other" in the table below.

Additionally, the Association employs a program for the health and well-being of its employees. All full-time, permanent employees are eligible to participate in the program, which allows for reimbursement of physical fitness related expenses up to $360 per year, per employee. These payments are included in "Other" in the table below.

Retirement gifts and any payout of unused annual leave at retirement are included in "Other" in the table below.

Neither the CEO nor any other senior officer received non-cash compensation exceeding $5,000 in 2015, 2014 or 2013.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting Association business. A copy of the Association's travel policy is available to shareholders upon request.

Summary Compensation Table

The following table summarizes the compensation paid to the CEO and all senior officers of the Association during 2015, 2014 and 2013. This may include other non-senior officers if their total compensation is within the top five highest paid employees. Amounts reflected in the table are presented in the year the compensation was earned.

Name of Individual or number in group (a)	Year	Salary (b)	Bonus (c)	Change in Pension Value (d)	Deferred/ Perquisite (e)	Other (f)	Total
K. Ben Gore							
President/CEO	**2015**	**$ 250,010**	**$ 72,600**	**$ (136,688)**	**$ 20,584**	**$ 3,168**	**$ 209,674**
	2014	225,009	55,238	717,253	18,651	3,168	1,019,319
	2013	215,008	49,826	214,284	17,934	3,010	500,062
Aggregate Number of Senior Officers (& other highly compensated empoyees)							
(5)	**2015**	**$ 686,979**	**$ 193,991**	**$ 26,069**	**$ 96,951**	**$ 1,647**	**$ 1,005,637**
(7)	2014	717,670	168,044	1,054,075	89,905	23,027	2,052,721
(5)	2013	604,280	126,000	522,570	78,092	2,921	1,333,863

(a) Aggregate number of senior officers/highly compensated individuals, excluding CEO.
(b) Gross salary, including retention plan compensation for certain senior officers.

(c) Bonuses paid within the first 30 days of the subsequent calendar year.
(d) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.
(e) Deferred/Perquisites include contributions to 401(k) and defined contribution plans, supplemental 401(k) discretionary contributions, automobile benefits and spousal travel reimbursements in accordance with IRS guidelines.
(f) Amounts in the "Other" column include group term life insurance, service awards, health and wellness reimbursements, insurance commissions and annual leave paid out upon retirement or termination.

For the years 2014 and 2013, the highly compensated employees included employees who were not senior officers but due to the change in value of their pension plan their total salary was included in the top five. During 2015, FCA issued guidance that excluded the change in pension value as a determination in the top five senior officers or highly compensated employees.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the institution upon request.

The Association's voting shareholders have the authority to cast a vote in an advisory vote on the Association's CEO and/or senior officer compensation if 5 percent of the total voting stockholders submit a petition to do so. The petition and the advisory vote will be conducted in accordance with the Association's policies and procedures. If a vote were to occur in the future, the results would be shared with the shareholders. The results of any advisory vote are non-binding on the Association's compensation committee and the Association's board of directors. Also, if the compensation for either the CEO or the aggregate senior officer group increased 15 percent or more from the previous reporting period, the Association must hold an advisory vote. To date, no advisory votes on the Association's CEO and senior officer compensation have occurred.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2015:

Pension Benefits Table:

Name	**Plan Name**	**Number of Years Credited Service**	**Present Value of Accumulated Benefit**	**Payments During 2015**
K. Ben Gore President/CEO	Farm Credit Bank of Texas Pension Plan	41.6	$ 3,017,170	$ -
Aggregate Number of Senior Officers (& other highly compensated employees, if applicable) (1)		33.3	$ 1,226,018	$ -

Pension Benefits Table Narrative Disclosure

The CEO and one of the other top paid employees or senior officers of the Association participate in the Farm Credit Bank of Texas Pension Plan (the "Pension Plan"), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over the 60 consecutive months that produce the highest average after 1996 ("FAC60"). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation items and (ii) "Years of Benefit Service" (not to exceed 35). The present value of the senior officers' accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial reporting purposes with the retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the senior officers are married on the date the annuity begins, that the spouse is exactly two years younger than the senior officers, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Other Supplemental Retirement Plans Funded by the Association on Behalf of Senior Officers and Employees

The Association sponsors a defined contribution supplemental retirement plan eligible to employees whose compensation exceeds the IRS threshold of $115,000 in the preceding year. This plan would allow for an employee to restore their contributions restricted by IRS limits to salary, elective deferrals made by employees to defer compensation out to a future date, discretionary contributions made by the Association to a select group of employees and a retention feature using vesting schedules for discretionary contributions. This plan is a nonqualified 401(k) plan. No contributions have been made to the plan to date.

