*AgCarolina Farm Credit, ACA*

# FIRST QUARTER 2015

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## CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2015 quarterly report of AgCarolina Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Audie M. Murphy
Chairman of the Board

David W. Corum
President
Chief Executive Officer

Matthew J. Currin
Senior Vice President
Chief Financial Officer

May 8, 2015

*AgCarolina Farm Credit, ACA*

# Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2015. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of March 31, 2015, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2015.

David W. Corum
President
Chief Executive Officer

Matthew J. Currin
Senior Vice President
Chief Financial Officer

May 8, 2015

## *AgCarolina Farm Credit, ACA*

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of AgCarolina Farm Credit, ACA (Association) for the three months ended March 31, 2015. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2014 annual report of the Association.

**LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The five predominant commodities in the portfolio are tobacco, forestry, soybeans, poultry and corn, which constitute $521,185 or 55.44 percent, of the loan portfolio as of March 31, 2015. Other major farm commodities include swine, cotton, and sweet potatoes. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on a given commodity.

The net loan volume of the Association as of March 31, 2015, was $940,070, a decrease of $40,111 or 4.09 percent as compared to $980,181 at December 31, 2014. Net loans accounted for 96.89 percent of total assets at March 31, 2015 as compared to 95.24 percent of total assets at December 31, 2014. The decrease in net loan volume during the reporting period is primarily attributed to seasonal lending. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and declines in the fall and winter months as farm commodities are marketed and proceeds are applied to the operating loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans increased from $11,460 at December 31, 2014 to $12,284 at March 31, 2015, an increase of $824 or 7.19 percent. The increase is due to the transfer of two relationships into nonaccrual during 2015.

Association management maintains an allowance for loan losses at a level considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2015 was $11,575 as compared to $11,602 at December 31, 2014, a decrease of $27. The main reason for this decrease was net charge-offs of $27. The ratio of the allowance for loan losses to total loans at March 31, 2015 was 1.23 percent, which was slightly higher than the prior year end. The allowance was considered by management to be adequate to cover possible losses.

The Association had no acquired property as of March 31, 2015, which was consistent with the balance at December 31, 2014.

**RESULTS OF OPERATIONS**

***For the three months ended March 31, 2015***

Net income for the three months ended March 31, 2015 totaled $4,071, a decrease of $4,305 or 5.44 percent, as compared to the same period of 2014. The primary reason for the increase in net income as compared to the previous period is due to a decrease in net interest income of $160, which was a result of decreased nonaccrual interest income and increased interest expense. Noninterest expense increased by $211, which was offset by an increase in noninterest income of $63.

For the three months ended March 31, 2015, total interest income increased by $97 compared to the same period of 2014. The increase in interest income is due primarily to growth in loan volume over the same period in 2014. Interest income from nonaccrual loans was $50 for the three months ended March 31, 2015, a decrease of $306 from the same period of 2014. Interest expense increased $258 for the three months ended March 31, 2015, as compared to the same period of 2014. The increase in interest expense is attributed to growth in the direct note due to loan volume growth as well as increased interest rates.

Noninterest income for the three months ended March 31, 2015 totaled $2,818 as compared to $2,755 for the same period of 2014, an increase of $63. The overall increase is primarily due to the increase in patronage income from other Farm Credit Institutions. General patronage income from AgFirst and other sources actually increased in correlation with loan and direct note growth. Loan fees and fees for financially related services decreased a combined $13 for the period.

Noninterest expense for the three months ended March 31, 2015 was $5,185, an increase of $211, or 4.25 percent as compared to the same period of 2014. The reason for the overall increase is due primarily to an increase in salaries and employee benefits in the amount of $312, and an increase in insurance fund premiums of $22. The increase in salaries and employee benefits is primarily due to additional hiring and normal salary increases and bonuses as well as increased benefit costs, most notably health insurance costs. The insurance fund premium increase was a result of increase premium factors in 2015 as well as growth in the portfolio. These increases were offset by a decrease in other operating expenses of $99.

