Annual Report

2014

Farm Credit
SOUTHWEST GEORGIA

Southwest Georgia Farm Credit, ACA

2014 ANNUAL REPORT

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Liz Nogowski .... Marketing and Administrative Officer

Board of Directors

Kimberly D. Rentz .... Chairman
Robert B. Moss .... Vice Chairman
T. E. Allen, III .... Director
Bobby J. Brooks .... Director
Jeffrey A. Clark .... Director
James H. Dixon, Jr. .... Director
Clifford Dollar, Jr. .... Director
Robert L. Holden, Sr. .... Director

President's Message From Richard S. Monson

If I had to characterize this past year's financial performance I would probably describe it as being quite good. Credit quality remains very sound, loan growth was surprisingly good and earnings were better than expected. We are also very well capitalized and in position to take advantage of any opportunities that present themselves or for any rough patches down the road. Fortunately, being in such a position ensures that we can again deliver the advantage of borrowing from a member-owned financial institution by distributing our profits back to you.

If I have any lingering concerns at all, they revolve around next year. In fact, my concern has been growing for some time now as commodity prices have tumbled. The only question remaining is how tough it will be. As business cycles go, especially for agricultural commodities, favorable times seldom occur as frequently, or last as long, as less favorable times do. We recently witnessed an era in our region of southwest Georgia where agriculture was particularly good for a number of years. Unfortunately, I think those days are behind us, and it's time to prepare for a test of significant consequence.

While some might be discouraged and view the economic situation as unjust misfortune, the truth of the matter is that we are just returning to "normal." Commodity markets seldom sustain profits at the level that occurred over the last several years. We are simply correcting to the farming model that has always been in place—a margin business that favors the efficient low unit-cost producer. Economic survival in this environment is less about trying to "live to fight another day" than it is about maintaining a concerted effort to reduce unit costs through yield improvement, acreage expansion and labor optimization. History has long shown that high profits encourage increased production to the point that prices fall to where even the most efficient producers can only break even or make a slim profit. I do not expect this cycle to be any different.

What all of this means is that those producers who have been cautious when purchasing nonearning or highly depreciating assets—especially with debt—and used profits to strengthen their balance sheets in preparation for leaner times, will be in the best position to take advantage of the declining valuations that will occur as this cycle evolves. Buying earning assets at reduced valuations while investing in technology that optimizes production has been a successful strategy for many producers for generations.

What is the Association doing as we anticipate the deteriorating economic picture? Like many producers, we are retaining capital to ensure we are positioned for any unforeseen circumstances. We are scrutinizing our portfolio in order to recognize early warning signs. Early detection is the key to working with producers, as there are usually many more options available that will yield a satisfactory outcome, both for the farmer and the Association. Why is this so? Because as repayment increasingly becomes constrained under the current commodity price environment, balance sheets that have been somewhat flattering for several years will tend to suffer as asset devaluation occurs. The time to shed non-productive or non-essential assets is before they devalue appreciably – particularly those that are financed with debt.

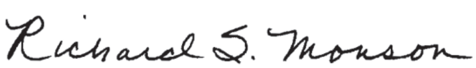
So the next question could very well be, given the uncertain times, what can member-producers expect from us as a lender? While the degree to which we see unfavorable financial conditions over the next several years is uncertain, we are an agricultural lender who understands cycles and what is necessary to survive those cycles over time. So, while we may proceed cautiously, we will not be discouraged from financing producers that have the capacity to withstand low prices for some sustained period of time. Debt is a useful financial management tool when sources of repayment have a high degree of certainty, but the timing of which may be uncertain. On the other hand, debt can be ruinous when repayment has little if any certainty. The key to managing through these uncertain times is the early recognition of any financial problems and preparing a decisive plan to take corrective action. Being proactive will enable you and your Relationship Manager to evaluate all the options and make the best plan possible. We take great pride in our mission to serve agriculture, and to invest in both good and bad cycles.

One thing I am excited about are the changes we are making to our patronage distribution program. Historically, we have used a combination of cash and allocated equity as the practice to distribute our income. The cash portion was typically returned to the membership the year immediately after it was earned and the allocated surplus portion redeemed at the end of five years. This has been a very useful design, particularly in periods of higher than average loan growth and when capitalization of future growth was constrained. So, why are we making this change now? Unfortunately, we find ourselves in an increasingly more restrictive regulatory environment in terms of capital eligibility for allocated surplus. Under new capital rules, allocated surplus redemption periods will have to be extended beyond the traditional five years to be counted as the highest quality capital for ratio calculations and meeting thresholds. Thus, your Board of Directors decided that it was time to go to an all cash distribution program in conjunction with a greater proportion of capital retention. This means that once we complete the pending redemptions of allocated surplus, you would receive one check annually with your entire distribution. Putting more cash in your pocket today is another way we hope we are helping our owners meet the difficult times ahead.

While the essence of our value proposition is most certainly the patronage dividend derived from your ownership and use of the cooperative, I'm confident this Association is bringing a great deal more to the table. We know that there are many lenders you can choose, and we don't take your business for granted. We try very hard to make our customer experience "unexpectedly good." So good, in fact, that you are willing to refer us to a friend or acquaintance. Your referral is the best way to grow our Association.

I have a tremendous amount of confidence that even as we face an uphill climb over the next several years, the entrepreneurship and innovation exhibited by our clients, combined with our relentless dedication to agriculture, will ensure that southwest Georgia will continue to thrive and help feed our country and the world. And, we'll work hand-in-hand with our young, beginning, and small farmers, to ensure they have access to competitively priced credit, so they can also fulfill their dreams. The success of our next generation of farmers is critical in order to maintain agriculture as a prominent industry in our area.

As always we sincerely appreciate your business and your ownership and we look forward to working with you to meet the challenges and opportunities ahead of us.



Richard S. Monson
President and Chief Executive Officer

March 11, 2015

Report of Management

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

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

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

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2014 Annual Report of Southwest Georgia 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.

Kimberly D. Rentz
Chairman of the Board

Richard S. Monson
President and Chief Executive Officer

Ryan G. Burtt
Chief Financial Officer

March 11, 2015

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2014. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2014, the internal control over financial reporting was effectively based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2014.

Richard S. Monson
President and Chief Executive Officer

Ryan Burtt
Chief Financial Officer

March 11, 2015

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2014	2013	December 31, 2012	2011	2010
Balance Sheet Data					
Cash	$ 1,569	$ 1,810	$ 3,133	$ 571	$ 910
Investment securities	14,603	7,789	8,075	8,234	8,383
Loans	385,147	394,282	318,176	285,999	294,917
Less: allowance for loan losses	(4,388)	(2,445)	(2,962)	(4,322)	(5,758)
Net loans	380,759	391,837	315,214	281,677	289,159
Investments in other Farm Credit institutions	11,141	7,557	7,414	9,102	11,047
Other property owned	2,001	2,927	3,852	5,963	8,614
Other assets	20,400	33,921	41,351	53,912	66,138
Total assets	$ 430,473	$ 445,841	$ 379,039	$ 359,459	$ 384,251
Notes payable to AgFirst Farm Credit Bank*	$ 346,949	$ 366,426	$ 301,931	$ 282,203	$ 310,662
Accrued interest payable and other liabilities with maturities of less than one year	12,052	8,754	9,600	10,004	7,778
Total liabilities	359,001	375,180	311,531	292,207	318,440
Protected borrower stock	11	15	89	131	152
Capital stock and participation certificates	1,080	1,030	975	971	998
Retained earnings					
Allocated	22,631	26,134	26,076	25,976	25,426
Unallocated	47,750	43,482	40,368	40,174	39,235
Total members' equity	71,472	70,661	67,508	67,252	65,811
Total liabilities and members' equity	$ 430,473	$ 445,841	$ 379,039	$ 359,459	$ 384,251
Statement of Income Data					
Net interest income	$ 9,855	$ 10,415	$ 9,490	$ 8,594	$ 8,608
Provision for (reversal of allowance for) loan losses	1,800	767	(1,363)	817	(586)
Noninterest income (expense), net	701	(1,067)	(5,361)	(5,530)	(4,763)
Net income	$ 8,756	$ 8,581	$ 5,492	$ 2,247	$ 4,431
Key Financial Ratios					
Rate of return on average:					
Total assets	2.12%	2.06%	1.54%	0.61%	1.07%
Total members' equity	12.18%	12.52%	8.15%	3.35%	6.74%
Net interest income as a percentage of average earning assets	2.54%	2.64%	2.86%	2.50%	2.24%
Net (chargeoffs) recoveries to average loans	0.038%	(0.345)%	0.001%	(0.756)%	0.470%
Total members' equity to total assets	16.60%	15.85%	17.81%	18.71%	17.13%
Debt to members' equity (:1)	5.02	5.31	4.61	4.34	4.84
Allowance for loan losses to loans	1.14%	0.62%	0.93%	1.51%	1.95%
Permanent capital ratio	17.68%	17.23%	21.35%	20.64%	18.49%
Total surplus ratio	17.38%	16.95%	21.00%	20.28%	18.13%
Core surplus ratio	15.52%	14.57%	17.39%	17.03%	15.00%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ 4,500	$ 2,750	$ 2,500	$ 951	$ 1,620
Nonqualified allocated retained earnings	—	2,750	2,500	951	1,827

** General financing agreement is renewable on a one-year cycle. The next renewal date is January 1, 2016.*

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

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Southwest Georgia Farm Credit, ACA, (Association) for the year ended December 31, 2014 with comparisons to the years ended December 31, 2013 and December 31, 2012. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

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

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.swgafarmcredit.com***, or by calling 1-866-304-3276, extension 1150, or writing Belinda Robertson, Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

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

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

AGRICULTURAL OUTLOOK

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

The February 2015 USDA forecast estimates 2014 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $115.1 billion, down $16.0 billion from 2013 and up $17.6 billion from its 10-year average of $97.5 billion. The decline in net cash income in 2014 was primarily due to decreases in crop receipts of $20.3 billion, farm-related income of $4.2 billion and a $17.7 billion increase in cash expenses, partially offset by an increase in livestock receipts of $26.4 billion.

The February 2015 USDA forecast for the farm economy, as a whole, forecasts 2015 farmers' net cash income to decrease to $89.4 billion, a $25.7 billion decrease from 2014, and $8.1 billion below the 10-year average. The forecasted decrease in farmers' net cash income for 2015 is primarily due to an expected decrease in cash receipts of $25.8 billion.

For 2015, the USDA projects crop receipts will decrease $15.6 billion, primarily due to an approximate $6.7 billion decline in corn receipts. Corn used for grain is expected to see drops in both quantity sold and price in 2015. Livestock receipts are predicted to decrease in 2015 primarily due to decreased dairy and hog receipts despite anticipated record high cattle receipts.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2011 to December 31, 2014:

Commodity	12/31/14	12/31/13	12/31/12	12/31/11
Hogs	$64.30	$61.50	$62.40	$63.50
Milk	$20.40	$22.00	$20.90	$19.80
Broilers	$0.58	$0.56	$0.58	$0.47
Turkeys	$0.73	$0.69	$0.67	$0.71
Corn	$3.78	$4.41	$6.87	$5.86
Soybeans	$10.30	$13.00	$14.30	$11.50
Wheat	$6.11	$6.73	$8.30	$7.19
Beef Cattle	$164.00	$130.00	$124.00	$120.00

The USDA's income outlook varies depending on farm size and commodity specialties. The USDA classifies all farms into four primary categories: small family farms (gross cash farm income (GCFI) less than $350 thousand), midsize family farms (GCFI between $350 thousand and under $1 million), large-scale family farms (GCFI of $1 million or more), and nonfamily farms (principal operator or individuals related to the operator do not own a majority of the business). Approximately 97 percent of U.S. farms are family farms and the remaining 3 percent are nonfamily farms. The family farms produce 85 percent of the value of agricultural output and the nonfamily farms produce the remaining 15 percent of agricultural output. The small family farms represent about 89 percent of all U.S. farms, hold 59 percent of farm assets and account for 23 percent of the value of production. Approximately 62 percent of production occurs on 8 percent of family farms classified as midsize or large-scale.

According to the USDA February 2015 forecast, the growth in the values of farm sector assets, debt, and equity are forecasted to moderate in 2015. The slowdown reflects the expectation of a second year of declining net farm income and stable to small reductions in farmland values. Farm sector assets are expected to rise from $2.99 trillion for 2014 to $3.01 trillion in 2015 primarily due to increases in the value of livestock and poultry inventories and machinery and motor vehicle assets. Overall, farm sector debt is estimated to increase from $317.7 billion in 2014 to $327.4 billion in 2015. Farm business equity (assets minus debt) is expected to remain at $2.68 trillion in 2015.

