AgSouth Farm Credit, ACA

SECOND QUARTER 2015

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 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

August 7, 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 June 30, 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 June 30, 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 June 30, 2015.

William P. Spigener

William P. Spigener
Chief Executive Officer

Alisa D. Gunter

Alisa D. Gunter
Chief Financial Officer

August 7, 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 June 30, 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 $1,303,364 or 85.54 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 second quarter of 2015 the Association originated $35,536 in loans for the secondary market. Originations at the same period 2014 were $22,839. The 55.59 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 June 30, 2015, the Association held $4,031 in qualifying loans for sale.

Georgia Region

The 2015 growing season for spring planted crops in most of AgSouth's Georgia region has been generally favorable as the second quarter comes to an end. Regular rains have been sufficient over the majority of our territory and crops are looking very good mid-season. USDA's crop reporting service rates all major crops in our region as good to excellent with less than 10 percent of any crop rated as poor.

Corn acreage in Georgia is down about 35,000 acres to 315,000 in 2015. Cotton is down about 280,000 acres to 1.1 million acres this year. Peanut acreage is up about 200,000 acres to a total of 800,000. Soybeans are also up 60,000 acres to 360,000 in Georgia in 2015. Much lower corn and cotton prices pushed more acres into peanuts and soybeans this year along with provisions of the new Farm Bill which favor peanuts over cotton. However, there has been some recent price strengthening in the cotton market.

The blueberry season has had several set-backs this year beginning with a freeze in February that impacted the high-bush variety and decreased yields. Prices were also on the low side due to a strong Florida crop which overlapped into the Georgia season. Yields of other varieties of berries, other than high bush, were generally very good and helped offset the lower prices. Overall less than average results are expected from the 2015 blueberry crop, but most growers should be able to manage the shortfall.

The sweet onion crop is approximately 70 percent sold with remaining sales coming out of cold storage. Prices have been average and have strengthened above the $15.00 per 40 lb. box moving into July. Overall yields are expected to be average. Some growers were adversely impacted by seed stem problems early on and there are some isolated cases of center rot disease in stored onions; however, these problems do not appear to be widespread.

Milk prices have declined from $27.00 to $28.00 per cwt. last fall to the $16.00 to $18.00 per cwt. range presently. Lower feed costs have helped lessen the strain on dairy producer's profit margins, but profits have declined. Over supply of milk globally has caused the decline in prices and it is expected supply will remain high over the next 6 months keeping downward pressure on prices in the short run.

The timber markets in the Georgia region remain fairly strong with the framing lumber composite index price moving up during the second quarter from approximately $310 per thousand board feet to approximately $350 per thousand board feet. The pulp wood market remains very strong in the southeastern part of the state with prices in the $15 to $20 per ton range. Chip and saw prices are in the $20 to $24 per ton range and saw timber prices are in the $28 to $33 per ton range. Area saw mills continue to operate very profitably.

The poultry industry, both broiler and egg sectors, have been very strong during 2015. Low feed cost and high prices have created very good margins for these industries and profits for integrators have been at record levels despite the fact that egg prices have moderated recently. Avian flu is creating a lot of concern within the poultry industry as fear increases that migrating birds from infected parts of the country will make their way to the southeast this fall. Integrators are taking measures to reduce exposure through quarantines, new and more effective wash-down stations, testing and other measures that will increase cost of production, but are necessary measures to reduce possibilities of infections within their flocks.

The general economy in Georgia continues to improve. Unemployment has decreased to 6.3 percent down 1.0 percent from 7.3 percent a year ago but still higher than the national average. The housing market continues to improve with home prices up approximately 7.0 percent over last year in the state.

Loan activity has been very strong during the first half of 2015 within the Georgia region of AgSouth. While closings are up sharply, outstanding loan volume has trailed slightly under budget as many of the new loans closed are associated with construction projects and operating loans that will fully disburse over the remainder of the year and should produce a measurable increase in outstanding loan volume.

South Carolina Region

A 2015 study entitled *The Impact of the Agribusiness Sector on the South Carolina Economy* found that agribusiness accounted for $41.7 billion in economic impact in 2013 including direct, indirect, and induced impacts. This is an update of the initial study completed in 2008 and indicates an increase in economic impact of $7.7 billion over the five year time frame. Findings reflect that agribusiness accounted for over 109,000 direct jobs and a total employment over 212,000 which is 10.5 percent of the state's workforce. Based upon the study, agribusiness, the agriculture and forestry industries combined, is the largest industry in South Carolina.

Inadequate rainfall and temperatures from the mid-90's to the low 100's have taken a toll on crops, especially those not irrigated. As of quarter end, the winter wheat harvest was complete. Approximately 180,000 acres were planted in South Carolina in 2014 and harvested in 2015. Yields are not reported as of quarter end, but the condition of the crop was fair to excellent headed into the final stages of harvest. Corn in the state is approximately 95 percent silked and approximately 74 percent in the dough stage. There are approximately 275,000 acres of corn planted in 2015. This is down from the 295,000 planted acres in 2014. The condition of the corn crop is rated 37 percent good, 27 percent fair, 13 percent poor, and 19 percent very poor. Moisture is critical to the corn crop at this stage as the crop begins to fully mature. Soybeans are 92 percent planted which is slightly lower than 2014 and the 5 year average. It is estimated that 420,000 acres will be planted in 2015, which is down from the 450,000 planted in 2014. Condition of the soybean crop is rated 39 percent good, 37 percent fair and 23 percent poor or worse. Rain during the early third quarter is crucial to keeping this crop on track for favorable yields.