## LIQUIDITY AND FUNDING SOURCES

*Liquidity*

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

*Funding Sources*

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2015 was $703,072 as compared to $768,380 at December 31, 2014. The 8.50 percent decrease during the period was a result of a corresponding decrease in loan volume and increase in loanable funds since December 31, 2014.

The Association has no lines of credit outstanding with third parties as of March 31, 2015.

## CAPITAL RESOURCES

Total members' equity at March 31, 2015, increased 4.92 percent to $240,005 from the December 31, 2014, total of $228,758. The increase is attributed to the increase in retained earnings related to net income as well as an increase in preferred stock. Preferred stock was $38,964 as of March 31, 2015, as compared to $31,675 on December 31, 2014, for an increase of 23.01 percent.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2015, the Association's total surplus ratio and core surplus ratio were both 19.65 percent, and the permanent capital ratio was 23.79 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

## REGULATORY MATTERS

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

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

On September 4, 2014, the FCA published a proposed rule in the Federal Register to modify the regulatory capital requirements for System banks and associations. The publis comment period ended on February 16, 2015. The stated objectives of the proposed rule are as follows:

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

## FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the *Financial Regulatory Reform* section of the Association's 2014 Annual Report.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *"Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements",* in the Notes to the Financial Statements, and the 2014 Annual Report to Shareholders for recently issued accounting pronouncements.

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**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-919-250-9500, writing Linda Strickland, AgCarolina Farm Credit, ACA, P. O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.agcarolina.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

## AgCarolina Farm Credit, ACA

# Consolidated Balance Sheets

| *(dollars in thousands)* | **March 31, 2015** | **December 31, 2014** |
|---|---|---|
| | *(unaudited)* | *(audited)* |
| **Assets** | | |
| Cash | **$ 989** | $ 2,275 |
| Loans | **940,070** | 980,181 |
| Allowance for loan losses | **(11,575)** | (11,602) |
| Net loans | **928,495** | 968,579 |
| Accrued interest receivable | **9,516** | 12,590 |
| Investments in other Farm Credit institutions | **10,732** | 10,732 |
| Premises and equipment, net | **9,444** | 9,650 |
| Accounts receivable | **1,571** | 15,501 |
| Other assets | **9,461** | 9,807 |
| Total assets | **$ 970,208** | $ 1,029,134 |
| **Liabilities** | | |
| Notes payable to AgFirst Farm Credit Bank | **$ 703,072** | $ 768,069 |
| Accrued interest payable | **1,373** | 1,484 |
| Patronage refunds payable | **307** | 12,097 |
| Accounts payable | **1,862** | 2,608 |
| Other liabilities | **23,588** | 16,118 |
| Total liabilities | **730,202** | 800,376 |
| Commitments and contingencies (Note 7) | | |
| **Members' Equity** | | |
| Capital stock and participation certificates | **42,230** | 34,944 |
| Retained earnings | | |
| Allocated | **127,026** | 126,501 |
| Unallocated | **70,750** | 67,313 |
| Total members' equity | **240,006** | 228,758 |
| Total liabilities and members' equity | **$ 970,208** | $ 1,029,134 |

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

## AgCarolina Farm Credit, ACA

# Consolidated Statements of Comprehensive Income

*(unaudited)*

| *(dollars in thousands)* | For the three months ended March 31, 2015 | 2014 |
|---|---|---|
| **Interest Income** | | |
| Loans | $ **10,542** | $ 10,415 |
| Investments | **—** | 30 |
| Total interest income | **10,542** | 10,445 |
| **Interest Expense** | | |
| Notes payable to AgFirst Farm Credit Bank | **4,104** | 3,846 |
| Net interest income | **6,438** | 6,599 |
| Provision for loan losses | **—** | 75 |
| Net interest income after provision for loan losses | **6,438** | 6,524 |
| **Noninterest Income** | | |
| Loan fees | **943** | 981 |
| Fees for financially related services | **228** | 204 |
| Patronage refunds from other Farm Credit institutions | **1,488** | 1,430 |
| Gains (losses) on sales of premises and equipment, net | **60** | 19 |
| Gains (losses) on other transactions | **22** | 52 |
| Other noninterest income | **77** | 69 |
| Total noninterest income | **2,818** | 2,755 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | **3,825** | 3,514 |
| Occupancy and equipment | **240** | 233 |
| Insurance Fund premiums | **229** | 207 |
| (Gains) losses on other property owned, net | **—** | 31 |
| Other operating expenses | **891** | 989 |
| Total noninterest expense | **5,185** | 4,974 |
| Net income | **4,071** | 4,305 |
| Other comprehensive income | **—** | — |
| Comprehensive income | $ **4,071** | $ 4,305 |