Two measures of the financial health of the agricultural sector used by the USDA are the farm sector's debt-to-asset and debt-to-equity ratios. As a result of farm assets growing slower than debt, these ratios are forecast to rise to 10.9 percent and 12.2 percent from 10.5 percent and 11.8 percent in 2013, which was the lowest value for both measures since 1954. Even though these measures of sector leverage have increased, each remains low relative to historical levels. As noted by USDA, the farm sector is better insulated from the risks associated with commodity production, changing macroeconomic conditions, as well as fluctuations in farm asset values.

As estimated by the USDA in February 2015, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) grew to 42.5 percent at December 31, 2013 (the latest available data), as compared with 40.7 percent at December 31, 2012. As mentioned above, overall, farm sector debt is estimated to increase from $317.7 billion in 2014 to $327.4 billion in 2015.

In general, agriculture, during the past several years, experienced favorable economic conditions driven by high commodity and livestock prices and increased farmland values during this period. To date, the Associatin's financial results have remained favorable as a result of these favorable agricultural conditions. Production agriculture; however, remains a cyclical business that is heavily influenced by commodity prices and various other factors. In an environment of less favorable economic conditions in agriculture, including extensive and extended drought conditions, and without sufficient government support programs, including USDA-sponsored crop insurance programs, the Association's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general economy remain more volatile given the state of the global economy. Certain agriculture sectors, as described more fully in this *Management's Discussion and Analysis*, recently have experienced significant financial stress and could experience financial stress in the near future. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate for 2014 was selected by reference to analysis and yield curves of the plans' actuary and industry norm.

ECONOMIC CONDITIONS

The economy in Southwest Georgia is made up of a multitude of varying industries – ranging from large industrial companies to farms and farm businesses, to small, family owned operations. The Association's portfolio is impacted by two key economic factors: the local unemployment rate and the strength of the agricultural industry.

Unemployment rates have the greatest impact on the small and part-time farming sectors of the Association's portfolio. Essentially, these sectors of the portfolio have a larger dependence on non-farm income and are influenced to a greater extent by the general economy. Unfortunately, Georgia's economic recovery continues to lag the overall national recovery. The unemployment rate for Georgia is estimated to be 6.9%, while, the U.S. unemployment rate is expected to be 5.7%. Unemployment rates for both Georgia and the U.S. are expected to improve in 2015 but Georgia will continue to lag. The improvements in the employment rates for our Local Service Area (LSA) could lead to improvement in the demand for recreational real estate and hobby farms.

Agriculture and Agri-business are the single largest industries in Georgia, which is indicative to our LSA. Agriculture/Agribusinesses have flourished over the last few years due to increased crop prices, higher crop yields, and increased land values. These improvements in the AG economy have allowed producers to experience record cash returns and improved balance sheet strength. Unfortunatly, the projection for 2015 are for declines of nearly 30% in crop revenue.

Forecast for the 2015 Agricultural industry is expected to be considerably negative compared to the last few years. Commodity prices have declined significantly while input cost remain unchanged, which will reduce overall operating margins. Georgia farmers will also be operating under a less protective Farm Bill in 2015.The current Farm Bill eliminates guaranteed direct payment, further reducing operating margins.

Planted acreage for Georgia will remain primarily in peanuts and cotton with the biggest change coming from a shift in acreage from corn into either soybeans, peanuts, or cotton. The overall strength of the 2015 agricultural industry will depend greatly on production yield and production cost management as market prices will be much lower than previous years.

Land Values

Properties with minimal cash flow potential have had the greatest amount of reduction in value over the last several years. Data collected by the Association through the Crumpton Report, is showing stabilization and some upward movement in the value of these properties; however, it is unlikely the values will see any large appreciation in the coming year.

Agricultural real estate continues to have strong valuations. Nonetheless, current commodity prices could have a negative impact on agricultural real estate value. In fact, many pundits have begun to report agricultural real estate and cash rent could decline in 2015.

Corn

Market fundamentals for corn point to a smaller Georgia crop. With price estimates below $4.50 per bushel and the margin between soy beans and corn being relatively neutral, could lead to a shift into soy beans. The biggest driver of continued corn production in Georgia at lower prices is the yield improvements over the last several years.

Peanuts

In 2014, Georgia, the leading state for peanut production in the United States, planted 1,354 million acres, and expects an increase of 20% in 2015. The higher level of planted acreage and high yields is expected to lead to much higher ending stocks than 2014. The large amount of supply will have a negative impact on prices. Price estimates for the 2015 peanut crop are between loan rate and $400 per ton. Planted acreage for peanuts is expected to increase by 15 percent nationally, which could put some downward pressure on price.

Poultry

For 2015, USDA forcest broiler meat production to be 3.6 percent higher at 40.0 billion pounds. Broiler prices hit record levels in 2014 as consumers sought alternatives to high-priced beef and pork. USDA expects strong domestic demand to continue in 2015, although with lower broiler prices. Low feed costs following record 2014 corn and soybean harvests in the United States are expected to continue to provide an incentive for expansion by producers in 2015.

Cotton

The 2015 planted acres for Georgia are not expected to change much from 2014 but will most likely be down slightly. Improved yield potential in cotton could factor into 2015 planting However, as the price of cotton falls below 75 cent acreage could begin to shift from cotton. . Prices for the 2015 crop are likely to range from 65 cents to 75 cents.

LOAN PORTFOLIO

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

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

	December 31,					
Loan Type	**2014**		**2013**		**2012**	
	(dollars in thousands)					
Real estate mortgage	$ 238,714	61.98 %	$ 265,419	67.32 %	$ 216,809	68.14 %
Production and intermediate-term	88,969	23.10	78,391	19.88	65,857	20.70
Processing and marketing	34,348	8.92	28,365	7.20	14,001	4.40
Farm-related business	15,034	3.90	14,424	3.66	15,276	4.80
Rural residential real estate	2,332	.61	2,453	.62	2,925	.92
Communication	3,370	.87	2,419	.61	2,529	.80
Lease Receivables	1,413	.37	1,820	.46	–	–
Energy	967	.25	991	.25	779	.24
Total	$ 385,147	100.00 %	$ 394,282	100.00 %	$ 318,176	100.00 %

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. The geographic distribution of the loan volume by county/branch for the past three years is as follows:

County/Branch	December 31, 2014	2013	2012
Baker	3.08%	3.08%	1.82%
Calhoun	.56	.51	2.43
Chattahoochee	.29	.19	.15
Clay	.54	.60	.53
Decatur*	12.71	13.49	12.55
Doughtery	4.39	4.85	1.24
Early	2.83	2.61	2.14
Grady	2.49	2.59	3.10
Lee	4.18	3.99	1.42
Marion	2.63	2.69	3.38
Miller	1.70	1.45	2.69
Mitchell*	11.41	12.49	12.83
Randolph	2.41	1.67	5.30
Schley	.42	.37	.80
Seminole	5.47	6.19	7.74
Stewart	.63	.74	4.04
Sumter*	7.52	7.07	8.87
Terrell*	3.98	3.64	4.52
Thomas*	2.53	2.71	5.60
Webster	1.54	1.18	2.91
Other**	28.69	27.89	15.94
	100.00%	100.00%	100.00%

**Branch Locations*
***The Other category above consists of loans originated and participated outside our territory.*

The Association's efforts to strengthen its capital position over the last several years caused a shift of the geographic composition within the portfolio.

Commodity and industry categories are based upon the Standard Industrial Classification system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer. The major commodities in the Association's loan portfolio are shown below. The predominant commodities are timber, cotton, landlords, peanuts, fruit and nuts, poultry, farm supply and services, and livestock which constitute over 84 percent of the entire portfolio. The commodity group landlords is primarily on real estate purchased and leased for agriculture production.

Commodity Group	December 31, 2014		2013		2012	
	(dollars in thousands)					
Timber	$ 70,927	18%	$ 76,571	19%	$ 72,173	23%
Cotton	59,046	15	63,864	16	51,578	16
Landlords	52,661	14	54,177	14	37,630	12
Peanuts	35,861	9	31,814	8	22,031	7
Fruit & Nut	34,733	9	29,947	8	18,157	6
Poultry	25,964	7	29,296	7	28,651	9
Farm Supply & Services	22,938	6				
Livestock	22,378	6	20,843	5	21,863	7
Dairy	14,207	4	14,017	4	6,907	2
Vegetables	7,657	2	9,746	2	6,487	2
Row Crops	14,640	4	7,566	2	12,733	4
Rural Home	2,139	1	2,287	1	2,705	1
Horticulture	1,674	–	748	–	874	–
Other	20,322	5	53,406	14	36,387	11
Total	$ 385,147	100%	$ 394,282	100%	$ 318,176	100%

**Farm Supply and Services is a new grouping. Loan Volume in this group was included in Other in 2013 and 2012.*

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of timber, cotton, landlords, poultry, peanut, and livestock producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations are diversified within their enterprise and/or with crop production that reduces overall risk exposure. Within the timber commodity group there are significant numbers of less than full time timber producers. As such, the risk in this group is more diversified than appears from the nominal percentage. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory.

In 2014 the Association continued to focus on leveraging capital and strengthening the earning position.

For the past few years, the Association has experienced a shift in loan assets. The long-term volume trend has been downward while the short and intermediate-term loan volume trend is upward. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance in August and rapidly declines in the fall months as our primary agriculture commodities are converted to cash which is used to repay the debt.

During 2014, the Association continued activity in the buying and selling of loan participations within and outside of the System in order to leverage the balance sheet and improve the income producing potential.

Loan Participations:	December 31, 2014	2013	2012
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 51,221	$ 46,596	$ 45,193
Participations Purchased – Non-FCS Institutions	2,098	2,818	2,508
Participations Sold	(136,184)	(93,740)	(109,280)
Total	$ (82,865)	$ (44,326)	$ (61,579)

The Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests for the period ended December 31, 2014.

The Association sells qualified long-term mortgage loans into the secondary market. For the period ended December 31, 2014, the Association originated loans for resale totaling $5.3 million, which were subsequently sold into the secondary market. The Association also utilizes the Farmer Mac Long Term Stand-By repurchase agreements. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2014, the Association had loans amounting to $36,503 million which were 100 percent guaranteed by Farmer Mac. The Association additionally has purchased portions of loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing interest rate risk and managing surplus short-term funds as allowable under FCA regulations. At December 31, 2014, the balance of these loans, including the unamortized premium, was $547, compared to $632 at December 31, 2013 and $887 at December 31, 2012.

MISSION RELATED INVESTMENTS

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

In October 2005, the FCA authorized AgFirst and the Association to make investments in Rural America Bonds. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as Loans or Investments on the Consolidated Balance Sheets depending on the nature of the investment. As of December 31, 2014, December 31, 2013, and December 31, 2012, the Association had $21,696, $15,180, and $16,031, respectively, in Rural America Bonds.

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

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004." The Tobacco Act repealed the Federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota and included an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments (Successor-in-Interest Contracts (SIIC)) so that they may obtain a lump sum or other payment. On April 4, 2005, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout). At December 31, 2014, December 31, 2013, and December 31, 2012, the Association had $0, $13,092, and $25,568, respectively, in SIIC outstanding and these are classified as Other Investments on the Consolidated Balance Sheets. The contract with the Secretary of Agriculture matures January 2014. The Association received the final payment on the SIIC investments in January 2014.

In 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Association purchased total equity investments in the RBIC of $572. There are no outstanding commitments to make additional equity purchases beyond this amount.

A valuation analysis was conducted in 2013 and 2014. The analysis indicated that a decrease in value of the investment had occurred that was other than temporary, due to a series of losses and other factors. As a result, the Association recognized other-than-temporary impairment of $69 in 2014 and $412 in 2013 which is included in Impairment Losses on Investments in the Statements of Income.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. Currently the Association holds no asset backed securities on its balance sheet.

CREDIT RISK MANAGEMENT

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

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

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be advanced in amounts up to 85 percent of the appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Appraisals are required for loan originations of more than $250 thousand. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and overall risk level in a particular relationship.

