AgSouth Farm Credit, ACA

FIRST QUARTER 2015

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2015 quarterly report of AgSouth 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.

William P. Spigener, Jr.
Chief Executive Officer

Alisa D. Gunter
Chief Financial Officer

Charles C. Rucks
Chairman of the Board

May 8, 2015

AgSouth Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

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

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

William P. Spigener
William P. Spigener
Chief Executive Officer

Alisa D. Gunter
Alisa D. Gunter
Chief Financial Officer

May 8, 2015

AgSouth Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of AgSouth Farm Credit, ACA (Association) for the period ended March 31, 2015. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2014 Annual Report of AgSouth Farm Credit. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

FORWARD LOOKING INFORMATION

This quarterly report 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
- actions taken by the Federal Reserve System in implementing monetary policy.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a wide range of agricultural commodities produced in our region, including poultry (broilers, turkeys and eggs), timber, sod and nursery, field grains, soybeans and hay, cotton, horses, blueberries, fruits, nuts and beef cattle. Loans to producers of these commodities total $1,258,568 or 86.38 percent of the Association's portfolio. Farm size varies, and many of the Association customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

During the first quarter of 2015 the Association originated $27,368 in loans for the secondary market. Originations at the same period 2014 were $15,357. The 78.21 percent increase is the result of the increase in demand for home loans due to the low interest rate environment and an increase in the new construction market during the spring buying season. As of March 31, 2015, the Association held $1,391 in qualifying loans for sale.

Georgia Region

Loan activity has been very strong during the first quarter of 2015 within the Georgia region of AgSouth. While commodity prices are down substantially for several major crops grown in the region, repayment of 2014 operating loans as well as term payments, which mature in the first quarter have been very good. Producers that experienced shortages from 2014 operations have been able to develop plans which should allow them to continue operations and repay the shortfalls over time. Most farm plan projections for growers in our portfolio indicate a much tighter cash flow and lower coverage ratios for 2015 than what has existed in the past few years. However, most operations remain viable and continue to carry an acceptable credit classification although it may be slightly lower than in the past.

The region had plenty of rainfall during the first quarter and many fields were too wet to begin land preparation as early as usual; however, drier conditions recently have allowed most growers to get back on track. Blueberries, peaches, and onions are running a little behind normal maturity due to cooler temperatures. As of the end of March, blueberries are reported by USDA to be 57 percent in bloom versus 88 percent last year at this time. Corn is 36 percent planted compared to 55 percent last year, and peaches are 50 percent in bloom at the end of March versus 95 percent this time last year. Some early varieties of blueberries were adversely impacted by late freezes during the first quarter, but most growers have several different varieties and later maturing berries appear to be in good shape. USDA rates the blueberry crop 26 percent fair, 54 percent good, and 13 percent excellent at this time. Onions are rated 23 percent fair, 67 percent good, and 5 percent excellent as of April 6. The USDA March 31 crop estimates for Georgia indicate an expected decline in corn acreage of 13 percent in 2015 when compared to 2014. Cotton is estimated down 20 percent to an expected 1.1 million acres in 2015 in Georgia. Peanut acreage is expected to be up 20 percent and soybeans are expected to be up 23 percent over 2014. Price outlook and the new Farm Bill are major drivers of these changes.

Milk prices continue to be down from the 2014 average and 2015 is expected to see average milk prices substantially below last year; however, lower feed costs are helping ease the pressure on profit margins.

Lumber prices are down from the highs reached in 2014 but prices remain profitable and area saw mills are doing well.

The general economy in Georgia continues to improve. Unemployment has dropped to 6.3 percent in February 2015 down from 7.3 percent in February of last year. The state's purchasing managers index jumped 6.5 points in February to 62 indicating the state's manufacturing sector is showing strong signs of expansion. The Governor's office announced the opening of several new businesses during the first quarter. Wells Lighting is to open its first United States site in Jenkins County, investing over $30 million and creating 200 new jobs. Caesarstone, a manufacturer of quartz surfaces, is expanding in Bryan County and adding 130 additional jobs. Mercedes-Benz is relocating its United States headquarters to Atlanta and will create 800 new jobs. The Governor's office also announced that 2014 was a fifth record year increase for international trade at Georgia's ports. Georgia led the nation in the export of woodpulp, poultry, kraft paper, paperboard, carpet, and kaolin. Both State and Federal funding has been appropriated to begin the deepening of the Savannah port channel, which will bring more activity to the port.

South Carolina Region

South Carolina's Index of Leading Economic Indicators rose during the first quarter of 2015 to 101.87. This index is a composite of economic factors for the state and a score exceeding 100 indicates the economy is growing and should continue to grow for at least the next three to six months. Unemployment for the state is 6.6 percent, which remains flat compared to the beginning of the year, but reflects an increase from 6.1 percent in February of 2014. Based on reports South Carolina has three of the twenty fastest growing metro areas in the country from 2013 until 2014. Hilton Head and Charleston are two out of the three reported that are in the Association's territory.