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

AgCarolina Farm Credit, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

| *(dollars in thousands)* | Capital Stock and Participation Certificates | Retained Earnings Allocated | Retained Earnings Unallocated | Total Members' Equity |
|---|---|---|---|---|
| Balance at December 31, 2013 | $ 34,109 | $ 110,215 | $ 65,271 | $ 209,595 |
| Comprehensive income | | | 4,305 | 4,305 |
| Capital stock/participation certificates issued/(retired), net | 4,457 | | | 4,457 |
| Dividends declared/paid | 109 | | (109) | — |
| Patronage distribution adjustment | | (52) | 89 | 37 |
| Balance at March 31, 2014 | $ 38,675 | $ 110,163 | $ 69,556 | $ 218,394 |
| **Balance at December 31, 2014** | **$ 34,944** | **$ 126,501** | **$ 67,313** | **$ 228,758** |
| **Comprehensive income** | | | **4,071** | **4,071** |
| **Capital stock/participation certificates issued/(retired), net** | **7,177** | | | **7,177** |
| **Dividends declared/paid** | **109** | | **(109)** | **—** |
| **Patronage distribution adjustment** | | **525** | **(525)** | **—** |
| **Balance at March 31, 2015** | **$ 42,230** | **$ 127,026** | **$ 70,750** | **$ 240,006** |

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

*AgCarolina Farm Credit, ACA*

# Notes to the Consolidated Financial Statements

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

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

***Organization***

The accompanying financial statements include the accounts of AgCarolina Farm Credit, ACA (the Association). A full description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2014, are contained in the 2014 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

***Basis of Presentation***

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

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

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

***Significant Accounting Policies***

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 5, *Fair Value Measurement*). Actual results could differ from those estimates.

***Accounting Standards Effective During the Period***

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below. For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

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

- 2014-14 Classification of Certain Government-Guaranteed Mortgage Loans – The Association did not have a significant amount of loans that met the criteria of the guidance.
- 2014-11 Repurchase-to-Maturity Transactions – The Association did not have a significant amount of transactions that met the criteria of the guidance.
- 2014-08 Discontinued Operations – The Association has not had and does not anticipate any significant disposals.
- 2014-04 Reclassification of Consumer Mortgage Loans – The criteria of the standard were not significantly different from the Association's policy in place at adoption. See Note 2, *Loans and Allowance for Loan Losses*, for the additional disclosures required by this guidance.

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

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

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

A summary of loans outstanding at period end follows:

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Real estate mortgage | $ 399,066 | $ 409,597 |
| Production and intermediate-term | 489,096 | 518,104 |
| Loans to cooperatives | 1,203 | 684 |
| Processing and marketing | 14,965 | 15,043 |
| Farm-related business | 7,313 | 8,546 |
| Energy and water/waste disposal | 132 | 139 |
| Rural residential real estate | 28,295 | 28,068 |
| Total Loans | $ 940,070 | $ 980,181 |

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

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

| | March 31, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 6,746 | $ 18,884 | $ – | $ 2,077 | $ – | $ – | $ 6,746 | $ 20,961 |
| Production and intermediate-term | 23,380 | 73,268 | 3,299 | 126,082 | 149,998 | – | 176,677 | 199,350 |
| Loans to cooperatives | 1,104 | – | – | – | – | – | 1,104 | – |
| Processing and marketing | 13,995 | 6,221 | 641 | – | 6,221 | – | 20,857 | 6,221 |
| Farm-related business | 4,029 | – | – | – | – | – | 4,029 | – |
| Total | $ 49,254 | $ 98,373 | $ 3,940 | $ 128,159 | $ 156,219 | $ – | $ 209,413 | $ 226,532 |