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

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

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

Credit Quality	2014	2013	2012
Acceptable & OAEM	99.25%	99.36%	96.19%
Substandard	.75%	.64%	3.81%
Doubtful	–%	–%	–%
Loss	–%	–%	–%
Total	100%	100.00%	100.00%

Nonperforming Assets

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

		December 31,	
High-risk Assets	**2014**	**2013**	**2012**
		(dollars in thousands)	
Nonaccrual loans	$ 5	$ 331	$ 5,092
Restructured loans	3,272	3,596	2,420
Accruing loans 90 days past due	–	–	–
Total Non-Performing Loans	3,277	3,927	7,512
Total high-risk loans	3,277	3,927	7,512
Other property owned	2,001	2,927	3,852
Total high-risk assets	$ 5,278	$ 6,854	$ 11,364
Ratios			
Nonaccrual loans to total loans	0.00%	.08%	1.60%
High-risk assets to total assets	1.23%	1.54%	3.00%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Over the last several years the Association made concentrated efforts to reduce the high risk assets by setting attainable goals and timelines. Nonaccrual loans decreased $326 or 98.5 percent in 2014. Of the $5 in nonaccrual volume at December 31, 2014, $5 or 100 percent, compared to 2.42 percent and 2.83 percent at December 31, 2013 and 2012, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

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

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb expected losses inherent to its loan portfolio for the next twelve month period.

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

Allowance for Loan Losses Activity:	Year Ended December 31, 2014	2013	2012
	(dollars in thousands)		
Balance at beginning of year	$ 2,445	$ 2,962	$ 4,322
Charge-offs:			
Agribusiness	–	–	(42)
Production and intermediate term	–	(1,430)	(111)
Real estate mortgage	(45)	(102)	(788)
Total charge-offs	(45)	(1,532)	(941)
Recoveries:			
Agribusiness	1		2
Real estate mortgage	–	22	145
Production and intermediate term	187	226	798
Total recoveries	188	248	945
Net (charge-offs) recoveries	143	(1,284)	4
Provision for (reversal of allowance for) loan losses	1,800	767	(1,363)
Balance at end of year	$ 4,388	$ 2,445	$ 2,962
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	.038%	(0.35)%	0.00%

The net loan recoveries were primarily associated with several bankruptcy payments and settlements during the year. Provisions to the allowance for loan losses were made to the general reserve after the allowance analysis and review of economic indicators showed stress on certain commodities within the Association's Portfolio.

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

Allowance for Loan Losses by Type	December 31, 2014	2013	2012
	(dollars in thousands)		
Real estate mortgage	$ 2,677	$ 1,613	$ 1,001
Production and intermediate-term	1,062	525	1,797
Agribusiness	558	260	135
Energy	11	6	4
Rural residential real estate	26	15	14
Communication	38	15	12
Lease Receivables	16	11	–
Total allowance	$ 4,388	$ 2,445	$ 2,962

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

Allowance for Loan Losses as a Percentage of:	December 31, 2014	2013	2012
Total loans	1.14%	.62%	.93%
Nonperforming loans	133.9%	62.26%	39.43%
Nonaccrual loans	867.6%	738.67%	58.17%

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

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $9.8 million, $10.4 million and $9.4 million in 2014, 2013 and 2012, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past two years are presented in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Total
12/31/14 - 12/31/13				
Interest income	$ (148)	$ (810)	$ (42)	$ (1,000)
Interest expense	(179)	(261)	–	(440)
Change in net interest income	$ 31	$ (549)	$ (42)	$ (560)
12/31/13 - 12/31/12				
Interest income	$ 3,442	$ (1,626)	$ (156)	$ 1,660
Interest expense	1,571	(876)	–	695
Change in net interest income	$ 1,871	$ (750)	$ (156)	$ 965

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

Noninterest Income

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

Noninterest Income	For the Year Ended December 31, 2014	2013	2012	Percentage Increase/(Decrease) 2014/2013	2013/2012
	(dollars in thousands)				
Loan fees	$ 859	$ 376	$ 657	128.5 %	(42.)%
Fees for financially related services	1	1	5		(8)
Patronage refund from other Farm Credit Institutions	9,203	9,102	4,553	1.11	99.91
Gains (losses) on sales of rural home loans, net		–	–		
Gains (losses) on sales of premises and equipment, net	86	33	93	160.6	(64.52)
Gains (losses) on sales of investment securities		–	–		
Other than temporary impairment	(69)	(412)	–	83.25	(10)
Insurance Fund refund	–	–	284	–	(10)
Other noninterest income	134	122	48	9.84	154.17
Total noninterest income	$ 10,214	$ 9,222	$ 5,640	10.76%	63.51%

Patronage refund from other Farm Credit Institutions experienced a significant increase in 2013 and 2014 due to a special Patronage distribution from AgFirst Farm Credit Bank.

Noninterest Expense

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

Noninterest Expense	For the Year Ended December 31, 2014	2013	2012	Percentage Increase/(Decrease) 2014/2013	2013/2012
	(dollars in thousands)				
Salaries and employee benefits	$ 5,666	$ 6,325	$ 5,759	10.42%	9.83%
Occupancy and equipment	563	607	593	7.25	2.36
Insurance Fund premiums	351	291	114	(20.62)	155.26
(Gains) Losses on other property owned, net	256	594	2,162	56.90	72.53
Other operating expenses	2,677	2,465	2,373	(8.60)	3.88
Total noninterest expense	$ 9,513	$10,282	$11,001	74.79%	6.54%

Salaries and employee benefits decreased in 2014 as compared to 2013 primarily as a result of the Association's compliance with FASB 91 which defers certain fees and costs related to loan processing. The deferment is amortized over the life of the loan and is charged against interest income. Salaries and employee benefits remained fairly stable in 2013, as compared with 2012.

Insurance Fund premiums increased significantly in 2014 and 2013 due to a combination of growth in Association average loan volume and the increase in premium rates. During 2011 the Farm Credit System Insurance Corporation (FCSIC) had reduced the insurance premiums as a result of the economic downturn and the expected decrease in Systemwide insured obligations. The FCSIC increased premiums to 12 basis points on adjusted insured debt outstanding for 2014. This was up from the 10 basis point premium in 2013. In addition there is a continued 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

Income Taxes

The Association recorded a provision for income taxes of $0 for the year ended December 31, 2014, as compared to a provision of $7 for 2013 and $0 for 2012. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	For the 12 Months Ended 12/31/14	12/31/13	12/31/12
Return on average assets	2.12%	2.06%	1.54%
Return on average members' equity	12.18%	12.52%	8.15%
Net interest income as a percentage of average earning assets	2.54%	2.63%	2.84%
Net (charge-offs) recoveries to average loans	0.038%	(0.345)%	0.001%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue the improvement shown in recent years and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

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

Total notes payable to the Bank at December 31, 2014, was $346,949 as compared to $366,426 at December 31, 2013 and $301,931 at December 31, 2012. The decrease of 5.32 percent compared to December 31, 2013 was attributable to the slight decrease in loan volume during the year. The increase of 21.36 percent in 2013 when compared to December 31, 2012, was also attributable to growth in Association loan volume. The average volume of outstanding notes payable to the Bank was $335,481, $342,961, and $283,766 for the years ended December 31, 2014, 2013, and 2012 respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's participation in the Farmer Mac, stand by purchase program, investments, and other secondary market programs provides additional liquidity.

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

The Association failed to meet its earnings covenant under the GFA at December 31, 2012. The default allowed the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank approved a waiver of the default and allowed the Association to continue to operate under a special credit agreement (SCA). At June 30, 2012, the Association was in compliance with the earnings covenant under the GFA and therefore the SCA was terminated effective June 30, 2012. The Association has subsequently operated under the GFA.

The Association had no lines available under lines of credit from third party financial institutions as of December 31, 2014.

Funds Management

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

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

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

Relationship with the Bank

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

The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

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

CAPITAL RESOURCES

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

The Association's Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably.

Total members' equity at December 31, 2014, increased 1.15 percent to $71,472 from the December 31, 2013, total of $70,661. At December 31, 2013, total members' equity increased 4.67 percent from the December 31, 2012 total of $67,508. During 2014 and 2013 the Association experienced an increase in net income from the increase in average loan volume and the large special patronage distributions from AgFirst both events had a direct impact on the increase in member's equity.

Total capital stock and participation certificates were $1,091 on December 31, 2014, compared to $1,045 on December 31, 2013 and $1,064 on December 31, 2012. The decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business.

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

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

	2014	2013	2012	Regulatory Minimum
Permanent capital ratio	17.68%	17.23%	21.35%	7.00%
Total surplus ratio	17.38%	16.95%	21.00%	7.00%
Core surplus ratio	15.52%	14.57%	17.39%	3.50%

The Association applied several tools during 2014 to help manage capital levels. The capital levels have stabilized between 2013 and 2014. The Association's analysis and business plan forecast does not indicate any trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements. The Association will continue to use several tools if necessary to manage capital levels such as guarantees for loans, participating with other institutions, and selling to the AgFirst Capital Participation Pool. See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association distributed $5,000 of patronage in 2013 based on 2012 earnings, $5,500 of patronage in 2014 based on 2013 earnings and an estimated $4,500 of patronage based on 2014 earnings is expected to be distributed in 2015.

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

Southwest Georgia Farm Credit focuses on offering awareness, education, training, mentoring and sponsorship of local food programs in order to serve the credit and related needs of young, beginning and small farmers and ranchers in our territory. The definitions of young, beginning and small farmers and ranchers follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
- Small: A farmer, rancher or producer or harvester of aquatic products who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products.

Mission Statement

To be the preeminent young, beginning and small farm lender throughout Southwest Georgia by providing a competitive source of financing and offering programs designed to meet the needs of such applicants to the fullest extent of their credit worthiness.

Board Policy to Complete Mission Statement

The Southwest Georgia Farm Credit Board of Directors understands the importance of the development, education and financial success of young, beginning and small farmers, ranchers or harvesters of aquatic products is essential to the future of the Association, as well as the future of agriculture and the local economies in our territory. Therefore, in order to accomplish our YBS mission, it is imperative that we develop, execute, and evaluate a program that targets this specific group of borrowers.

There are several components to this plan, which include advertising, educational opportunities, scholarships and community events, as well as outreach via social media.

The following table outlines the Association's 2014 goals, loan volume and number of YBS loans in the loan portfolio for the Association:

	As of December 31, 2014*			
	Number of Loans		$ Amount of Loans	
	2014 Goal	2014 Actual	2014 Goal	2014 Actual
Young	229	253	51,000	50,366
Beginning	510	561	93,000	91,091
Small	728	757	92,000	84,066

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

Each year, the Association establishes goals for the portfolio and for new loans to YBS borrowers. 2014 goals and accomplishments follow:

	As of December 31, 2014*			
	Number of New Loans		$ Amount of New Loans	
	2014 Goal	2014 Actual	2014 Goal	2014 Actual
Young	115	111	27,000	20,384
Beginning	155	164	36,000	32,879
Small	175	171	28,000	23,072

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

The 2012 USDA Ag Census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties), there were 4,382 reported number of farms, with 1,750 having debt. Census data suggests that the total number of young and small farmers has seen modest gains since 2012, while the number of beginning farmers has risen as a percentage of the total Census. Since 2002, the percentage of small and young farmers has dropped significantly, perhaps signaling the increase in the number of larger farms. It's interesting to note, too, that the number of beginning farmers has declined; it's only as a percentage of the Census that beginning farmers have increased. This might be indicative of continued opportunity to serve beginning farmers relative to the total number of farmers in the LSA.

In 2014, the Association planned, executed, and evaluated the following tactics put in place to accomplish YBS goals:

Marketing/Business Development

- Networking/Relationship Building – The Association will focus on ensuring that our programs and services reach a wide range of farmers, and that opportunities to participate in education and networking are available beginning in high school with FFA and 4-H.

- Advertising and Social Media – The Association continues to invite YBS farmers to learn more about Farm Credit and its products and services with a range of advertising, in newspapers, magazines and specialty publications. Additionally, recognizing the importance of using technology to communicate with this market segment, the Association uses Social Media, such as Facebook and Twitter, to generate messaging geared towards YBS farmers.

- SWGAFarmCredit.com – The Association's web site serves as an informational resource for YBS farmers to find information related to educational opportunities, programs, and services. This site is updated periodically with relevant information.

Credit/Underwriting/Guarantees

- Southwest Georgia Farm Credit does have a Beginning Farmer Program in conjunction with USDA (Farm Service Agency, "FSA"). This program allows for as little as 5% down payment and financing from FSA and Farm Credit of 45% and 50% respectively. FSA financing is for 20 years with fixed interest rates as low as 1.5% and Farm Credit provides financing for 30 years (FSA requirement) with fixed rates at 1.50% over Cost of Funds supported by a 95% FSA Guarantee (FSA fees waived). The FSA FO loan is subordinate to the Farm Credit loan. While this program is available to all Beginning Farmers (less than 10 years experience), the majority of applicants will also meet the "Young" and "Small" definition. The Association understands and embraces the importance of these farmers to the longevity, and continued success, of the Association.