Peanuts are 100 percent planted and 66 percent pegged. Peanut acreage is 115,000 this year, up from 112,000 in 2014. Peanut pegging is very similar to 2014 at this time and is substantially advanced compared to the 5 year average. Peanuts are rated 99 percent fair to excellent.

The state's cotton crop is 100 percent planted and 37 percent of the crop is squared. This trails behind the 2014 and the 5 year average. Cotton acreage is 240,000 this year. This is 40,000 acres down compared to 280,000 in 2014. The condition of the cotton crop is rated 94 percent fair or better.

For all spring South Carolina row crops the late second quarter and early third quarter are critical times relative to plant growth and development, but only a small percentage of the region's loan portfolio is dependent upon row crop sales for repayment.

When considering the overall loan portfolio in South Carolina, poultry continues to represent the largest agricultural sector where loans are actually repaid from farm sales. The poultry integrators in the state appear to be operating at favorable returns and in some areas of the state, new broiler houses are being constructed. AgSouth continues to be involved with many of these construction projects. The overall outlook for broiler production appears favorable as both eggs set and chicks placed remain at stable levels. Nationally, at quarter end, egg sets project a 1 percent increase over the previous year, while chicks placed are up 3 percent. Supply remains stable and demand remains strong. Assuming feed costs remain at levels comparable to present costs, the integrators project strong earnings potential for the remainder of 2015. A threat currently facing the poultry industry is the Avian flu. This disease is not considered a threat to public health or the food supply but could be devastating to poultry farms. Avian flu has not been identified in South Carolina to date, but South Carolina officials are asking the public and poultry producers to monitor the environment for any indications of this disease.

Forest products, consisting primarily of timberland financing, represent the state's largest portfolio commodity concentration, but are primarily repaid from nonfarm income. Processors within the state continue to enjoy prosperous times, but very few are financed by the association. Most forestry management firms believe that as housing starts continue to strengthen both pine saw timber and pine chip and saw prices will trend higher over the next few years, while pulpwood will react with weaker prices for the same reason.

Unemployment data, which is a key indicator of economic activity, projects a slight regression for the state of South Carolina over the past year. South Carolina unemployment as of May month end was projected at 6.8 percent compared to 6.1 percent a year earlier. Employers in South Carolina added 11,500 jobs to the economy in April 2015 as every industry except logging, mining, manufacturing, and information technology expanded in the month. AgSouth's portfolio in South Carolina continues to be repaid primarily from nonfarm salary and business income and the employment status of the state bodes well for acceptable performance for loans repaid from nonfarm sources.

Volvo Cars of North America recently announced that it will expand in the United States and build its first American factory. This factory will be located in Ridgeville, South Carolina with close proximity to the Port of Charleston. Volvo has reaffirmed that the $500 million factory will begin production in late 2018 and can make as many as 100,000 vehicles per year at capacity. This plant will have opportunities estimated at 2,000 jobs being offered in the next 10 years and up to 4,000 jobs over the longer term.

The financing of real estate remains a core business for AgSouth within the South Carolina region. A land trend study completed during the second quarter indicates that crop and pasture land values remain stable in most areas serviced within the state. Timberland values are more difficult to evaluate. The potential for recreation influences the values of these properties to a significant degree, as well as the actual value of the timber. Presently there is no data available to indicate any reduction in value for timberland.

South Carolina's loan portfolio remains sound with a very high percentage of accounts performing as expected. This is evidenced by low delinquency rates and a substantial percentage of the overall portfolio being risk rated at acceptable quality considering the probability of default.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of June 30, 2015, was $1,523,761, an increase of $24,757 or 1.65 percent as compared to $1,499,004 at December 31, 2014. Net loans outstanding at June 30, 2015 were $1,511,337 as compared to $1,486,647 at December 31, 2014. Net loans accounted for 94.70 percent of total assets at June 30, 2015, as compared to 93.21 percent of total assets at December 31, 2014.

The increase in gross loan volume during the reporting period is attributed to advances on operating funds and additional new term volume exceeding payments and payoffs. Continued growth is anticipated in the third 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 June 30, 2015, investment securities totaled $8,556, a decrease of $157. The 1.80 percent decrease is from payments made during the second 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 increased from $13,012 at December 31, 2014, to $14,054 at June 30, 2015. During the second quarter transfers to nonaccrual status exceeded any payments, liquidations, transfers to other property owned or loans returning to accrual status. Association staff is working diligently to work out all nonaccrual debt situations, and additional transfers may occur as the economy remains sluggish.

At December 31, 2014, the Association had $942 in Loans held for sale. As of June 30, 2015, the amount had increased to $4,031. The $3,089 or 327.92 percent increase is attributed to the increased activity in the secondary mortgage market. The low rate environment has generated additional activity in the new construction loan market.