| | December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 6,757 | $ 19,028 | $ – | $ 1,010 | $ – | $ – | $ 6,757 | $ 20,038 |
| Production and intermediate-term | 22,144 | 84,224 | 3,500 | 139,020 | 151,795 | – | 177,439 | 223,244 |
| Loans to cooperatives | 578 | – | – | – | – | – | 578 | – |
| Processing and marketing | 14,244 | 6,860 | 641 | – | 6,860 | – | 21,745 | 6,860 |
| Farm-related business | 2,842 | – | – | – | – | – | 2,842 | – |
| Total | $ 46,565 | $ 110,112 | $ 4,141 | $ 140,030 | $ 158,655 | $ – | $ 209,361 | $ 250,142 |

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

| | March 31, 2015 | | | |
|---|---|---|---|---|
| | Due less than 1 year | Due 1 Through 5 years | Due after 5 years | Total |
| Real estate mortgage | $ 15,524 | $ 102,639 | $ 280,903 | $ 399,066 |
| Production and intermediate-term | 128,769 | 190,257 | 170,070 | 489,096 |
| Loans to cooperatives | 19 | 1,184 | – | 1,203 |
| Processing and marketing | 427 | 8,836 | 5,702 | 14,965 |
| Farm-related business | 644 | 4,706 | 1,963 | 7,313 |
| Energy and water/waste disposal | – | 99 | 33 | 132 |
| Rural residential real estate | 71 | 4,233 | 23,991 | 28,295 |
| Total Loans | $ 145,454 | $ 311,954 | $ 482,662 | $ 940,070 |
| Percentage | 15.47% | 33.19% | 51.34% | 100.00% |

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

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Real estate mortgage:** | | |
| Acceptable | 90.28% | 91.70% |
| OAEM | 4.36 | 3.73 |
| Substandard/doubtful/loss | 5.36 | 4.57 |
| | 100.00% | 100.00% |
| **Production and intermediate-term:** | | |
| Acceptable | 87.59% | 92.96% |
| OAEM | 8.45 | 4.41 |
| Substandard/doubtful/loss | 3.96 | 2.63 |
| | 100.00% | 100.00% |
| **Loans to cooperatives:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Processing and marketing:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Farm-related business:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Energy and water/waste disposal** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Rural residential real estate:** | | |
| Acceptable | 95.61% | 96.37% |
| OAEM | 3.43 | 2.65 |
| Substandard/doubtful/loss | 0.96 | 0.98 |
| | 100.00% | 100.00% |
| **Total Loans:** | | |
| Acceptable | 89.28% | 92.70% |
| OAEM | 6.35 | 3.97 |
| Substandard/doubtful/loss | 4.37 | 3.33 |
| | 100.00% | 100.00% |

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

**March 31, 2015**

| | 30 Through 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment 90 Days or More Past Due and Accruing Interest |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 1,403 | $ 1,609 | $ 3,012 | $ 400,288 | $ 403,300 | $ – |
| Production and intermediate-term | 2,611 | 1,814 | 4,425 | 489,772 | 494,197 | 74 |
| Loans to cooperatives | – | – | – | 1,205 | 1,205 | – |
| Processing and marketing | – | – | – | 14,989 | 14,989 | – |
| Farm-related business | – | – | – | 7,339 | 7,339 | – |
| Energy and water/waste disposal | – | – | – | 133 | 133 | – |
| Rural residential real estate | – | – | – | 28,423 | 28,423 | – |
| Total | $ 4,014 | $ 3,423 | $ 7,437 | $ 942,149 | $ 949,586 | $ 74 |

