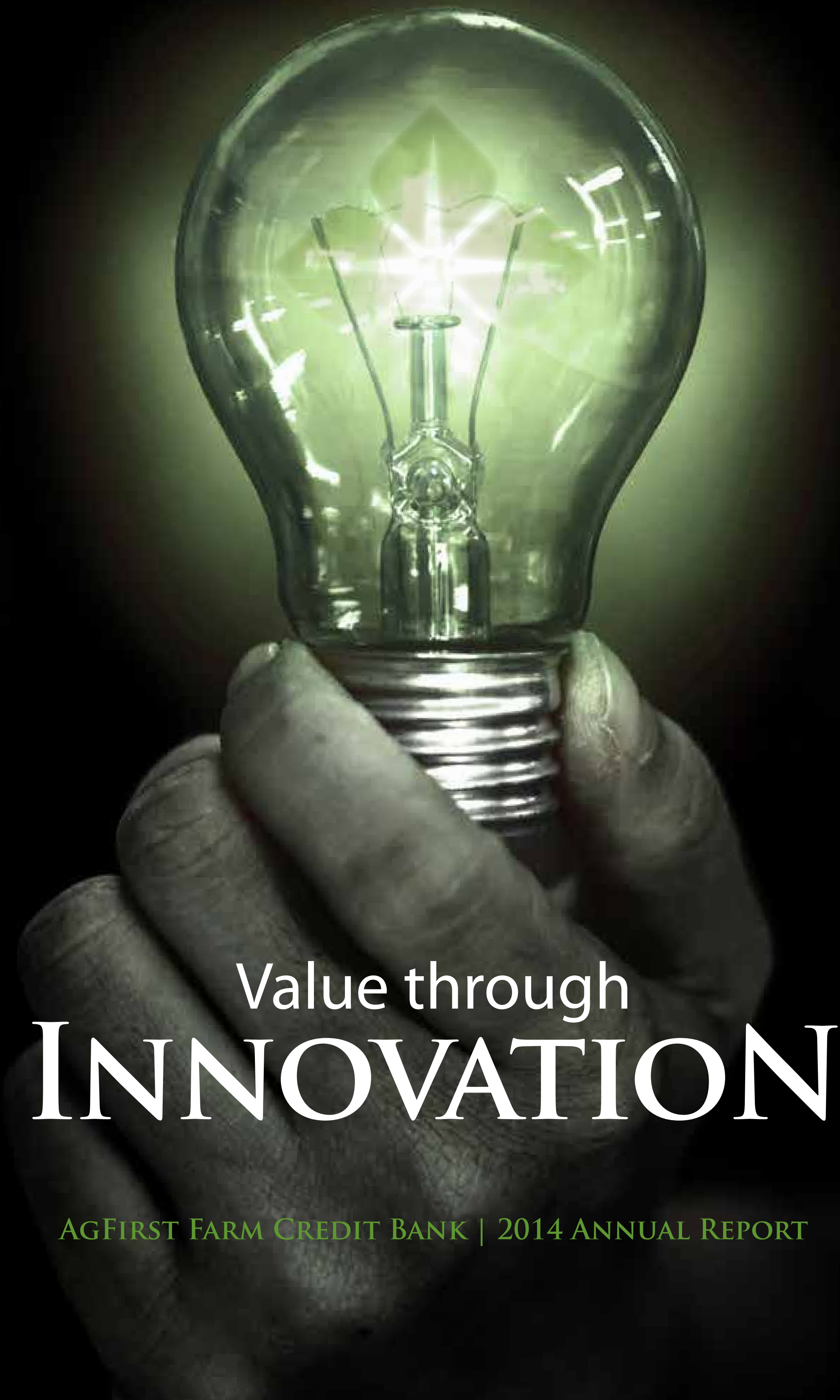
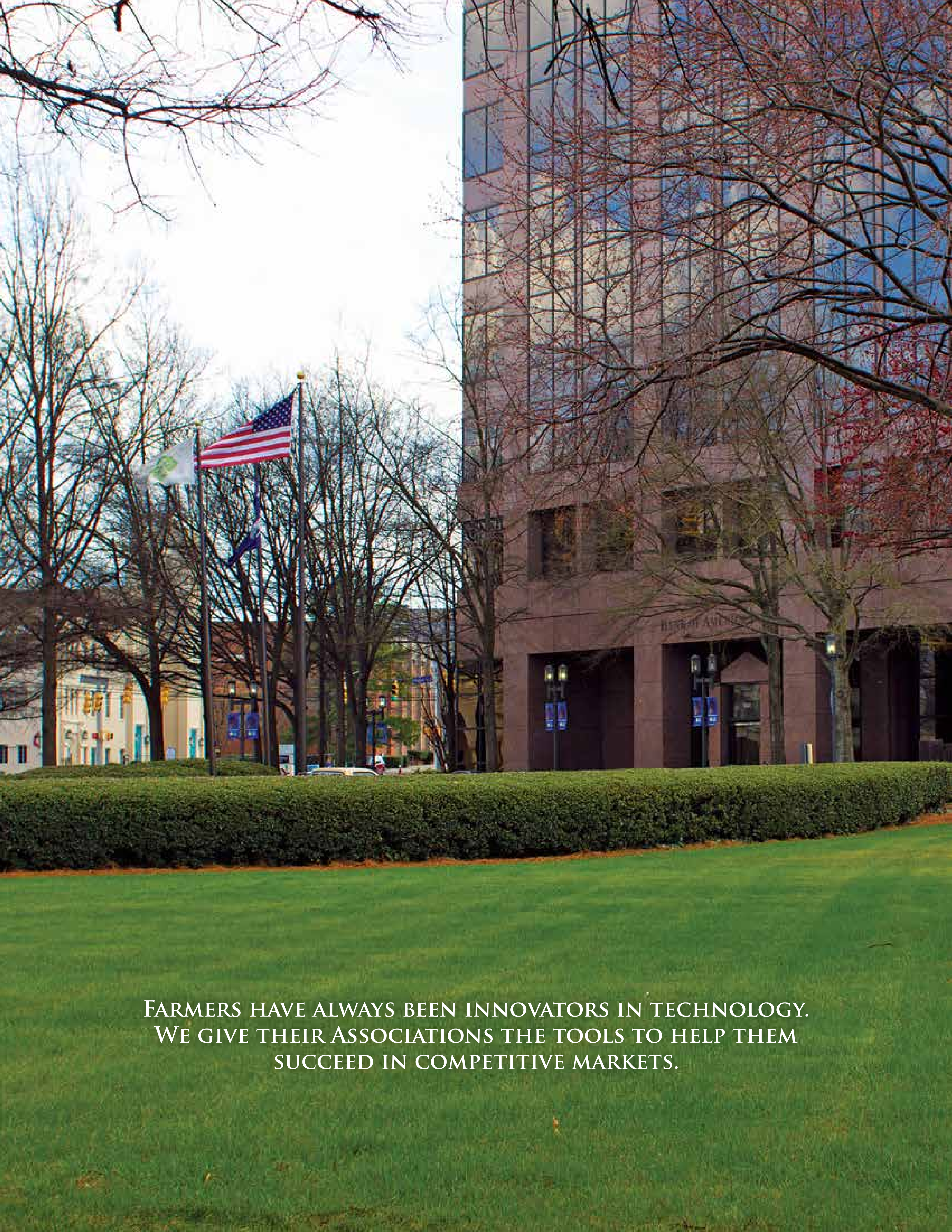


Value through Innovation

AgFirst Farm Credit Bank | 2014 Annual Report


Farmers have always been innovators in technology.
We give their Associations the tools to help them
succeed in competitive markets.

Contents

Message from the Chairman of the Board & the Chief Executive Officer

Dale R. Hershey
Chairman of the Board

Leon T. Amerson
Chief Executive Officer

The basic function of a Farm Credit Bank is to provide competitive funding for its affiliated Associations. However, AgFirst has long recognized the value of going well beyond the basics. Our business model allows the Bank to efficiently provide a full range of technology and other services to our Associations. Our business model's success is attributable to tenets that we firmly believe in and work hard to maintain.

First, AgFirst is committed to maintaining a rock-solid balance sheet and strong earnings. This provides the financial wherewithal to weather adverse economic events and to make investments in technology and services that benefit our Associations.

Second, AgFirst operates as a cooperative, fully recognizing that every dollar earned belongs to our Associations and every dollar spent is spent on their behalf. In 2014, earnings were well above historical standards due primarily to a very favorable funding environment; the result being a distribution to our stockholders of more than $300 million, which included a "special distribution" of $175 million. From our Associations' point-of-view, our 2014 earnings distributions effectively reduced their borrowing costs by approximately 80%, resulting in a net cost of funds, technology and services of less than 50 basis points.

Third, AgFirst provides a broad array of technology solutions and support services that otherwise would be cost prohibitive for any individual Association. This allows each Association to meet the needs of its customers more efficiently and effectively without compromising their own unique business models.

Fourth, AgFirst maintains a close, collaborative relationship with our Associations. Knowing our Associations so well helps us, together, to develop innovative solutions to meet their needs in an ever-changing environment. One way we do that is to work closely with Association personnel to identify needs and opportunities, and then prioritize, design and implement new technology and services.

We take great pride in the solutions we develop that enable Associations in our District to provide superior service to their customers. In all, AgFirst supports more than 150 software applications that, together, provide the Associations with an integrated platform that enables them to fully meet the needs of a demanding marketplace.

Although maintaining a wide range of products is important, AgFirst also recognizes the need for uncompromising dedication to system reliability, availability, security and performance. Last year, we completed a move into a new data center. The new center gives our Associations confidence and peace-of-mind that the systems they rely on for their day-to-day business activities are always up and running and that their data is secure.

We are proud of our functional and reliable systems. However, we also recognize that technology evolves at a rapid pace and that expectations of customers evolve with it. We are constantly evaluating and responding to changes in technology and how those changes impact our Associations and their customers. In this Annual Report, we have chosen to highlight some of our key technology initiatives. You will read about innovative projects that allow our Associations to rise above their competitors both in terms of functionality and efficiency, protect Associations' vital data, and ensure high levels of reliability and performance.

Going beyond the basics provides tremendous value that extends well beyond the competitive funding that we provide every day. We are very proud of the talented and dedicated AgFirst and Association staff members whose individual commitments to rise above the basics are the bedrock of our success.

Dale R. Hershey
Chairman of the Board

Leon T. Amerson
Chief Executive Officer

March 11, 2015


EMC
SYMMETRIX
VMAX

Building a Flexible Platform

The technology requirements of our Associations vary greatly because of the complex needs of their customers. To respond to those needs, AgFirst – like most other technology service providers – years ago implemented a number of highly specialized systems, each of which had to be integrated to the other. The result was a hodgepodge of integration points that made systems difficult to update or replace. These difficulties led many companies to limit product offerings, segregate lines of business into inflexible silos or try to shoehorn products into systems that were not built to accommodate them.

In 2013, AgFirst launched an initiative designed for ease of use and natural integration. We call the move to this new flexible platform "Systems Migration." It has replaced point-to-point integration with a hub-and-spoke architecture that allows new systems to be added much more quickly. The new platform also accommodates the use of a variety of highly specialized applications that, when installed, give it the look and feel of a single system.

The hub that lies at the center of the new architecture is an Enterprise Data Warehouse. The warehouse serves as a repository of data collected from the various systems, such as loan origination, loan accounting and customer relationship management. Common data elements shared by multiple systems also reside in the warehouse. One of the challenges we have overcome through a new Customer Integration System is aggregating data related to a single customer from multiple systems.

With this new, modern platform, Associations can enjoy best-of-breed functionality that is tailored to the needs of their customers, without sacrificing the ability to view the entire consumer portfolio as a single relationship. The new platform also is a model in efficiency. It supports data sharing between systems and minimizes the need for duplication of data entry.

By overcoming the difficulties of integration with the new highly functioning platform, AgFirst established the foundation for cutting-edge, highly flexible systems that will fully meet the needs of Associations for years to come.

With an eye toward the future

- A new hub-and-spoke architecture gives our platform the feel of a single system and the flexibility to add new functionality seamlessly wherever it is needed.
- A modern data warehouse is the centerpiece of this new system, tying it all together with smart data management designed for ease of use.
- Managing customer relationships has never been easier with all consumer data stored in individual, easy to navigate portfolios.

Highlights

- A data leak prevention system that prevents internal information from being sent in an unsecured email.
- A centrally managed anti-virus and malware protection system.
- Web filtering services that monitor for misuse and malicious sites.
- A third-party service for controlling Spam.

Security

Headlines have been filled with companies that have fallen victim to security breaches. AgFirst puts a high premium on security as we manage 4,200 users on more than 1,600 servers who work through three separate Internet providers. This complex IT environment requires a first-class team working to bring thorough and dedicated protection measures to the Bank to ensure that Associations' sensitive data is well protected. Our security measures are designed to mitigate risk and inspire the confidence of our customers. They include:

- **Multi-factor authentication** requires staff members who access AgFirst systems away from the office to use multiple forms of authentication to log on.
- **An Enterprise Risk Management (ERM) framework** is designed to identify events or circumstances, such as hacking attempts or emails sent with suspicious links, that may negatively impact business operations and develop solutions before they become a problem.
- **A Security Incident Response Team** that continuously scours activity to and from the Internet for potential threats and security incidents and develops strategies for responding rapidly and diligently to those risks.
- **An industry best security perimeter** provides fortress-like protection to Associations' sensitive customer data. In addition, this perimeter is monitored constantly by an outside firm for maximum protection from intrusion.

The security measures we provide give our Associations the satisfaction of knowing that we are working around the clock to keep their customers' data safe and protected. Risk comes in many forms - from a lost iPad to a breach attempt. Rest assured, AgFirst's security team is already thinking of solutions.


1115-1-2C
AT&T
1115-1-1C
AT&T


Columbia, S.C.
ALVIN GRAY
STEVE MILLEN


1115


CAT
DIESEL
3100
COMBUSTIBLE
NO SMOKING

AgFirst Data Center

AgFirst's 19 Associations and their 282 branches rely on the Bank to keep their essential systems up and running so they can conduct business without interruption. As part of AgFirst's commitment to reliability, we recently built a modern Data Center with rigorous safeguards in place to ensure smooth operations.

Consistent and continual access to systems is vitally important and something that AgFirst monitors closely. With that in mind, the Data Center was designed:

- As a standalone building expertly engineered to withstand hurricane-force winds, earthquakes and potentially damaging lightning.
- With fire suppression engineering that far exceeds fire industry standards and meets or exceeds modern data center best practices.
- With multiple power sources, including power from two different public utility grids; two generators, each of which is capable of powering the entire facility; and two separate battery back-up units.
- With two separate lines for each communications provider, ensuring continuity of data flow.

As a result of AgFirst's dedication to reliability, all systems supported by the Bank last year were available 99.997 percent of the time they were supposed to be. This Data Center rivals any in the region in terms of technology, capacity and security, and it gives our Associations peace of mind that they can serve their customers consistently and reliably.

A quick look

- **1 Petabyte**
  The amount of data AgFirst manages across all platforms. That's enough to store 10 billion photos on Facebook, fill up 20 million four-drawer filing cabinets or host the entire contents of the Library of Congress.
- **10 years**
  The new data center was built to accommodate growth for at least the next decade and then can be expanded for future needs.
- **Zero**
  Amount of unplanned downtime during the move into the new, modern data center. This meant Associations were able to operate with no interruptions during the complex move.

Lending Lifecycle

Tying together all aspects of the lending cycle – from prospect management to final payment – is the goal of our Lending Lifecycle initiative. This project allows for a smooth workflow that helps our Associations communicate more effectively with their customers. This efficient system eliminates redundancy and automates hand-offs between Association employees to allow for accuracy, efficiency and a seamless customer experience. Notable features of the new platform include:

- A highly flexible Customer Relationship Management (CRM) tool that improves service to the Associations by providing a consistent message and helps track client engagement for better communication. This versatile tool also helps Associations manage marketing campaigns and track customer interaction and follow-up for future opportunities.
- Work queue management that includes important elements, such as task notification and governing of portfolio management to keep projects flowing smoothly. This can be tailored to meet the unique needs of individual Associations.
- Comprehensive approaches to analyzing customer credit quality, managing the credit approval hierarchy and monitoring ongoing credit compliance.
- Preparation of the legal documents vital to the lending process.
- Automated booking to the loan system that best accommodates the transaction.
- Management of the various monetary transactions associated with a loan to keep funding on track.
- Monitoring and notification of pending activities, such as renewals, to keep customers informed.

The industry-leading products used in the Lending Lifecycle platform are integrated throughout the system architecture to provide a unified look and feel, giving Association personnel a sense of continuity. These include such products as MicroSoft CRM, SunGard's Ambit Optimist credit analysis tool and the SunGard loan origination tool suite.

Key advantages

- **More customer-centric**
  Allows Associations to better communicate with their customers and get to know their needs, inspiring confidence and encouraging future lending relationships.
- **Reduces costs**
  Through better communication tools and a smoother workflow experience, Association employees are able to work more efficiently, saving the organization time and money.
- **Easier portfolio management**
  Helps Association staff manage tasks in their portfolios for quicker loan processing and easier regulatory compliance.