Other property owned increased to $4,212 at June 30, 2015 from $4,189 at December 31, 2014. The increase of $23 or less than one 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 June 30, 2015, was $12,424 compared to $12,357 at December 31, 2014, and was considered by management to be adequate to cover possible losses. The slight increase in the allowance account is the result of recoveries exceeding charge-offs 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 June 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 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 $21,327 at June 30, 2015. The decrease of $75 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 $217 from $15,800 at December 31, 2014 to $15,583 at June 30, 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 $20,333 from $26,115 at December 31, 2014 to $5,782 at June 30, 2015. The decrease is the result of the patronage distribution receivable from AgFirst. As of June 30, 2015 this line item included only two quarters accrual which totaled $5,014 of patronage from AgFirst, while the December 31, 2014 total of $26,115, includes a full four quarters of patronage distribution totaling $10,512 plus a special patronage distribution of $14,896.

Other assets decreased $2,638 from $11,878 at December 31, 2014 to $9,240 at June 30, 2015. The majority of other assets is made up of prepaid retirement expense which decreased $2,938 between December 31, 2014 and June 30, 2015.

On the liability side of the balance sheet, Notes payable increased from $1,243,701 at December 31, 2014 to $1,257,577 at June 30, 2015. The $13,876 increase, or 1.12 percent, is tied to the higher amount of loans outstanding between the two reporting periods. Accrued interest payable decreased $21 or less than one percent from $2,685 to $2,664.

Patronage refunds payable decreased $9,043 from $9,154 at December 31, 2014 to $111 at June 30, 2015. The decrease is the result of estimated cash portion of the 2014 Patronage distribution on the Association's records at December 31, 2014.

Accounts payable decreased $501 from $1,690 at December 31, 2014 to $1,189 at June 30, 2015. The 29.65 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 June 30, 2015 the payable totaled $703.

Other liabilities decreased $5,160 from $31,066 at December 31, 2014 to $25,906 at June 30, 2015. The 16.61 percent decrease is due to a liability of $5,254 set aside in December 2014 to settle a cash account with AgFirst. This liability was cleared on the first working day of 2015.

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 $7,746 at June 30, 2015. The increase of $219 or 2.91 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 $98,288 at June 30, 2015. This is a decrease of $14,347 or 12.74 percent. The decrease is the result of the revolvement of the 2009 series of allocated surplus, totaling $14,578, in May 2015.

Unallocated surplus increased $15,890 or 8.50 percent. The balance of $202,892 at June 30, 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 June 30, 2015

Net income for the three months ended June 30, 2015, totaled $8,042 as compared to $8,540 for the same period in 2014. This is a decrease of $498 or 5.83 percent. The following commentary explains the variance.

At June 30, 2015, interest income increased $3 from $22,157 at June 30, 2014 to $22,160. This increase of less than one percent is primarily due to the slight increase in the accruing loans outstanding between the two reporting period. For the three months ending June 30, 2014, interest income on investments totaled $182 compared to $139 for the three months ended June 30, 2015. Nonaccrual income, which is included in interest income, was $366 for the three months ended June 30, 2015, as compared to $208 for the same period in 2014.

Interest expense for the three months ended June 30, 2015 increased from $7,846 at June 30, 2014 to $7,911 at June 30, 2015. The variance of $65 is less than one percent and is reflective of the higher interest rate on the outstanding balance of Notes Payable.

Net interest income before the provision for loan loss decreased $62 for the three months ended June 30, 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 increased $50 during the quarter ending June 30, 2015. A small reversal of the provision was made in the quarter ending June 30, 2015 totaling $112. 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 higher liability.

Noninterest income decreased $286 over the same period last year. Loan fees increased $125 or 18.22 percent. The loan fee variance can be tied to the increase in fees earned on loans sold on the secondary market and servicing fees earned on portfolio loans.

Fees for financially related services increased $31 from $111 at June 30, 2014 compared to $142 at June 30, 2015. The increase of 27.93 percent is due to an increase in fee income from leases and the sale of multi-peril insurance.

Patronage refunds from other Farm Credit institutions decreased $495 from $3,150 at June 30, 2014 to $2,655 at June 30, 2015. The decrease of 15.71 percent is the result of the lower average direct note balance at AgFirst Farm Credit Bank for the period ending June 30, 2015. At June 30, 2015, the average direct note balance was $1,202,487, while at June 30, 2014, the average was 1,232,854. The patronage refund is based upon the average direct note balance.

Gains on the sale of rural home loans increased $284 from $237 at June 30, 2014 compared to $521 at June 30, 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 June 30, 2015 totaled $15 compared to $37 for the period ending June 30, 2014. No significant items were sold during the 2015 reporting period to generate any gains on the sale.

Losses on the sale of other transactions totaled $103. This is compared to a $122 gain on sale of other transactions in the same period in 2014. In 2015, the Association established additional reserve for undrawn commitments that were offset by any gains.

Other noninterest income was $44 during the three months ended June 30, 2015, compared to $28 for the three months ending June 30, 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 June 30, 2015, increased $263 or 2.59 percent when compared to the same period of 2014. Salaries and employee benefits expense increased $443 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 June 30, 2015 was $495 compared to $485 for the same period in 2014. This is an increase of $10 or 2.06 percent.