**December 31, 2014**

| | 30 Through 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment 90 Days or More Past Due and Accruing Interest |
|---|---|---|---|---|---|---|
| Real estate mortgage | $ 1,913 | $ 553 | $ 2,466 | $ 412,545 | $ 415,011 | $ – |
| Production and intermediate-term | 1,316 | 1,227 | 2,543 | 522,427 | 524,970 | – |
| Loans to cooperatives | – | – | – | 684 | 684 | – |
| Processing and marketing | – | – | – | 15,092 | 15,092 | – |
| Farm-related business | – | – | – | 8,698 | 8,698 | – |
| Energy and water/waste disposal | – | – | – | 139 | 139 | – |
| Rural residential real estate | 101 | – | 101 | 28,076 | 28,177 | – |
| Total | $ 3,330 | $ 1,780 | $ 5,110 | $ 987,661 | $ 992,771 | $ – |

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | $ 10,111 | $ 9,430 |
| Production and intermediate-term | 2,278 | 2,030 |
| Rural residential real estate | (105) | – |
| Total | $ 12,284 | $ 11,460 |
| **Accruing restructured loans:** | | |
| Real estate mortgage | $ 2,473 | $ 2,593 |
| Production and intermediate-term | 337 | 347 |
| Total | $ 2,810 | $ 2,940 |
| **Accruing loans 90 days or more past due:** | | |
| Production and intermediate-term | $ 74 | $ – |
| Total | $ 74 | $ – |
| Total nonperforming loans | $ 15,168 | $ 14,400 |
| Other property owned | – | – |
| Nonperforming assets | $ 15,168 | $ 14,400 |
| Nonaccrual loans as a percentage of total loans | 1.31% | 1.17% |
| Nonperforming assets as a percentage of total loans and other property owned | 1.61% | 1.47% |
| Nonperforming assets as a percentage of capital | 6.32% | 6.29% |

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

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| **Impaired nonaccrual loans:** | | |
| Current as to principal and interest | $ 8,722 | $ 8,722 |
| Past due | 3,562 | 2,738 |
| Total | 12,284 | 11,460 |
| **Impaired accrual loans:** | | |
| Restructured | 2,810 | 2,940 |
| 90 days or more past due | 74 | – |
| Total | 2,884 | 2,940 |
| Total impaired loans | $ 15,168 | $ 14,400 |

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

| | March 31, 2015 | | | Quarter Ended March 31, 2015 | |
|---|---|---|---|---|---|
| **Impaired loans:** | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Impaired Loans** | **Interest Income Recognized on Impaired Loans** |
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 7,152 | $ 8,672 | $ 3,026 | $ 6,937 | $ 40 |
| Production and intermediate-term | 61 | 251 | 61 | 59 | – |
| Rural residential real estate | – | – | – | – | – |
| Total | $ 7,213 | $ 8,923 | $ 3,087 | $ 6,996 | $ 40 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 5,432 | $ 6,988 | $ – | $ 5,268 | $ 30 |
| Production and intermediate-term | 2,628 | 5,248 | – | 2,549 | 15 |
| Rural residential real estate | (105) | – | – | (102) | (1) |
| Total | $ 7,955 | $ 12,236 | $ – | $ 7,715 | $ 44 |
| **Total:** | | | | | |
| Real estate mortgage | $ 12,584 | $ 15,660 | $ 3,026 | $ 12,205 | $ 70 |
| Production and intermediate-term | 2,689 | 5,499 | 61 | 2,608 | 15 |
| Rural residential real estate | (105) | – | – | (102) | (1) |
| Total | $ 15,168 | $ 21,159 | $ 3,087 | $ 14,711 | $ 84 |

| Impaired loans: | December 31, 2014 Recorded Investment | Unpaid Principal Balance | Related Allowance | Year Ended December 31, 2014 Average Impaired Loans | Interest Income Recognized on Impaired Loans |
|---|---|---|---|---|---|
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 7,094 | $ 8,548 | $ 3,093 | $ 9,536 | $ 1,199 |
| Production and intermediate-term | 121 | 337 | 72 | 163 | 21 |
| Rural residential real estate | – | – | – | – | – |
| Total | $ 7,215 | $ 8,885 | $ 3,165 | $ 9,699 | $ 1,220 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 4,929 | $ 6,565 | $ – | $ 6,625 | $ 834 |
| Production and intermediate-term | 2,256 | 4,858 | – | 3,033 | 381 |
| Rural residential real estate | – | – | – | – | – |
| Total | $ 7,185 | $ 11,423 | $ – | $ 9,658 | $ 1,215 |
| **Total:** | | | | | |
| Real estate mortgage | $ 12,023 | $ 15,113 | $ 3,093 | $ 16,161 | $ 2,033 |
| Production and intermediate-term | 2,377 | 5,195 | 72 | 3,196 | 402 |
| Rural residential real estate | – | – | – | – | – |
| Total | $ 14,400 | $ 20,308 | $ 3,165 | $ 19,357 | $ 2,435 |

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at each reporting period.