Business Process Management

Making sure that business processes are correctly documented and followed is a significant business challenge. To address this challenge, the Business Applications team partnered with our Associations to come up with an innovative solution. What resulted was AgVUE, an award-winning business process management system that allows our Associations to streamline their work with a focus on efficiency and accuracy.

AgVUE centralizes business processes through one portal, making it a one-stop shop for Association employees whether they are processing checks, requesting appraisals or even completing their standards of conduct certifications. AgVUE was developed with the customer in mind. Some benefits include:

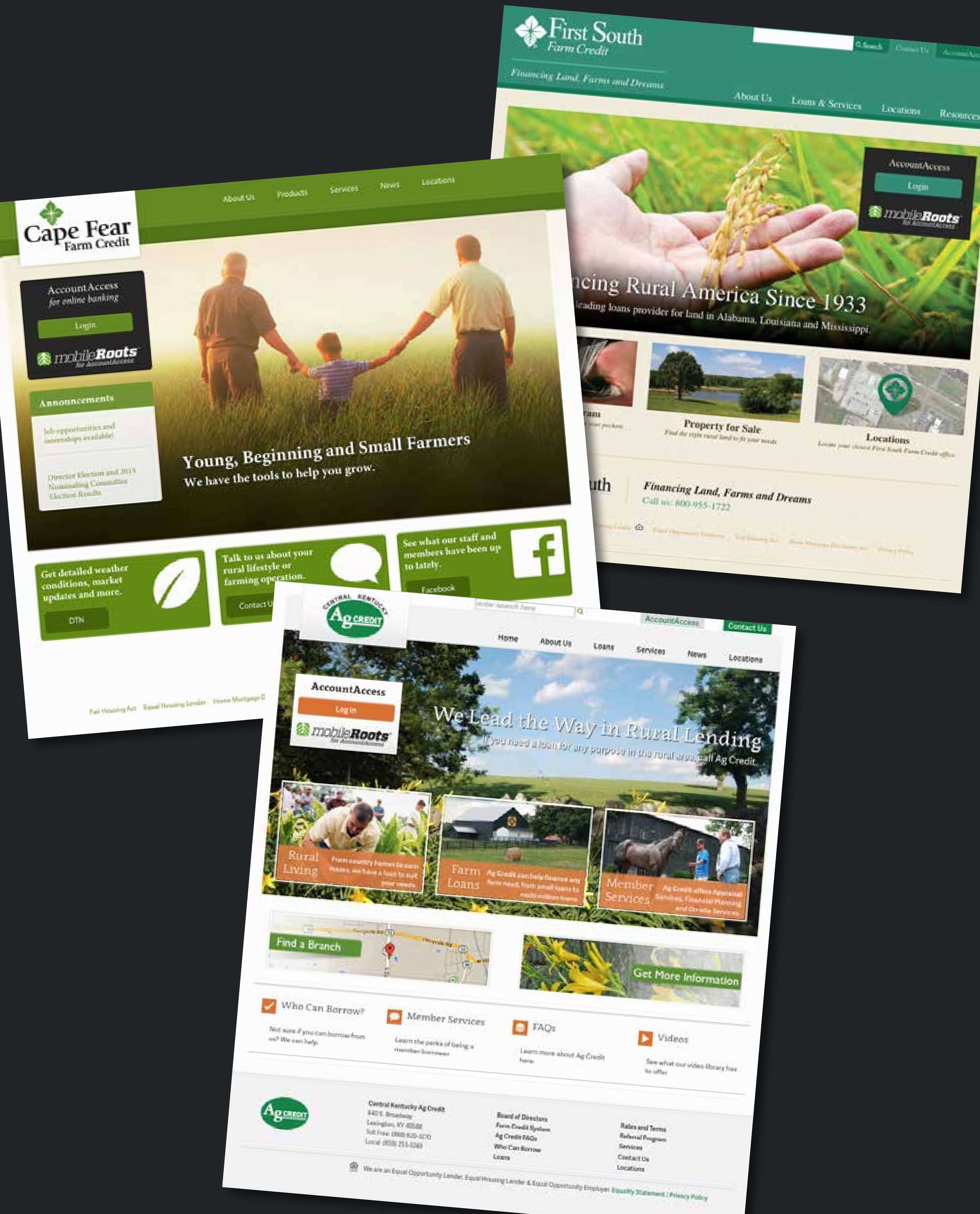
- AgVUE's intuitive nature defines workflow for each application, but is also adaptable based on the needs of the Association or the process.
- Using a well-defined system reduces the risk of making an error while processing a request because paperwork is sent to the right person or department the first time, every time.
- AgVUE can be accessed from inside the office or out in the field, giving employees the mobility they need to keep the paperwork process moving for faster service.
- Superb reporting and analytics allow for tracking how well each process is executed and help employees determine where bottlenecks are occurring in the workflow for easy redirection.
- A system that prompts users through a pre-determined process lowers the learning curve for new employees, making them productive more quickly.

Associations' use of AgVUE has grown rapidly since its introduction, and it can be implemented in as few as eight weeks. The system has attracted the attention of national organizations focused on innovative solutions. The Workflow Management Coalition honored AgFirst with its Award of Excellence in Business Process Management and Workflow. The award recognized the AgVUE platform's excellence in automating, measuring and optimizing business processes for customers. The AgVUE team also was recognized for its efforts at an international Gartner Group conference.

Supplying technology solutions to address Association challenges is a key component of AgFirst's value proposition. We provide the business solutions our Associations need so they can focus their time and attention on their valued customers.

Key features

- AgVUE is used to streamline and govern a range of applications - from standards of conduct reporting and disaster recovery processes to appraisal orders and check requests.
- It is a one-stop shop for Association employees, eliminating their need to navigate between systems with different sets of operating rules.
- Simplification sets employees up for success and efficiency, making each process flow smoothly for optimal performance.


First South
Farm Credit
Financing Land, Farms and Dreams
Search
Contact Us
About Us
Loans & Services
Locations
Resources
AccountAccess
Login
mobileRoots
for AccountAccess
ncing Rural America Since 1933
leading loans provider for land in Alabama, Louisiana and Mississippi.
Property for Sale
Locations
Financing Land, Farms and Dreams
Call us: 800-955-1722
Cape Fear
Farm Credit
About Us
Products
Services
News
Locations
AccountAccess
for online banking
Login
mobileRoots
for AccountAccess
Announcements
Job opportunities and internships available!
Young, Beginning and Small Farmers
We have the tools to help you grow.
Get detailed weather conditions, market updates and more.
DTN
Talk to us about your rural lifestyle or farming operation.
See what our staff and members have been up to lately.
Facebook
Fair Housing Act
Equal Housing Lender
Central Kentucky
Ag Credit
AccountAccess
Contact Us
Home
About Us
Loans
Services
News
Locations
AccountAccess
Log in
mobileRoots
for AccountAccess
We Lead the Way in Rural Lending
If you need a loan for any purpose in the rural area, call Ag Credit.
Rural Living
Farm Loans
Member Services
Find a Branch
Get More Information
Who Can Borrow?
Member Services
FAQs
Videos
Central Kentucky Ag Credit
Board of Directors
Farm Credit System
Ag Credit FAQs
Who Can Borrow
Loans
Rates and Terms
Referral Program
Services
Contact Us
Locations

Association Website Development

AgFirst made a significant commitment to website development in 2014 that will position our Associations to better attract and communicate with customers. Key features of the sites address ease of use for customers and flexibility for the Associations.

- Each mobile-friendly website will automatically adjust its format and size based on the type of device being used for access. So whether customers are looking at the site through a tablet, a desktop computer or a smartphone, the data will display correctly.
- Association staff have the power to update or refine the content on their own websites through a content management system designed for ease of use. Staff members can make calendar updates, change graphics or reword a sentence quickly. Or if they need a helping hand, AgFirst can step in and help manage the changes. Also, a tiered approval process gives Associations peace of mind that the changes are edited and approved before they go live.
- Each Association website is unique with its own content input and priorities. Every website retains its own look and feel for an authentic customer experience.

Instead of creating different solutions for each association for features like photo calendar contests and location finders, the website tools allow the ability to create one solution and deploy it across multiple sites. These modules improve time to market and allow each Association to quickly implement winning ideas from across the District.

The website development effort also positions AgFirst and the Associations for the future as we integrate with other systems, such as customer relationship management tools. This will allow Associations to track customer web use for future marketing capabilities. We also plan to deliver advanced calendar options, such as the ability to search within a calendar or register and pay for events.

Our Associations trust AgFirst to develop top-notch, secure websites that are easy to manage, reliable and poised for the future. This allows our Associations to maintain a competitive advantage in the market and keep their customers satisfied.

Rave reviews

"They were easy to work with. They never said, 'That's not possible.' They'd come back with a solution. I feel like we have come light years from where we were before."

~ *Maggie Hamm, Chief Marketing Officer, Carolina Farm Credit, Statesville, N.C.*

"They did a really nice job of guiding us to where we needed to be. We can make updates to it ourselves. It really makes it easy. And they still provide website support if we run into an issue."

~ *Jim Belfield, Chief Information Officer, Colonial Farm Credit, Mechanicsville, Va.*

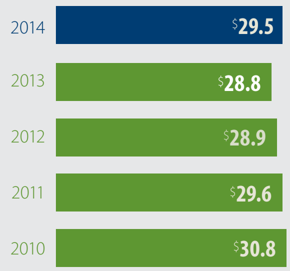
"They took a real nice, fresh approach to the website and gave it a major facelift. It was a full total package team. And it was a delightful experience to work with them."

~ *Kathy Heustess, Chief Executive Officer, ArborOne Farm Credit, Florence, S.C.*

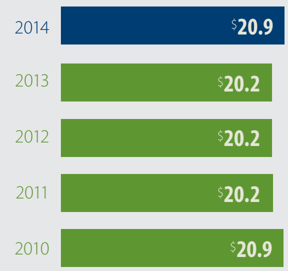
Five Year Summary

of selected financial data

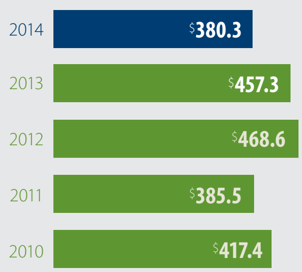
TOTAL ASSETS
$ IN BILLIONS



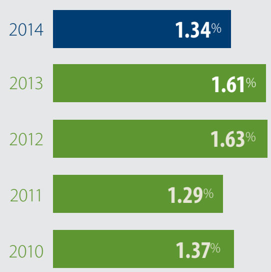
LOANS
$ IN BILLIONS



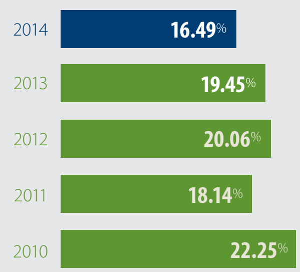
NET INCOME
$ IN MILLIONS



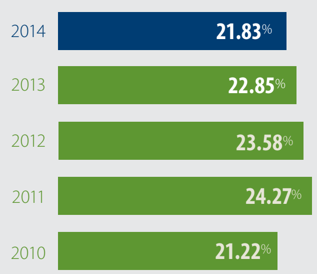
RETURN ON ASSETS



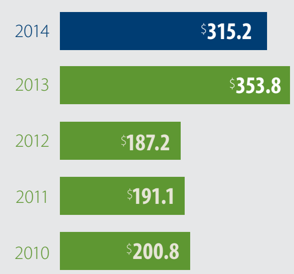
RETURN ON SHAREHOLDERS' EQUITY



PERMANENT CAPITAL RATIO



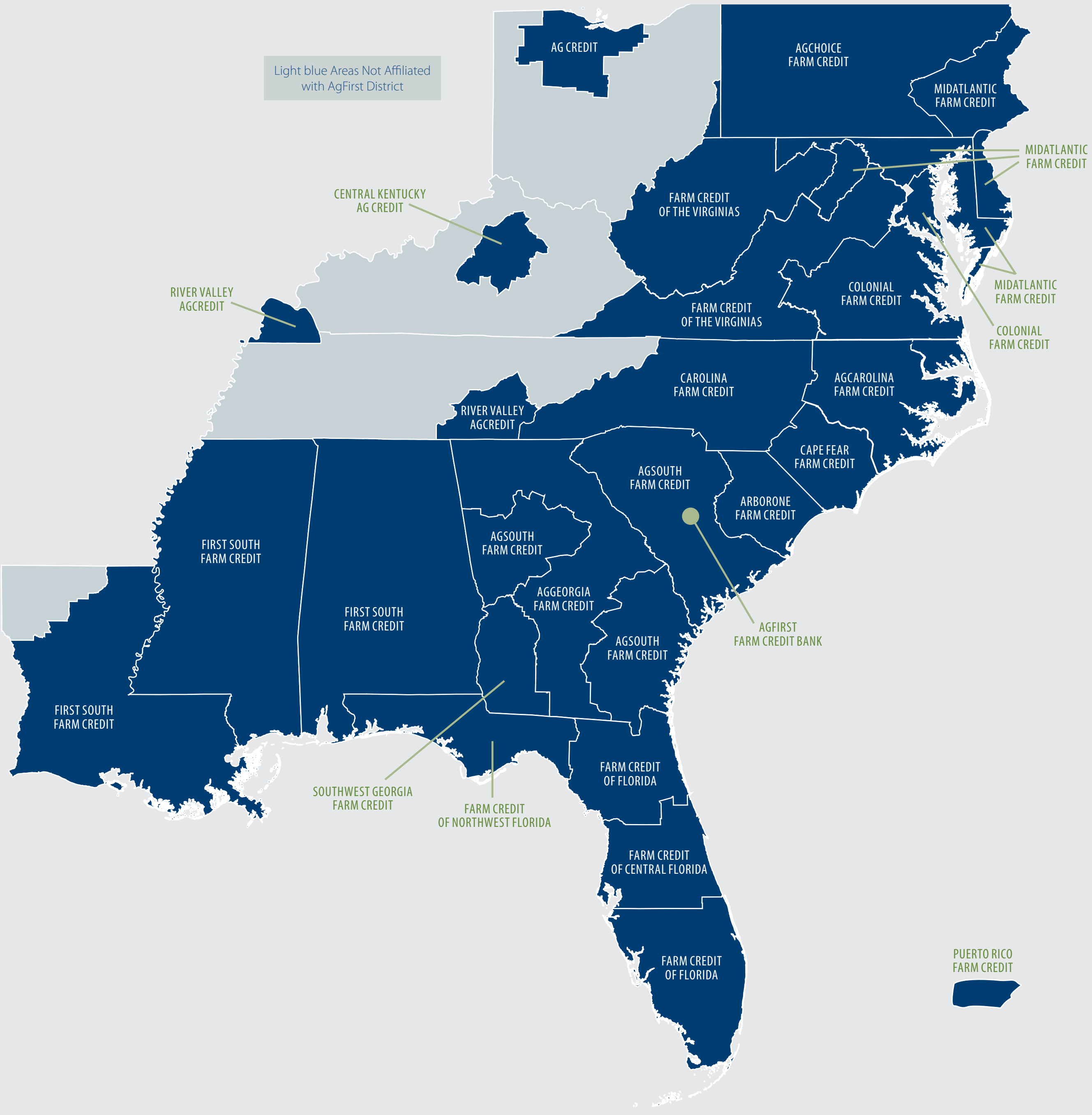
CASH PATRONAGE DECLARED
$ IN MILLIONS



(dollars in thousands)	As of or for the year ended December 31, 2014	2013	2012	2011	2010
BALANCE SHEET DATA					
Cash and cash equivalents	$ 847,350	$ 1,183,755	$ 873,165	$ 1,301,569	$ 1,427,033
Investment securities	7,413,939	7,152,788	7,484,411	7,780,272	8,076,678
Loans	20,894,591	20,201,235	20,209,251	20,152,066	20,905,165
Allowance for loan losses	(15,535)	(22,908)	(44,539)	(27,714)	(14,873)
Net loans	20,879,056	20,178,327	20,164,712	20,124,352	20,890,292
Other property owned	2,808	9,621	19,477	44,157	39,719
Other assets	360,069	319,851	348,782	327,156	347,844
Total assets	$ 29,503,222	$ 28,844,342	$ 28,890,547	$ 29,577,506	$ 30,781,566
Obligations with maturities of one year or less	$ 10,978,136	$ 9,517,750	$ 10,932,929	$ 12,095,042	$ 12,557,028
Obligations with maturities greater than one year	16,317,679	17,179,845	15,659,388	15,333,194	16,096,757
Mandatorily redeemable preferred stock	—	—	—	—	225,000
Total liabilities	27,295,815	26,697,595	26,592,317	27,428,236	28,878,785
Perpetual preferred stock	125,250	125,250	275,250	400,000	400,000
Capital stock and participation certificates	303,180	308,972	332,705	405,767	417,333
Additional paid-in-capital	36,580	36,580	36,580	—	—
Retained earnings					
Allocated	692	726	795	858	871
Unallocated	1,639,757	1,577,676	1,481,432	1,218,648	1,052,248
Accumulated other comprehensive income (loss)	101,948	97,543	171,468	123,997	32,329
Total shareholders' equity	2,207,407	2,146,747	2,298,230	2,149,270	1,902,781
Total liabilities and shareholders' equity	$ 29,503,222	$ 28,844,342	$ 28,890,547	$ 29,577,506	$ 30,781,566
STATEMENT OF INCOME DATA					
Net interest income	$ 484,192	$ 538,058	$ 605,502	$ 596,434	$ 575,216
Provision for (reversal of) loan losses	(8,451)	(10,589)	14,946	80,222	40,002
Noninterest income (expense), net	(112,294)	(91,311)	(121,946)	(130,754)	(117,819)
Net income	$ 380,349	$ 457,336	$ 468,610	$ 385,458	$ 417,395
KEY FINANCIAL RATIOS					
Rate of return on average:					
Total assets	1.34%	1.61%	1.63%	1.29%	1.37%
Total shareholders' equity	16.49%	19.45%	20.06%	18.14%	22.25%
Net interest income as a percentage of average earning assets	1.76%	1.96%	2.19%	2.09%	1.97%
Net (chargeoffs) recoveries to average loans	0.01%	(0.06)%	0.01%	(0.33)%	(0.28)%
Total shareholders' equity to total assets	7.48%	7.44%	7.95%	7.27%	6.18%
Debt to shareholders' equity (:1)	12.37	12.44	11.57	12.76	15.18
Allowance for loan losses to loans	0.07%	0.11%	0.22%	0.14%	0.07%
Permanent capital ratio	21.83%	22.85%	23.58%	24.27%	21.22%
Total surplus ratio	21.80%	22.81%	23.55%	24.24%	21.19%
Core surplus ratio	19.38%	19.98%	20.04%	17.08%	13.79%
Collateral ratio	106.79%	106.83%	107.03%	106.49%	106.44%
NET INCOME DISTRIBUTION					
Cash patronage declared	$ 315,218	$ 353,813	$ 187,165	$ 191,060	$ 200,772
Perpetual preferred stock dividend	1,729	6,347	17,978	27,413	27,413