The state continues to announce excellent economic projects with Daimler to produce Sprinter vans at its North Charleston plant creating 1,200 new jobs. Volvo has confirmed it will build a United States plant and South Carolina is one of the five states under consideration. With Boeing and BMW located within the state in combination with the recent announcements, South Carolina has gained a reputation as a high-tech automotive and aeronautic manufacturing state.

With the region concentration of loans repaid primarily from nonfarm income, the state's general economy remains a very important consideration.

Wet conditions have slowed 2015 plantings to date; corn acreage is forecasted at 290,000, which represents a decrease of 2 percent from 2014. Cotton plantings are also projected lower at 235,000 acres or a 16 percent decrease. Soybean acreage is expected to be down 4 percent. Planted winter wheat is down 20 percent from 2014. An acreage increase is anticipated for peanuts at 3 percent or a total of 115,000 acres.

Domestic beef cattle inventories have increased with current inventories at 89.8 million compared to 88.5 million in January 2014. Current South Carolina inventories are flat at 335,000 head when compared to 2014. Replacement brood stock in South Carolina also remains flat at 30,000 heifers and 14,000 bulls over 500 pounds. Steers over 500 pounds are down 25 percent but younger steers weighing under 500 pounds project an increase of 4,000. Cattle production represents a small percentage of the Association's total portfolio, but beef cattle operations remain prevalent on many lifestyle farms in the state.

Expansion continues to be observed by many of the state's poultry integrators. Poultry concentration includes broilers combined with commercial egg and turkey operations. Most existing and planned expansion is noted in the broiler industry. Lending opportunities exist in the poultry sector and our Association staff is actively seeking these opportunities.

Timber processors have been profitable so far this year, and this has led to some improvement in stumpage prices paid to timberland owners in South Carolina. The overall state of the forestry industry within the state remained good through the end of the first quarter 2015, but a dip in United States housing starts midway through the first quarter from 1,081,000 to 897,000 units is worthy of continued observation. Some of the reduction can be contributed to a very cold and wet winter in the northeastern part of the country. Should housing starts remain below 1,000,000, flat to lower stumpage prices will likely be a result of lower lumber prices.

Real estate sales reported within South Carolina are increasing in number compared to the past several years and fewer sales dictated by financial adversity are taking place. With an increase in the number of sales within the state, the ability to track land value trends should improve in the coming quarters. Recent trends reflect little to no adverse findings relative to cropland or timberland values compared to the past few years. Rural land values are considered stable at the present time.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of March 31, 2015, was $1,456,942, a decrease of $42,062 or 2.81 percent as compared to $1,499,004 at December 31, 2014. Net loans outstanding at March 31, 2015 were $1,444,730 as compared to $1,486,647 at December 31, 2014. Net loans accounted for 94.79 percent of total assets at March 31, 2015, as compared to 93.21 percent of total assets at December 31, 2014.

The decrease in gross loan volume during the reporting period is attributed to payments and payoffs on operating lines of credit and term loans. Advances on operating funds are now being processed and growth in the portfolio is anticipated in the second quarter of 2015. Competition for good, quality credits remains strong from some commercial banks.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At December 31, 2014, the Association held Investment securities totaling $8,713. These investments are Rural America Bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration. At March 31, 2015, investment securities totaled $8,634, a decrease of $79. The less than one percent decrease is from payments made during the first quarter of 2015.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from $13,012 at December 31, 2014, to $12,732 at March 31, 2015. The balance of nonaccrual loans is reduced by liquidations, returning loans to accrual status, or transferring assets to other property owned. These activities exceeded any transfers to nonaccrual status during the period ending March 31, 2015. Association staff is working diligently to work out all nonaccrual debt situations, and additional transfers may occur as the economy remains sluggish.

Other property owned increased to $4,580 at March 31, 2015 from $4,189 at December 31, 2014. The increase of $391 or 9.33 percent in other property owned is the result of transfers to other property owned during the reporting period exceeding sales and write-downs of existing other property owned. The Association is actively marketing all properties for sale. For details, please visit our website at ***www.agsouthfc.com*** and click on *Property For Sale*.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2015, was $12,212 compared to $12,357 at December 31, 2014, and was considered by management to be adequate to cover possible losses. The slight decrease in the allowance account is the result of charge-offs exceeding any recoveries during the reporting period. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of senior management and staff assigned to special assets management, met in March to review the allowance account. The ALCO determined that an addition to the allowance account was not needed at this time. The ALCO considered the general economic conditions, the potential for further deterioration in the existing portfolio and the possibility for some loan growth in the next quarter in determining the level of allowance.

Investments in other Farm Credit institutions decreased from $21,402 at December 31, 2014 to $21,389 at March 31, 2015. The decrease of $13 or less than one percent is the result of a slightly lower balance of receivables from other Farm Credit institutions related to participations sold on a patronage basis. This includes loans sold to CoBank.