- Loan Guarantees – Risk within the Young, Beginning and Small Farms is mitigated through the use of FSA Guarantees. The Association encourages the use of FSA Guarantees in all categories of its portfolio but most particularly within its Young, Beginning and Small Farmer portfolio as evidenced by the level of guarantees overall and the new guarantees issued each year. In addition to the standard FSA guarantee and the Beginning Farmer guarantee (referenced above), the Association also promotes the 50/50 FSA Guarantee, a financing option in which FSA provides 50% of the financing through a Farm Ownership loan and Farm Credit provides the other 50% of financing, with an FSA 90% guarantee. The FSA FO loan is subordinate to the Farm Credit loan.

Education/Outreach

- TEPAP – The Executive Program for Agricultural Producers – The Association provides an opportunity for two YBS farmers to participate each year in a two-year course at Texas A&M University, with a focus on managing personnel, evaluating new market opportunities, negotiating mergers and acquisitions and adapting to regulatory and technology changes.

- FFA – The Association supports this organization in counties and schools throughout our territory, in an effort to promote leadership among middle school and high school students who express an interest in an ag-related career.

- 4-H – The Association supports and sponsors activities, in an effort to promote farming skills and leadership, beginning at an early age.

  Sunbelt Ag Expo – The Association works with other Farm Credit associations to sponsor a special dinner for young farmers at this event, which is the premier farm show in the southeast.

- Young Couples Cooperative Conference – As a member of the Georgia Cooperatives Association, Southwest Georgia Farm Credit offers the opportunity for a YBS couple to participate in the annual, statewide conference. This conference provides YBS farmers with an opportunity to network, participate and learn about cooperative principles.

- Young Farmers Association Chapters – On a local and statewide level, the Association supports young farmer education, management contests, and the annual statewide convention.

- SWGA Farm Credit Scholarship Program – The Association provides four, $1,000 scholarships to high school seniors interested in pursuing a career in agriculture or a field that will enhance the quality of life in the rural communities served by the Association.

- Ag Biz Planner – Opportunity for YBS farmers to participate in an online Farm Credit University course stressing business management skills.

- Youth Leadership Conference – Offered by the Georgia Cooperative Council, the Association sponsors the annual Youth Leadership Conference. The Association sponsors students who attend the event, in order to help defray personal expenses.

- Scholarships at Bainbridge State College – Along with the other Farm Credit associations serving the state of Georgia, Southwest Georgia Farm Credit sponsors scholarships at UGA, and will kick-off an Agriculture Education scholarship in 2014 with Bainbridge State College.

- Fresh From the Farm – Mini-grants designed to enhance awareness of locally grown fruits and vegetables.

REGULATORY MATTERS

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

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 Wall Street Reform and Consumer Protection Act (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 public comment period was to have ended on January 2, 2015. However, the FCA extended the deadline to allow interested parties additional time to submit comments. The 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 Act.

On February 4, 2015, the FCA Board approved the final rule, "Disclosure to Shareholders; Pension Benefit Disclosures." The rule amends FCA regulations to exclude employee compensation from being reported in the Summary Compensation Table (see *Additional Disclosure Required by Farm Credit Administration Regulations section* elsewhere in this Annual Report) if the employee would be considered a "highly compensated employee" solely because of payments related to or change(s) in value of the employee's qualified pension plan provided that the plan was available to all similarly situated employees on the same basis at the time the employee joined the plan. The rule will be effective 30 days after publication in the Federal Register during which time either one or both Houses of Congress are in session. System banks and associations must comply with the rule for compensation reported in the table for the fiscal year ending 2015, and may implement the rule retroactively for the fiscal years ended 2014 and 2013. However, retroactive application is not required. Retroactive application of the new provision requires no special permission from FCA as the rule itself contains this option. Disclosure of the change in calculation for the fiscal years to which the rule was applied retrospectively is required.

FINANCIAL REGULATORY REFORM

The Dodd-Frank Act was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the statutory provisions of the Dodd-Frank Act are not applicable to the Farm Credit System. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many more months or years.

The Dodd-Frank Act creates new regulators and expands the authority of the Federal Reserve Board over non-bank financial companies previously not subject to its or other bank regulators' direct jurisdiction, particularly those that are considered systemically important to the U.S. financial system. The legislation created the Financial Oversight Council, a coordinating body of financial regulators, which is designed to monitor and pinpoint systemic risks across the financial spectrum. Nevertheless, the Dodd-Frank Act largely preserves the authority of the FCA as the System's independent federal regulator by excluding System institutions from being considered non-bank financial companies and providing other exemptions and exclusions from certain of the law's provisions. Also, the rules prohibiting banking entities from engaging in proprietary trading under the so-called Volcker Rule do not apply to the debt securities issued by the System.

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges or other multilateral platforms, and margin is required for these transactions. Derivative transactions that will not be subject to mandatory trading and clearing requirements may also be subject to minimum margin and capital requirements. As required by the Dodd-Frank Act, the Commodity Futures Trading Commission (CFTC) considered and exempted System institutions from certain of these new requirements, including mandatory clearing for many of the derivative transactions entered into by System institutions.

The aforementioned margin requirements for transactions that are not cleared should not apply to swaps entered into by the banks in connection with loans to members. On January 12, 2015, the President signed the "Terrorism Risk Insurance Program Reauthorization Act of 2015" (the "TRIA Reauthorization Act") into law. Although primarily intended to renew a terrorism risk insurance program that was created in response to the September 11, 2001 attacks, the TRIA Reauthorization Act amends the Commodity Exchange Act to exempt swaps, for which a counterparty is a cooperative that qualifies for an exemption from mandatory clearing, from the Dodd-Frank Act's initial and variation margin requirements for swaps that are not cleared. As discussed above, the CFTC has established a clearing exemption for swaps entered into by cooperatives in connection with loans to members, for which all System institutions qualify. By virtue of this exemption, System Institutions should qualify for the TRIA Reauthorization Act's exemption from the Dodd-Frank Act's initial and variation margin requirements for non-cleared swaps that are entered into in connection with loans to members. The TRIA Reauthorization Act charges the CFTC with implementing the exemption from the margin requirements via the promulgation of an interim final rule, pursuant to which public comment must be sought before a final rule is issued. To date, the CFTC has not taken any action with respect to TRIA Reauthorization Act's margin exemption and thus it remains to be seen how the exemption will be implemented, including its scope and how it is to be claimed.

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

These new requirements may make derivative transactions more costly and less attractive as risk management tools for System institutions; and thus may impact the System's funding and hedging strategies.

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

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

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

Entity Name	Entity Type	Equity Purpose
CBF Holdings	LLC	Manage Acquired Property
A-1 Ledges Wilder	LLC	Manage Acquired Property
A-1 Sequatchie Point	LLC	Manage Acquired Property
Pickens County Properties	LLC	Manage Acquired Property

The Association also holds an equity investment in MB/BP Properties Joint Venture, LLC, a Limited Liability Company. The company was organized for the stated purpose of holding and managing unusual or complex collateral which was converted to Other Property Owned. All assets were subsequently sold pursuant to the terms of the operating agreement of the LLC.

Description of Property

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

Location	Description	Form of Ownership
305 Colquitt Highway Bainbridge	Administrative Office	Owned
40 E. Broad Street Camilla	Office	Owned
1230 38th Blvd., NW Cairo	Office	Owned*
1037 E. Forsyth Street Americus	Office	Owned
937 Forrester Drive, SE Dawson	Office	Owned
137 E. Jackson Street Thomasville	Office	Leased**

* *The Cairo building was sold April 17, 2014.*

** *The Thomasville outpost facility is leased by the Association. Lease payments were $1,200 per month until July 01, 2014. Lease payments increased to $1,320 per month on August 1, 2014.*

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

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

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

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

Senior Officers

The following represents certain information regarding the senior officers of the Association:

Senior Officer	Position
Richard S. Monson	President/Chief Executive Officer
Richard H. Horn	Chief Credit Officer
Ryan G. Burtt	Chief Financial Officer
Tarrell Bennett	Chief Lending Officer
Paxton W. Poitevint	Chief Relationship Manager
Liz Nogowski	Marketing and Administrative Officer

Richard S. Monson, President/Chief Executive Officer: Mr. Monson began his career in the Farm Credit System in 1986, serving as the Chief Lending Officer at Farm Credit of Southwest Florida. For the past 15 years, Mr. Monson has served Southwest Georgia Farm Credit as its President/Chief Executive Officer.

Richard H. Horn, Chief Credit Officer: Mr. Horn joined the Farm Credit System in 1981, most recently serving Southwest Georgia Farm Credit as its Chief Credit Officer. He joined the Association in 2008. Prior to that, Mr. Horn was employed as the Chief Lending Officer at ArborOne.

Ryan G. Burtt, Chief Financial Officer: Mr. Burtt joined the Association in 2004, and has served as both the Director of Credit Administration and Director of Risk Management. Mr. Burtt became Chief Financial Officer in January, 2010.

***Tarrell Bennett, Chief Lending Officer*:** Mr. Bennett has served Southwest Georgia Farm Credit for 42 years, most recently overseeing the Relationship Managers who serve the Association's 21-county territory. He has served as the Association's Credit Manager and worked in the Special Assets Management Department.

Paxton W. Poitevint, Chief Relationship Manager: Paxton W. Poitevint serves the Association as Chief Relationship Manager. Mr. Poitevint is a 10 year veteran of the Farm Credit System. Mr. Poitevint most recently served the Association as the Director of Capital Markets & Business Development.

Liz Nogowski, Marketing and Administrative Officer: Ms. Nogowski joined the Association in 2007, and currently manages the Association's marketing, advertising, public relations, internal communications and legislative efforts. Additionally, Ms. Nogowski is the Corporate Secretary, and manages Board Relations.

On October 3, 2012, FCA adopted a regulation that requires all System institutions to hold advisory votes on the compensation for all senior officers and/or the CEO when the compensation of either the CEO or the senior officer group increases by 15 percent or more from the previous reporting period. In addition, the regulation requires associations to hold an advisory vote on CEO and/or senior officer compensation when 5 percent of the voting stockholders petition for the vote and to disclose the petition authority in the annual report to shareholders. The regulation became effective December 17, 2012, and the base year for determining whether there is a 15 percent or greater increase was 2013. The Association has not held an advisory vote based on any stockholder petitions.

On January 17, 2014, the President signed into law the Consolidated Appropriations Act which included language prohibiting the FCA from using any funds available to "to implement or enforce" the regulation. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. Section 5404 of the law directs FCA to within 60 days of enactment of the law "review its rules to reflect the Congressional intent that a primary responsibility of boards of directors of Farm Credit System institutions, as elected representatives of their stockholders, is to oversee compensation practices."

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

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2014, 2013 and 2012, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value	Per/ Other*	Total**
Richard S. Monson	2014	$ 263,851	$ 93,339	$ –	$ 357,563	$ 7,337	$ 722,090
Richard S. Monson	2013	$ 256,140	$ 23,268	$ –	$ 83,878	$ 7,086	$ 370,372
Richard S. Monson	2012	$ 256,140	$ –	$ –	$ –	$ 7,520	$ 263,660
6	2014	$ 870,604	$ 339,449	$ –	$ 959,398	$ 16,970	$ 2,186,421
5	2013	$ 925,492	$ 273,412	$ –	$ 177,901	$ 15,968	$ 1,392,773
5	2012	$ 726,530	$ 136,195	$ –	$ –	$ 13,051	$ 875,776

**Amounts in the above table classified as Perquisites/Other include items, i.e., group life insurance, and automobile compensation.*

*** The disclosure of information on the total compensation paid during 2013 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.*

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

The table below provides information on Pension Benefits provided to the CEO, senior officers, and other highly compensated employees as a group.

Pension Benefits Table
As of December 31, 2014

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2014
CEO:					
Richard Monson	2014	AgFirst Retirement Plan		$ 2,534,685.33	$
				$ 2,534,685.33	$
Senior Officers and Highly Compensated Employees:					
6 Officers, excluding the CEO	2014	AgFirst Retirement Plan		$ 5,269,314.96	$
				$ 5,269,314.96	$

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

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

(2) No further employer contributions will be credited to participants in the Plan effective as of January 1, 2015.

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

(4) The Plan will be terminated effective as of December 31, 2015.

Following the termination of the Plan, vested benefits will be distributed to participants. Participants will continue to receive interest credits to their hypothetical cash balance accounts following the termination of the Plan through the month immediately preceding the month in which the vested benefits are distributed from the Plan.