The District

Associations of AgFirst Farm Credit Bank



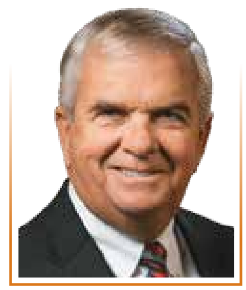
AgFirst is a member of the Farm Credit System, the largest agricultural lending organization in the United States. As one of the four Banks in the Farm Credit System, we provide funding and services to 19 affiliated Agricultural Credit Associations in 15 eastern states and Puerto Rico. Our Associations, in turn, provide financing to 80,000 farmers, ranchers, rural homeowners and agribusinesses.

Board of Directors

Dale R. Hershey
Chairman
MIDATLANTIC FARM CREDIT

John S. Langford
Vice Chairman
FARM CREDIT OF CENTRAL FLORIDA

Jack W. Bentley, Jr.
AGGEORGIA FARM CREDIT

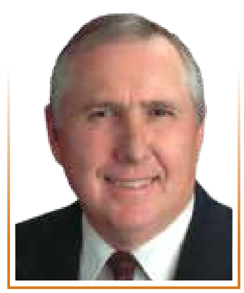


James C. Carter, Jr.
AGSOUTH FARM CREDIT

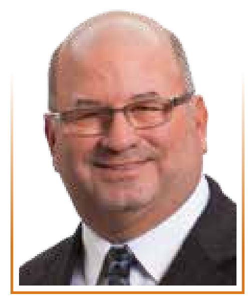
Bonnie V. Hancock
OUTSIDE DIRECTOR

Curtis R. Hancock, Jr.
RIVER VALLEY AGCREDIT

Walter C. Hopkins
MIDATLANTIC FARM CREDIT



Paul M. House
FARM CREDIT OF THE VIRGINIAS

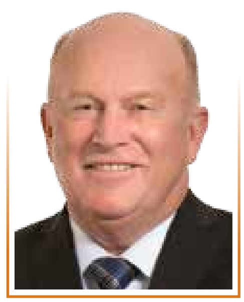


William K. Jackson
AGCHOICE FARM CREDIT

S. Jerry Layman
AG CREDIT OF OHIO

S. Alan Marsh
FIRST SOUTH FARM CREDIT

James L. May
CENTRAL KENTUCKY AG CREDIT



Fred R. Moore, Jr.
MIDATLANTIC FARM CREDIT

James M. Norsworthy, III
FIRST SOUTH FARM CREDIT

Katherine A. Pace
OUTSIDE DIRECTOR

Thomas E. Porter, Jr.
CAROLINA FARM CREDIT

Robert G. Sexton
FARM CREDIT OF FLORIDA

Robert H. Spiers, Jr.
COLONIAL FARM CREDIT

Michael T. Stone
CAPE FEAR FARM CREDIT

Ellis W. Taylor
AGCAROLINA FARM CREDIT

AgFirst Farm Credit Bank

2014 ANNUAL REPORT

Contents

Management

Leon T. Amerson .... President and Chief Executive Officer
Charl L. Butler .... Senior Vice President and Chief Financial Officer
Benjamin F. Blakewood .... Senior Vice President and Chief Information Officer
Christopher L. Jones .... Senior Vice President and Chief Credit Officer
Daniel E. LaFreniere .... Senior Vice President and Chief Audit Executive
Isvara M. A. Wilson .... Senior Vice President and General Counsel

Board of Directors

Dale R. Hershey .... Chairman
John S. Langford .... Vice Chairman
Jack W. Bentley, Jr. .... Director
James C. Carter, Jr. .... Director
Bonnie V. Hancock .... Director
Curtis R. Hancock, Jr. .... Director
Walter C. Hopkins .... Director
Paul M. House .... Director
William K. Jackson .... Director
S. Jerry Layman .... Director
S. Alan Marsh .... Director
James L. May .... Director
Fred R. Moore, Jr. .... Director
James M. Norsworthy, III .... Director
Katherine A. Pace .... Director
Thomas E. Porter, Jr. .... Director
Robert G. Sexton .... Director
Robert H. Spiers, Jr. .... Director
Michael T. Stone .... Director
Ellis W. Taylor .... Director

Report of Management

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

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

AgFirst has a Code of Ethics for its Chief Executive Officer, Senior Financial Officers, and other Senior Officers who are involved with preparation and distribution of financial statements and maintenance of the records supporting the financial statements. A copy of the AgFirst Code of Ethics may be viewed on the Bank's website at www.agfirst.com.

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

The Financial Statements, in the opinion of management, fairly present the financial condition of the Bank. The undersigned certify that we have reviewed the 2014 Annual Report of AgFirst Farm Credit Bank, 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.

Dale R. Hershey
Chairman of the Board

Leon T. Amerson
President and Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 11, 2015

Report on Internal Control Over Financial Reporting

The Bank'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 Bank's 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 Bank's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the 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 Bank, (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 Bank, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on its Financial Statements.

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

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

Leon T. Amerson
President and Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 11, 2015

Five-Year Summary of Selected Financial Data

(dollars in thousands)	As of or for the year ended December 31, 2014	2013	2012	2011	2010
Balance Sheet Data					
Cash and cash equivalents	**$ 847,350**	$ 1,183,755	$ 873,165	$ 1,301,569	$ 1,427,033
Investment securities	**7,413,939**	7,152,788	7,484,411	7,780,272	8,076,678
Loans	**20,894,591**	20,201,235	20,209,251	20,152,066	20,905,165
Allowance for loan losses	**(15,535)**	(22,908)	(44,539)	(27,714)	(14,873)
Net loans	**20,879,056**	20,178,327	20,164,712	20,124,352	20,890,292
Other property owned	**2,808**	9,621	19,477	44,157	39,719
Other assets	**360,069**	319,851	348,782	327,156	347,844
Total assets	**$ 29,503,222**	$ 28,844,342	$ 28,890,547	$ 29,577,506	$ 30,781,566
Obligations with maturities of one year or less	**$ 10,978,136**	$ 9,517,750	$ 10,932,929	$ 12,095,042	$ 12,557,028
Obligations with maturities greater than one year	**16,317,679**	17,179,845	15,659,388	15,333,194	16,096,757
Mandatorily redeemable preferred stock	—	—	—	—	225,000
Total liabilities	**27,295,815**	26,697,595	26,592,317	27,428,236	28,878,785
Perpetual preferred stock	**125,250**	125,250	275,250	400,000	400,000
Capital stock and participation certificates	**303,180**	308,972	332,705	405,767	417,333
Additional paid-in-capital	**36,580**	36,580	36,580	—	—
Retained earnings					
Allocated	**692**	726	795	858	871
Unallocated	**1,639,757**	1,577,676	1,481,432	1,218,648	1,052,248
Accumulated other comprehensive income (loss)	**101,948**	97,543	171,468	123,997	32,329
Total shareholders' equity	**2,207,407**	2,146,747	2,298,230	2,149,270	1,902,781
Total liabilities and shareholders' equity	**$ 29,503,222**	$ 28,844,342	$ 28,890,547	$ 29,577,506	$ 30,781,566
Statement of Income Data					
Net interest income	**$ 484,192**	$ 538,058	$ 605,502	$ 596,434	$ 575,216
Provision for (reversal of) loan losses	**(8,451)**	(10,589)	14,946	80,222	40,002
Noninterest income (expense), net	**(112,294)**	(91,311)	(121,946)	(130,754)	(117,819)
Net income	**$ 380,349**	$ 457,336	$ 468,610	$ 385,458	$ 417,395
Key Financial Ratios					
Rate of return on average:					
Total assets	**1.34%**	1.61%	1.63%	1.29%	1.37%
Total shareholders' equity	**16.49%**	19.45%	20.06%	18.14%	22.25%
Net interest income as a percentage of average earning assets	**1.76%**	1.96%	2.19%	2.09%	1.97%
Net (chargeoffs) recoveries to average loans	**0.01%**	(0.06)%	0.01%	(0.33)%	(0.28)%
Total shareholders' equity to total assets	**7.48%**	7.44%	7.95%	7.27%	6.18%
Debt to shareholders' equity (:1)	**12.37**	12.44	11.57	12.76	15.18
Allowance for loan losses to loans	**0.07%**	0.11%	0.22%	0.14%	0.07%
Permanent capital ratio	**21.83%**	22.85%	23.58%	24.27%	21.22%
Total surplus ratio	**21.80%**	22.81%	23.55%	24.24%	21.19%
Core surplus ratio	**19.38%**	19.98%	20.04%	17.08%	13.79%
Collateral ratio	**106.79%**	106.83%	107.03%	106.49%	106.44%
Net Income Distribution					
Cash patronage declared	**$ 315,218**	$ 353,813	$ 187,165	$ 191,060	$ 200,772
Perpetual preferred stock dividend	**1,729**	6,347	17,978	27,413	27,413

MANAGEMENT'S DISCUSSION & ANALYSIS of Financial Condition & Results of Operations

AgFirst Farm Credit Bank (the Bank or AgFirst) is one of the banks of the Farm Credit System (the System), a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Cooperatives are organizations that are owned and controlled by their members who use the cooperatives' products or services. The U.S. Congress authorized the creation of the first System institutions in 1916. The System was created to provide support for the agricultural sector because of its significance to the well-being of the U.S. economy and the U.S. consumer. The mission of the System is to provide sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and certain farm-related businesses. The System does this by making appropriately structured loans to qualified individuals and businesses at competitive rates and providing financial services and advice to those persons and businesses.

The nation is currently served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), each of which has specific lending authorities within its chartered territory. The ACB also has certain additional specific nationwide lending authorities. AgFirst is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of the states of Ohio, Tennessee, Kentucky and Louisiana.

Each FCB and the ACB serves one or more of either Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that originate both long-term and short-term and intermediate-term loans. PCAs, FLCAs and ACAs are collectively referred to as associations. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District (District). The Associations are structured as cooperatives in which each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations, certain Other Financing Institutions (OFIs), other System institutions, and preferred stockholders jointly own AgFirst. As of December 31, 2014, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with FLCA and PCA subsidiaries. The Bank and District Associations are regulated by the Farm Credit Administration (FCA). See Note 14, *Business Combinations*, in the Notes to the Financial Statements for a discussion of recent District Associations' merger activity.

The following commentary reviews the Financial Statements of condition and results of operations of AgFirst as of and for the years ended December 31, 2014, 2013, and 2012. This information should be read in conjunction with the accompanying Financial Statements, the Notes to the Financial Statements and other sections of this Annual Report. The Financial Statements were prepared under the oversight of the Audit Committee of the Bank's Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" included in this Annual Report. See Note 1, *Organization and Operations*, in the Notes to the Financial Statements for a discussion of the operations of AgFirst.

FORWARD-LOOKING INFORMATION

Certain sections of this Annual Report contain forward-looking statements concerning financial information and statements about future economic performance and events, plans and objectives and assumptions underlying these projections and statements. These projections and statements are not based on historical facts but instead represent our current assumptions and expectations regarding our business, the economy and other future conditions. 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. Forward-looking statements can be identified by words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms that are intended to reference future periods.

These statements are not guarantees of future performance and involve certain risks and uncertainties and actual results may differ from those in the forward-looking statements as a result of various factors. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in United States government support of the agricultural industry and the System as a government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving the U.S. government, other GSEs and other financial institutions;
- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the federal government that impact the financial services industry and the debt markets;
- credit, interest rate and liquidity risk inherent in lending activities; and
- changes in assumptions for determining the allowance for loan losses, other than temporary impairment and fair value measurements.

AGRICULTURAL OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES

The Bank's financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Consideration of AgFirst's significant accounting policies is critical to the understanding of the Bank's results of operations and financial position because some accounting policies require complex or subjective judgments and estimates that may affect the value of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management has to make judgments about matters that are inherently uncertain. For a complete discussion of the Bank's significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Financial Statements. The following is a summary of our most critical accounting policies:

- *Allowance for loan losses* — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in the Bank's 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.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and current factors, internal risk ratings, regulatory oversight, and geographic, industry, and other factors.

  In addition to the allowance for loan losses attributable to specific loans, the Bank may also establish a general allowance for loan losses based on management's assessment of risk inherent in the loans in the Bank's portfolio that were not specifically evaluated. In establishing general reserves, factors affecting certain commodity types or industries may be taken into consideration, as well as other factors previously discussed. Certain loan pools purchased from various Associations are analyzed in accordance with the selling Associations' allowance methodologies for assigning general and specific allowances. Allowances are established on these pools based on that analysis after Bank management's determination that the methodologies employed are appropriate.

  Assessing the appropriateness of the allowance for loan losses is a dynamic process. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the level of the allowance for loan losses and have a direct impact on the provision for loan losses and the results of operations.

  The overall adequacy of the allowance for loan losses is validated further through periodic evaluations of the loan portfolio, which generally consider historical charge-off experiences adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, collateral value, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable active market exists. Management utilizes third party valuation services to obtain fair value prices for the majority of the Bank's investment securities. Management also utilizes significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, pension and other postretirement benefit obligations, certain derivatives, certain investment securities and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on the Bank's results of operations.
- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. The Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including the expected long-term rate of return on plan assets and a discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of future benefit obligations. The discount rate for 2014 was selected by reference to analysis and yield curves developed by the plans' actuary and industry norms. The yield curve selected follows the accounting guidance that the basis for discount rates should be higher-quality zero-coupon bonds with durations that match the expected cash flows of the plans that underlie the obligation.

LOAN PORTFOLIO

AgFirst's loan portfolio consists primarily of direct loans to District Associations (Direct Notes), loan participations/syndications purchased, Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to OFIs as shown below at December 31:

AgFirst Loan Portfolio *(dollars in thousands)*	**2014**		**2013**		**2012**	
Direct Notes	$ 14,281,165	68.35%	$ 13,990,178	69.25%	$ 13,833,602	68.45%
Participations/Syndications Purchased, net	4,015,056	19.21	3,726,378	18.45	4,037,770	19.98
Correspondent Lending	2,502,858	11.98	2,401,563	11.89	2,277,400	11.27
Loans to OFIs	95,512	0.46	83,116	0.41	60,479	0.30
Total	$ 20,894,591	100.00%	$ 20,201,235	100.00%	$ 20,209,251	100.00%

The diversification of AgFirst's loan volume by type for each of the past three years at December 31 is shown below:

(dollars in thousands)	**2014**		**2013**		**2012**	
Direct Notes	$ 14,281,165	68.35 %	$ 13,990,178	69.25 %	$ 13,833,602	68.45 %
Rural Residential Real Estate	2,424,554	11.60	2,324,956	11.51	2,186,390	10.82
Production and Intermediate-Term	1,193,281	5.71	1,215,480	6.02	1,299,763	6.43
Real Estate Mortgage	1,024,693	4.90	971,017	4.81	1,093,845	5.41
Processing and Marketing	846,318	4.05	610,065	3.02	715,592	3.54
Energy and Water/Waste Disposal	433,738	2.08	453,361	2.25	488,416	2.42
Loans to Cooperatives	223,074	1.07	202,142	1.00	183,466	0.91
Communication	184,405	0.88	198,546	0.98	207,852	1.03
Farm-Related Business	177,453	0.85	141,530	0.70	128,680	0.64
Loans to OFIs	95,512	0.46	83,116	0.41	60,479	0.30
Other (including Mission Related)	10,398	0.05	10,844	0.05	11,166	0.05
Total	$ 20,894,591	100.00 %	$ 20,201,235	100.00 %	$ 20,209,251	100.00 %

Total loans outstanding were $20.895 billion at December 31, 2014, an increase of $693.4 million, or 3.43 percent, compared to total loans outstanding at December 31, 2013. Loans outstanding at the end of 2013 had decreased $8.0 million, or 0.04 percent, compared to December 31, 2012.