The Insurance Fund premiums increased $17 from $341 at June 30, 2014 to $358 at June 30, 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 June 30, 2015, the Association experienced losses and expenses on the sale of Other Property Owned in the amount of $68. During the same period of 2014, the Association booked losses and expenses on the sale of Other Property Owned of $113. 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 decreased $162 from $1,777 at June 30, 2014, compared to $1,615 at June 30, 2015. The decrease of 9.12 percent is attributed to an increase in training, and guarantee fees offset by a reduction in travel, purchased services and advertising and public and member relations expenses between the reporting periods. Other operating expenses also include communications, data processing, and all other expenses necessary to run the business.

For the six months ended June 30, 2015

Net income for the six months ended June 30, 2015, totaled $15,890 as compared to $17,374 for the same period in 2014. This is a decrease of $1,484 or 8.54 percent. The following narrative will explain the variance.

At June 30, 2015, interest income decreased $504 compared to the same period in 2014. The decrease was due to the decrease in investment interest income of $72 and a lower amount of interest income earned on loans. Interest income on loans decreased $432. The average interest rate decreased between the two reporting periods. Interest rates are negotiated by lending staff and reflect market conditions. Nonaccrual income, which is included in interest income, was $594 for the six months ended June 30, 2015, as compared to $562 for the same period in 2014. The increase of $32 is the result of the recognition of interest income when nonaccrual loans pay off or are reinstated to accrual status.

Interest expense increased $132 for the six months ended June 30, 2015. The increase is attributable to the interest rate paid on the direct note. At June 30, 2015, the average rate on the direct note was 2.59 percent compared to 2.52 percent at June 30, 2014.

Net interest income before the provision for loan loss decreased $636 or 2.21 percent for the six months ended June 30, 2015 as compared to the same period in 2014 primarily due to the increase in loan volume and nonrecurring income earned in 2015. Net interest income after the provision for loan losses decreased $518 in the period ending June 30, 2015.

The provision reversal amount in the 2015 reporting period totaled $118 and there was no provision or reversal in the 2014 reporting period. In June 2015, the Association's ALCO made the decision that the allowance account was adequate. An adjustment to Other Liabilities was needed to cover the allowance for loss on unfunded commitment balances. This decision was made after analyzing the risk in the current portfolio. The ALCO analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income increased $114 over the same period last year. Loan fees increased $235 or 18.74 percent. In the first six months of 2015, fees earned on loans sold in the secondary market have been significantly higher than the same period in 2014. The volume of loans sold increased between the two reporting periods due to the new construction market. Loan fees on portfolio activity also increased during the reporting period.

Fees for financially related services increased $83 from $308 at June 30, 2014 compared to $391 at June 30, 2015. The 26.95 percent increase in fees for financially related services is the result of an increase in fee income earned on the sale of multi-peril crop insurance and lease commissions.

The patronage refunds from other Farm Credit institutions decreased $573 from $5,914 at June 30, 2014 to $5,341 at June 30, 2015. The decrease is due to the lower amount of patronage earned on loans sold to other Associations between the reporting periods.

Gains on the sale of rural home loans increased $532 from $403 at June 30, 2014 to $935 at June 30, 2015. Gains increased due to the increase in loan originations to be sold between the reporting periods.

Gains on the sale of premises and equipment remained unchanged at $37 for the period ending June 30, 2015 compared to the period ending June 30, 2014. The gains were recorded when Association automobiles were replaced.

Losses on other transactions totaled $166 for the six months ended June 30, 2015 compared to a gain of $24 for the same period in 2014. The loss recorded in 2015 was the result of the need to establish a contingent liability for undrawn commitment loans. This loss totaled $197 in 2015. It was not necessary to increase the liability in the 2014 reporting period.

Other noninterest income increased $27 from $191 at June 30, 2014 compared to $218 at June 30, 2015. The variance of 14.14 percent is due to volume premiums paid by AgFirst for secondary market activity. In 2014, the Association earned $14 in volume premiums and for the period ending June 30, 2015, the Association has earned $25 in volume premiums.

Noninterest expense for the six months ended June 30, 2015, increased $1,075 compared to the same period of 2014. Salaries and employee benefit expense increased $1,196 between the two reporting periods. The 8.59 percent increase in salaries and employee benefits is tied to the increase in health care expense and an overall increase in the number of employees between the two reporting periods. The Association has a significant number of employees eligible to retire and has, in some cases, hired replacements to begin the training and transition process.

The Association booked an accrual for the 2015 incentive payment based upon plan results which is included in salary and benefit expense. The Association evaluated 2015 performance measures for incentive purposes and determined that some employees would earn incentive in 2015. Based upon this information, the Association accrued $895 in incentive in June 2015. Association results will be re-evaluated prior to the end of the fourth quarter 2015 to determine if an additional accrual is warranted.

Occupancy and equipment expense at June 30, 2015 was $1,193 compared to $1,185 for the same period in 2014. The increase is from the normal cost of operations and some timing differences of expenses.

The Insurance Fund premium increased from $672 at June 30, 2014 to $703 at June 30, 2015. The increase of 4.61 percent is tied to the increase in the premium on loans in accrual.

Losses on the sale or write down of other property owned totaled $75 for the six months ending June 30, 2015. When compared to the same period in 2014, losses on other property owned totaled $136. The losses or write downs were required after new contracts, sale closings, and/or new appraisals were obtained and the book value needed to more accurately reflect the current market value. Activity within other property owned has been limited in 2015 thus far.