Premises and equipment, net decreased $4 from $15,800 at December 31, 2014 to $15,796 at March 31, 2015. The decrease is the result of normal activity within the premises and equipment accounts. No significant asset sales or purchases were made in the reporting period.

Accounts receivable decreased $22,840 from $26,115 at December 31, 2014 to $3,275 at March 31, 2015. The decrease is the result of the patronage distribution receivable from AgFirst, which totaled $10,512 in regular distribution and $14,896 in a special distribution. As of March 31, 2015, this line item included only one quarter's accrual of patronage from AgFirst totaling $2,449.

Other assets decreased $1,304 from $11,878 at December 31, 2014 to $10,574 at March 31, 2015. The majority of other assets is made up of prepaid retirement expense which decreased $1,469 between December 31, 2014 and March 31, 2015.

On the liability side of the balance sheet, Notes payable decreased from $1,243,701 at December 31, 2014 to $1,176,080 at March 31, 2015. The $67,621 decrease, or 5.44 percent, is tied to the lower amount of loans outstanding between the two reporting periods. Accrued interest payable decreased $139 or 5.18 percent from $2,685 to $2,546. The decrease is tied to the lower notes payable balance outstanding.

Patronage refunds payable decreased $8,367 from $9,154 at December 31, 2014 to $787 at March 31, 2015. The decrease is the result of estimated cash portion of the 2014 Patronage distribution on the Association's records at December 31, 2014 moving from Patronage refund payable to Other liabilities. This amount totaled $8,976 at December 31, 2014.

Accounts payable decreased $914 from $1,690 at December 31, 2014 to $776 at March 31, 2015. The 54.08 percent decrease is due to the payable established to pay the insurance premiums on loans to the FCSIC. At December 31, 2014, this payable was $1,370 and at March 31, 2015 the payable had been reduced to $335.

Other liabilities decreased $1,749 from $31,066 at December 31, 2014 to $29,317 at March 31, 2015. The 5.63 percent decrease is due to a liability of $5,254 set aside in December 2014 to settle a cash account with AgFirst. This amount was offset by the liability established for the cash portion of the 2014 patronage distribution. The checks to pay the patronage had been presented at the commercial bank.

Protected borrower stock did not change between the two reporting periods and remained at $3.

Unprotected borrower stock increased from $7,527 at December 31, 2014 to $7,613 at March 31, 2015. The increase of $86 or 1.14 percent is due to new borrowers purchasing stock during the reporting period in excess of liquidations of stock when loans pay out.

Allocated surplus decreased from $112,635 at December 31, 2014 to $112,634 at March 31, 2015. This is a decrease of $1 or less than one percent.

Unallocated surplus increased $7,848 or 4.20 percent. The balance of $194,850 at March 31, 2015 includes the retention of a portion of 2014 fiscal year end earnings and earnings year to date in 2015.

RESULTS OF OPERATIONS

For the three months ended March 31, 2015

Net income for the three months ended March 31, 2015, totaled $7,848 as compared to $8,834 for the same period in 2014. This is a decrease of $986 or 11.16 percent. The following commentary explains the variance.

At March 31, 2015, interest income decreased $507 from $21,928 at March 31, 2014 to $21,421. This decrease of 2.31 percent is primarily due to the decrease in the weighted average interest rate on the portfolio. At March 31, 2014, the weighted average rate was 5.95 percent compared to 5.86 percent at March 31, 2015. For the three months ending March 31, 2014, interest income on investments totaled $168 compared to $139 for the three months ended March 31, 2015. Nonaccrual income, which is included in interest income, was $228 for the three months ended March 31, 2015, as compared to $354 for the same period in 2014.

Interest expense for the three months ended March 31, 2015 increased $67 from $7,519 at March 31, 2014 to $7,586 at March 31, 2015. The variance of $67 is less than one percent and is reflective of the lower Notes Payable balance.

Net interest income before the provision for loan loss decreased $574 for the three months ended March 31, 2015, as compared to the same period in 2014 due primarily to the factors discussed above.

Net interest income after the provision for loan losses decreased $568 during the quarter ending March 31, 2015. A small reversal of the provision was made in the quarter ending March 31, 2015. The reversal was necessary to move general allowance to Other Liabilities to cover potential losses on undrawn loan commitment. In the same period in 2014 no provision entry was necessary. Undrawn loan commitment balances have increased during the reporting period and resulted in the need for a slightly higher liability.

Noninterest income increased $400 over the same period last year. Loan fees increased $110 or 19.37 percent. The loan fee variance can be tied to the increase in fees earned on loans sold on the secondary market.

Fees for financially related services increased $52 from $197 at March 31, 2014 compared to $249 at March 31, 2015. The increase of 26.40 percent is due to the timing of the collection of commissions from the sale of multi-peril insurance, and leasing activity is also lower in the 2015 reporting period when compared to 2014 resulting in a lower amount of lease income.