Bank loan demand in 2014 increased due to economic conditions positively impacting borrowers in economically sensitive segments such as forestry and borrowers dependent on non-farm income. Also, loan demand benefitted from improved conditions in specific commodities such as the poultry, cattle, and swine sectors. Future Bank loan demand is difficult to predict; however, it is expected to remain at modest levels in 2015.

Each loan in the Bank's portfolio is classified according to a Uniform Classification System, which is used by all System institutions. Below are the classification definitions.

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

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

AgFirst Total Loans Credit Quality	**2014**	**2013**	**2012**
Acceptable	95.16%	89.00%	91.03%
OAEM	4.40	6.89	3.19
Adverse*	0.44	4.11	5.78
Total	100.00%	100.00%	100.00%

* *Adverse loans include substandard, doubtful, and loss loans.*

The changes in credit quality reflected in the table above were primarily due to changes in credit quality of the Direct Notes which is discussed in the *Direct Notes* section below. Loan portfolio credit quality at the producer level reflected improvement primarily due to the stabilization of economic conditions. Grain prices have declined due to higher than expected inventory and harvest levels. This benefitted the poultry, cattle, and swine sectors but pressured margins of grain producers. Due to the geographic location, District borrowers are net grain consumers. Improved housing starts have positively impacted certain housing-related segments such as forestry and nursery/greenhouse.

A financial assistance agreement between the Bank and an Association was terminated effective October 15, 2014. See Note 14, *Business Combinations*, in the Notes to the Financial Statements for further information.

The credit conditions discussed above directly affect the credit quality of the Bank's participation/syndication loan portfolio. They also affect the credit quality of loan portfolios and earnings performance of the individual District Associations, which impacts the quality of the Bank's Direct Notes. Credit quality is expected to remain stable in 2015 given anticipated economic conditions.

Direct Notes

AgFirst's primary business is to provide funding, operational support, and technology services to District Associations. AgFirst provides a revolving line of credit, referred to as a Direct Note, to each of the District Associations. Each of the Associations funds its earning assets primarily by borrowing under its Direct Note. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association. Each GFA contains minimum borrowing base margin, capital, and earnings requirements that must be maintained by the Association. Refer to Note 1, *Organization and Operations*, in the Notes to the Financial Statements for further discussion.

At December 31, 2014, total Direct Note volume outstanding was $14.281 billion, an increase of $291.0 million, or 2.08 percent, compared to December 31, 2013. Direct Note volume of $13.990 billion at December 31, 2013, decreased $156.6 million, or 1.13 percent, compared to December 31, 2012. See the *Loan Portfolio* section above for the primary reasons for the improved Direct Note volume.

AgFirst provides each Association with core operating systems and support, including a loan origination system, loan accounting and servicing systems, general ledger and related financial accounting systems, and a human resources/payroll system. With AgFirst providing such systems and other services, the Associations are able to achieve operating efficiencies ordinarily afforded to much larger organizations. In addition, having common systems supported by AgFirst provides an opportunity to automate the AgFirst/Association lending process. One of the most significant advantages of this is a match-funding mechanism that automatically creates Direct Note advances that match the repricing and maturity characteristics of each underlying Association loan. The Association's interest rate risk and operational risks are significantly reduced by employing these systems.

Ultimately, the Associations' ability to repay their Direct Note obligations is significantly dependent upon the repayment of loans made to their borrowers. Accordingly, AgFirst's direct and indirect credit exposure depends upon the creditworthiness of both the Associations that are direct borrowers and the underlying borrowers of the Associations whose loans, as well as the other assets of the Associations, secure their Direct Notes.

AgFirst continually monitors the risk-bearing capacity of each Association through a variety of mechanisms, including testing of the reliability of the Association's risk ratings assigned to each of their loans, periodic meetings with the Association's management and board, regular formalized risk assessments, and prior-approval of loan transactions that exceed the Association's delegated lending authority as determined by AgFirst.

All Associations are subject to an annual audit by independent certified public accountants and periodic examination by FCA. Each Association is required by regulatory mandate to perform continuous internal credit, appraisal, and audit reviews. Litigation in which Associations are involved is typically loan related and poses no material threat to their viability.

The following table presents selected statistics related to the credit quality of the Direct Note portfolio including accrued interest at December 31:

Direct Note Credit Quality

	2014		2013		2012	
	% Total	# Total	% Total	# Total	% Total	# Total
Acceptable	94.71%	17	85.96%	14	90.12%	15
OAEM	5.29	2	9.23	4	3.39	2
Adverse*	–	–	4.81	1	6.49	2
Total	100.00%	19	100.00%	19	100.00%	19

* *Adverse loans include substandard, doubtful, and loss loans.*

As of December 31, 2014, seventeen of the nineteen District Associations' Direct Notes, representing 94.71 percent of the Direct Note portfolio, were classified as Acceptable. The remaining two Direct Notes, representing 5.29 percent of the portfolio, were classified as OAEM. There were none classified as adverse.

Presently, collection of the full Direct Note amount due is expected from all Associations in accordance with the contractual terms of the debt arrangements, and no allowance has been recorded for Direct Notes. All assets of the various Associations are pledged as collateral for their respective Direct Notes. In the opinion of management, all Association Direct Notes are adequately collateralized. The risk funds of an Association, including both capital and the allowance for loan losses, also protect the interest of the Bank should a Direct Note default.

As of December 31, 2014, two District Associations with combined total assets of $1.006 billion were operating under written supervisory agreements with the FCA. Those agreements require the District Associations to take corrective actions with respect to certain identified practices including, respectively, one or more of the following: asset quality, earnings and liquidity, senior management, collateral risk management, corporate governance and related items. Also, as of December 31, 2014, one District Association was operating under a special credit agreement pursuant to its GFA as a result of events of default under the GFA. Neither these enforcement actions nor GFA events of default are expected to have a significant adverse impact on the Bank's or District's financial condition or results of operations.

Associations employ a number of risk management techniques to limit credit exposures. Each Association has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to enhance the diversification of their portfolios. Some Associations utilize guarantees from U.S. government agencies/departments, including the Farm Service Agency, the Small Business Administration, and the Federal Agricultural Mortgage Corporation (Farmer Mac), to further limit credit exposures. At December 31, 2014, Associations collectively had $1.666 billion under such government or GSE guarantees, compared to $1.640 billion and $1.701 billion, at December 31, 2013 and 2012, respectively.

At year-end, the combined Associations' loans including accrued interest were classified as follows:

District Associations Credit Quality	2014	2013	2012
Acceptable	93.61%	91.72%	89.12%
OAEM	3.07	3.99	4.57
Adverse*	3.32	4.29	6.31
Total	100.00%	100.00%	100.00%

* *Adverse loans include substandard, doubtful, and loss loans.*

Delinquencies (loans 90 days or more past due) were 0.59 percent of the combined Association total loan assets at year-end 2014 compared to 0.94 percent and 1.59 percent at year-end 2013 and 2012, respectively.

Nonperforming assets for the combined Associations represented 2.35 percent of total loan assets or $423.5 million, compared to 3.06 percent or $528.1 million for 2013, and 4.11 percent or $691.3 million for 2012. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned.

Association net loan charge-offs of $1.5 million, $29.7 million, and $60.0 million were recognized in 2014, 2013, and 2012, respectively. As a percentage of total average loans, net charge-offs for the combined Associations were 0.01 percent for 2014 compared to 0.18 percent and 0.37 percent in 2013 and 2012, respectively. Each Association maintains an allowance for loan losses determined by its management based upon its unique circumstances.

The following table illustrates the risk bearing capacity of the Associations at December 31, 2014:

Association	Regulatory Permanent Capital Ratio	Regulatory Core Surplus Ratio	Regulatory Total Surplus Ratio	Allowance/ Loans
AgCarolina	22.35%	18.58%	18.58%	1.18%
AgChoice	18.14	17.13	17.47	0.67
Ag Credit	20.95	17.71	19.23	0.88
AgGeorgia	25.02	20.92	24.57	0.72
AgSouth	20.00	15.86	19.53	0.82
ArborOne	21.11	18.38	20.71	1.44
Cape Fear	23.30	22.96	22.96	0.68
Carolina	20.54	17.36	19.96	0.48
Central Florida	21.18	18.24	20.96	2.31
Central Kentucky	16.85	15.54	15.54	1.02
Colonial	24.39	23.69	23.69	0.61
Farm Credit of Florida	22.55	22.00	22.00	0.72
Farm Credit of the Virginias	19.91	19.15	19.15	0.79
First South	18.32	16.95	17.62	0.70
MidAtlantic	20.98	20.61	20.61	1.10
Northwest Florida	28.77	26.26	28.46	1.76
Puerto Rico	32.98	32.62	32.62	1.19
River Valley	18.20	16.20	17.33	1.23
Southwest Georgia	17.68	15.52	17.38	1.14

The minimum regulatory capital ratios for System banks and associations are 7.00 percent for the permanent capital ratio, 3.50 percent for the core surplus ratio, and 7.00 percent for the total surplus ratio. See the *Regulatory Ratios* in the *Capital* section below for a discussion of the calculation of the permanent capital, core surplus, and total surplus ratios.

Affiliated Associations serve primarily all or a portion of fifteen states and Puerto Rico. The District's large footprint results in geographic diversity, which is a natural credit risk-reducing factor for AgFirst. The following table illustrates the geographic distribution of the Associations' loan volume outstanding by state for the past three years at December 31:

District Associations

State	2014	2013	2012
North Carolina	17%	17%	16%
Georgia	11	12	12
Virginia	11	11	11
Pennsylvania	9	11	10
Ohio	9	9	8
Florida	8	8	8
Maryland	7	7	7
South Carolina	6	6	6
Alabama	4	4	4
Kentucky	4	4	4
Mississippi	2	2	3
Louisiana	2	2	2
Delaware	2	2	2
West Virginia	2	2	2
Tennessee	1	1	1
Puerto Rico	1	1	1
Texas	1	–	–
New York	1	–	–
Connecticut	1	–	–
Other	1	1	3
Total	100%	100%	100%

Only three states have loan volume representing 10.00 percent or more of the total at December 31, 2014. Commodity diversification, guarantees, and borrowers with significant reliance on non-farm income further mitigate the geographic concentration risk in these states.

The diversity of commodity types and income sources supporting Association loan repayment further mitigates credit risk to AgFirst. The Associations' credit portfolios are comprised of a number of segments having varying, and in some cases complementary, agricultural characteristics. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer. The following table illustrates the aggregate credit portfolio of the Associations by major commodity segments at December 31:

District Associations

	Percent of Portfolio		
Commodity Group	2014	2013	2012
Forestry	14%	15%	15%
Poultry	13	13	14
Field Crops	11	10	11
Cattle	9	8	8
Grain	9	8	7
Corn	7	7	6
Other Real Estate	6	6	6
Dairy	6	6	6
Nursery/Greenhouse	3	3	4
Tree Fruits and Nuts	3	3	3
Cotton	3	3	3
Swine	3	3	3
Rural Home	3	3	3
Processing	2	2	1
Utilities	1	1	1
Other	7	9	9
Total	100%	100%	100%

As illustrated in the above chart, Associations had concentrations of 10.00 percent or greater in only three commodities: forestry, poultry, and field crops. All three commodities have geographic dispersion over the entire AgFirst footprint. Also, many of these borrowers have significant secondary income from off-farm employment by a family member.

Forestry is divided principally into hardwood and softwood production and value-added processing. The timber from hardwood production is further processed into furniture, flooring, and high-grade paper and is generally located at the more northern latitudes and higher elevations of the District. Softwood timber production is typically located in the coastal plains of the AgFirst footprint and is used for building materials for the housing market and pulp to make paper and hygiene products. Timber producers at the Associations range in size from less than fifty acres to thousands of acres, with value-added processing being conducted at sawmills, planer mills, and paper mills.

Poultry concentrations within the Associations are further limited through the number of farm units producing poultry. Poultry concentration is further dispersed as production is segregated among chicken, turkey, and egg production.

The field crops commodity group represents a diverse group of commodities, including fruits, vegetables, and other non-grain crops, which are grown throughout the AgFirst District.

As mentioned previously, loans exceeding an Association's delegated lending authority must be pre-approved by AgFirst. As a result, larger agribusiness loans are typically analyzed by AgFirst's commercial lending staff as well as the Association's own lending staff prior to an Association committing to such loans.

Exposure to losses is reduced further through collateralization and other credit enhancements, including federal government guarantees. Typically, multiple loans to the same borrower are cross-collateralized and cross-defaulted. By law, all long-term loans must be secured by a first lien on real estate with an initial loan to appraised value not exceeding 85.00 percent. As of December 31, 2014, such loans represent over 54.55 percent of District Association loans.

Participations/Syndications

AgFirst has a Capital Markets Unit that purchases and sells loan participations and syndications. The Bank's credit officers work with the Associations to originate loans within the District's territory, provide commercial loan expertise to augment the Associations' staff, as needed, and provide an outlet for loans that exceed Associations' various hold limits. Additionally, the Capital Markets Unit actively pursues the purchase of participations and syndications originated outside of the District's territory by other System institutions, commercial banks, and other lenders. These loans may be held as earning assets of AgFirst or sub-participated to the Associations. The Capital Markets Unit also sells participations outside of the District to manage AgFirst's and the District Associations' loan concentrations and hold positions.

AgFirst's participation volume outstanding increased by 7.75 percent from year-end 2013 to 2014. The increase during 2014 was primarily due to new relationships as well as increased volume from existing customers. Borrower demand in this portfolio is anticipated to reflect modest improvement.

The following table shows total participations/syndications portfolio credit exposures at December 31, 2014, 2013, and 2012.

	AgFirst Participations		
(dollars in thousands)	2014	2013	2012
Participations Purchased	$ 5,135,183	$ 4,651,806	$ 4,940,853
Less: Participations Sold	1,120,127	925,428	903,083
Net Outstanding	4,015,056	3,726,378	4,037,770
Available Unused Commitments	2,796,829	2,750,453	2,513,532
Letters of Credit and Guarantees	74,906	88,762	94,607
Total Exposure	$ 6,886,791	$ 6,565,593	$ 6,645,909

Like the Associations, AgFirst employs a number of management techniques to limit credit risk, including underwriting standards, limits on the amounts of loans purchased from a single originator, and maximum hold positions to a single borrower and commodity. Although the participations/syndications portfolio is comprised of a small number of relatively large loans, it is diversified both geographically and on a commodity basis. Management makes adjustments to credit policy and underwriting standards when appropriate as a part of the ongoing risk management process.