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

Beginning on January 1, 2015, for participants in the CB Plan and eligible employees hired on or after November 4, 2014, an additional employer contribution will be made to the 401(k) Plan equal to 3 percent of the participants' eligible compensation.

In addition to a base salary, certain employees may earn additional compensation under employee performance and profit sharing plans. Credit quality goals, the payment of patronage distributions to the Association's membership, and Association profit goals established in the incentive plan must be met before any incentive is paid. Employee profit sharing and incentives are shown in the year earned, which may be different than the year paid. Profits distributed under the employee performance and the Employee Profit Sharing Plans are paid in the first quarter of the year following the fiscal year in which they are earned. The Association's compensation plans are designed to motivate employees and to help the Association meet and exceed the organizational objectives and financial goals, without taking undue risk.

Distributions under the Employee Profit Sharing Plan are awarded when the profits generated meet or exceed the targets, set by management and have been approved by the Board.

Incentives earned under the Discretionary Incentive Plan will be paid the first pay period following approval. Discretionary incentives may be recommended at any time by any member of the management team, including supervisors of one or more employees, on the behalf of any employee who has demonstrated meritorious performance. Payment under the Discretionary Incentive Plan cannot exceed $500 for any single instance and no more than two within a twelve month period. The plan operates on a calendar year and includes all supervised employees below a specific grade.

The Association's Relationship Manager Performance Plan is designed to focus on sales and marketing and recognizes each relationship manager on his or her individual sales goals as set by management. The goals set by management are designed to appropriately emphasize and recognize both quality and servicing of the Association's portfolio. The primary goal is based on the Risk Adjusted Return on Capital (RAROC) of the Relationship Managers serviced portfolio. The RAROC goal is set by management at a level to maximize returns, while limiting risk to stockholder equity. The four additional goals are: (1) Young, Beginning, and Small Farmer, (2) Rural Home Loans closed, (3) Auto Draft/Online Payments, and (4) Loans to New Members. Each goal is assigned a separate rate of compensation and is aggregated for a total payment. The Relationship Manager Performance Plan is paid quarterly following the quarter in which they are earned.

Annually, the Compensation Committee (board representation) reviews the compensation plans for approval and funding. All Board Compensation Committee minutes are reviewed by the board of directors.

The Board Compensation Committee recommended approval of the Employee Performance and Profit Sharing Plans, Relationship Manager Performance Plan and Discretionary

Incentive Plan to the Board, and the Board approved these plans on-December 18, 2013

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

Disclosure of information on the total compensation paid during 2014 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.

Directors

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $93,949 for 2014, $76,686 for 2013 and $81,639 for 2012. Subject to approval by the board, directors are compensated for meeting attendance and special assignments. As of December 31, 2014, an honoraria of $400 for attendance or $100 for participation telephonically is paid for meetings, committee meetings excluding Audit Committee, and special assignments. The Chairman of the Board receives an additional honoraria of $100 per board meeting. Directors on the Audit Committee are paid an honoraria of $800 for attendance at Audit Committee meetings. In addition, directors on the Executive Committee (Chairman and Vice Chairman) receive a quarterly fee up to $150 for incidental services and the Chairman of the Audit Committee receives an additional honoraria of $200 per Audit Committee meeting. Expenses incurred in connection with the attendance of the spouse of a director at a compensable function may be reimbursable upon a determination by the board chairman that the attendance of the spouse was or will be beneficial to the purpose of the meeting, and such reimbursement will not be reported as compensation. Total compensation paid to directors, as a group was $139,750. No Directors received any noncash compensation during 2014.

The following chart details the number of meetings and other activities (if applicable) for each director:

	Days served				
Name of Director	**Regular Board Meetings**	***Other Official Activities**	**Committee Meetings Attended**	**Committee Assignments**	**Comp. Paid**
Kimbley D. Rentz, Chairman	13	17	12	Compensation, Executive	$17,150
Robert B. Moss, Vice Chairman	12	23	21	Compensation, Executive, RIMCO (Risk Management)	21,900
T. E. Allen, III	13	12	13	Audit, Governance	16,100
Bobby J. Brooks	10	13	4	Compensation, Executive	11,200
Jeffrey A. Clark	13	15	19	Audit, Executive, Governance, RIMCO (Risk Management)	20,500
James H. Dixon, Jr.	13	21	10	Compensation, RIMCO (Risk Management)	16,000
Clifford Dollar, Jr.	13	17	15	Audit, Building, Governance	18,000
Robert L. Holden, Sr.	13	26	15	Building, Compensation, Goverance, RIMCO (Risk Management)	18,900
				Total	**$139,750**

** Other Official Activities include Miscellaneous Committee Meetings, Director Training, AgFirst Annual Meeting, FCC Annual Meeting, ACA Annual Meeting*

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

Kimbley D. Rentz, Chairman has farmed for nearly four decades. He joined the Board in 2013 and is presently serving a three-year term, which will expire in 2016. His farming operation includes approximately 3,000 acres, and he primarily produces cotton, peanuts, and sweet corn. A native of Miller County who currently resides in Colquitt, Mr. Rentz attended the University of Georgia for three years, where he majored in accounting. He currently serves on the board of the Decatur County Farm Bureau, an insurance and farm-related services provider; Three Notch EMC, an electric cooperative; Sweet corn Coop, a sweet corn cooler; Decatur Gin, a cotton gin; and Staple Cotton, a large, nationwide cotton marketing cooperative.

Robert B. Moss, Vice Chairman, was appointed as an Association Outside Director in 1993. He currently serves as Vice Chairman of the Board. His current term will expire in 2016. He serves as Chairman of the Compensation Committee.

Mr. Moss is a retired Superintendent of the University of Georgia College of Agricultural and Environmental Sciences, Southwest Georgia Branch Experiment Station. Currently, Mr. Moss is a part-time farm management consultant and resides near Plains in Sumter County.

T. E. Allen, III, Ph.D., is a peanut and cotton farmer who lives near Shellman in Randolph County. His current term expires in 2015. Mr. Allen earned a bachelor's degree in Political Science from Georgetown College in Kentucky, as well as a master's degree in Political Science from the University of South Carolina. He obtained a doctorate in Political Science from Emory University and taught at the college level for more than six years. Mr. Allen farmed for approximately 20 years, and is currently involved in a family partnership that produces cotton, peanuts, wheat and corn. He also manages timberland. Mr. Allen has served on the Association Board since 1989.

Bobby J. Brooks, is a peanut and cotton farmer who joined the Board in 1981. His current term will expire in 2015. Mr. Brooks resides near Edison in Clay County. He attended Abraham Baldwin Agricultural College and graduated from the University of Georgia with a degree in Animal Science. He has farmed for 55 years and is involved in a family operation with his son. Mr. Brooks also serves on the boards of Clay County, Inc., a peanut buying point; Edison Gin Company, a cotton gin; and Clay County Farm Bureau, an insurance and farm related services provider.

Jeffrey A. Clark, Ph.D., is a Professor of Finance at The Florida State University. He was appointed as an Association Outside Director in 2005. His current term expires in 2017. Mr. Clark serves as the Chairman of the Audit Committee, and Goverance Committee. He resides in Tallahassee, Florida.

James H. Dixon, Jr., is a resident of Camilla in Mitchell County. He is a graduate of the University of Georgia with a bachelor's degree in Agricultural Economics. Mr. Dixon, who joined the Board in 2011, is a poultry producer and his term expires in 2017.

Clifford Dollar, Jr. is a native of Bainbridge and attended Abraham Baldwin Agricultural College. A cotton, peanut and cattle farmer for the past 50 years, he has served the Association as a Board member since 1987. He is presently serving a three-year term, which will expire in 2015. Mr. Dollar also serves as president of the Board of SOWEGA Cotton, Inc., a cotton gin.

Robert L. Holden, Sr. is a beef, poultry and row crop producer who lives near Whigham in Grady County. His current term will expire in 2016. Mr. Holden, who joined the Board in 1987, also serves on the boards of the Grady County Farm Bureau, an insurance and farm related services provider.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Certified Public Accountants

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

Aggregate fees incurred by the Association for services rendered by its independent certified public accountant for the year ended December 31, 2014 were as follows:

	2014
Independent Certified Public Accountant	
PricewaterhouseCoopers LLP	69,089
Audit services	$ 69,089

Audit service fees were for the annual audit of the Consolidated Financial Statements.

Relationship with Third Party Service Provider

	2014
3rd Party Service Provider	
Harper, Rains, Knight & Company	
Nonaudit services	$ 103,371
Tax services	18,471
Total	$ 121,842

Nonaudit services included internal credit reviews, internal operation review, Sarbanes Oxley compliance review and other miscellaneous reviews as needed.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 11, 2015 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and Quarterly Reports are available upon request free of charge by calling 1-229-246-0384 or toll free 1-866-304-3276, or writing Southwest Georgia Farm Credit, ACA, 305 Colquitt Highway, Bainbridge, Georgia 39817, Attention: Chief Financial Officer, or accessing the web site, ***www.swgafarmcredit.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Should you have questions concerning the financial reports or any other information contained within this Annual Report please contact the Stockholder Relations Department by calling 1-866-304-3276, extension 1149.

Borrower Information Regulations

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

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

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

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

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly Reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the web site, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly Report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

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

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

PricewaterhouseCoopers LLP (PwC), the Association's independent certified public accountants for 2014, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 *(Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

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

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2014. The foregoing report is provided by the following independent directors, who constitute the Committee:

Jeffrey A. Clark
Chairman of the Audit Committee

Members of Audit Committee

Robert L. Holden, Sr.
Clifford Dollar, Jr.

March 11, 2015

pwc

Report of Independent Certified Public Accountants

To the Board of Directors of
Southwest Georgia Farm Credit, ACA:

We have audited the accompanying consolidated financial statements of Southwest Georgia Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2014, 2013 and 2012, 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.

Certified Public Accountants' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest Georgia Farm Credit, ACA and its subsidiaries at December 31, 2014, 2013 and 2012 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 11, 2015

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

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2014	2013	2012
Assets			
Cash	$ 1,569	$ 1,810	$ 3,133
Investment securities:			
Held to maturity (fair value of $15,095, $7,955, and $9,304, respectively)	14,603	7,789	8,075
Loans	385,147	394,282	318,176
Allowance for loan losses	(4,388)	(2,445)	(2,962)
Net loans	380,759	391,837	315,214
Other investments	91	13,252	26,140
Accrued interest receivable	5,199	5,343	4,175
Investments in other Farm Credit institutions	11,141	7,557	7,414
Premises and equipment, net	3,455	3,678	3,838
Other property owned	2,001	2,927	3,852
Accounts receivable	9,199	8,891	4,377
Other assets	2,456	2,757	2,821
Total assets	$ 430,473	$ 445,841	$ 379,039
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 346,949	$ 366,426	$ 301,931
Accrued interest payable	706	739	643
Patronage refunds payable	4,595	2,834	2,556
Accounts payable	571	340	134
Other liabilities	6,180	4,841	6,267
Total liabilities	359,001	375,180	311,531
Commitments and contingencies			
Members' Equity			
Protected borrower stock	11	15	89
Capital stock and participation certificates	1,080	1,030	975
Retained earnings			
Allocated	22,631	26,134	26,076
Unallocated	47,750	43,482	40,368
Total members' equity	71,472	70,661	67,508
Total liabilities and members' equity	$ 430,473	$ 445,841	$ 379,039

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2014	2013	2012
Interest Income			
Loans	$ 17,150	$ 17,512	$ 15,241
Investments	492	1,131	1,781
Total interest income	17,642	18,643	17,022
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	7,787	8,228	7,532
Net interest income	9,855	10,415	9,490
Provision for (reversal of allowance for) loan losses	1,800	767	(1,363)
Net interest income after provision for (reversal of allowance for) loan losses	8,055	9,648	10,853
Noninterest Income			
Loan fees	859	376	657
Fees for financially related services	1	1	5
Patronage refunds from other Farm Credit institutions	9,203	9,102	4,553
Gains (losses) on sales of premises and equipment, net	86	33	93
Net other-than-temporary impairment losses on investments	(69)	(412)	—
Insurance Fund refunds	—	—	284
Other noninterest income	134	122	48
Total noninterest income	10,214	9,222	5,640
Noninterest Expense			
Salaries and employee benefits	5,666	6,325	5,759
Occupancy and equipment	563	607	593
Insurance Fund premiums	351	291	114
(Gains) losses on other property owned, net	256	594	2,162
Other operating expenses	2,677	2,465	2,373
Total noninterest expense	9,513	10,282	11,001
Income before income taxes	8,756	8,588	5,492
Provision for income taxes	—	7	—
Net income	8,756	8,581	5,492
Other comprehensive income	—	—	—
Comprehensive income	$ 8,756	$ 8,581	$ 5,492