Patronage refunds from other Farm Credit institutions decreased $78 from $2,764 at March 31, 2014 to $2,686 at March 31, 2015. The decrease of 2.82 percent is the result of the lower direct note balance at AgFirst Farm Credit Bank, which generated a slightly lower patronage refund.

Gains on the sale of rural home loans increased $248 from $166 at March 31, 2014 compared to $414 at March 31, 2015. Originations between the two reporting periods increased and the yield premium resulting in a gain increased slightly. Demand for home loans has improved due to the low interest rate environment and an increase in the new construction market during the spring buying season.

Gains on the sale of premises and equipment for the period ending March 31, 2015 totaled $22 compared to $0 for the period ending March 31, 2014. During the 2015 reporting period, the Association recorded gains on the sale of several Association automobiles that were replaced.

Losses on the sale of other transactions totaled $63. This is a decrease of $35 over a loss of $98 in the same period in 2014. In 2015, the Association had gains on investments in the Rabbi Trust that were offset by the establishment of a reserve for undrawn commitments to the correct balance.

Other noninterest income was $174 during the three months ended March 31, 2015, compared to $163 for the three months ending March 31, 2014. This line item captures the volume premium paid by AgFirst for secondary market loans sold to AgFirst and earnings from the Farm Credit System Captive Insurance Corporation. The volume premiums were slightly higher in 2015 when compared to 2014 due to the increase in secondary market activity.

Noninterest expense for the three months ended March 31, 2015, increased $812 or 8.70 percent when compared to the same period of 2014. Salaries and employee benefits expense increased $753 between the two reporting periods. The increase in salaries and employee benefits is due to the increase in health care expense for employees and retirees and a slightly higher number of employees between the two reporting periods. The Association has a large number of employees eligible to retire and some replacements are on staff during the transition period.

Occupancy and equipment expense at March 31, 2015 was $698 compared to $700 for the same period in 2014. This is a decrease of $2 or less than one percent.

The Insurance Fund premiums increased $14 from $331 at March 31, 2014 to $345 at March 31, 2015. The variance is due to the higher premium on accruing loans assessed in 2015 by the Insurance Fund and a higher balance of accruing loans outstanding.

In the three months ending March 31, 2015, the Association experienced losses and expenses on the sale of Other Property Owned in the amount of $7. During the same period of 2014, the Association booked losses and expenses on the sale of Other Property Owned of $23. The losses in the 2015 reporting period were write-downs on several pieces of Other Property Owned held by the Association as well as losses recorded at the time of the sale. Some pieces are under contract for less than the current carrying value, while other write-downs were needed due to new appraisals.

Other operating expenses increased $63 from $1,778 at March 31, 2014, compared to $1,841 at March 31, 2015. The increase of 3.54 percent is attributed to an increase in travel, purchased services, training, and public and member relations expenses between the reporting periods. The Association continues to experience higher travel expense due to the increase in the cost of operating Association automobiles. Other operating expenses also include communications, data processing, and all other expenses necessary to run the business.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2015 was $1,176,080 as compared to $1,243,701 at December 31, 2014. The decrease in the notes payable correlates to the decrease in gross loans during the reporting period.

CAPITAL RESOURCES

Total members' equity at December 31, 2014 totaled $306,637. At March 31, 2015 total members' equity had increased by $7,960 to $314,597. The increase in total members' equity is due to the increase in unallocated retained earnings between the two reporting periods. At December 31, 2014, unallocated retained earnings totaled $187,002. At March 31, 2015, the unallocated retained earnings had increased to $194,850. The increase in unallocated retained earnings is due to the decision to retain earnings from 2014 for capital purposes.

Total capital stock and participation certificates were $7,616 on March 31, 2015, compared to $7,530 on December 31, 2014. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

FCA regulations require all Farm Credit Institutions to maintain minimum permanent capital, total surplus, and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus, and core surplus, as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2015, the Association's total surplus ratio and core surplus ratio were 20.68 percent and 15.51 percent, respectively, and the permanent capital ratio was 21.22 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

The Association has a portion of the portfolio in an in-portfolio guarantee program with Farmer Mac. The purpose of these guarantees is to improve the Association's capital position. At March 31, 2015, the Association had loans totaling $16,972 in this program. The cost of the guarantees year to date was $24. The use of the Farmer Mac in-portfolio guarantees had a positive effect on the Association's capital ratios.

At the present time, the Association's capital position remains strong and well above regulatory minimums. At December 31, 2014, the Association's permanent capital ratio was 20.00 percent. The increase to 21.22 percent permanent capital at March 31, 2015 is the result of the decision to retain income in unallocated surplus at year end 2014. The Association continues to utilize various loan guarantee programs, including FSA, SBA and Farmer Mac to offset risk and improve the capital position. The Association has other tools available to strengthen the capital position. These options include selling additional loans to AgFirst and others, placing additional pools of loans with Farmer Mac in the in-portfolio guarantee program, and participating with AgFirst in a capitalized participation pool. Should additional measures be needed to improve the Association's capital ratios, Association management will study all options and make a recommendation to the Board for consideration.