Other operating expenses decreased $99 from $3,555 at June 30, 2014, compared to $3,456 at June 30, 2015. The decrease is primarily timing differences between the two reporting periods.

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 June 30, 2015 was $1,257,577 as compared to $1,243,701 at December 31, 2014. The increase in the notes payable correlates to the increase in gross loans during the reporting period.

CAPITAL RESOURCES

Total members' equity at December 31, 2014 totaled $306,637. At June 30, 2015 total members' equity had increased by $1,817 to $308,454. 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 June 30, 2015, the unallocated retained earnings had increased to $202,892. The increase in unallocated retained earnings is due to the decision to retain earnings from 2014 for capital purposes as well as year to date earnings in 2015.

Total capital stock and participation certificates were $7,749 on June 30, 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 June 30, 2015, the Association's total surplus ratio and core surplus ratio were 20.07 percent and 15.59 percent, respectively, and the permanent capital ratio was 20.61 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 June 30, 2015, the Association had loans totaling $15,862 in this program. The cost of the guarantees year to date was $45. 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 20.61 percent permanent capital at June 30, 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 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 initial public comment period ended on February 16, 2015. On June 15, 2015, the Farm Credit Administration reopened the comment period from June 26 to July 10, 2015. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise.

- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System.
- To make System regulatory capital requirements more transparent.
- To meet the requirements of section 939A of the Dodd-Frank Act.

FINANCIAL REGULATORY REFORM

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)	June 30, 2015	December 31, 2014
	(unaudited)	*(audited)*
Assets		
Cash	**$ 1,584**	$ 4,976
Investment securities:		
Held to maturity (fair value of $8,498 and $8,876, respectively)	**8,556**	8,713
Loans	**1,523,761**	1,499,004
Allowance for loan losses	**(12,424)**	(12,357)
Net loans	**1,511,337**	1,486,647
Loans held for sale	**4,031**	942
Accrued interest receivable	**14,249**	14,271
Investments in other Farm Credit institutions	**21,327**	21,402
Premises and equipment, net	**15,583**	15,800
Other property owned	**4,212**	4,189
Accounts receivable	**5,782**	26,115
Other assets	**9,240**	11,878
Total assets	**$ 1,595,901**	$ 1,594,933
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,257,577**	$ 1,243,701
Accrued interest payable	**2,664**	2,685
Patronage refunds payable	**111**	9,154
Accounts payable	**1,189**	1,690
Other liabilities	**25,906**	31,066
Total liabilities	**1,287,447**	1,288,296
Commitments and contingencies (Note 8)		
Members' Equity		
Protected borrower stock	**3**	3
Capital stock and participation certificates	**7,746**	7,527
Retained earnings		
Allocated	**98,288**	112,635
Unallocated	**202,892**	187,002
Accumulated other comprehensive income (loss)	**(475)**	(530)
Total members' equity	**308,454**	306,637
Total liabilities and members' equity	**$ 1,595,901**	$ 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 June 30, 2015	For the three months ended June 30, 2014	For the six months ended June 30, 2015	For the six months ended June 30, 2014
Interest Income				
Loans	**$ 22,021**	$ 21,975	**$ 43,303**	$ 43,735
Investments	**139**	182	**278**	350
Total interest income	**22,160**	22,157	**43,581**	44,085
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	**7,855**	7,821	**15,411**	15,336
Other	**56**	25	**86**	29
Total interest expense	**7,911**	7,846	**15,497**	15,365
Net interest income	**14,249**	14,311	**28,084**	28,720
Provision for (reversal of allowance for) loan losses	**(112)**	—	**(118)**	—
Net interest income after provision for (reversal of allowance for) loan losses	**14,361**	14,311	**28,202**	28,720
Noninterest Income				
Loan fees	**811**	686	**1,489**	1,254
Fees for financially related services	**142**	111	**391**	308
Patronage refunds from other Farm Credit institutions	**2,655**	3,150	**5,341**	5,914
Gains (losses) on sales of rural home loans, net	**521**	237	**935**	403
Gains (losses) on sales of premises and equipment, net	**15**	37	**37**	37
Gains (losses) on other transactions	**(103)**	122	**(166)**	24
Other noninterest income	**44**	28	**218**	191
Total noninterest income	**4,085**	4,371	**8,245**	8,131
Noninterest Expense				
Salaries and employee benefits	**7,868**	7,425	**15,124**	13,928
Occupancy and equipment	**495**	485	**1,193**	1,185
Insurance Fund premiums	**358**	341	**703**	672
(Gains) losses on other property owned, net	**68**	113	**75**	136
Other operating expenses	**1,615**	1,777	**3,456**	3,555
Total noninterest expense	**10,404**	10,141	**20,551**	19,476
Income before income taxes	**8,042**	8,541	**15,896**	17,375
Provision for income taxes	**—**	1	**6**	1
Net income	**$ 8,042**	$ 8,540	**$ 15,890**	$ 17,374

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 June 30, 2015	For the three months ended June 30, 2014	For the six months ended June 30, 2015	For the six months ended June 30, 2014
Net income	**$ 8,042**	$ 8,540	**$ 15,890**	$ 17,374
Other comprehensive income net of tax				
Employee benefit plans adjustments	**28**	6	**55**	11
Comprehensive income	**$ 8,070**	$ 8,546	**$ 15,945**	$ 17,385