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2011	$ 131	$ 971	$ 25,976	$ 40,174	$ 67,252
Comprehensive income				5,492	5,492
Protected borrower stock issued/(retired), net	(42)				(42)
Capital stock/participation certificates issued/(retired), net		4			4
Patronage distribution					
Cash				(2,500)	(2,500)
Nonqualified allocated retained earnings			2,500	(2,500)	—
Retained earnings retired			(2,572)		(2,572)
Patronage distribution adjustment			172	(298)	(126)
Balance at December 31, 2012	$ 89	$ 975	$ 26,076	$ 40,368	$ 67,508
Comprehensive income				8,581	8,581
Protected borrower stock issued/(retired), net	(74)				(74)
Capital stock/participation certificates issued/(retired), net		55			55
Patronage distribution					
Cash				(2,750)	(2,750)
Nonqualified allocated retained earnings			2,750	(2,750)	—
Retained earnings retired			(2,680)	11	(2,669)
Patronage distribution adjustment			(12)	22	10
Balance at December 31, 2013	$ 15	$ 1,030	$ 26,134	$ 43,482	$ 70,661
Comprehensive income				8,756	8,756
Protected borrower stock issued/(retired), net	(4)				(4)
Capital stock/participation certificates issued/(retired), net		50			50
Patronage distribution					
Cash				(4,500)	(4,500)
Retained earnings retired			(3,503)	12	(3,491)
Balance at December 31, 2014	$ 11	$ 1,080	$ 22,631	$ 47,750	$ 71,472

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2014	2013	2012
Cash flows from operating activities:			
Net income	$ 8,756	$ 8,581	$ 5,492
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	289	285	282
Amortization (accretion) of net deferred loan costs (fees)	178	1	(44)
Premium amortization (discount accretion) on investments	(24)	(640)	(1,258)
Provision for (reversal of allowance for) loan losses	1,800	767	(1,363)
(Gains) losses on other property owned	318	387	2,014
Net impairment losses on investments	69	412	—
(Gains) losses on sales of premises and equipment, net	(86)	(33)	(93)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	144	(1,168)	87
(Increase) decrease in accounts receivable	(308)	(4,514)	164
(Increase) decrease in other assets	301	64	147
Increase (decrease) in accrued interest payable	(33)	96	(87)
Increase (decrease) in accounts payable	231	206	(26)
Increase (decrease) in other liabilities	1,339	(1,426)	(1,888)
Total adjustments	4,218	(5,563)	(2,065)
Net cash provided by (used in) operating activities	12,974	3,018	3,427
Cash flows from investing activities:			
Purchases of investment securities, held to maturity	(6,996)	(1,250)	—
Proceeds from maturities of or principal payments received on investment securities, held to maturity	182	1,536	159
Net (increase) decrease in loans	8,411	(81,214)	(34,712)
(Increase) decrease in investment in other Farm Credit institutions	(3,584)	(143)	1,688
Proceeds from payments received on other investments	13,116	13,116	13,116
Purchases of premises and equipment	(77)	(92)	(157)
Proceeds from sales of premises and equipment	97	—	274
Proceeds from sales of other property owned	1,297	4,361	2,679
Net cash provided by (used in) investing activities	12,446	(63,686)	(16,953)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(19,477)	64,495	19,728
Protected borrower stock retired	(4)	(74)	(42)
Capital stock and participation certificates issued/(retired), net	50	55	4
Patronage refunds and dividends paid	(2,739)	(2,462)	(1,030)
Retained earnings retired	(3,491)	(2,669)	(2,572)
Net cash provided by (used in) financing activities	(25,661)	59,345	16,088
Net increase (decrease) in cash	(241)	(1,323)	2,562
Cash, beginning of period	1,810	3,133	571
Cash, end of period	$ 1,569	$ 1,810	$ 3,133
Supplemental schedule of non-cash activities:			
Receipt of property in settlement of loans	$ 689	$ 3,823	$ 2,582
Estimated cash dividends or patronage distributions declared or payable	4,500	2,750	2,500
Supplemental information:			
Interest paid	$ 7,820	$ 8,132	$ 7,619

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

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Southwest Georgia Farm Credit, ACA (the Association or ACA) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Baker, Calhoun, Chattahoochee, Clay, Decatur, Dougherty, Early, Grady, Lee, Marion, Miller, Mitchell, Quitman, Randolph, Schley, Seminole, Stewart, Sumter, Terrell, Thomas, and Webster in the state of Georgia.

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

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

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

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

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

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

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

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

In addition to providing loan funds, the Bank provides District Associations with banking and support services such as: accounting, human resources, information systems, and marketing. The costs of these support services are included in the interest charges to the Associations, or in some cases billed directly to certain Associations that use a specific service.

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

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

Note 2 — Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

When loans are in nonaccrual status, the interest portion of payments received in cash is recognized as interest income if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it. Otherwise, loan payments are applied against the recorded investment in the loan. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is no longer in question and the loan is not classified "doubtful" or "loss."

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

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

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

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

- Credit risk classifications,
- Collateral values,
- Risk concentrations,
- Weather related conditions,

- Current production and economic conditions, and
- Prior loan loss experience.

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

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

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

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

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

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

As of December 31, 2014 there were no loans held for sale.

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

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

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

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

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

The Association holds minority equity interests in a Rural Business Investment Company (RBIC). This investment is accounted for under the cost method and is carried at the lower of cost or fair value.

Investment in Other Farm Credit Institutions
The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock, as presented on the consolidated balance sheet as investments in Other

Farm Credit Institutions. Accounting for this investment is on the cost plus allocated equities basis.

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

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

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

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

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

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

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

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

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-District sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Certain charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Association's Consolidated Balance Sheets.

Since the foregoing plans are multi-employer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations.

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

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

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

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

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

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

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

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

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

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

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

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

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

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

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

Please see further discussion in Note 8.

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

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

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

M. **Accounting Standards Updates (ASUs):** In January, 2015, the FASB issued ASU 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The Update eliminates the concept of extraordinary items. Currently, if an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The effective date is the same for both public business entities and all other entities. It is expected that adoption will not have a material impact on the Association's financial condition or results of operations.

In November, 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. Under GAAP, features such as conversion rights, redemption rights, dividend payment preferences, and others that are included in instruments issued in the form of shares may qualify as derivatives. If so, the shares issued are considered hybrid financial instruments. To determine the proper accounting for hybrid financial instruments, investors and issuers in the instruments must determine whether the nature of the host contract containing the feature is more akin to debt or equity as well as whether the economic characteristics and risks of the embedded derivative feature are clearly and closely related to the host contract. The purpose of the update is to eliminate diversity in accounting for hybrid financial instruments by both issuers and investors. When evaluating the host contract to determine whether it is more akin to debt or equity, the reporting entity should consider all relevant terms and features of the contract, including the embedded derivative feature that is being evaluated for separation. The amendments in this Update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption, including adoption in an interim period, is permitted. It is expected that adoption will not have a material impact on the Association's financial condition or results of operation.

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

In August, 2014, the FASB issued ASU 2014-14, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. Currently, there is diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1. The loan has a government guarantee that is not separable from the loan before foreclosure; 2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; 3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For all other entities, the amendments in this Update are effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. It is expected that adoption will not have a material impact on the Association's financial condition or results of operations.

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

In May 2014, the FASB, responsible for U.S. Generally Accepted Accounting Principles (U.S. GAAP), and the International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS), jointly issued converged standards on the recognition of revenue from contracts with customers. Accounting Standards Update (ASU) 2014-09, “Revenue from Contracts with Customers (Topic 606)” and IFRS 15 “Revenue from Contracts with Customers” are intended to improve the financial reporting of revenue and comparability of the top line in financial statements globally and supersede substantially all previous revenue recognition guidance. The core principle of the new standards is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Because of the pervasive nature of the new guidance, the boards have established a joint transition resource group in order to aid transition to the new standard. For public entities reporting under U.S. GAAP, the amendments in the Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For nonpublic entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to adopt this guidance earlier under certain circumstances. The amendments are to be applied retrospectively. The Association has identified ancillary revenues that will be subject to this guidance. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

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

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

In January 2014, the FASB issued ASU 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of the amendments in this Update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted. It is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

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

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

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

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

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

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

- Communication loans — primarily to finance rural communication companies.
- Energy loans — primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases (such as direct financing leases, leveraged leases, and sales-type leases) where the Association is the lessor.
- Other (including Mission Related) — In addition to making loans to accomplish the System's Congressionally mandated mission to finance agriculture and rural America, the Association may make investments in rural America to address the diverse needs of agriculture and rural communities across the country. The FCA approves these investments on a program or a case-by-case basis. Examples of investment programs that the FCA will consider include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2014	December 31, 2013	December 31, 2012
Real estate mortgage	$ 238,714	$ 265,419	$ 216,809
Production and intermediate-term	88,969	78,391	65,857
Processing and marketing	34,348	28,365	14,001
Farm-related business	15,034	14,424	15,276
Communication	3,370	2,419	2,529
Energy and water/waste disposal	967	991	779
Rural residential real estate	2,332	2,453	2,925
Lease receivables	1,413	1,820	–
Total Loans	$ 385,147	$ 394,282	$ 318,176

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

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

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

December 31, 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	$ 14,110	$ 78,229	$ –	$ –	$ 2,098	$ –	$ 16,208	$ 78,229
Production and intermediate-term	8,817	28,757	–	495	–	–	8,817	29,252
Processing and marketing	18,957	13,499	709	1,019	–	–	19,666	14,518
Farm-related business	2,871	14,185	–	–	–	–	2,871	14,185
Communication	3,372	–	–	–	–	–	3,372	–
Energy and water/waste disposal	973	–	–	–	–	–	973	–
Lease receivables	–	–	1,413	–	–	–	1,413	–
Total	$ 49,100	$ 134,670	$ 2,122	$ 1,514	$ 2,098	$ –	$ 53,320	$ 136,184

	December 31, 2013							
	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	$ 14,109	$ 33,740	$ –	$ –	$ 2,167	$ –	$ 16,276	$ 33,740
Production and intermediate-term	9,697	14,744	–	–	651	–	10,348	14,744
Processing and marketing	13,775	33,827	957	1,135	–	–	14,732	34,962
Farm-related business	2,825	9,804	–	490	–	–	2,825	10,294
Communication	2,422	–	–	–	–	–	2,422	–
Energy and water/waste disposal	991	–	–	–	–	–	991	–
Lease receivables	–	–	1,820	–	–	–	1,820	–
Total	$ 43,819	$ 92,115	$ 2,777	$ 1,625	$ 2,818	$ –	$ 49,414	$ 93,740

	December 31, 2012							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 17,531	$ 28,109	$ –	$ –	$ 2,233	$ –	$ 19,764	$ 28,109
Production and intermediate-term	14,112	14,379	–	–	275	–	14,387	14,379
Processing and marketing	5,431	52,475	1,795	1,448	–	–	7,226	53,923
Farm-related business	3,016	12,239	–	630	–	–	3,016	12,869
Communication	2,529	–	–	–	–	–	2,529	–
Energy and water/waste disposal	779	–	–	–	–	–	779	–
Total	$ 43,398	$ 107,202	$ 1,795	$ 2,078	$ 2,508	$ –	$ 47,701	$ 109,280

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

	December 31, 2014			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 401	$ 27,293	$ 211,020	$ 238,714
Production and intermediate-term	33,928	41,609	13,432	88,969
Processing and marketing	561	12,907	20,880	34,348
Farm-related business	236	2,701	12,097	15,034
Communication	–	3,370	–	3,370
Energy and water/waste disposal	–	–	967	967
Rural residential real estate	–	458	1,874	2,332
Lease receivables	–	1,413	–	1,413
Total Loans	$ 35,126	$ 89,751	$ 260,270	$ 385,147
Percentage	9.12%	23.30%	67.58%	100.00%

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

	December 31, 2014	2013	2012
Real estate mortgage:			
Acceptable	98.41%	97.78%	95.04%
OAEM	0.75	1.34	1.57
Substandard/doubtful/loss	0.84	0.88	3.39
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	97.58%	99.76%	92.29%
OAEM	1.62	0.01	0.53
Substandard/doubtful/loss	0.80	0.23	7.18
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	98.46%
OAEM	–	–	1.54
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	93.80%
OAEM	–	–	6.20
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31, 2014	2013	2012
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Energy and water/waste disposal:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	83.92%	83.88%	82.28%
OAEM	8.14	15.71	17.26
Substandard/doubtful/loss	7.94	0.41	0.46
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	100.00%	100.00%	–%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	–%
Total Loans:			
Acceptable	98.36%	98.36%	94.50%
OAEM	0.89	1.00	1.70
Substandard/doubtful/loss	0.75	0.64	3.80
	100.00%	100.00%	100.00%