The following table illustrates AgFirst's participation/syndication portfolio by geographic distribution at December 31:

	AgFirst Participations					
(dollars in thousands)	2014		2013		2012	
Florida	$ 500,161	12 %	$ 490,236	13 %	$ 495,472	12 %
Georgia	418,561	10	339,236	9	332,722	8
North Carolina	288,577	7	256,499	7	442,795	11
Texas	270,499	7	160,048	4	149,759	4
New York	156,925	4	136,792	4	160,669	4
California	154,162	4	157,000	4	178,498	4
Colorado	141,369	4	114,320	3	80,255	2
Pennsylvania	138,995	3	152,164	4	184,950	5
Virginia	138,935	3	155,764	4	185,379	5
Washington	117,423	3	69,712	2	76,143	2
Alabama	115,842	3	131,204	3	105,802	3
South Carolina	99,256	3	94,306	3	112,113	3
Missouri	99,194	3	97,583	3	130,287	3
Minnesota	98,272	3	112,874	3	119,251	3
Ohio	97,323	2	135,615	4	157,882	4
Kentucky	97,279	2	98,609	3	105,535	3
New Jersey	95,689	2	75,134	2	63,293	1
Mississippi	94,153	2	118,575	3	110,508	3
Connecticut	91,397	2	99,312	3	99,549	2
Louisiana	90,112	2	97,896	3	102,585	2
Illinois	85,513	2	95,366	3	41,466	1
Oregon	77,668	2	78,413	2	82,118	2
Arkansas	64,189	2	45,635	1	68,163	2
North Dakota	54,746	1	57,641	1	62,684	1
Indiana	51,447	1	26,733	1	29,647	1
Massachusetts	51,149	1	42,684	1	45,097	1
Maryland	34,239	1	42,659	1	10,430	–
Nebraska	33,755	1	8,984	–	37,871	1
Tennessee	33,099	1	40,854	1	54,366	1
Puerto Rico	28,696	1	29,148	1	34,261	1
Iowa	25,678	1	22,722	1	28,758	1
Idaho	4,123	–	10,148	–	20,132	1
Delaware	–	–	–	–	32,743	1
Other	166,630	4	132,512	3	96,587	2
	$ 4,015,056	100 %	$ 3,726,378	100 %	$ 4,037,770	100 %

The following participation/syndication table shows the various major commodity groups in the portfolio and their percentage of the outstanding portfolio volume at December 31:

AgFirst Participations	Percent of Portfolio		
Commodity Group	**2014**	**2013**	**2012**
Forestry	19%	19%	17%
Utilities	16	18	17
Processing	14	13	14
Tree Fruits and Nuts	7	8	7
Cattle	5	3	4
Field Crops	5	4	5
Swine	4	4	4
Poultry	3	4	4
Nursery/Greenhouse	3	3	4
Grain	3	1	2
Dairy	2	2	3
Other Real Estate	2	2	2
Cotton	1	1	1
Corn	1	1	1
Tobacco	1	1	–
Ethanol	–	–	1
Other	14	16	14
Total	100%	100%	100%

The following table represents the participation/syndication credit quality as of December 31:

Participation/Syndication Credit Quality	**2014**	**2013**	**2012**
Acceptable	93.65%	93.14%	89.03%
OAEM	4.09	2.64	4.28
Adverse*	2.26	4.22	6.69
Total	100.00%	100.00%	100.00%

* *Adverse loans include substandard, doubtful, and loss loans.*

Improvement in the credit quality of the participation/syndication portfolio is reflective of the incremental improvement in general economic conditions, including employment, the housing market, and real estate values.

Correspondent Lending

The Correspondent Lending portfolio (Correspondent Lending) consists primarily of first lien residential mortgages. Substantially all loans originated on or before July 31, 2013 in the Correspondent Lending portfolio have guarantees from the Federal National Mortgage Association (Fannie Mae) and/or Farmer Mac, thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par. The Fannie Mae guarantee program ended on July 31, 2013. Subsequent to this date, new loans in this portfolio purchased by the Bank are held without a Fannie Mae guarantee. At December 31, 2014, $2.011 billion (80.4% of the total) of loans in the Correspondent Lending portfolio were guaranteed and $491.8 million (19.6%) were unguaranteed. The Bank has adjusted its methodology of establishing and maintaining the allowance for loan losses related to this portfolio to reflect the discontinuation of the Fannie Mae guarantee program.

The table below illustrates the Correspondent Lending outstanding balance of loans at December 31:

	AgFirst Correspondent Lending					
(dollars in thousands)	2014		2013		2012	
Rural Home Loans – Guaranteed	$ 1,935,624	77.33%	$ 2,143,217	89.24%	$ 2,118,537	93.02%
Part-time Farm Loans – Guaranteed	74,996	3.00	75,075	3.13	89,417	3.93
Agricultural Loans – Guaranteed	470	0.02	515	0.02	562	0.02
Non-guaranteed Loans	491,768	19.65	182,756	7.61	68,884	3.03
Total	$ 2,502,858	100.00%	$ 2,401,563	100.00%	$ 2,277,400	100.00%

Rural home loans are underwritten to conform to Fannie Mae underwriting standards and are guaranteed by Fannie Mae. Part-time farm loans conform to Farmer Mac underwriting standards and are guaranteed by Farmer Mac. During 2014, AgFirst purchased $328.0 million of rural home and part-time farm loans.

AgFirst owned $1.936 billion in guaranteed rural home loans at December 31, 2014. These loans were added to the portfolio prior to the discontinuance of the Fannie Mae guarantee program on July 31, 2013 as discussed above.

AgFirst owned $75.0 million in part-time farm loans at December 31, 2014. Part-time farm loans represent first lien mortgages on homes with property characteristics (such as acreage or agricultural improvements) that may not conform to Fannie Mae standards. These loans are guaranteed by Farmer Mac. The guarantee program for these loans was discontinued by Farmer Mac in 2010, which will result in lower part-time farm loans balances as these loans are repaid.

At December 31, 2014 and 2013, non-guaranteed loans primarily consisted of rural home loans added to the portfolio subsequent to the discontinuation of the Fannie Mae guarantee program on July 31, 2013 as discussed above. Non-guaranteed loans at December 31, 2012 generally consisted of loans being held for eventual delivery to, or guarantee by, Fannie Mae or Farmer Mac. Such loans were secured by first-lien mortgages and were considered high quality assets at time of purchase.

The total volume owned as of December 31, 2014 was $2.503 billion. The total volume serviced but not owned as of December 31, 2014 was $67.6 million. The Correspondent Lending loans are sub-serviced through agreements with third parties.

At December 31, 2014, 99.92 percent of the total Correspondent Lending loans including accrued interest were classified as acceptable and 0.08 percent were classified adverse. There were none classified as OAEM.

Rural home loans, combined with Rural Home Mortgage-backed Securities (see *Mission Related Investments* section below), are limited to 15 percent of total loans outstanding as defined by FCA. Based on December 31, 2014 levels, the Bank has unused capacity of $204.5 million under a total limit of $3.160 billion. The Bank monitors this position and will consider options to reduce the Rural Home asset level with actions including, but not limited to, securitizing and selling a portion of its future rural home loan production. See Note 4, *Investments*, for further discussion of Rural Home Mortgage-backed Securities.

MISSION RELATED INVESTMENTS

The FCA initiated a program in 2004 to allow System institutions to make and hold investments that stimulate economic growth and development in rural areas. The investments are subject to approval by the FCA on a case-by-case basis.

FCA approved the Rural Housing Mortgage-Backed Securities and Rural America Bonds pilot programs as described below. Effective December 31, 2014, the FCA ended these pilot programs approved as part of the Investment in Rural America program.

Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. Although the pilot programs ended, the FCA can consider future requests on a case-by-case basis. The Bank has requested permission from the FCA to extend the program. This request is currently pending.

Rural Housing Mortgage-Backed Securities

Rural Housing Mortgage-Backed Securities (RHMS) must be fully guaranteed by a government agency or GSE. The rural housing loans backing the RHMS must be conforming first-lien residential mortgage loans originated by non-System lenders in "rural areas" as defined by the Farm Security and Rural Investment Act of 2002, or eligible rural housing loans originated by System lenders under FCA regulations. Investment securities at December 31, 2014 included $531.3 million in RHMS classified as held-to-maturity, compared to $445.4 million at December 31, 2013 and $435.5 million at December 31, 2012. See the *Correspondent Lending* section above for discussion regarding volume limitation on RHMS.

Rural America Bonds

In recognition of the economic interdependence between agricultural and rural communities, AgFirst and the Associations seek to safely and soundly invest in debt obligations that support farmers, ranchers, agribusinesses, and their rural communities and businesses. In doing so, AgFirst and the Associations hope to increase the well-being and prosperity of American farmers, ranchers, and rural residents.

The Bank had $129.5 million invested in the program as of December 31, 2014, a decrease of $16.1 million from December 31, 2013. Of the $129.5 million, the Bank had $119.1 million reflected in investment securities and $10.4 million reflected as loans on the Balance Sheet at December 31, 2014.

RISK MANAGEMENT

The organizational structure of AgFirst facilitates communication of operational and risk management issues throughout all layers of management and across all functional areas. The Bank's Executive Committee is responsible for risk management, including:

- Providing overall leadership, vision, and direction for enterprise risk management;
- Establishing an integrated risk management framework for all aspects of risk across the organization;
- Ensuring development of risk management policies, including the quantification of management's risk appetite through specific risk limits;
- Implementing a set of risk metrics and reports, including key risk exposures and early warning indicators;
- Reviewing and approving recommendations for the allocation of capital to business activities based on risk, and optimizing the Bank's risk portfolio through business activities and risk transfer strategies;
- Improving the Bank's risk management readiness through coordination of communication and training programs, risk-based performance measurement and incentives, and other change management programs;
- Assigning responsibility for development of analytical systems and data management capabilities to support the risk management program; and
- Reporting periodically to the Board of Directors on actions taken to strengthen the Bank's system of internal controls.

Overview

The Bank is in the business of making agricultural and other loans that requires accepting certain risks in exchange for compensation for the risks undertaken. Proper management of the risks inherent in AgFirst's business is essential for current and long-term financial performance. Prudent and disciplined risk management includes an enterprise risk management structure to identify emerging risks and evaluate risk implications of decisions and actions taken. The objectives of risk management are to identify and assess risks, and to properly and effectively mitigate, measure, price, monitor, and report risks in the Bank's business activities. Stress testing represents a critical component of the Bank's risk management process. Stress testing is primarily an analysis performed under a wide range of economic scenarios, including unlikely but plausible economic scenarios, and is designed to determine whether the Bank has enough capital to withstand the impact of adverse developments. The Bank is required to perform stress tests with a level of sophistication appropriate to its size and complexity. The Executive Committee provides oversight of the Bank's risk management functions through an integrated management committee structure, including the Bank's Asset/Liability Management Committee (ALCO), Loan Committee, and Operations Committee.

Types of risk to which the Bank has exposure include:

- *structural risk* — risk inherent in the business and related to the System structures comprised of interdependent networks of cooperative lending institutions,
- *credit risk* — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed,
- *interest rate risk* — risk that changes in interest rates may adversely affect the Bank's operating results and financial condition,
- *liquidity risk* — risk arising from the inability to meet obligations when they come due without incurring unacceptable losses, including the ability to access the debt market,
- *operational risk* — risk of loss resulting from inadequate or failed internal processes or systems, errors by employees, fraud, or external events,
- *reputational risk* — risk of loss resulting from events, real or perceived, that shape the image of the Bank, the System, or any of its entities, including the impact of investors' perceptions about agriculture and rural financing, the reliability of Bank or System financial information, or the overt actions of any System institution, and
- *political risk* — risk of loss of support for the System and agriculture by federal and state governments

Structural Risk Management

Structural risk results from the fact that AgFirst, along with its related Associations, is part of the System, which is comprised of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. Because System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. The Federal Farm Credit Banks Funding Corporation (Funding Corporation) provides for the issuance, marketing, and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The System banks fund association loans with Systemwide debt. Refer to Note 6, *Debt*, in the Notes to the Financial Statements for further discussion. The banks are jointly and severally liable for the repayment of Systemwide Debt Securities, exposing each bank to the risk of default of the others. Although capital at the association level reduces the banks' credit exposures with respect to their related associations, that capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements executed by and among the banks— the Amended and Restated Contractual Interbank Performance Agreement (CIPA) and the Second Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated that measures the financial condition and performance of each district using various ratios that take into account each district's and bank's capital, asset quality, earnings, interest-rate risk, and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each district must achieve and maintain. The CIPA also establishes monetary penalties if the performance standard is not met. These penalties will occur at the same point at which a bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures for the banks that provide operational oversight and control over a bank's access to System funding if the creditworthiness of the bank declines below certain agreed-upon levels. The MAA provides for the identification and resolution of individual bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions for each bank's participation in each issuance of Systemwide Debt Securities.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in outstanding loans, letters of credit, unfunded loan commitments, the investment portfolio and derivative counterparty credit exposures. The Bank manages credit risk associated with lending activities through an assessment of the credit risk profile of individual obligors. The Bank sets underwriting standards and lending policies consistent with FCA regulations, which provide direction to loan officers and are approved by the board of directors.

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

The credit risk rating process for loans uses a two-dimensional loan rating structure, incorporating a 14-point risk rating scale to identify and track a borrower's probability of default and a separate scale addressing loss given default. The loan rating structure reflects estimates of loss through two components, borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

Through their participation in loans or interests in loans to/from other institutions within the System and outside the System, the Bank and District Associations limit their exposure to both borrower and commodity concentrations. This also allows the Bank and District Associations to manage growth and capital and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments. However, due to the geographic location of the District and the resulting types of agriculture, government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

As a result of the improved economy and the Bank's continued efforts to resolve problem assets, the Bank's high-risk assets have declined in 2014 and 2013 and continue to be a small percentage of the total loan volume and total assets. High-risk assets, including accrued interest, at December 31 are detailed in the following table:

(dollars in thousands)	2014	2013	2012
AgFirst High-risk Assets			
Nonaccrual loans	$ 49,166	$ 59,594	$ 80,208
Restructured loans	15,588	8,800	4,444
Accruing loans 90 days past due	2,688	2,215	2,464
Total high-risk loans	67,442	70,609	87,116
Other property owned	2,808	9,621	19,477
Total high-risk assets	$ 70,250	$ 80,230	$ 106,593
Ratios			
Nonaccrual loans to total loans	0.24%	0.30%	0.40%
High-risk assets to total assets	0.24%	0.28%	0.37%

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the Bank at December 31, 2014 were $49.2 million compared to $59.6 million at December 31, 2013. Nonaccrual loans decreased $10.4 million during 2014 due primarily to repayments of $20.7 million and Correspondent Lending loans sold to a guarantor (see *Correspondent Lending* section above) of $12.0 million, partially offset by $18.0 million of loan balances transferred to nonaccrual status and $5.2 million of advances on nonaccrual loans. The ten largest nonaccrual borrower relationships accounted for 85.78 percent of the total nonaccrual balance. At December 31, 2014, total nonaccrual loans were primarily classified in the forestry (29.30 percent of the total), tree fruits and nuts (28.76 percent), and nursery/greenhouse (22.31 percent) segments. Nonaccrual loans were 0.24 percent of total loans outstanding at December 31, 2014 compared to 0.30 percent and 0.40 percent at December 31, 2013 and 2012, respectively.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank. TDRs decreased $1.5 million since December 31, 2013 and totaled $35.4 million at December 31, 2014. TDRs were comprised of $15.6 million of accruing restructured loans and $19.8 million of nonaccrual restructured loans. Restructured loans were primarily in the nursery/greenhouse (32.36 percent of the total), forestry (18.86 percent), tree fruits and nuts (18.44 percent), and other real estate (12.16 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank (or a lender group) in satisfaction of secured loans. OPO is generally comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $6.8 million since December 31, 2013 and totaled $2.8 million at December 31, 2014. The decrease was due to OPO disposals of $6.6 million and net write-downs of $1.9 million. The largest disposal was an ethanol plant totaling $2.3 million. Offsetting this decrease were transfers from nonaccrual of $1.7 million. The two largest OPO holdings at December 31, 2014 were land holdings totaling $1.8 million (63.05 percent of the total).

ALLOWANCE FOR LOAN LOSSES

The Bank maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The Bank increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan is uncollectible. Any subsequent recoveries are added to the allowance. Impaired and certain other significant loans were reviewed individually to determine that appropriate reserves were in place at year end. All other loans were analyzed collectively and general reserves were established based on that collective analysis including the risk rating and potential for loss given default of the underlying loans.