REGULATORY MATTERS

Other Matters

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

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

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

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

FINANCIAL REGULATORY REFORM

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-310-4805, ext. 6737, writing Alisa D. Gunter, CFO, AgSouth Farm Credit, ACA, PO Box 4966, Spartanburg, SC 29305, or accessing the website ***www.agsouthfc.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 report 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.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	**March 31, 2015** *(unaudited)*	**December 31, 2014** *(audited)*
Assets		
Cash	**$ 782**	$ 4,976
Investment securities:		
Held to maturity (fair value of $8,911 and $8,876, respectively)	**8,634**	8,713
Loans	**1,456,942**	1,499,004
Allowance for loan losses	**(12,212)**	(12,357)
Net loans	**1,444,730**	1,486,647
Loans held for sale	**1,391**	942
Accrued interest receivable	**12,952**	14,271
Investments in other Farm Credit institutions	**21,389**	21,402
Premises and equipment, net	**15,796**	15,800
Other property owned	**4,580**	4,189
Accounts receivable	**3,275**	26,115
Other assets	**10,574**	11,878
Total assets	**$ 1,524,103**	$ 1,594,933
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,176,080**	$ 1,243,701
Accrued interest payable	**2,546**	2,685
Patronage refunds payable	**787**	9,154
Accounts payable	**776**	1,690
Other liabilities	**29,317**	31,066
Total liabilities	**1,209,506**	1,288,296
Commitments and contingencies (Note 8)		
Members' Equity		
Protected borrower stock	**3**	3
Capital stock and participation certificates	**7,613**	7,527
Retained earnings		
Allocated	**112,634**	112,635
Unallocated	**194,850**	187,002
Accumulated other comprehensive income (loss)	**(503)**	(530)
Total members' equity	**314,597**	306,637
Total liabilities and members' equity	**$ 1,524,103**	$ 1,594,933

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

AgSouth Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2015	2014
Interest Income		
Loans	**$ 21,282**	$ 21,760
Investments	**139**	168
Total interest income	**21,421**	21,928
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**7,556**	7,515
Other	**30**	4
Total interest expense	**7,586**	7,519
Net interest income	**13,835**	14,409
Provision for (reversal of allowance for) loan losses	**(6)**	—
Net interest income after provision for (reversal of allowance for) loan losses	**13,841**	14,409
Noninterest Income		
Loan fees	**678**	568
Fees for financially related services	**249**	197
Patronage refunds from other Farm Credit institutions	**2,686**	2,764
Gains (losses) on sales of rural home loans, net	**414**	166
Gains (losses) on sales of premises and equipment, net	**22**	—
Gains (losses) on other transactions	**(63)**	(98)
Other noninterest income	**174**	163
Total noninterest income	**4,160**	3,760
Noninterest Expense		
Salaries and employee benefits	**7,256**	6,503
Occupancy and equipment	**698**	700
Insurance Fund premiums	**345**	331
(Gains) losses on other property owned, net	**7**	23
Other operating expenses	**1,841**	1,778
Total noninterest expense	**10,147**	9,335
Income before income taxes	**7,854**	8,834
Provision for income taxes	**6**	—
Net income	**$ 7,848**	$ 8,834

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

AgSouth Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2015	2014
Net income	**$ 7,848**	$ 8,834
Other comprehensive income net of tax		
Employee benefit plans adjustments	**27**	5
Comprehensive income	**$ 7,875**	$ 8,839

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

AgSouth Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2013	$ 16	$ 7,192	$ 110,391	$ 168,402	$ (224)	$ 285,777
Comprehensive income				8,834	5	8,839
Protected borrower stock issued/(retired), net	(11)					(11)
Capital stock/participation certificates issued/(retired), net		67				67
Retained earnings retired			(72)			(72)
Patronage distribution adjustment			633	(904)		(271)
Balance at March 31, 2014	$ 5	$ 7,259	$ 110,952	$ 176,332	$ (219)	$ 294,329
Balance at December 31, 2014	**$ 3**	**$ 7,527**	**$ 112,635**	**$ 187,002**	**$ (530)**	**$ 306,637**
Comprehensive income				**7,848**	**27**	**7,875**
Capital stock/participation certificates issued/(retired), net		**86**				**86**
Retained earnings retired			**(1)**			**(1)**
Balance at March 31, 2015	**$ 3**	**$ 7,613**	**$ 112,634**	**$ 194,850**	**$ (503)**	**$ 314,597**

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

AgSouth Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

Management has made significant estimates in several areas, including loans and allowance for loan losses (Note 2, *Loans and Allowance for Loan Losses*), investment securities and other-than-temporary impairment (Note 3, *Investments*), and financial instruments (Note 6, *Fair Value Measurement*). Actual results could differ from those estimates.

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

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

- 2014-14 Classification of Certain Government-Guaranteed Mortgage Loans – The Association did not have a significant amount of loans that met the criteria of the guidance.