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

| | Real Estate Mortgage | Production and Intermediate-term | Agribusiness* | Energy and Water/Waste Disposal | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|---|
| **Activity related to the allowance for credit losses:** | | | | | | |
| Balance at December 31, 2014 | $ 6,618 | $ 4,531 | $ 208 | $ 1 | $ 244 | $ 11,602 |
| Charge-offs | (31) | – | – | – | – | (31) |
| Recoveries | – | 4 | – | – | – | 4 |
| Provision for loan losses | 44 | (56) | 2 | – | 10 | – |
| Balance at March 31, 2015 | $ 6,631 | $ 4,479 | $ 210 | $ 1 | $ 254 | $ 11,575 |
| Balance at December 31, 2013 | $ 8,311 | $ 4,882 | $ 233 | $ 3 | $ 268 | $ 13,697 |
| Charge-offs | – | (11) | – | – | – | (11) |
| Recoveries | 23 | 7 | – | – | – | 30 |
| Provision for loan losses | (28) | 77 | 28 | – | (2) | 75 |
| Balance at March 31, 2014 | $ 8,306 | $ 4,955 | $ 261 | $ 3 | $ 266 | $ 13,791 |
| **Allowance on loans evaluated for impairment:** | | | | | | |
| Individually | $ 3,026 | $ 61 | $ – | $ – | $ – | $ 3,087 |
| Collectively | 3,605 | 4,418 | 210 | 1 | 254 | 8,488 |
| Balance at March 31, 2015 | $ 6,631 | $ 4,479 | $ 210 | $ 1 | $ 254 | $ 11,575 |
| Individually | $ 3,093 | $ 72 | $ – | $ – | $ – | $ 3,165 |
| Collectively | 3,525 | 4,459 | 208 | 1 | 244 | 8,437 |
| Balance at December 31, 2014 | $ 6,618 | $ 4,531 | $ 208 | $ 1 | $ 244 | $ 11,602 |
| **Recorded investment in loans evaluated for impairment:** | | | | | | |
| Individually | $ 11,548 | $ 2,615 | $ – | $ – | $ 19 | $ 14,182 |
| Collectively | 391,752 | 491,582 | 23,533 | 133 | 28,404 | 935,404 |
| Balance at March 31, 2015 | $ 403,300 | $ 494,197 | $ 23,533 | $ 133 | $ 28,423 | $ 949,586 |
| Individually | $ 12,023 | $ 2,377 | $ – | $ – | $ – | $ 14,400 |
| Collectively | 402,988 | 522,593 | 24,474 | 139 | 28,177 | 978,371 |
| Balance at December 31, 2014 | $ 415,011 | $ 524,970 | $ 24,474 | $ 139 | $ 28,177 | $ 992,771 |

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no TDRs for the three month periods ended March 31, 2015 and March 31, 2014.

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

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

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

| | Total TDRs | | Nonaccrual TDRs | |
|---|---|---|---|---|
| | March 31, 2015 | December 31, 2014 | March 31, 2015 | December 31, 2014 |
| Real estate mortgage | $ 10,212 | $ 10,394 | $ 7,739 | $ 7,801 |
| Production and intermediate-term | 700 | 731 | 363 | 384 |
| Total Loans | $ 10,912 | $ 11,125 | $ 8,102 | $ 8,185 |
| Additional commitments to lend | $ – | $ – | | |

The following table presents information as of period end:

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

**Note 3 — Investments**

***Investments in other Farm Credit Institutions***
The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owns 4.25 percent of the issued stock of the Bank as of March 31, 2015 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.9 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $83 million for the first three months of 2015. In addition, the Association has an investment of $112 related to other Farm Credit institutions.