The following table presents the activity in the allowance for loan losses for the most recent three years at December 31:

AgFirst Allowance for Loan Losses Activity:

(dollars in thousands)	2014	2013	2012
Balance at beginning of year	$ 22,908	$ 44,539	$ 27,714
Charge-offs:			
Real Estate Mortgage	(46)	(1,040)	(5,186)
Production and Intermediate-Term	(326)	(8,455)	(4,329)
Agribusiness	–	(3,782)	(42)
Energy and Water/Waste Disposal	–	–	–
Rural Residential Real Estate	(188)	(413)	(212)
Other (including Mission Related)	–	–	(365)
Total charge-offs	(560)	(13,690)	(10,134)
Recoveries:			
Real Estate Mortgage	492	2,091	3,689
Production and Intermediate-Term	908	190	8,318
Agribusiness	–	320	–
Other (including Mission Related)	238	47	6
Total recoveries	1,638	2,648	12,013
Net (charge-offs) recoveries	1,078	(11,042)	1,879
Provision for (reversal of allowance for) loan losses	(8,451)	(10,589)	14,946
Balance at end of year	$ 15,535	$ 22,908	$ 44,539
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.01	(0.06)%	0.01%

The allowance for loan losses was $15.5 million at December 31, 2014, as compared with $22.9 million and $44.5 million at December 31, 2013 and 2012, respectively. The decrease during 2014 of $7.4 million was due primarily to the reversal of provision expense of $8.5 million and charge-offs of $559 thousand, offset by recoveries of $1.6 million. The largest provision reversals related to one loan in the nursery/greenhouse segment ($1.6 million) and two loans in the forestry segment ($2.5 million). See *Provision for Loan Losses* section below for details regarding loan loss provision expense and reversals. During 2014, the forestry segment accounted for the majority of charge-offs (66.38 percent of the total) and recoveries (63.43 percent of the total). The allowance at December 31, 2014 included specific reserves of $3.9 million (25.35 percent of the total) primarily related to credits for participation borrower relationships within the nursery/greenhouse and forestry industries and $11.6 million of general reserves (74.65 percent) attributed primarily to participation loans. The general reserves at December 31, 2014 included $907 thousand of allowance provided by the Bank for loans in the Correspondent Lending portfolio purchased after July 31, 2013 which are being held without a Fannie Mae guarantee. See further discussion in the *Correspondent Lending* section above. None of the allowance relates to the Direct Note portfolio. See further discussion in the *Direct Notes* section above. The total allowance at December 31, 2014 was comprised primarily of reserves for forestry (15.78 percent of the total), nursery/greenhouse (14.97 percent), utilities (12.71 percent), and tree fruits and nuts (9.62 percent) segments. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information. The allowance for loan losses by loan type for the most recent three years at December 31 is presented in the following table:

AgFirst Allowance for Loan Losses by Loan Type

(dollars in thousands)	2014	2013	2012
Real Estate Mortgage	$ 5,109	$ 9,681	$ 9,548
Production and Intermediate-Term	4,526	8,763	26,933
Agribusiness	2,779	1,933	6,510
Communication	579	497	405
Energy and Water/Waste Disposal	1,332	823	764
Rural Residential Real Estate	918	1,052	1
Other (including Mission Related)	292	159	378
Total	$ 15,535	$ 22,908	$ 44,539

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators at December 31 is shown below:

	2014	2013	2012
Allowance for loan losses to loans	0.07%	0.11%	0.22%
Allowance for loan losses to nonaccrual loans	31.60%	38.44%	55.53%
Allowance for loan losses to participation loans and Correspondent Lending loans	0.24%	0.37%	0.71%

Improved asset quality positively impacted the allowance for loan losses. The financial positions of the Bank and District Associations' borrowers have generally remained strong as farmers' net cash income has been at favorable levels. Due to these factors combined with management's emphasis on underwriting standards, the credit quality of the Bank loan portfolio has remained sound. Periods of uncertainty in the general economic environment create the potential for prospective risks in the loan portfolio. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements and the *Significant Accounting Policies* section above for further information concerning the allowance for loan losses.

Interest Rate Risk Management

Interest rate risk is the risk of loss of future earnings or long-term market value of equity that may result from changes in interest rates. The objective of interest rate risk management is to generate a reliable level of net interest income in any interest rate environment. AgFirst uses a variety of analytical techniques to manage the complexities associated with offering numerous loan options. Interest rate sensitivity gap analysis is used to monitor the repricing characteristics of AgFirst's interest-earning assets and interest-bearing liabilities. Simulation analysis is used to determine the potential change in net interest income and in the market value of equity under various possible future market interest rate environments.

AgFirst and the District Associations adhere to a philosophy that loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or boards of directors. Therefore, District Association variable rate and adjustable rate loans are generally indexed to market rates, and fixed rate loans are priced based on market rates. Loan products offered by the Associations include prime-indexed variable rate loans, LIBOR-indexed variable rate loans, one-, three-, and five-year Treasury-indexed adjustable rate loans, and fixed rate loans. Variable rate and adjustable rate loans are offered with or without caps. Terms are available for up to 30 years. A variety of repayment options are offered, with the ability to pay on a monthly, quarterly, semi-annual or annual frequency. In addition, customized repayment schedules may be negotiated to fit a borrower's unique circumstances.

The following tables represent AgFirst's projected change in net interest income and market value of equity for various rate movements as of December 31, 2014:

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
+4.0% Shock	$460,983	2.35%
+2.0% Shock	$466,843	3.66%
Base line	$450,378	–%
-50% of 3M Tbill **	$449,955	-0.09%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities*	Equity*	% Change
Book Value	$29,503,222	$27,421,065	$2,082,157	– %
+4.0% Shock	$26,935,066	$25,496,383	$1,438,683	-35.70%
+2.0% Shock	$28,313,818	$26,437,392	$1,876,426	-16.13%
Base line	$29,692,324	$27,454,896	$2,237,428	– %
-50% of 3M Tbill **	$29,698,540	$27,459,681	$2,238,859	0.06%

* *For interest rate risk management, the $125.3 million perpetual preferred stock is included in liabilities rather than equity.*

** *When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock equal to one-half of the three-month Treasury bill rate.*

The following table sets forth the repricing characteristics of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2014. The amount of assets and liabilities shown in the table, which reprice or mature during a particular period, were determined in accordance with the earlier of term-to-repricing or contractual maturity, anticipated prepayments, and, in the case of liabilities, the exercise of call options.

	Repricing/Maturity Gap Analysis				
(dollars in thousands)	**0 to 6 months**	**6 months to 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
Floating Rate Loans					
Adjustable/Indexed Loans	$ 6,010,151	$ 15,741	$ 2,112	$ –	$ 6,028,004
Fixed Rate Loans					
Fixed Rate Loans	21,343	17,951	61,978	22,451	123,723
Fixed Rate Prepayable	3,506,755	2,409,625	6,000,206	2,777,112	14,693,698
Nonaccrual Loans					
Nonaccrual Loans	–	–	–	49,166	49,166
Total Loans	**9,538,249**	**2,443,317**	**6,064,296**	**2,848,729**	**20,894,591**
Total Investments *	**4,159,148**	**1,122,270**	**2,071,448**	**285,920**	**7,638,786**
TOTAL INTEREST EARNING ASSETS	**$ 13,697,397**	**$ 3,565,587**	**$ 8,135,744**	**$ 3,134,649**	**$ 28,533,377**
Interest-Bearing Liabilities					
Systemwide bonds and notes	$ 10,749,404	$ 6,472,000	$ 9,268,105	$ 357,737	$ 26,847,246
Interest rate swaps	250,000	(100,000)	(150,000)	–	–
TOTAL INTEREST-BEARING LIABILITIES	**$ 10,999,404**	**$ 6,372,000**	**$ 9,118,105**	**$ 357,737**	**$ 26,847,246**
Interest Rate Sensitivity Gap	**$ 2,697,993**	**$ (2,806,413)**	**$ (982,361)**	**$ 2,776,912**	
Sensitivity Gap as a % of Total Earning Assets	9.46%	-9.84%	-3.44%	9.73%	
Cumulative Gap	$ 2,697,993	$ (108,420)	$ (1,090,781)	$ 1,686,131	
Cumulative Gap as a % of Total Earning Assets	9.46%	-0.38%	-3.82%	5.91%	
Rate Sensitive Assets/Rate Sensitive Liabilities	1.25	0.56	0.89	8.76	

** includes cash equivalents*

At December 31, 2014, the Cumulative Repricing/Maturity Gap position of the Bank was asset sensitive out to six months as repricing/maturing assets exceeded liabilities that mature or reprice during that time period. Asset sensitivity implies an increase in net interest income in rising interest rate scenarios and lower net interest income in falling interest rate scenarios. However, the Repricing/Maturity Gap Analysis is a "point in time" view and is representative of the interest rate environment at December 31, 2014. The Repricing/Maturity Gap Analysis must be used with other analysis methods as the maturity and repricing attributes of balance sheet accounts react differently in changing interest rate environments. During a period of rising interest rates, call options on fixed rate debt are not exercised and the debt terms extend to reflect the longer original maturity dates. Prepayment optionality on fixed rate assets also slows as the economic incentive for borrowers to refinance decreases and extends the asset's term.

To supplement the Repricing/ Maturity Gap Analysis the Bank utilizes financial simulation modeling. The simulations reflected an increase in net interest income in both rising interest rates scenarios. However the level of sensitivity was low with the increases less than a 4.0 percent change. Falling interest rate scenarios reflect very low impact to net interest income. Market value of equity reflected a negative sensitivity in rising interest rate scenarios due to the Bank's practice of utilizing equity as a long-term funding source. When equity is used as long term funding, the market value behaves similarly to a fixed rate security. Rising interest rates result in a loss of market value. However, the negative 16.13 percent market value of equity sensitivity for a rising interest rate scenario was within the Bank's targeted operating range and appropriate for this funding structure. The Bank's sensitivity to falling interest rates was not significantly impacted due to the current low level of interest rates.

At December 31, 2014, AgFirst had outstanding interest rate swaps with notional amounts totaling $250.0 million. These derivative transactions were executed to create synthetic floating-rate debt to achieve a lower cost of funding. The Bank may under certain conditions also use derivatives for asset/liability management purposes to reduce interest rate risk.

AgFirst policy prohibits the use of derivatives for speculative purposes. See Note 15, *Derivative Financial Instruments and Hedging Activities*, in the Notes to the Financial Statements for additional information. The following table shows the activity in derivatives during the year ended December 31, 2014:

Notional amounts *(dollars in millions)*	**Receive Fixed**	**Forward Contracts**
Balance at December 31, 2013	$ 250	$ –
Additions	–	13
Maturities/amortizations	–	(12)
Terminations	–	–
Balance at December 31, 2014	$ 250	$ 1

The following table provides information about derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below represents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates.

December 31, 2014 (dollars in millions)	Maturities of Interest Rate Derivative Products and Other Financial Instruments 2015	2016	2017	2018	2019	2020 and after	Total	Fair Value
Systemwide Debt Securities:								
Fixed rate	$ 7,659	$ 3,182	$ 2,613	$ 1,875	$ 1,636	$ 3,943	$ 20,908	$ 20,866
Weighted average interest rate	0.28%	0.76%	1.04%	1.39%	1.62%	2.47%	1.06%	
Variable rate	2,900	1,812	1,174	25	28	–	5,939	5,933
Weighted average interest rate	0.13%	0.17%	0.20%	0.20%	0.20%	–%	0.16%	
Derivative Instruments:								
Receive fixed swaps								
Notional value	$ 100	$ 100	$ 50	$ –	$ –	$ –	$ 250	$ 16
Weighted average receive rate	5.01%	5.18%	4.95%	–%	–%	–%	5.07%	
Weighted average pay rate	0.81%	1.55%	2.16%	–%	–%	–%	1.38%	
Total notional value	$ 100	$ 100	$ 50	$ –	$ –	$ –	$ 250	$ 16
Total weighted average rates on swaps:								
Receive rate	5.01%	5.18%	4.95%	–%	–%	–%	5.07%	
Pay rate	0.81%	1.55%	2.16%	–%	–%	–%	1.38%	

Liquidity Risk Management

Liquidity risk management is necessary to ensure the Bank's ability to meet its financial obligations. One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several lines of credit with commercial banks as well as securities repurchase agreement facilities.

Cash, Cash Equivalents and Investments

As of December 31, 2014, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

Eligible liquidity investments are classified according to three liquidity quality levels with level 1 being the highest. The first 15 days of minimum liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of minimum liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3 securities. Level 3 consists primarily of U.S. agency investments. Additionally, a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve is set to provide coverage to at least 120 days.

At December 31, 2014, AgFirst met all individual level criteria and had a total of 222 days of maturing debt coverage. The Bank's cash and cash equivalents position provided 20 days of the total liquidity coverage. Investment securities fully backed by the U.S. government provided an additional 189 days of liquidity. An additional 13 days of coverage were provided by a supplemental liquidity buffer. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

Cash, cash equivalents and investment securities as of December 31, 2014 totaled $8.261 billion compared to $8.337 billion and $8.358 billion at December 31, 2013 and 2012, respectively.

AgFirst's cash, cash equivalents and investment portfolio consisted of the following security types as of December 31:

(dollars in thousands)	AgFirst Cash, Cash Equivalents and Investment Securities 2014		2013		2012	
Investment Securities						
Available-for-Sale						
U.S. Govt. Guaranteed	$ 3,859,206	52.05%	$ 4,603,072	64.35%	$ 5,000,613	66.81%
U.S. Govt. Agency Guaranteed	2,415,531	32.58	1,747,620	24.43	1,644,227	21.97
Non-Agency CMOs	153,011	2.06	173,486	2.43	204,699	2.73
Asset-Backed Securities	326,671	4.41	38,798	0.54	33,390	0.45
Total Available-for-Sale	$ 6,754,419	91.10%	$ 6,562,976	91.75%	$ 6,882,929	91.96%
Held to Maturity						
Rural Housing U.S. Govt. Agency Guaranteed	$ 531,284	7.17%	$ 445,380	6.23%	$ 435,534	5.82%
Farmer Mac Guaranteed	4,015	0.05	4,558	0.06	6,497	0.09
Other Mission Related Investments	124,221	1.68	139,874	1.96	159,451	2.13
Total Held to Maturity	659,520	8.90	589,812	8.25	601,482	8.04
Total Investment Securities	$ 7,413,939	100.00%	$ 7,152,788	100.00%	$ 7,484,411	100.00%
Cash and Cash Equivalents						
Cash	$ 622,503	73.46%	$ 1,038,870	87.76%	$ 723,576	82.87%
Repos	224,847	26.54	144,885	12.24	149,589	17.13
Total Cash and Cash Equivalents	$ 847,350	100.00%	$ 1,183,755	100.00%	$ 873,165	100.00%
Total Investment Securities and Cash and Cash Equivalents	$ 8,261,289		$ 8,336,543		$ 8,357,576	

Cash and cash equivalents, which decreased $336.4 million from December 31, 2013 to a total of $847.4 million at December 31, 2014, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings from a rating agency. Incremental movements in cash balances are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

FCA regulations provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its total loans outstanding. These investments serve to provide liquidity to the Bank's operations, to manage short-term funds, and to manage interest rate risk. AgFirst maintains an investment portfolio for these purposes comprised primarily of short-duration, high-quality investments. At year-end 2014, the Bank's eligible available-for-sale investments were 32.33 percent of the total loans outstanding.

Investment securities totaled $7.414 billion, or 25.13 percent of total assets at December 31, 2014, compared to $7.153 billion, or 24.80 percent, as of December 31, 2013. Investment securities increased $261.2 million, or 3.65 percent, compared to December 31, 2013. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines. In order to maintain the portfolio size within revised regulatory limits, during the quarter ended March 31, 2013, the Bank sold $114.6 million of agency mortgage- backed securities which resulted in a gain of $7.6 million.

Investment securities classified as being available-for-sale totaled $6.754 billion at December 31, 2014. Available-for-sale investments included $3.859 billion in U.S. government guaranteed securities, $2.416 billion in U.S. government agency guaranteed securities, $153.0 million in non-agency collateralized mortgage obligations (CMOs), and $326.7 million in asset-backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain Bank ineligible securities are risk weighted between 50 percent and 200 percent, instead of 20 percent which is applicable to eligible non-agency securities, and other securities are deducted completely from the calculation. The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating by the Nationally Recognized Statistical Rating Organizations (NRSROs) and requires System institutions to provide notification to FCA when a security becomes ineligible. Ineligible securities risk weighted between 50 percent and 200 percent had a fair value of $94.2 million and amortized cost of $75.2 million at December 31, 2014. Ineligible securities deducted completely from both capital and risk adjusted assets based on the extent of their below investment grade rating from NRSROs had a fair value of $41.0 million and amortized cost of $45.3 million at December 31, 2014. The fair value and amortized cost of ineligible non-agency reperformer CMO securities covered by Federal Housing Administration insurance, and therefore risk weighted at the standard 20 percent, was $51.4 million and $58.2 million, respectively, at December 31, 2014. See the *Regulatory Ratios* section below for further discussion of the regulatory ratios. In addition, all ineligible investments, except non-agency reperformer CMOs which meet certain conditions, are excluded from liquidity coverage as defined above.

AgFirst also maintains a portfolio of investments that are not held for liquidity purposes and are accounted for as a held-to-maturity portfolio. These investments are authorized by FCA regulations that allow investments in Farmer Mac securities and also in specific investments approved by the FCA as Mission Related Investments. The vast majority of this portfolio is comprised of Mission Related Investments for a program to purchase RHMS, which when combined with eligible rural home loans, must not exceed 15.00 percent of total outstanding loans. Investment securities classified as being held-to-maturity totaled $659.5 million at December 31, 2014. As discussed previously, the FCA ended each Mission Related Investment pilot program effective December 31, 2014, but can consider future requests on a case-by-case basis. See *Mission Related Investments* section above.

Net unrealized gains related to investment securities were $107.6 million at December 31, 2014, compared to $100.7 million at December 31, 2013. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The Bank performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the Bank recognized other-than-temporary credit related impairment of $1.5 million during the year ended December 31, 2014, which was included in Net Other-Than-Temporary Impairment Losses in the Statements of Income. See Note 2, *Summary of Significant Accounting Policies*, and Note 4, *Investments,* in the Notes to the Financial Statements for further information.

Systemwide Debt Securities

The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America. The implied link between the credit rating of the System and the U.S. government, given the System's status as a GSE and continued concerns regarding the government's borrowing limit and budget imbalances, could pose risk to the System in the future.

AgFirst's primary source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities, and to meet other obligations.