- 2014-11 Repurchase-to-Maturity Transactions – The Association did not have a significant amount of transactions that met the criteria of the guidance.

- 2014-08 Discontinued Operations – The Association has not had and does not anticipate any significant disposals.

- 2014-04 Reclassification of Consumer Mortgage Loans – The criteria of the standard were not significantly different from the Association's policy in place at adoption. See Note 2, *Loans and Allowance for Loan Losses*, for the additional disclosures required by this guidance.

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	March 31, 2015	December 31, 2014
Real estate mortgage	$ 1,199,873	$ 1,213,660
Production and intermediate-term	206,203	231,817
Processing and marketing	5,149	5,357
Farm-related business	6,631	8,174
Rural residential real estate	38,555	39,458
Other (including Mission Related)	531	538
Total Loans	$ 1,456,942	$ 1,499,004

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

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

	March 31, 2015							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 405	$ 114,857	$ –	$ 10,974	$ –	$ –	$ 405	$ 125,831
Production and intermediate-term	–	31,542	1,304	–	1,374	–	2,678	31,542
Processing and marketing	–	7,583	–	6,641	–	–	–	14,224
Farm-related business	–	–	–	7,280	–	–	–	7,280
Total	$ 405	$ 153,982	$ 1,304	$ 24,895	$ 1,374	$ –	$ 3,083	$ 178,877

	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	$ 415	$ 102,228	$ –	$ 11,599	$ –	$ –	$ 415	$ 113,827
Production and intermediate-term	–	38,963	1,325	–	1,436	–	2,761	38,963
Processing and marketing	–	8,017	–	6,967	–	–	–	14,984
Farm-related business	–	7,708	–	–	–	–	–	7,708
Total	$ 415	$ 156,916	$ 1,325	$ 18,566	$ 1,436	$ –	$ 3,176	$ 175,482

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

	March 31, 2015			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 80,951	$ 252,976	$ 865,946	$ 1,199,873
Production and intermediate-term	69,005	87,765	49,433	206,203
Processing and marketing	1,859	2,235	1,055	5,149
Farm-related business	219	3,436	2,976	6,631
Rural residential real estate	3,779	2,860	31,916	38,555
Other (including Mission Related)	–	–	531	531
Total Loans	$ 155,813	$ 349,272	$ 951,857	$ 1,456,942
Percentage	10.69%	23.98%	65.33%	100.00%

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

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

	March 31, 2015	December 31, 2014
Real estate mortgage:		
Acceptable	95.30%	95.35%
OAEM	2.93	2.84
Substandard/doubtful/loss	1.77	1.81
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	95.45%	96.37%
OAEM	2.47	2.08
Substandard/doubtful/loss	2.08	1.55
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2015	December 31, 2014
Farm-related business:		
Acceptable	99.97%	99.96%
OAEM	–	–
Substandard/doubtful/loss	0.03	0.04
	100.00%	100.00%
Rural residential real estate:		
Acceptable	96.73%	97.43%
OAEM	1.91	1.02
Substandard/doubtful/loss	1.36	1.55
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	95.40%	95.61%
OAEM	2.81	2.64
Substandard/doubtful/loss	1.79	1.75
	100.00%	100.00%

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

March 31, 2015	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 9,988	$ 2,411	$ 12,399	$ 1,197,524	$ 1,209,923	$ –
Production and intermediate-term	2,683	483	3,166	205,603	208,769	–
Processing and marketing	–	–	–	5,188	5,188	–
Farm-related business	–	1	1	6,678	6,679	–
Rural residential real estate	216	33	249	38,505	38,754	–
Other (including Mission Related)	–	–	–	533	533	–
Total	$ 12,887	$ 2,928	$ 15,815	$ 1,454,031	$ 1,469,846	$ –

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	$ 10,812	$ 2,763	$ 13,575	$ 1,210,430	$ 1,224,005	$ –
Production and intermediate-term	1,324	873	2,197	233,229	235,426	–
Processing and marketing	–	–	–	5,381	5,381	–
Farm-related business	–	1	1	8,262	8,263	–
Rural residential real estate	211	77	288	39,325	39,613	–
Other (including Mission Related)	–	–	–	540	540	–
Total	$ 12,347	$ 3,714	$ 16,061	$ 1,497,167	$ 1,513,228	$ –

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

	March 31, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	$ 9,938	$ 10,772
Production and intermediate-term	2,445	1,806
Farm-related business	2	3
Rural residential real estate	347	431
Total	$ 12,732	$ 13,012
Accruing restructured loans:		
Real estate mortgage	$ 8,189	$ 8,252
Production and intermediate-term	836	1,337
Farm-related business	187	189
Rural residential real estate	168	169
Total	$ 9,380	$ 9,947
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 22,112	$ 22,959
Other property owned	4,580	4,189
Total	$ 26,692	$ 27,148
Nonaccrual loans as a percentage of total loans	0.87%	0.87%
Nonperforming assets as a percentage of total loans and other property owned	1.83%	1.81%
Nonperforming assets as a percentage of capital	8.48%	8.85%