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				17,374	11	17,385
Protected borrower stock issued/(retired), net	(12)					(12)
Capital stock/participation certificates issued/(retired), net		169				169
Retained earnings retired			(19,232)			(19,232)
Patronage distribution adjustment			633	(904)		(271)
Balance at June 30, 2014	$ 4	$ 7,361	$ 91,792	$184,872	$ (213)	$ 283,816
Balance at December 31, 2014	**$ 3**	**$ 7,527**	**$112,635**	**$187,002**	**$ (530)**	**$ 306,637**
Comprehensive income				**15,890**	**55**	**15,945**
Capital stock/participation certificates issued/(retired), net		**219**				**219**
Retained earnings retired			**(14,347)**			**(14,347)**
Balance at June 30, 2015	**$ 3**	**$ 7,746**	**$ 98,288**	**$202,892**	**$ (475)**	**$ 308,454**

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.

For further details of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, from the latest Annual Report.

Accounting Standards Updates (ASUs) Issued During the Period
The following ASUs were issued by the Financial Accounting Standards Board (FASB) since the most recent Annual Report:

- 2015-10 Technical Corrections and Improvements – In June, 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements (numerous Topics). The amendments in the Update represent changes to make minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments were effective upon the issuance of the Update.

- 2015-07 Fair Value Measurement – In May, 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Topic 820 permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. To address diversity in practice related to how certain investments measured at net asset value with future redemption dates are categorized, the amendments in this Update remove the requirement to categorize investments for which fair values are measured using the net asset value per share practical expedient. It also limits disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years.

For all other entities, the guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Earlier application is permitted. The guidance is to be applied retrospectively to all periods presented. Application of this guidance is not expected to have an impact on the Association's financial condition or results of operations, but will require modifications to footnote disclosures.

ASUs Pending Effective Date
For a detailed description of the ASUs below, see the latest Annual Report.

Potential effects of ASUs issued in previous periods:

- 2014-09 Revenue from Contracts with Customers – On July 9, 2015, the FASB voted to delay the effective date by one year. A final ASU reflecting the revised effective date will be issued in third quarter of 2015.

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.

No recently adopted accounting guidance issued by the 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. The amendment was adopted prospectively. 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:

	June 30, 2015	December 31, 2014
Real estate mortgage	$ 1,218,571	$ 1,213,660
Production and intermediate-term	252,997	231,817
Processing and marketing	4,226	5,357
Farm-related business	7,673	8,174
Rural residential real estate	39,768	39,458
Other (including Mission Related)	526	538
Total Loans	$ 1,523,761	$ 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:

June 30, 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	$ 122,221	$ –	$ 10,761	$ –	$ –	$ 405	$ 132,982
Production and intermediate-term	–	36,777	1,305	–	1,324	–	2,629	36,777
Processing and marketing	–	7,149	–	6,312	–	–	–	13,461
Farm-related business	–	6,667	–	7,200	–	–	–	13,867
Total	$ 405	$ 172,814	$ 1,305	$ 24,273	$ 1,324	$ –	$ 3,034	$ 197,087

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:

June 30, 2015	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 78,168	$ 253,353	$ 887,050	$ 1,218,571
Production and intermediate-term	99,911	92,157	60,929	252,997
Processing and marketing	988	2,415	823	4,226
Farm-related business	293	4,657	2,723	7,673
Rural residential real estate	4,013	2,401	33,354	39,768
Other (including Mission Related)	–	–	526	526
Total Loans	$ 183,373	$ 354,983	$ 985,405	$ 1,523,761
Percentage	12.03%	23.30%	64.67%	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:

	June 30, 2015	December 31, 2014
Real estate mortgage:		
Acceptable	95.76%	95.35%
OAEM	2.34	2.84
Substandard/doubtful/loss	1.90	1.81
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	96.43%	96.37%
OAEM	1.91	2.08
Substandard/doubtful/loss	1.66	1.55
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2015	December 31, 2014
Farm-related business:		
Acceptable	99.99%	99.96%
OAEM	–	–
Substandard/doubtful/loss	0.01	0.04
	100.00%	100.00%
Rural residential real estate:		
Acceptable	96.78%	97.43%
OAEM	1.94	1.02
Substandard/doubtful/loss	1.28	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	95.93%	95.61%
OAEM	2.24	2.64
Substandard/doubtful/loss	1.83	1.75
	100.00%	100.00%

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

	June 30, 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	$ 9,872	$ 4,157	$ 14,029	$ 1,215,190	$ 1,229,219	$ –
Production and intermediate-term	1,284	1,114	2,398	253,835	256,233	–
Processing and marketing	–	–	–	4,275	4,275	–
Farm-related business	–	–	–	7,727	7,727	–
Rural residential real estate	332	70	402	39,580	39,982	–
Other (including Mission Related)	–	–	–	529	529	–
Total	$ 11,488	$ 5,341	$ 16,829	$ 1,521,136	$ 1,537,965	$ –

	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:

	June 30, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	$ 10,910	$ 10,772
Production and intermediate-term	2,806	1,806
Farm-related business	1	3
Rural residential real estate	337	431
Total	$ 14,054	$ 13,012
Accruing restructured loans:		
Real estate mortgage	$ 7,593	$ 8,252
Production and intermediate-term	1,018	1,337
Farm-related business	186	189
Rural residential real estate	165	169
Total	$ 8,962	$ 9,947
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 23,016	$ 22,959
Other property owned	4,212	4,189
Total	$ 27,228	$ 27,148
Nonaccrual loans as a percentage of total loans	0.92%	0.87%
Nonperforming assets as a percentage of total loans and other property owned	1.78%	1.81%
Nonperforming assets as a percentage of capital	8.83%	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.