The System does not have a guaranteed line of credit from the U.S. Treasury or the Federal Reserve. However, the Farm Credit System Insurance Corporation (FCSIC) has an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank could advance funds to the FCSIC. Under its existing statutory authority, the FCSIC may use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to $10 billion and terminates on September 30, 2015, unless otherwise renewed. The decision whether to seek funds from the Federal Financing Bank is at the discretion of the FCSIC. Each funding obligation of the Federal Financing Bank is subject to various terms and conditions and, as a result, there can be no assurance that funding would be available if needed by AgFirst or the System.

Currently, Standard & Poor's Ratings Services, Moody's Investor Service and Fitch Ratings have assigned long-term debt ratings for the System of AA+, Aaa, and AAA and short-term debt ratings of A-1+, P-1, and F1, respectively. In October, 2013, Standard & Poor's Ratings Services downgraded the System's long-term debt to AA+ as a result of a downgrade to the U.S. sovereign rating, while leaving the short-term rating unchanged. These rating agencies base their ratings on many quantitative and qualitative factors, including the System's status as a government-sponsored enterprise. Negative changes to the System's credit ratings could reduce earnings by increasing debt funding costs, and could also have a material adverse effect on liquidity, the ability to conduct normal business operations, and the Bank's overall financial condition and results of operations. However, AgFirst anticipates continued access to funding necessary to support the District's and Bank's needs.

AgFirst's year-to-date average balance of Systemwide Debt Securities at December 31, 2014, was $25.860 billion. At December 31, 2014, AgFirst had $26.847 billion in total System debt outstanding compared to $26.225 billion at December 31, 2013 and $26.287 billion at December 31, 2012. Total interest-bearing liabilities increased slightly primarily due to additional funding needs related to modest increases in loans and liquidity investments as discussed elsewhere in this report.

AgFirst's participation in outstanding Systemwide Debt Securities as of December 31, 2014 is shown in the following table:

	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
			(dollars in thousands)			
2015	$ 6,525,411	0.29%	$ 4,032,590	0.15%	$ 10,558,001	0.24%
2016	4,994,565	0.55	–	–	4,994,565	0.55
2017	3,786,891	0.78	–	–	3,786,891	0.78
2018	1,900,052	1.38	–	–	1,900,052	1.38
2019	1,664,239	1.60	–	–	1,664,239	1.60
2020 and after	3,943,498	2.47	–	–	3,943,498	2.47
Total	$ 22,814,656	0.99%	$ 4,032,590	0.15%	$ 26,847,246	0.87%

In the preceding table, weighted average interest rates include the effect of related derivative financial instruments.

Refer to Note 6, *Debt*, in the Notes to the Financial Statements, for additional information related to debt.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. AgFirst's and the Associations' boards of directors are required, by regulation, to adopt internal control policies that provide adequate direction to their respective institutions in establishing effective controls over and accountability for operations, programs, and resources. The policies must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess an institution's assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In addition, AgFirst has implemented a Risk Management Policy to ensure that business exposures to risk are identified, measured and controlled, using the most effective and efficient methods to mitigate such exposures. AgFirst's risk management structure was designed to ensure that an effective enterprise-wide risk management program is in place. Exposure to operational risk is typically identified with the assistance of senior management, and internal audit plans are developed with higher risk areas receiving more attention. AgFirst's operations rely on the secure processing, transmission and storage of confidential information in its computer systems and networks. Although AgFirst believes that it has robust information security procedures and controls, its technologies, systems, networks and customers' devices may be the target of cyber-attacks or information security breaches. Failure in or breach of AgFirst's operational or security systems or infrastructure, or those of its third party vendors and other service providers, including as a result of cyber-attacks, could disrupt AgFirst's businesses or the businesses of its customers, result in the unintended disclosure or misuse of confidential or proprietary information, damage the Bank's reputation, increase costs, and cause losses.

No control system, no matter how well designed and operated, can provide absolute assurance that the objectives of the control systems are met. Also, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud or errors can be detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by individual acts of some persons, collusion of two or more people, or management override of the control. The design of any system of controls also is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may be inadequate because of changes in conditions, or compliance with policies or procedures may deteriorate.

Reputational Risk Management

Reputation risk is defined as the negative impact resulting from events, real or perceived, that shape the image of the Bank, System or any of its entities. Such risks include impacts related to investors' perceptions about agriculture, the reliability of the Bank, System, or other System institution financial information or overt actions by the Bank or any other System institution. Entities that serve the System at the national level, including the Coordinating Committee, the Presidents' Planning Committee and The Farm Credit Council, will communicate guidance to the System for reputational issues that have broader consequences for the System as a whole. These entities support those business and other practices that are consistent with our mission.

Political Risk Management

Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government. System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that impacts the System directly, such as changes to the Farm Credit Act of 1971, as amended (the Farm Credit Act), or indirectly, such as agricultural appropriations bills. However, government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

The District addresses political risk by actively supporting the Farm Credit Council, which is a full-service, federal trade association representing the System before Congress, the Executive Branch, and others. The Council provides the mechanism for "grassroots" involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, the District takes an active role in representing the individual interests of System institutions and their borrowers before Congress. In addition to the Farm Credit Council, each district has its own Council, which is a member of the Farm Credit Council. The district Councils represent the interests of their members on a local and state level, as well as on a federal level.

RESULTS OF OPERATIONS

Net Income

AgFirst net income totaled $380.3 million for the year ended December 31, 2014, a decrease of $77.0 million from 2013. Net income of $457.3 million for the year ended December 31, 2013 was a decrease of $11.3 million from 2012. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Change in Net Income *(dollars in thousands)*	**Year Ended December 31, 2014**	**2013**
Net income (for prior year)	$ 457,336	$ 468,610
Increase (decrease) due to:		
Total interest income	(41,409)	(79,741)
Total interest expense	(12,457)	12,297
Net interest income	(53,866)	(67,444)
Provision for loan losses	(2,138)	25,535
Noninterest income	(13,053)	35,608
Noninterest expense	(7,930)	(4,973)
Total increase (decrease) in net income	(76,987)	(11,274)
Net income	$ 380,349	$ 457,336

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	**For the Year Ended December 31, 2014**	**2013**	**2012**
Return on average assets	1.34%	1.61%	1.63%
Return on average shareholders' equity	16.49%	19.45%	20.06%
Net interest income as a percentage of average earning assets	1.76%	1.96%	2.19%
Operating expense as a percentage of net interest income and noninterest income	24.83%	20.43%	17.87%
Net (charge-offs) recoveries to average loans	0.01%	(0.06)%	0.01%

The first three ratios above have declined in 2014 primarily due to a decrease in net interest income. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expense excluding losses (gains) from other property owned. This ratio was also negatively impacted by the decline in net interest income. The net (charge-offs) recoveries ratio has improved in 2014 due to provision recoveries. See *Allowance for Loan Losses, Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Interest Income

Total interest income for the year ended December 31, 2014 was $693.8 million, a decrease of $41.4 million, as compared to the same period of 2013. Total interest income for 2013 was $735.2 million, a decrease of $79.7 million, as compared to the same period of 2012. The decrease in both years was primarily the result of lower earning asset yields. The average yield on interest earning assets decreased 16 basis points in 2014 and 27 basis points in 2013. For 2014, a modest increase in average earning assets, as discussed elsewhere in this report, slightly offset the impact of lower yields.

The following table illustrates the impact of volume and yield changes on interest income:

Net Change in Interest Income *(dollars in thousands)*	**Year Ended December 31, 2014-2013**	**2013-2012**
Current year increase (decrease) in average earning assets	$ 115,827	$ (205,909)
Prior year average yield	2.68%	2.95%
Interest income variance attributed to change in volume	3,108	(6,078)
Current year average earning assets	27,517,146	27,401,319
Current year increase (decrease) in average yield	(0.16)%	(0.27)%
Interest income variance attributed to change in yield	(44,517)	(73,663)
Net change in interest income	$ (41,409)	$ (79,741)

Interest Expense

Total interest expense for the year ended December 31, 2014 was $209.6 million, an increase of $12.5 million, as compared to the same period of 2013. Total interest expense for the year ended December 31, 2013 was $197.2 million, a decrease of $12.3 million, as compared to the same period of 2012. The increase in 2014 was primarily due to higher rates paid on System debt obligations while the decrease in 2013 was primarily attributed to the decrease in average rates paid on System debt obligations. For further discussion, see *Net Interest Income* section below.

The following table illustrates the impact of volume and rate changes on interest expense:

Net Change in Interest Expense *(dollars in thousands)*	**Year Ended December 31, 2014-2013**	**2013-2012**
Current year increase (decrease) in average interest-bearing liabilities	$ (23,215)	$ (452,633)
Prior year average rate	(0.76)%	0.80%
Interest expense variance attributed to change in volume	(177)	(3,600)
Current year average interest-bearing liabilities	25,860,798	25,884,013
Current year increase (decrease) in average rate	0.05%	(0.04)%
Interest expense variance attributed to change in rate	12,634	(8,697)
Net change in interest expense	$ 12,457	$ (12,297)

Net Interest Income

Net interest income decreased from 2013 to 2014 and from 2012 to 2013, as illustrated by the following table:

AgFirst Analysis of Net Interest Income
Year Ended December 31,

(dollars in thousands)	2014			2013			2012		
	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield	Avg. Balance	Interest	Avg. Yield
Loans	$ 20,196,691	$ 566,546	2.81%	$ 19,910,886	$ 589,573	2.96%	$ 19,942,601	$ 631,806	3.17%
Cash & investments	7,320,455	127,276	1.74	7,490,433	145,658	1.94	7,664,627	183,166	2.39
Total earning assets	27,517,146	693,822	2.52	27,401,319	735,231	2.68	27,607,228	814,972	2.95
Interest-bearing liabilities	25,860,798	(209,630)	0.81	25,884,013	(197,173)	0.76	26,336,646	(209,470)	0.80
Spread			1.71			1.92			2.15
Impact of capital	$ 1,656,348		0.05	$ 1,517,306		0.04	$ 1,270,582		0.04
Net Interest Income (NII) & NII to average earning assets		$ 484,192	1.76%		$ 538,058	1.96%		$ 605,502	2.19%

Net interest income for the year ended December 31, 2014 was $484.2 million compared to $538.1 million for the same period of 2013, a decrease of $53.9 million or 10.01 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 1.76 percent and 1.96 percent in the current year and previous year, respectively, a decrease of 20 basis points. The decrease was primarily the result of lower earning asset yields. During 2014, 2013, and 2012, the Bank called debt totaling $7.017 billion, $6.806 billion, and $23.010 billion, respectively, and was able to lower cost of funds. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish.

Provision for Loan Losses

AgFirst measures risks inherent in its portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. Loan loss provision was a net reversal (recovery) of $8.5 million and $10.6 million for the years ended December 31, 2014 and 2013, respectively, compared to net expense of $14.9 million for 2012. The $8.5 million in reversals of loan loss expense for the year ended December 31, 2014 consisted of $2.8 million of reversals related to general reserves and $5.7 million of reversals related to reserves for specific credits. Total provision reversals for 2014 primarily related to borrowers in the tree fruits and nuts ($3.5 million), forestry ($2.9 million), and nursery/greenhouse ($2.2 million) segments, partially offset by provision expense in the utilities segment ($601 thousand).

The net provision reversals in 2014 and 2013 resulted primarily from a reduction in the overall level of problem assets. See the *Allowance for Loan Losses* section above and Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Financial Statements for further information.

Noninterest Income

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

Noninterest Income	For the Year Ended December 31,			Increase (Decrease)	
(dollars in thousands)	2014	2013	2012	2014/ 2013	2013/ 2012
Loan fees	$ 8,524	$ 10,070	$ 11,085	$ (1,546)	$ (1,015)
Building lease income	3,311	4,355	193	(1,044)	4,162
Net impairment losses	(1,452)	(2,619)	(3,762)	1,167	1,143
Gains (losses) on investments, net	53	7,592	–	(7,539)	7,592
Gains (losses) on called debt	(7,724)	(5,360)	(39,445)	(2,364)	34,085
Gains (losses) on other transactions	(16)	868	1,356	(884)	(488)
Insurance premium refund	–	–	10,363	–	(10,363)
Other noninterest income	7,309	8,152	7,660	(843)	492
Total noninterest income	$ 10,005	$ 23,058	$ (12,550)	$ (13,053)	$ 35,608

Total noninterest income decreased $13.1 million from 2013 to 2014 primarily due to decreased gains on investments. Total noninterest income increased $35.6 million from 2012 to 2013 primarily due decreased called debt losses. See below for further discussion of significant variances in total noninterest income.

The $1.5 million decrease in loan fees for the twelve months ended December 31, 2014 compared with 2013 was primarily due to a decrease in fee income from the participation loan portfolio resulting from competitive capital market conditions. The $1.0 million lower loan fees for the year ended December 31, 2013 compared to 2012, were due primarily to lower fee income related to the Correspondent Lending portfolio.

Building lease income decreased $1.0 million and increased $4.2 million for the twelve months ended December 31, 2014 and 2013, respectively. This income was received from tenants of the Bank office building which was purchased in the fourth quarter of 2012. The decline in building lease income in 2014 was primarily due to the Bank occupying space in its new office building in 2014 that was previously leased to tenants.

The net impairment losses on investments for all three years were due to the recognition of credit related other-than-temporary impairment on certain asset-backed and non-agency CMO securities in the Bank's investment portfolio. Net impairment losses on investments decreased $1.2 million and $1.1 million for the twelve months ended December 31, 2014 and 2013, respectively. This resulted primarily from improvement in credit quality of home equity loans which collateralize most of the Bank's impaired investments. See further discussion in the *Cash, Cash Equivalents and Investments* section above.

Gains on investments during 2014 and 2013 were the result of normal investment activities related to managing the composition and overall size of the Bank's portfolio. Gains on investments totaled $53 thousand and $7.6 million for the twelve months ended December 31, 2014 and 2013, respectively. There were no gains or losses on investments for 2012. The $7.6 million gain recognized in 2013 resulted from bond sales that were made to manage the investment portfolio's size within regulatory guidelines. See discussion of investments in the *Cash, Cash Equivalents and Investments* section above and Note 4, *Investments*, in the Notes to the Financial Statements for further information.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Losses on called debt increased $2.4 million and decreased $34.1 million for the years ended December 31, 2014 and 2013, respectively. Call options were exercised on bonds totaling $7.017 billion in 2014, $6.806 billion in 2013, and $23.010 billion in 2012. Opportunities to call debt were more limited in the 2014 and 2013 periods. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

The Bank recorded $10.4 million of insurance premium refunds during 2012 from the FCSIC, which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund (Insurance Fund) exceeding the secure base amount as defined by the Farm Credit Act. There were no refunds in 2014 or 2013.

Noninterest Expenses

Noninterest expenses for each of the three years ended December 31 are shown in the following table:

Noninterest Expenses *(dollars in thousands)*	**For the Year Ended December 31, 2014**	**2013**	**2012**	**Increase/(Decrease) 2014/2013**	**2013/2012**
Salaries and employee benefits	$ 54,947	$ 50,857	$ 49,127	$ 4,090	$ 1,730
Occupancy and equipment	20,360	17,919	15,034	2,441	2,885
Insurance Fund premiums	9,484	6,457	4,320	3,027	2,137
Other operating expenses	37,916	39,430	37,456	(1,514)	1,974
Losses (gains) from other property owned	(408)	(294)	3,459	(114)	(3,753)
Total noninterest expenses	$ 122,299	$ 114,369	$ 109,396	$ 7,930	$ 4,973

Total noninterest expenses increased $8.0 million from 2013 to 2014 primarily due to increases in salary expenses and Insurance Fund premiums. Total noninterest expenses increased $5.0 million from 2012 to 2013 primarily due to increases in occupancy and equipment expense and Insurance Fund premiums. See below for further discussion of significant variances in total noninterest expenses.

Salaries and employee benefits increased $4.1 million for the year ended December 31, 2014 compared to 2013 primarily as a result of normal salary administration, $1.4 million in higher incentive payments in 2014, $816 thousand in additional pension expense related to the termination of the AgFirst Farm Credit Cash Balance Retirement Plan, and higher employee benefit costs, including increases in 401 (k) plan expenses and health insurance costs. The increase in salaries and employee benefits in 2013 was due primarily to normal salary administration and higher employee benefit costs, including increases in employee health insurance and postretirement benefits costs. See further discussion in Note 9, *Employee Benefit Plans*, in the Notes to the Financial Statements.

Occupancy and equipment expense increased $2.4 million and $2.9 million for the years ended December 31, 2014 and 2013, respectively, compared to the prior years. The additional expense for 2014 resulted from increases in depreciation and hardware/software expenses related to the Bank's new data center. The higher expenses for 2013 were due primarily to increases from the cost of space to maintain the Bank's new building. These costs were significantly offset by building lease income. See *Noninterest Income* section for additional information.