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

	March 31, 2015	December 31, 2014
Impaired nonaccrual loans:		
Current as to principal and interest	$ 7,341	$ 4,455
Past due	5,391	8,557
Total	12,732	13,012
Impaired accrual loans:		
Restructured	9,380	9,947
90 days or more past due	–	–
Total	9,380	9,947
Total impaired loans	$ 22,112	$ 22,959

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

	March 31, 2015			Quarter Ended March 31, 2015	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 393	$ 391	$ 49	$ 413	$ 6
Production and intermediate-term	448	905	97	471	7
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 841	$ 1,296	$ 146	$ 884	$ 13
With no related allowance for credit losses:					
Real estate mortgage	$ 17,734	$ 20,487	$ –	$ 18,631	$ 265
Production and intermediate-term	2,832	3,392	–	2,975	42
Farm-related business	190	213	–	199	3
Rural residential real estate	515	630	–	541	8
Total	$ 21,271	$ 24,722	$ –	$ 22,346	$ 318
Total:					
Real estate mortgage	$ 18,127	20,878	49	$ 19,044	$ 271
Production and intermediate-term	3,280	4,297	97	3,446	49
Farm-related business	190	213	–	199	3
Rural residential real estate	515	630	–	541	8
Total	$ 22,112	$ 26,018	$ 146	$ 23,230	$ 331

Impaired loans:	December 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2014 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 692	$ 707	$ 60	$ 864	$ 43
Production and intermediate-term	78	78	46	97	5
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 770	$ 785	$ 106	$ 961	$ 48
With no related allowance for credit losses:					
Real estate mortgage	$ 18,332	$ 21,277	$ –	$ 22,897	$ 1,147
Production and intermediate-term	3,065	4,003	–	3,829	192
Farm-related business	192	215	–	240	12
Rural residential real estate	600	706	–	749	37
Total	$ 22,189	$ 26,201	$ –	$ 27,715	$ 1,388
Total:					
Real estate mortgage	$ 19,024	$ 21,984	$ 60	$ 23,761	$ 1,190
Production and intermediate-term	3,143	4,081	46	3,926	197
Farm-related business	192	215	–	240	12
Rural residential real estate	600	706	–	749	37
Total	$ 22,959	$ 26,986	$ 106	$ 28,676	$ 1,436

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

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Rural Residential Real Estate	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2014	$ 9,969	$ 1,952	$ 111	$ 321	$ 4	$ 12,357
Charge-offs	(108)	(90)	–	–	–	(198)
Recoveries	43	10	1	–	5	59
Provision for loan losses	77	(61)	(14)	(3)	(5)	(6)
Balance at March 31, 2015	$ 9,981	$ 1,811	$ 98	$ 318	$ 4	$ 12,212
Balance at December 31, 2013	$ 9,397	$ 1,862	$ 106	$ 279	$ 4	$ 11,648
Charge-offs	(118)	(34)	(1)	–	–	(153)
Recoveries	57	11	67	–	4	139
Provision for loan losses	174	(124)	(59)	13	(4)	–
Balance at March 31, 2014	$ 9,510	$ 1,715	$ 113	$ 292	$ 4	$ 11,634
Allowance on loans evaluated for impairment:						
Individually	$ 49	$ 97	$ –	$ –	$ –	$ 146
Collectively	9,932	1,714	98	318	4	12,066
Balance at March 31, 2015	$ 9,981	$ 1,811	$ 98	$ 318	$ 4	$ 12,212
Individually	$ 60	$ 46	$ –	$ –	$ –	$ 106
Collectively	9,909	1,906	111	321	4	12,251
Balance at December 31, 2014	$ 9,969	$ 1,952	$ 111	$ 321	$ 4	$ 12,357
Recorded investment in loans evaluated for impairment:						
Individually	$ 9,906	$ 2,441	$ 1	$ 344	$ –	$ 12,692
Collectively	1,200,017	206,328	11,866	38,410	533	1,457,154
Balance at March 31, 2015	$ 1,209,923	$ 208,769	$ 11,867	$ 38,754	$ 533	$ 1,469,846
Individually	$ 10,739	$ 1,805	$ 2	$ 428	$ –	$ 12,974
Collectively	1,213,266	233,621	13,642	39,185	540	1,500,254
Balance at December 31, 2014	$ 1,224,005	$ 235,426	$ 13,644	$ 39,613	$ 540	$ 1,513,228

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following 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.