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

December 31, 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	$ 479	$ –	$ 479	$ 241,577	$ 242,056	$ –
Production and intermediate-term	515	–	515	89,976	90,491	–
Processing and marketing	–	–	–	34,482	34,482	–
Farm-related business	–	–	–	15,116	15,116	–
Communication	–	–	–	3,370	3,370	–
Energy and water/waste disposal	–	–	–	972	972	–
Rural residential real estate	251	–	251	2,094	2,345	–
Lease receivables	–	–	–	1,417	1,417	–
Total	$ 1,245	$ –	$ 1,245	$ 389,004	$ 390,249	$ –

December 31, 2013

	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	$ 674	$ –	$ 674	$ 268,751	$ 269,425	$ –
Production and intermediate-term	144	–	144	79,214	79,358	–
Processing and marketing	–	–	–	28,517	28,517	–
Farm-related business	–	–	–	14,555	14,555	–
Communication	–	–	–	2,419	2,419	–
Energy and water/waste disposal	–	–	–	991	991	–
Rural residential real estate	–	–	–	2,466	2,466	–
Lease receivables	–	–	–	1,823	1,823	–
Total	$ 818	$ –	$ 818	$ 398,736	$ 399,554	$ –

	December 31, 2012					
	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	$ 696	$ –	$ 696	$ 219,237	$ 219,933	$ –
Production and intermediate-term	76	4,404	4,480	62,123	66,603	–
Processing and marketing	–	–	–	14,102	14,102	–
Farm-related business	–	–	–	15,380	15,380	–
Communication	–	–	–	2,530	2,530	–
Energy and water/waste disposal	–	–	–	779	779	–
Rural residential real estate	13	–	13	2,927	2,940	–
Total	$ 785	$ 4,404	$ 5,189	$ 317,078	$ 322,267	$ –

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

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

	December 31, 2014	2013	2012
Nonaccrual loans:			
Real estate mortgage	$ –	$ 323	$ 680
Production and intermediate-term	5	8	4,412
Total	$ 5	$ 331	$ 5,092
Accruing restructured loans:			
Real estate mortgage	$ 3,201	$ 3,290	$ 2,127
Production and intermediate-term	71	306	293
Total	$ 3,272	$ 3,596	$ 2,420
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 3,277	$ 3,927	$ 7,512
Other property owned	2,001	2,927	3,852
Total nonperforming assets	$ 5,278	$ 6,854	$ 11,364
Nonaccrual loans as a percentage of total loans	0.00%	0.08%	1.60%
Nonperforming assets as a percentage of total loans and other property owned	1.36%	1.73%	3.53%
Nonperforming assets as a percentage of capital	7.39%	9.70%	16.83%

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

Impaired loans:	December 31, 2014	2013	2012
Nonaccrual loans:			
Current as to principal and interest	$ 5	$ 8	$ 144
Past due	–	323	4,948
Total	5	331	5,092
Accrual loans:			
Restructured	3,272	3,596	2,420
90 days or more past due	–	–	–
Total	3,272	3,596	2,420
Total impaired loans	$ 3,277	$ 3,927	$ 7,512

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

	December 31, 2014			Year Ended December 31, 2014	
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	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	22	49	51	24	–
Total	$ 22	$ 49	$ 51	$ 24	$ –
With no related allowance for credit losses:					
Real estate mortgage	$ 3,201	$ 3,181	$ –	$ 3,421	$ 34
Production and intermediate-term	54	1,262	–	57	1
Total	$ 3,255	$ 4,443	$ –	3,478	35
Total impaired loans:					
Real estate mortgage	$ 3,201	$ 3,181	$ –	$ 3,421	$ 34
Production and intermediate-term	76	1,311	51	81	1
Total	$ 3,277	$ 4,492	$ 51	$ 3,502	$ 35

	December 31, 2013			Year Ended December 31, 2013	
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	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	10	52	47	13	–
Total	$ 10	$ 52	$ 47	$ 13	$ –
With no related allowance for credit losses:					
Real estate mortgage	$ 3,613	$ 3,637	$ –	$ 4,632	$ 76
Production and intermediate-term	304	1,559	–	389	6
Total	$ 3,917	$ 5,196	$ –	$ 5,021	$ 82
Total impaired loans:					
Real estate mortgage	$ 3,613	$ 3,637	$ –	$ 4,632	$ 76
Production and intermediate-term	314	1,611	47	402	6
Total	$ 3,927	$ 5,248	$ 47	$ 5,034	$ 82

	December 31, 2012			Year Ended December 31, 2012	
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	$ 544	$ 614	$ 4	$ 666	$ 17
Production and intermediate-term	4,404	4,362	1,512	5,399	138
Total	$ 4,948	$ 4,976	$ 1,516	$ 6,065	$ 155
With no related allowance for credit losses:					
Real estate mortgage	$ 2,263	$ 2,730	$ –	$ 2,774	$ 71
Production and intermediate-term	301	2,275	–	368	10
Total	$ 2,564	$ 5,005	$ –	$ 3,142	$ 81
Total impaired loans:					
Real estate mortgage	$ 2,807	$ 3,344	$ 4	$ 3,440	$ 88
Production and intermediate-term	4,705	6,637	1,512	5,767	148
Total	$ 7,512	$ 9,981	$ 1,516	$ 9,207	$ 236

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

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

	Year Ended December 31, 2014	2013	2012
Interest income which would have been recognized under the original loan terms	$ 47	$ 94	$ 485
Less: interest income recognized	35	82	236
Foregone interest income	$ 12	$ 12	$ 249

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2013	$ 1,613	$ 525	$ 260	$ 15	$ 6	$ 15	$ 11	$ 2,445
Charge-offs	(46)	–	–	–	–	–	–	(46)
Recoveries	–	187	2	–	–	–	–	189
Provision for loan losses	1,110	350	296	23	5	11	5	1,800
Balance at December 31, 2014	$ 2,677	$ 1,062	$ 558	$ 38	$ 11	$ 26	$ 16	$ 4,388
Balance at December 31, 2012	$ 1,001	$ 1,796	$ 135	$ 12	$ 4	$ 14	$ –	$ 2,962
Charge-offs	(102)	(1,430)	–	–	–	–	–	(1,532)
Recoveries	22	226	–	–	–	–	–	248
Provision for loan losses	692	(67)	125	3	2	1	11	767
Balance at December 31, 2013	$ 1,613	$ 525	$ 260	$ 15	$ 6	$ 15	$ 11	$ 2,445
Balance at December 31, 2011	$ 1,819	$ 2,194	$ 278	$ –	$ –	$ 31	$ –	$ 4,322
Charge-offs	(789)	(111)	(42)	–	–	–	–	(942)
Recoveries	145	798	2	–	–	–	–	945
Provision for loan losses	(174)	(1,085)	(103)	12	4	(17)	–	(1,363)
Balance at December 31, 2012	$ 1,001	$ 1,796	$ 135	$ 12	$ 4	$ 14	$ –	$ 2,962
Allowance on loans evaluated for impairment:								
Individually	$ –	$ 51	$ -	$ –	$ –	$ –	$ –	$ 51
Collectively	2,677	1,011	558	38	11	26	16	4,337
Balance at December 31, 2014	$ 2,677	$ 1,062	$ 558	$ 38	$ 11	$ 26	$ 16	$ 4,388
Individually	$ –	$ 47	$ –	$ –	$ –	$ –	$ –	$ 47
Collectively	1,613	478	260	15	6	15	11	2,398
Balance at December 31, 2013	$ 1,613	$ 525	$ 260	$ 15	$ 6	$ 15	$ 11	$ 2,445
Individually	$ 4	$ 1,512	$ –	$ –	$ –	$ –	$ –	$ 1,516
Collectively	997	284	135	12	4	14	–	1,446
Balance at December 31, 2012	$ 1,001	$ 1,796	$ 135	$ 12	$ 4	$ 14	$ –	$ 2,962
Recorded investment in loans evaluated for impairment:								
Individually	$ 3,201	$ 76	$ –	$ –	$ –	$ –	$ –	$ 3,277
Collectively	238,855	90,415	49,598	3,370	972	2,345	1,417	386,972
Ending balance at December 31, 2014	$ 242,056	$ 90,491	$ 49,598	$ 3,370	$ 972	$ 2,345	$ 1,417	$ 390,249
Individually	$ 3,613	$ 314	$ –	$ –	$ –	$ –	$ –	$ 3,927
Collectively	265,812	79,044	43,072	2,419	991	2,466	1,823	395,627
Ending balance at December 31, 2013	$ 269,425	$ 79,358	$ 43,072	$ 2,419	$ 991	$ 2,466	$ 1,823	$ 399,554
Individually	$ 2,807	$ 4,705	$ –	$ –	$ –	$ –	$ –	$ 7,512
Collectively	217,126	61,898	29,482	2,530	779	2,940	–	314,755
Ending balance at December 31, 2012	$ 219,933	$ 66,603	$ 29,482	$ 2,530	$ 779	$ 2,940	$ –	$ 322,267

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

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $73,529, $72,158, and $72,161 at December 31, 2014, 2013, and 2012, respectively. Fees paid for such guarantee commitments totaled $188, $153, and $119 for 2014, 2013, and 2012, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no TDRs that occurred during 2014.

	Year Ended December 31, 2013				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 1,390	$ –	$ 1,390	
Production and intermediate-term	–	52	300	352	
Total	$ –	$ 1,442	$ 300	$ 1,742	
Post-modification:					
Real estate mortgage	$ –	$ 1,390	$ –	$ 1,390	$ –
Production and intermediate-term	–	52	91	143	(91)
Total	$ –	$ 1,442	$ 91	$ 1,533	$ (91)

	Year Ended December 31, 2012				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 2	$ 455	$ 457	
Production and intermediate-term	–	97	–	97	
Total	$ –	$ 99	$ 455	$ 554	
Post-modification:					
Real estate mortgage	$ –	$ 2	$ –	$ 2	$ (33)
Production and intermediate-term	–	96	–	96	–
Total	$ –	$ 98	$ –	$ 98	$ (33)

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

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

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2014	2013	2012	2014	2013	2012
Real estate mortgage	$ 3,201	$ 3,290	$ 2,127	$ –	$ –	$ –
Production and intermediate-term	76	314	301	5	8	8
Total Loans	$ 3,277	$ 3,604	$ 2,428	$ 5	$ 8	$ 8
Additional commitments to lend	$ –	$ –	$ –			

Note 4 — Investments

Investment in Other Farm Credit Institutions

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

The Association's investment in the Bank totaled $9,930 for 2014, $6,255 for 2013 and $6,123 for 2012. The Association owns 3.97 percent of the issued stock of the Bank as of December 31, 2014 net of any reciprocal investment. As of that date, the Bank's assets totaled $29.5 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $380 million at December 31, 2014. In addition, the Association has an investment of $1,211 related to other Farm Credit institutions.

Other Investments

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

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

For the years ended December 31, 2014, 2013 and 2012, the Association held Tobacco Buyout SIIC of $0, $13,092 and $25,568, respectively, net of discount. Final payments to financial institutions under SIIC arrangements occurred in January 2014.

In 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Association purchased total equity investments in the RBIC of $572. There are no outstanding commitments to make additional equity purchases beyond this amount.

During 2014 and 2013, analyses indicated that decreases in value of the investment had occurred that were other than temporary, due to a series of losses and other factors. As a result, for the years ended December 31, 2014 and 2013, the Association recognized other-than-temporary impairment of $69 and $412, respectively, which is included in Impairment Losses on Investments in the Statements of Income.

Investment Securities

The Association's investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. At December 31, 2014, the Association held $879 Rural America Bonds whose credit quality has deteriorated beyond the program limits.

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

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments	$14,603	$ 608	$ (116)	$ 15,095	5.32%

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments	$ 7,789	$ 289	$ (123)	$ 7,955	6.00%

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments	$ 8,075	$1,229	$ –	$ 9,304	6.41%

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

	December 31, 2014		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	2,087	2,158	5.49
After five years through ten years	–	–	–
After ten years	12,516	12,937	5.29
Total	$ 14,603	$ 15,095	5.32%

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

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified. There were no investments in a continuous unrealized loss position at December 31, 2012.