	June 30, 2015	December 31, 2014
Impaired nonaccrual loans:		
Current as to principal and interest	$ 3,540	$ 4,455
Past due	10,514	8,557
Total	14,054	13,012
Impaired accrual loans:		
Restructured	8,962	9,947
90 days or more past due	–	–
Total	8,962	9,947
Total impaired loans	$ 23,016	$ 22,959

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

Impaired loans	June 30, 2015 Recorded Investment	June 30, 2015 Unpaid Principal Balance	June 30, 2015 Related Allowance	Quarter Ended June 30, 2015 Average Impaired Loans	Quarter Ended June 30, 2015 Interest Income Recognized on Impaired Loans	Six Months Ended June 30, 2015 Average Impaired Loans	Six Months Ended June 30, 2015 Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:							
Real estate mortgage	$ 2,309	$ 2,798	$ 819	$ 2,252	$ 45	$ 2,292	$ 79
Production and intermediate-term	99	200	10	96	2	98	3
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 2,408	$ 2,998	$ 829	$ 2,348	$ 47	$ 2,390	$ 82
With no related allowance for credit losses:							
Real estate mortgage	$ 16,194	$ 18,433	$ –	$ 15,789	$ 317	$ 16,068	$ 549
Production and intermediate-term	3,725	4,667	–	3,632	73	3,696	127
Farm-related business	187	185	–	182	3	185	6
Rural residential real estate	502	595	–	489	10	498	17
Total	$ 20,608	$ 23,880	$ –	$ 20,092	$ 403	$ 20,447	$ 699
Total:							
Real estate mortgage	$ 18,503	$ 21,231	819	$ 18,041	$ 362	$ 18,360	$ 628
Production and intermediate-term	3,824	4,867	10	3,728	75	3,794	130
Farm-related business	187	185	–	182	3	185	6
Rural residential real estate	502	595	–	489	10	498	17
Total	$ 23,016	$ 26,878	$ 829	$ 22,440	$ 450	$ 22,837	$ 781

Impaired loans	December 31, 2014 Recorded Investment	December 31, 2014 Unpaid Principal Balance	December 31, 2014 Related Allowance	Year Ended December 31, 2014 Average Impaired Loans	Year Ended December 31, 2014 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 March 31, 2015	$ 9,981	$ 1,811	$ 98	$ 318	$ 4	$ 12,212
Charge-offs	(66)	(1)	–	–	–	(67)
Recoveries	232	150	3	1	5	391
Provision for loan losses	(61)	(18)	(10)	(18)	(5)	(112)
Balance at June 30, 2015	$ 10,086	$ 1,942	$ 91	$ 301	$ 4	$ 12,424
Balance at December 31, 2014	$ 9,969	$ 1,952	$ 111	$ 321	$ 4	$ 12,357
Charge-offs	(174)	(91)	–	–	–	(265)
Recoveries	275	160	4	1	10	450
Provision for loan losses	16	(79)	(24)	(21)	(10)	(118)
Balance at June 30, 2015	$ 10,086	$ 1,942	$ 91	$ 301	$ 4	$ 12,424
Balance at March 31, 2014	$ 9,510	$ 1,715	$ 113	$ 292	$ 4	$ 11,634
Charge-offs	(108)	(16)	–	(4)	–	(128)
Recoveries	198	45	22	4	8	277
Provision for loan losses	(146)	163	(20)	11	(8)	–
Balance at June 30, 2014	$ 9,454	$ 1,907	$ 115	$ 303	$ 4	$ 11,783
Balance at December 31, 2013	$ 9,397	$ 1,862	$ 106	$ 279	$ 4	$ 11,648
Charge-offs	(226)	(50)	(1)	(4)	–	(281)
Recoveries	255	56	89	4	12	416
Provision for loan losses	28	39	(79)	24	(12)	–
Balance at June 30, 2014	$ 9,454	$ 1,907	$ 115	$ 303	$ 4	$ 11,783
Allowance on loans evaluated for impairment:						
Individually	$ 819	$ 10	$ –	$ –	$ –	$ 829
Collectively	9,267	1,932	91	301	4	11,595
Balance at June 30, 2015	$ 10,086	$ 1,942	$ 91	$ 301	$ 4	$ 12,424
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	$ 17,146	$ 3,064	$ 186	$ 502	$ –	$ 20,898
Collectively	1,212,073	253,169	11,816	39,480	529	1,517,067
Balance at June 30, 2015	$ 1,229,219	$ 256,233	$ 12,002	$ 39,982	$ 529	$ 1,537,965
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 June 30, 2015				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 147	$ –	$ –	$ 147	
Production and intermediate term	26	110	106	242	
Total	$ 173	$ 110	$ 106	$ 389	
Post-modification:					
Real estate mortgage	$ 148	$ –	$ –	$ 148	$ –
Production and intermediate term	26	112	106	244	–
Total	$ 174	$ 112	$ 106	$ 392	$ –