	Three months ended March 31, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 221	$ 2,896	$ –	$ 3,117	
Total	$ 221	$ 2,896	$ –	$ 3,117	
Post-modification:					
Real estate mortgage	$ 237	$ 2,980	$ –	$ 3,217	$ (43)
Total	$ 237	$ 2,980	$ –	$ 3,217	$ (43)

	Three months ended March 31, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 292	$ –	$ –	$ 292	
Production and intermediate-term	–	106	–	106	
Total	$ 292	$ 106	$ –	$ 398	
Post-modification:					
Real estate mortgage	$ 296	$ –	$ –	$ 296	$ –
Production and intermediate-term	–	68	–	68	–
Total	$ 296	$ 68	$ –	$ 364	$ –

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

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

	Three Months Ended March 31,	
	2015	**2014**
Real estate mortgage	$ 722	$ 136
Production and intermediate-term	–	21
Total	$ 722	$ 157

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2015	**December 31, 2014**	**March 31, 2015**	**December 31, 2014**
Real estate mortgage	$ 13,793	$ 12,111	$ 5,604	$ 3,859
Production and intermediate-term	2,172	2,196	1,336	859
Farm-related business	188	190	1	1
Rural residential real estate	372	445	204	276
Total Loans	$ 16,525	$ 14,942	$ 7,145	$ 4,995
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

	March 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 86

Note 3 — Investments

Investment Securities

The Association's investments consist primarily of Rural America Bonds (RABs), 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 RAB 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 March 31, 2015, the Association held zero RABs 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:

	March 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 8,634	$ 277	$ –	$ 8,911	6.41%

	December 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 8,713	$ 163	$ –	$ 8,876	6.38%

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

	March 31, 2015		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	8,634	8,911	6.41
Total	$ 8,634	$ 8,911	6.41 %

All of these investments have 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. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position at March 31, 2015 or December 31, 2014.

The recording of an impairment 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.

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owns 6.52 percent of the issued stock of the Bank as of March 31, 2015 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.9 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $83.5 million for the first three months of 2015. In addition, the Association has an investment of $3,878 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

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

	For the Three Months Ended March 31,	
	2015	**2014**
Employee Benefit Plans:		
Balance at beginning of period	$ (530)	$ (224)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	27	5
Net current period other comprehensive income	27	5
Balance at end of period	$ (503)	$ (219)

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

	For the Three Months Ended March 31,		
	2015	**2014**	**Income Statement Line Item**
Defined Benefit Pension Plans:			
Periodic pension costs	$ (27)	$ (5)	See Note 7.
Net amounts reclassified	$ (27)	$ (5)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

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

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

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
Impaired loans and other property owned	$ 26,891	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about 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	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 Three Months Ended March 31, 2015					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,237	$ 1,237	$ –	$ –	$ 1,237	
Recurring Assets	$ 1,237	$ 1,237	$ –	$ –	$ 1,237	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 21,966	$ –	$ –	$ 21,966	$ 21,966	$ (179)
Other property owned	4,580	–	–	4,925	4,925	2
Nonrecurring Assets	$ 26,546	$ –	$ –	$ 26,891	$ 26,891	$ 177
Other Financial Instruments						
Assets:						
Cash	$ 782	$ 782	$ –	$ –	$ 782	
Investment securities, held-to-maturity	8,634	–	–	8,911	8,911	
Loans	1,424,155	–	–	1,435,503	1,435,503	
Other Financial Assets	$ 1,433,571	$ 782	$ –	$ 1,444,414	$ 1,445,196	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,176,080	$ –	$ –	$ 1,172,323	$ 1,172,323	
Other Financial Liabilities	$ 1,176,080	$ –	$ –	$ 1,172,323	$ 1,172,323	

	At or for the Year ended December 31, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,236	$ 1,236	$ –	$ –	$ 1,236	
Recurring Assets	$ 1,236	$ 1,236	$ –	$ –	$ 1,236	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 22,853	$ –	$ –	$ 22,853	$ 22,853	$ (692)
Other property owned	4,189	–	–	4,500	4,500	(202)
Nonrecurring Assets	$ 27,042	$ –	$ –	$ 27,353	$ 27,353	$ (894)
Other Financial Instruments						
Assets:						
Cash	$ 4,976	$ 4,976	$ –	$ –	$ 4,976	
Investment securities, held-to-maturity	8,713	–	–	8,876	8,876	
Loans	1,464,736	–	–	1,473,039	1,473,039	
Other Financial Assets	$ 1,478,425	$ 4,976	$ –	$ 1,481,915	$ 1,486,891	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,243,701	$ –	$ –	$ 1,234,106	$ 1,234,106	
Other Financial Liabilities	$ 1,243,701	$ –	$ –	$ 1,234,106	$ 1,234,106	

Note 7 — Employee Benefit Plans

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

	For the three months ended March 31,	
	2015	2014
Pension	$ 1,527	$ 1,534
401(k)	253	158
Other postretirement benefits	445	265
Total	$ 2,225	$ 1,957

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

	Actual YTD Through 3/31/15	Projected Contributions For Remainder of 2015	Projected Total Contributions 2015
Pension	$ 21	$ 6,077	$ 6,098
Other postretirement benefits	211	634	845
Total	$ 232	$ 6,711	$ 6,943

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

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