	December 31, 2014			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission Related Investments	$ 6,889	$ (108)	$ 1,371	$ (8)

	December 31, 2013			
	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission Related Investments	3,357	$ (123)	$ –	$ –

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

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

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

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

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

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2014	2013	2012
Land	$ 650	$ 663	$ 663
Buildings and improvements	3,496	3,606	3,606
Furniture and equipment	1,404	1,374	1,321
	5,550	5,643	5,590
Less: accumulated depreciation	2,095	1,965	1,752
Total	$ 3,455	$ 3,678	$ 3,838

Other Property Owned

Net (gains) losses on other property owned consist of the following:

	December 31, 2014	2013	2012
(Gains) losses on sale, net	$ 1	$ (18)	$ 7
Carrying value unrealized (gains) losses	317	405	2,007
Operating (income) expense, net	(62)	207	148
(Gains) losses on other property owned, net	$ 256	$ 594	$ 2,162

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. There were no deferred gains at December 31, 2014, 2013, and 2012.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a 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 GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2014, the Association's notes payable were within the specified limitations.

The Association failed to meet its earnings covenant under the GFA at December 31, 2012. The default allowed the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank approved a waiver of the default and allowed the Association to continue to operate under a special credit agreement (SCA). At June 30, 2012, the Association was in compliance with the earnings covenant under the GFA and therefore the SCA was terminated effective June 30, 2012. The Association has subsequently operated under the GFA.

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

The weighted average interest rates on the variable rate notes were 1.46 percent for LIBOR-based loans and 1.59 percent for Prime-based loans, and the weighted average remaining maturities were 3.2 years and 6.2 years, respectively, at December 31, 2014. The weighted average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.65 percent and the weighted average remaining maturity was 9.4 years at December 31, 2014. The weighted average interest rate on all interest-bearing notes payable was 2.39 percent and the weighted average remaining maturity was 8.1 years at December 31, 2014. Variable rate and fixed rate notes payable represent approximately 17.49 percent and 82.51 percent, respectively, of total notes payable at December 31, 2014. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

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

A. **Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act which 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 which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

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

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

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

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

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

	2014	2013	2012	Regulatory Minimum
Permanent capital ratio	17.68%	17.23%	21.35%	7.00%
Total surplus ratio	17.38%	16.95%	21.00%	7.00%
Core surplus ratio	15.52%	14.57%	17.39%	3.50%

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

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

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

The Association had the following shares outstanding at December 31, 2014:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
A Common/Nonvoting	Yes	76	$ –
B Common/Nonvoting	Yes	1,615	9
C Common/Voting	No	207,741	1,039
B Participation Certificates/Nonvoting	Yes	395	2
C Participation Certificates/Nonvoting	No	8,264	41
Total Capital Stock and Participation Certificates		218,091	$ 1,091

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

Retained Earnings

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

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

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

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by the FCA and the Board are met. Nonqualified retained surplus is considered to be permanently invested in the Association and as such, there is no plan to revolve or retire this surplus. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2014, allocated members' equity consisted of $12,924 of nonqualified allocated surplus and $9,707 of nonqualified retained surplus.

Patronage Distributions

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

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash. Amounts not distributed are retained as unallocated members' equity.

Dividends

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

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

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

Transfer

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

Impairment

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

1. Assistance preferred Stock
2. Allocated Retained Earnings in its entirety
3. Class C Common Stock and Class C Participation Certificates
4. Classes A and B Common Stock and Class B Participation Certificates
5. Classes A and D Preferred Stock

Liquidation

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

1. Classes A and D Preferred Stock
2. Classes A and B Common Stock and Class B Participation Certificates
3. Class C Common Stock and Class C Participation Certificates
4. Allocated surplus evidenced by qualified written notices of allocation on the basis of oldest allocations first
5. Allocated surplus evidenced by nonqualified notices of allocation on the basis of oldest allocations first
6. All Unallocated Retained Earnings issued after January 1, 1995 shall be distributed to the holders of Class C Stock and Class C Participation Certificates from January 1, 1995 through the date of liquidation on a patronage basis; and
7. Any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

Note 8 — Fair Value Measurement

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

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

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

The classifications within the fair value hierarchy are as follows:

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

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

Level 2
The Association had no Level 2 assets or liabilities measured at fair value.

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

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

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

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

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

The fair value of investment securities is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

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

There are no observable market values for the Association's RBIC investments. Management must estimate the fair value based on an assessment of the operating performance of the company and available capital to operate the venture. This analysis requires significant judgment and actual sales values could differ materially from those estimated.

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

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

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

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

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

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
Other investments-RBIC	$ 91	Third party evaluation	Income, expense, capital	Not applicable
Impaired loans and other property owned	$ 5,457	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

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

	At or for the Year ended December 31, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 3,226	$ –	$ –	$ 3,226	$ 3,226	$ 139
Other property owned	2,001	–	–	2,231	2,231	(318)
Other investments	91	–	–	91	91	(69)
Nonrecurring Assets	$ 5,318	$ –	$ –	$ 5,548	$ 5,548	$ (248)
Other Financial Instruments						
Assets:						
Cash	$ 1,569	$ 1,569	$ –	$ –	$ 1,569	
Investment securities, held-to-maturity	14,603	–	–	15,095	15,095	
Loans	377,533	–	–	370,296	370,296	
Other Financial Assets	$ 393,705	$ 1,569	$ –	$ 385,391	$ 386,960	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 346,949	$ –	$ –	$ 342,388	$ 342,388	
Other Financial Liabilities	$ 346,949	$ –	$ –	$ 342,388	$ 342,388	

	At or for the Year ended December 31, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 3,880	$ –	$ –	$ 3,880	$ 3,880	$ 184
Other property owned	2,927	–	–	3,424	3,424	(387)
Other investments	160	–	–	160	160	(412)
Nonrecurring Assets	$ 6,967	$ –	$ –	$ 7,464	$ 7,464	$ (615)
Other Financial Instruments						
Assets:						
Cash	$ 1,810	$ 1,810	$ –	$ –	$ 1,810	
Investment securities, held-to-maturity	7,789	–	–	7,955	7,955	
Loans	387,957	–	–	379,908	379,908	
Other investments	13,092	–	–	13,108	13,108	
Other Financial Assets	$ 410,648	$ 1,810	$ –	$ 400,971	$ 402,781	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 366,426	$ –	$ –	$ 358,279	$ 358,279	
Other Financial Liabilities	$ 366,426	$ –	$ –	$ 358,279	$ 358,279	

	December 31, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 5,996	$ –	$ –	$ 5,996	$ 5,996	$ 473
Other property owned	3,852	–	–	4,492	4,492	(2,014)
Nonrecurring Assets	$ 9,848	$ –	$ –	$ 10,488	$ 10,488	$ (1,541)
Other Financial Instruments						
Assets:						
Cash	$ 3,133	$ 3,133	$ –	$ –	$ 3,133	
Investment securities, held-to-maturity	8,075	–	–	9,304	9,304	
Loans	309,218	–	–	308,752	308,752	
Other investments	25,568	–	–	26,019	26,019	
Other Financial Assets	$ 345,994	$ 3,133	$ –	$ 344,075	$ 347,208	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 301,931	$ –	$ –	$ 300,897	$ 300,897	
Other Financial Liabilities	$ 301,931	$ –	$ –	$ 300,897	$ 300,897	

Note 9 — Employee Benefit Plans

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

a) Assets contributed to multiemployer plans 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 Bank chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

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

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
AgFirst Farm Credit Retirement Plan	84.56%	89.47%	77.35%	$697	$952	$871	1.84%	1.89%	1.91%
AgFirst Farm Credit Cash Balance Retirement Plan	100.07%	95.06%	86.01%	$150	$53	$42	3.01%	2.99%	3.06%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$106	$99	$88	1.37%	1.42%	1.43%

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

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

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

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

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

Substantially all employees of the Association are eligible to participate in either the FAP Plan or the CB Plan. These two Plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $1,136 for 2014, $1,098 for 2013, and $1,079 for 2012. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $173 for 2014, $168 for 2013, and $140 for 2012. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of other liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan , which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $143, $147, and $130 for the years ended December 31, 2014, 2013, and 2012, respectively.

Changes in the mortality and discount rate assumptions significantly increased projected benefit obligations at December 31, 2014. Additional information can be found in

Note 9 of the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

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

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

2) No further employer contributions will be credited to participants in the Plan effective as of January 1, 2015.

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

4) The Plan will be terminated effective as of December 31, 2015.

Following the termination of the Plan, vested benefits will be distributed to participants. Participants will continue to receive interest credits to their hypothetical cash balance accounts following the termination of the Plan through the month immediately preceding the month in which the vested benefits are distributed from the Plan.

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

Beginning on January 1, 2015, for participants in the CB Plan and eligible employees hired on or after November 4, 2014, an additional employer contribution will be made to the 401(k) Plan equal to 3 percent of the participants' eligible compensation.

Note 10 — Related Party Transactions

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

Total loans to such persons at December 31, 2014 amounted to $14,812. During 2014, $5,203 of new loans were made and repayments totaled $6,174. In the opinion of management, none of these loans outstanding at December 31, 2014 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2014, $87,624 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2014, standby letters of credit outstanding totaled $1,198 with expiration dates ranging from January 1, 2015 to March 3, 2017. The maximum potential amount of future payments that may be required under these guarantees was $1,198.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows:

	Year Ended December 31, 2014	2013	2012
Current:			
Federal	$ –	$ 7	$ –
State	–	–	–
		7	–
Deferred:			
Federal	–	–	–
State	–	–	–
		–	–
Total provision (benefit) for income taxes	$ –	$ 7	$ –

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

	December 31, 2014	2013	2012
Federal tax at statutory rate	$ 3,065	$ 3,006	$ 1,867
State tax, net	–	–	–
Patronage distributions	(1,157)	(963)	(850)
Tax-exempt FLCA earnings	(2,315)	(1,850)	(1,191)
Change in valuation allowance	572	(47)	78
Other	(165)	(139)	96
Provision (benefit) for income taxes	$ –	$ 7	$ –

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

	December 31, 2014	2013	2012
Deferred income tax assets:			
Allowance for loan losses	$ 928	$ 535	$ 630
Pensions and other postretirement benefits	465	445	428
Loss carryforwards	4,797	4,677	4,673
Gross deferred tax assets	6,190	5,657	5,731
Less: valuation allowance	(5,803)	(5,231)	(5,278)
Gross deferred tax assets, net of valuation allowance	387	426	453
Deferred income tax liabilities:			
Loan fees		–	(1)
Depreciation	(24)	(27)	(38)
Pensions and other postretirement benefits	(363)	(399)	(414)
Gross deferred tax liability	(387)	(426)	(453)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2014, deferred income taxes have not been provided by the Association on approximately $2 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $5,803, $5,231, and $5,278 as of December 31, 2014, 2013 and 2012, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2014 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2010 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

2014	First	Second	Third	Fourth	Total
Net interest income	$ 2,631	$ 2,131	$ 2,563	$ 2,530	$ 9,855
Provision for (reversal of allowance for) loan losses	–	(724)	192	2,332	1,800
Noninterest income (expense), net	(1,342)	(122)	(856)	3,021	701
Net income (loss)	$ 1,289	$ 2,733	$ 1,515	$ 3,219	$ 8,756

2013	First	Second	Third	Fourth	Total
Net interest income	$ 2,474	$ 2,465	$ 2,779	$ 2,664	$ 10,382
Provision for (reversal of allowance for) loan losses	–	–	–	767	767
Noninterest income (expense), net	(1,273)	(1,301)	(1,003)	2,543	(1,034)
Net income (loss)	$ 1,201	$ 1,164	$ 1,776	$ 4,440	$ 8,581

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 2,279	$ 2,305	$ 2,467	$ 2,366	$ 9,417
Provision for (reversal of allowance for) loan losses	–	(1,250)	–	(113)	(1,363)
Noninterest income (expense), net	(1,074)	(1,918)	(1,658)	(638)	(5,288)
Net income (loss)	$ 1,205	$ 1,637	$ 809	$ 1,841	$ 5,492

Note 14 — Regulatory Enforcement Matters

During the first quarter of 2010, the FCA entered into a written supervisory agreement with the Association. The written supervisory agreement required the Association to take corrective actions with respect to certain areas of its operations, including capital, portfolio management, and asset quality. The FCA terminated the written supervisory agreement with the Association on August 22, 2012. The termination was recognition by the FCA that the conditions that prompted the need for the agreement had been sufficiently addressed by the Association.

Note 15 — Subsequent Events

The Association evaluated subsequent events and determined that there were none requiring disclosure through March 11, 2015, which was the date the financial statements were issued.

Farm Credit
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