**Note 4 — Debt**

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

**Note 5 — Fair Value Measurement**

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

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

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

The classifications within the fair value hierarchy are as follows:

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

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis.

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

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

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

**SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS**

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

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

***Inputs to Valuation Techniques***

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

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

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

| | Fair Value | Valuation Technique(s) | Unobservable Input | Range |
|---|---|---|---|---|
| Impaired loans and other property owned | $ 4,757 | Appraisal | Income and expense | * |
| | | | Comparable sales | * |
| | | | Replacement costs | * |
| | | | Comparability adjustments | * |

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

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

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

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

| | At or for the Three Months Ended March 31, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | **Total Carrying Amount** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** | **Fair Value Effects On Earnings** |
| **Recurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Assets held in Mutual funds | $ 2,133 | $ 2,133 | $ – | $ – | $ 2,133 | |
| Recurring Assets | $ 2,133 | $ 2,133 | $ – | $ – | $ 2,133 | |
| **Liabilities:** | | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans* | $ 4,757 | $ – | $ – | $ 4,757 | $ 4,757 | $ 51 |
| Other property owned | – | – | – | – | – | – |
| Nonrecurring Assets | $ 4,757 | $ – | $ – | $ 4,757 | $ 4,757 | $ 51 |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 989 | $ 989 | $ – | $ – | $ 989 | |
| Loans | 923,738 | – | – | 913,096 | 913,096 | |
| Other Financial Assets | $ 924,727 | $ 989 | $ – | $ 913,096 | $ 914,085 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 703,072 | $ – | $ – | $ 698,070 | $ 698,070 | |
| Other Financial Liabilities | $ 703,072 | $ – | $ – | $ 698,070 | $ 698,070 | |

| | At or for the Year Ended December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | **Total Carrying Amount** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** | **Fair Value Effects On Earnings** |
| **Recurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Assets held in Mutual funds | $ 1,943 | $ 1,943 | $ – | $ – | $ 1,943 | |
| Recurring Assets | $ 1,943 | $ 1,943 | $ – | $ – | $ 1,943 | |
| **Liabilities:** | | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans** | $ 4,050 | $ – | $ – | $ 4,050 | $ 4,050 | $ 1,348 |
| Other property owned | – | – | – | – | – | (19) |
| Nonrecurring Assets | $ 4,050 | $ – | $ – | $ 4,050 | $ 4,050 | $ 1,329 |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 2,275 | $ 2,275 | $ – | $ – | $ 2,275 | |
| Loans | 964,529 | – | – | 950,047 | 950,047 | |
| Other Financial Assets | $ 966,804 | $ 2,275 | $ – | $ 950,047 | $ 952,322 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 768,069 | $ – | $ – | $ 759,085 | $ 759,085 | |
| Other Financial Liabilities | $ 768,069 | $ – | $ – | $ 759,085 | $ 759,085 | |

**Carrying value of impaired loans is the balance of loans with a related specific reserve ($7,213) less related specific reserves ($3,087) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($631).*

***Carrying value of impaired loans is the balance of loans with a related specific reserve ($7,215) less related specific reserves ($3,165) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($0).*

## Note 6 — Employee Benefit Plans

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

| | For the three months ended March 31, 2015 | For the three months ended March 31, 2014 |
|---|---|---|
| Pension | $ 650 | $ 662 |
| 401(k) | 191 | 138 |
| Other postretirement benefits | 188 | 115 |
| Total | $ 1,029 | $ 915 |

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

| | Actual YTD Through 3/31/15 | Projected Contributions For Remainder of 2015 | Projected Total Contributions 2015 |
|---|---|---|---|
| Pension | $ – | $ 2,663 | $ 2,663 |
| Other postretirement benefits | 90 | 272 | 362 |
| Total | $ 90 | $ 2,935 | $ 3,025 |

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2015.

Further details regarding employee benefit plans are contained in the 2014 Annual Report to Shareholders, including a discussion of benefit plan changes related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan.

## Note 7 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

## Note 8 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 8, 2015, which was the date the financial statements were issued.