Employees assigned Association automobiles reimburse the Association for personal miles at a board-established rate. Employees who use their personal automobiles for business purposes were reimbursed during 2015 at the IRS-approved rate of 57.5 cents per mile.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section, are incorporated herein by reference from Note 13 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the Association's officers or directors have been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as a director or senior officer.

RELATIONSHIP WITH INDEPENDENT AUDITOR

The Association's audit committee engaged the independent accounting firm of PricewaterhouseCoopers, LLC (PwC) to perform the annual audit of the Association's financial statements included in this annual report. The total fees paid per the 2015 audit engagement letter for professional services rendered for the Association by PwC were $53,750.

RELATIONSHIP WITH UNINCORPORATED BUSINESS ENTITIES

The Association had no relationships with unincorporated business entities at December 31, 2015.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers, LLC dated March 11, 2016, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. Our directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the Association or its members.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS

The Association is committed to meeting the needs of Young, Beginning and Small (YBS) farmers and ranchers and recognizes the need to support these operators to ensure a strong agricultural community for the future. Support of YBS lending activities is a priority in the Association. Additional employee time and other resources are combined with the most liberal application of the Association's underwriting standards possible to meet the credit needs of YBS farmers and ranchers. In addition, the Association actively supports other programs, events, scholarships and educational activities that benefit young people who will become the agricultural providers of tomorrow.

The Association sets minimum standards and monitors its YBS performance on a regular basis. These results are also compared to the demographics of the territory it serves as reflected in the USDA Census of Agriculture (Census).

Definitions for "young", "beginning" and "small" farmers and ranchers used by the Association are:

- Young: Age 35 or younger as of the loan date
- Beginning: 10 years or less of farming, ranching or aquatic experience as of the loan date
- Small: Less than $250,000 in annual gross sales of agricultural products

Slight differences noted between the Census and our YBS information is as follows:

- The Census shows young farmers in a group up to age 34, whereas the Association's YBS information shows young farmers up to age 35.
- The Census shows years on present farm a class up to 9 years, whereas the Association's YBS information shows 10 years or less for a beginning farmer.
- The Census data is based on number of farms, whereas the Association's YBS information is based on number of loans.

The 2012 USDA Census of Agriculture for Alabama indicates that 4.7 percent of farm operators are "young," 19.2 percent are "beginning" and 91.0 percent of the farms are "small". The Association's YBS lending goals per its 2015 business plan were as follows:

YBS Class	Percentage of Total Loans	Percentage of Loan Volume
Young	>23%	>27%
Beginning	>44%	>47%
Small	>70%	>51%

The Association's YBS loans, as a percentage of total loans outstanding as of December 31, are reflected in the table below for the past three years:

	2013		2014		2015	
	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume	% of Total Loans	% of Loan Volume
Young	25.5%	29.1%	24.9%	28.5%	26.3%	29.1%
Beginning	48.5%	48.2%	47.8%	47.7%	48.5%	47.9%
Small	78.4%	67.4%	77.1%	62.8%	75.3%	59.5%

The Association's YBS loans, as a percentage of all loans closed each year, are reflected in the table below for the past three years:

	2013		**2014**		**2015**	
	% of New Loans	% of New Loan Volume	% of New Loans	% of New Loan Volume	% of New Loans	% of New Loan Volume
Young	24.5%	30.0%	23.0%	27.9%	30.3%	32.0%
Beginning	46.0%	47.1%	44.3%	47.2%	47.5%	48.3%
Small	69.7%	56.9%	70.6%	51.2%	65.4%	50.9%

For purposes of the above tables, a loan could be classified in more than one category depending upon the characteristics of the underlying borrower. The number and volume of loans in many cases falls into more than one category. For example, a 32-year-old farmer with farm income of $150,000 would be counted in the statistics for both "young" and "small" categories.

The Association continues to provide credit to YBS farmers and ranchers at high levels as reflected by the above comparative data. Emphasis on this area of the Association's lending business will continue to be a priority.