Outstanding Recorded Investment	Six Months Ended June 30, 2015 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 368	$ 2,896	$ –	$ 3,264	
Production and intermediate-term	26	110	106	242	
Total	$ 394	$ 3,006	$ 106	$ 3,506	
Post-modification:					
Real estate mortgage	$ 385	$ 2,980	$ –	$ 3,365	$ (43)
Production and intermediate-term	26	112	106	244	–
Total	$ 411	$ 3,092	$ 106	$ 3,609	$ (43)

Outstanding Recorded Investment	Three Months Ended June 30, 2014 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 374	$ 303	$ –	$ 677	
Production and intermediate-term	–	49	–	49	
Rural residential real estate	71	–	93	164	
Total	$ 445	$ 352	$ 93	$ 890	
Post-modification:					
Real estate mortgage	$ 375	$ 303	$ –	$ 678	$ –
Production and intermediate-term	–	49	–	49	–
Rural residential real estate	71	–	93	164	(4)
Total	$ 446	$ 352	$ 93	$ 891	$ (4)

Outstanding Recorded Investment	Six Months Ended June 30, 2014 Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ 666	$ 303	$ –	$ 969	
Production and intermediate-term	–	154	–	154	
Rural residential real estate	71	–	93	164	
Total	$ 737	$ 457	$ 93	$ 1,287	
Post-modification:					
Real estate mortgage	$ 671	$ 303	$ –	$ 974	$ –
Production and intermediate-term	–	117	–	117	–
Rural residential real estate	71	–	93	164	(4)
Total	$ 742	$ 420	$ 93	$ 1,255	$ (4)

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 June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Real estate mortgage	$ 2,847	$ 5,618	$ 3,443	$ 5,617
Production and intermediate-term	–	1,683	–	1,705
Total	$ 2,847	$ 7,301	$ 3,443	$ 7,322

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 June 30, 2015	Total TDRs December 31, 2014	Nonaccrual TDRs June 30, 2015	Nonaccrual TDRs December 31, 2014
Real estate mortgage	$ 13,451	$ 12,111	$ 5,858	$ 3,859
Production and intermediate-term	2,281	2,196	1,263	859
Farm-related business	186	190	–	1
Rural residential real estate	367	445	202	276
Total Loans	$ 16,285	$ 14,942	$ 7,323	$ 4,995
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

		June 30, 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	$	34

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 June 30, 2015, the Association held no 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:

	June 30, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
RABs	$ 8,556	$ 16	$ (74)	$ 8,498	6.35%

	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:

	June 30, 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	8,556	8,498	6.35
Total	$ 8,556	$ 8,498	6.35%

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 December 31, 2014. The following table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category.

	June 30, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 3,674	$ (74)	$ –	$ –

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 7.01 percent of the issued stock of the Bank as of June 30, 2015 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.8 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $168 million for the first six months of 2015. In addition, the Association has an investment of $3,816 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)*

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Employee Benefit Plans:				
Balance at beginning of period	$ (503)	$ (219)	$ (530)	$ (224)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	28	6	55	11
Net current period other comprehensive income	28	6	55	11
Balance at end of period	$ (475)	$ (213)	$ (475)	$ (213)

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

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (28)	$ (6)	$ (55)	$ (11)	See Note 7.
Net amounts reclassified	$ (28)	$ (6)	$ (55)	$ (11)	

(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.

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.

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 Six Months Ended June 30, 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	$ 1,494	$ 1,494	$ –	$ –	$ 1,494	
Recurring Assets	$ 1,494	$ 1,494	$ –	$ –	$ 1,494	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 22,187	$ –	$ –	$ 22,187	$ 22,187	$ (537)
Other property owned	4,212	–	–	4,506	4,506	(55)
Nonrecurring Assets	$ 26,399	$ –	$ –	$ 26,693	$ 26,693	$ (592)
Other Financial Instruments						
Assets:						
Cash	$ 1,584	$ 1,584	$ –	$ –	$ 1,584	
Investment securities, held-to-maturity	8,556	–	–	8,498	8,498	
Loans	1,493,181	–	–	1,501,182	1,501,182	
Other Financial Assets	$ 1,503,321	$ 1,584	$ –	$ 1,509,680	$ 1,511,264	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,257,577	$ –	$ –	$ 1,248,711	$ 1,248,711	
Other Financial Liabilities	$ 1,257,577	$ –	$ –	$ 1,248,711	$ 1,248,711	

	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	

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	$ 26,693	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

Note 7 — Employee Benefit Plans

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Pension	$ 1,528	$ 1,535	$ 3,055	$ 3,069
401(k)	224	168	477	326
Other postretirement benefits	445	265	890	530
Total	$ 2,197	$ 1,968	$ 4,422	$ 3,925

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

	Actual YTD Through 6/30/15	Projected Contributions For Remainder of 2015	Projected Total Contributions 2015
Pension	$ 43	$ 6,055	$ 6,098
Other postretirement benefits	424	421	845
Total	$ 467	$ 6,476	$ 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 August 7, 2015, which was the date the financial statements were issued.