The increases of $3.0 million in 2014 and $2.1 million in 2013 in the Insurance Fund premiums resulted primarily from changes in the premium rate. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks. For the years ended December 31, 2014, 2013, and 2012, the annual premium rate was 12 basis points, 10 basis points, and 5 basis points, respectively. The annual premium rate for 2015 has been increased to 13 basis points. Also contributing to the increase in 2014 was a $1.4 million Insurance Fund premium reimbursement received in May 2013, after the FCSIC made a clarification that cash held in a deposit account at the Federal Reserve Bank qualifies as a deduction in the premium calculation. The reimbursement was for the periods July 1, 2008, when the premium methodology initially changed to a debt basis, through December 31, 2012.

Other operating expenses decreased $1.5 million and increased $2.0 million in 2014 and 2013, respectively. The decrease in 2014 was primarily due to $3.6 million lower Correspondent Lending servicing expenses related to guarantee fees. See *Correspondent Lending* section above. This decrease was partially offset by an increase in consulting and professional fees required for system enhancements. Increases in consulting, professional fees, and service provider fees were $1.2 million and $1.6 million, for the twelve months ended December 31, 2014 and 2013, respectively. The remainder of the increase in other operating expenses for both years was comprised of numerous and varied expenses, none of which individually had a significant increase compared to the prior year period.

Gains from other property owned increased $114 thousand and $3.8 million for 2014 and 2013 compared to the prior year periods. In 2014, $2.7 million in lower deferred gains recognized was offset by $2.8 million in lower writedowns. The higher net gains from other property owned of $3.8 million during 2013 resulted primarily from the recognition of a $5.1 million gain on sale of an ethanol plant including $2.3 million which was previously deferred. See additional discussion in the *Other Property Owned* section above.

CAPITAL

Capital serves to support future asset growth, investment in new products and services, and to provide protection against credit, interest rate, and other risks, and operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

The AgFirst Capitalization Plan (the "Plan") approved by the Bank's board of directors establishes guidelines to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. The Bank's capital objectives are considered adequate to support inherent risk. There were no significant changes to the Plan for 2014.

Total shareholders' equity at December 31, 2014 was $2.207 billion, compared to $2.147 billion and $2.298 billion at December 31, 2013 and 2012, respectively. The increase in 2014 of $60.7 million primarily resulted from net income of $380.3 million and unrealized gains of $6.9

million on investments, partially offset by patronage declared of $315.2 million and the net retirement of $7.1 million in capital stock and participation certificates. The decrease in 2013 of $151.5 million was primarily related to the patronage declared of $353.8 million, redemption of preferred stock of $150.0 million, unrealized losses of $73.8 million on investments, the net retirement of $24.7 million in capital stock and participation certificates, and preferred stock dividends paid of $6.3 million. These decreases were offset by the increase in retained earnings from net income of $457.3 million.

The Bank's patronage declared in 2014 and 2013 was based on paying Associations and OFIs a dividend equal to 75 basis points relative to their average Direct Note balance, paying Associations and OFIs a dividend equal to 75 basis points relative to their patronage-based Capital Markets participations, and paying a dividend to participants in Association capitalized participation pools in an amount of 100 percent of pool net income. Also, favorable earnings and minimal balance sheet growth in recent years have resulted in stronger than historical Bank capital levels. After considering current capital levels and projected capital needs, during 2014 and 2013, the Bank's Board of Directors declared additional patronage totaling $175.0 million and $210.0 million, respectively.

Capital stock and participation certificates totaled $303.2 million at December 31, 2014, compared to $309.0 million and $332.7 million at December 31, 2013 and 2012, respectively. The decreases of $5.8 million and $23.7 million in 2014 and 2013, respectively, were due primarily to the net retirement of Association owned stock related to the Associations' participation in certain capitalized loan pools purchased by the Bank. The Associations are required to maintain ownership in the Bank in the form of Class B and Class C stock. At December 31, 2014, 2013, and 2012, the Associations' minimum stock requirement was 1.40 percent of Association Direct Note balances. A stock equalization computation is made annually.

On May 15, 2013, the Bank redeemed and cancelled the entire $150.0 million of Perpetual Non-Cumulative Preferred Stock issued October 14, 2003. This redemption was in accordance with the Board approved capital plan. The stock was redeemed at its par value together with accrued and unpaid dividends. See Note 7, *Shareholders' Equity*, in the Notes to the Financial Statements for further information.

During the twelve months ended December 31, 2012, the Bank repurchased, through privately negotiated transactions, and cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $124.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $124.8 million and to record $36.6 million of additional paid-in-capital.

See Note 7, *Shareholders' Equity,* in the Notes to the Financial Statements for further information concerning the preferred stock issuances.

Regulatory Ratios

The Bank's regulatory ratios at December 31 are shown in the following table:

	Regulatory Minimum	AgFirst Ratio as of December, 31, 2014	2013	2012
Permanent Capital Ratio	7.00%	21.83%	22.85%	23.58%
Total Surplus Ratio	7.00%	21.80%	22.81%	23.55%
Core Surplus Ratio	3.50%	19.38%	19.98%	20.04%
Net Collateral Ratio	103.00%	106.79%	106.83%	107.03%

The FCA sets minimum regulatory capital adequacy requirements for System banks and associations. These requirements are based on regulatory ratios as defined by the FCA, which include permanent capital, total surplus, core surplus, and for System banks only, net collateral. The permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. The total surplus ratio is calculated by dividing total surplus by a risk-adjusted asset base and the core surplus ratio is calculated by dividing core surplus by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. Unlike the permanent capital, total surplus and core surplus ratios, the net collateral ratio does not incorporate any risk-adjusted weighting of assets. The net collateral ratio is calculated by dividing the Bank's collateral, as defined by FCA regulations, by total liabilities. The permanent capital, total surplus, and core surplus ratios are calculated using three-month average daily balances and the net collateral ratio is calculated using period end balances.

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The Bank's permanent capital, total surplus, and core surplus ratios decreased at December 31, 2014 compared to December 31, 2013 due to higher average asset balances in 2014 compared to 2013. The Bank's permanent capital, total surplus, and core surplus ratios decreased at December 31, 2013 compared to December 31, 2012 primarily a result of the redemption of the $150.0 million Perpetual Preferred Stock on May 15, 2013, as discussed above. The Bank's net collateral ratio remained relatively constant for December 31, 2014 compared to December 31, 2013. For December 31, 2013 compared to December 31, 2012, the Bank's net collateral ratio decreased due primarily to the December 31, 2013 increased liabilities for cash patronage payable, which was paid on January 1, 2014.

In September 2014, the FCA published a proposed rule to modify the regulatory capital requirements for System banks and associations. See *Regulatory Matters* section below for further discussion.

Refer to Note 7, *Shareholders' Equity*, in the Notes to the Financial Statements for additional information regarding regulatory capitalization requirements and restrictions.

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

AgFirst is committed to providing sound and dependable credit to young, beginning, and small (YBS) farmers and ranchers. Because of the unique needs of these individuals, and their importance to the future growth of the Associations, the Associations have established annual marketing goals to increase market shares of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers' access to a stable source of credit. AgFirst and the District Associations recognize that YBS farmers are vitally important to the future of agriculture and are committed to continue offering programs to help educate, assist, and provide quality financial services to YBS farmers.

The FCA regulatory definitions for YBS farmers and ranchers are as follows:

> ***Young Farmer*** – A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
>
> ***Beginning Farmer*** – A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
>
> ***Small Farmer*** – A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that due to the regulatory definitions a farmer/rancher may be included in multiple categories as he/she would be included in each category in which the definition was met.

The following table summarizes information regarding the combined District's loans outstanding to Young and Beginning Farmers and Ranchers as of December 31, 2014:

Young and Beginning Farmers and Ranchers
Number/Volume of Loans Outstanding
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total loans and commitments outstanding at year-end	142,452	– %	$ 32,416,522	–%
2. Young farmers and ranchers	22,545	15.83%	$ 2,677,920	8.26%
3. Beginning farmers and ranchers	33,815	23.74%	$ 4,063,185	12.53%

The following table summarizes information regarding the combined District's loans outstanding to Small Farmers and Ranchers as of December 31, 2014:

Small Farmers and Ranchers
Number/Volume of Loans Outstanding by Loan Size
(dollars in thousands)

Number/Volume Outstanding	$0-$50,000	$50,001-$100,000	$100,001-$250,000	$250,001-and greater
1. Total number of loans and commitments outstanding at year-end	69,423	24,516	26,185	22,328
2. Total number of loans to small farmers and ranchers	46,493	14,179	12,864	5,690
3. Number of loans to small farmers and ranchers as a % of total number of loans	66.97%	57.84%	49.13%	25.48%
4. Total loan volume outstanding at year-end	$ 1,423,519	$ 1,814,046	$ 4,186,441	$ 24,992,517
5. Total loan volume to small farmers and ranchers	$ 922,461	$ 1,040,919	$ 2,010,375	$ 2,841,355
6. Loan volume to small farmers and ranchers as a % of total loan volume	64.80%	57.38%	48.02%	11.37%

The following table summarizes information regarding the combined District's new loans made to Young, and Beginning Farmers and Ranchers for the year ended December 31, 2014:

Young and Beginning Farmers and Ranchers
Gross New Business During 2014, Number/Volume of Loans
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total gross new loans and commitments made during 2014	44,798	–%	$ 11,388,113	–%
2. Total loans and commitments made during 2014 to young farmers and ranchers	7,852	17.53%	$ 1,084,456	9.52%
3. Total loans and commitments made during 2014 to beginning farmers and ranchers	10,419	23.26%	$ 1,343,955	11.80%

The following table summarizes information regarding the combined District's new loans made to Small Farmers and Ranchers for the year ended December 31, 2014:

Small Farmers and Ranchers
Gross New Business by Loan Size, Number/Volume of Loans
(dollars in thousands)

Number/Volume	$0-$50,000	$50,001 - $100,000	$100,001-$250,000	$250,001-and greater
1. Total number of new loans and commitments made during 2014	21,458	7,662	8,325	7,353
2. Total number of loans made to small farmers and ranchers during 2014	14,443	3,794	3,248	1,614
3. Number of loans to small farmers and ranchers as a % of total number of loans	67.31%	49.52%	39.02%	21.95%
4. Total gross loan volume of all new loans and commitments made during 2014	$ 477,546	$ 572,183	$ 1,376,123	$ 8,962,261
5. Total gross loan volume to small farmers and ranchers	$ 300,045	$ 277,312	$ 518,876	$ 853,599
6. Loan volume to small farmers and ranchers as a % of total gross new loan volume	62.83%	48.47%	37.71%	9.52%

COMMITMENTS AND CONTINGENCIES

On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from legal actions pending against AgFirst would be immaterial in relation to the financial position of AgFirst. Refer to Note 11, *Commitments and Contingencies*, in the Notes to the Financial Statements for additional information.

See Note 14, *Business Combinations*, in the Notes to the Financial Statements for information related to a financial assistance agreement between the Bank and a District Association.

REGULATORY MATTERS

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

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

- To strengthen the safety and soundness of System banks and associations.
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption.
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers.
- To comply with the requirements of section 939A of the Dodd-Frank Act.

- To modernize the investment eligibility criteria for System banks.
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

On September 4, 2014, the FCA published a proposed rule in the Federal Register to modify the regulatory capital requirements for System banks and associations. The public comment period was to have ended on January 2, 2015. However, the FCA extended the deadline to allow interested parties additional time to submit comments. The comment period ended on February 16, 2015. The stated objectives of the proposed rule are as follows:

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

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

FINANCIAL REGULATORY REFORM

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

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

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

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

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

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

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

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

DISTRICT MERGER ACTIVITY

Please refer to Note 14, *Business Combinations*, in the Notes to the Financial Statements for information regarding merger activity in the District.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

Additional Disclosure Required by Farm Credit Administration Regulations

Description of Business

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

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

Unincorporated Business Entities

The Bank holds an equity investment at December 31, 2014 in the following Unincorporated Business Entities (UBEs) as an equity interest holder of the limited liability company (LLC). The LLCs were organized for the stated purpose of holding and managing unusual or complex collateral associated with former loans, until such time as the assets may be sold or otherwise disposed of pursuant to the terms of Operating Agreements of the respective LLCs.

Entity Name	Entity Type	Entity Purpose
RBF Acquisition VIII, LLC	LLC	Manage Acquired Property
CBF Holdings, LLC	LLC	Manage Acquired Property
Sequoyah Marina & Resort, LLC	LLC	Manage Acquired Property
Hardee Peaceful Horse Acquisition, LLC	LLC	Manage Acquired Property
Desoto Peaceful Acquisition, LLC	LLC	Manage Acquired Property
Desoto County Land Holding Acquisition, LLC	LLC	Manage Acquired Property
ASA Ethanol Holdings, LLC	LLC	Manage Acquired Property
Ethanol Holding Company, LLC	LLC	Manage Acquired Property
First Kentucky Land, LLC	LLC	Manage Acquired Property
RAAC Land, LLC	LLC	Manage Acquired Property

Description of Property

The following table sets forth certain information regarding the properties owned by the Bank at December 31, 2014, all of which are located in Columbia, South Carolina:

Location	Description
1115 Calhoun Street	Bank operations facility
1901 Main Street	Bank office building and adjacent parking facility, partially leased to tenants

Legal Proceedings

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

Description of Capital Structure

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

Description of Liabilities

The description of liabilities and contingent liabilities to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9,11, and 13 to the Financial Statements included in this Annual Report to shareholders.

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

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

Senior Officers

The following represents certain information regarding the directors and senior officers of the Bank.

The chief executive officer and all other senior officers of the Bank, together with their length of service at their present position, as well as positions held currently and during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
Leon T. Amerson, *President and Chief Executive Officer*	2.5 years	Chief Operating Officer from September 2006 to April 2010. President from April 2010 to Present.	Member of the Presidents Planning Committee of the Farm Credit System serving as Chairman of the Finance Committee and member of the Business Practices Committee; member of the Board of Directors of the Federal Farm Credit Banks Funding Corporation serving as vice chairman of the board and chairman of the Compensation Committee; member of the Farm Credit System Coordinating Committee: member of the Board of Trustees of the National 4-H Council; council member of the National Council of Farmer Cooperatives; member of the Board of Directors for Midlands Business Leadership Group; member of the Board of Directors for Palmetto Agribusiness Council; member of the Finance Committee for United Way of the Midlands; member of the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee; member of the University of South Carolina Risk and Uncertainty Management Advisory Board.
Charl L. Butler, *Senior Vice President and Chief Financial Officer*	8 years		Chairman of the Board of the Farm Credit System Captive Insurance Company; Chairman of the AgFirst/FCBT Plan Fiduciary Committee; Board Member and Treasurer of Midlands Housing Alliance; Board Member and Treasurer of City Center Partnership; Board Member of the Columbia Chamber of Commerce.
Benjamin F. Blakewood, *Senior Vice President and Chief Information Officer*	16 years		
Christopher L. Jones, *Senior Vice President and Chief Credit Officer*	4 years	Senior Vice President and Chief Credit Officer South at United Community Banks from 2004 until 2011.	
Daniel E. LaFreniere, *Senior Vice President and Chief Audit Executive*	1.5 years	Director of Audit Services from 2007 to 2013 at SCANA Corporation.	
Isvara M. A. Wilson, *Senior Vice President and General Counsel*	2 years	Managing Director and Associate General Counsel at Bank of America from 2010 until December 2012.	Board Member of the Farm Credit System Captive Insurance Company; Board Member of the Columbia Urban League, Inc.

The total amount of compensation earned by the Chief Executive Officer (CEO) and the senior officers and other highly compensated employees as a group during the years ended December 31, 2014, 2013 and 2012, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value*	Perq./ Other**	Total
Leon T. Amerson	2014	$ 668,026	$ 641,878	$ 19,469	$ 1,522,025 *(f)*	$ 19,889	$ 2,871,287
Leon T. Amerson	2013	$ 630,024	$ 469,676	$ 16,941	$ 494,083 *(e)*	$ 17,978	$ 1,628,702
Leon T. Amerson	2012	$ 526,799	$ 363,082	$ 11,965		$ 17,570	$ 919,416
F. A. Lowrey	2012	$ 327,962	$ 500	$ 133,820		$ 735,420 *(b)*	$ 1,197,702
6 Officers *(a)*	2014	$ 1,601,878	$ 1,214,238	$ 32,552	$ 296,786 *(f)*	$ 126,149	$ 3,271,603
7 Officers	2013	$ 1,422,980	$ 749,434	$ 22,417	$ 12,457	$ 407,593 *(c)*	$ 2,614,881
6 Officers	2012	$ 1,277,003	$ 808,278	$ 13,280		$ 147,102 *(d)*	$ 2,245,663

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

** *Includes company contributions to 401 (k) plan (see Note 9, Employee Benefit Plans, to the Financial Statements), group life insurance premiums, spousal travel and bank-provided automobile.*

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

(b) *Upon retirement, Mr. Lowery received a one-time payment of $570,000, payment of accrued annual leave of $117,684, and ownership of his company automobile valued at $28,396.*

(c) *Includes payment of accrued annual leave of $68,445 upon the retirement of one officer. Also includes payment of accrued annual leave of $48,331, a one-time severance payment of $143,881, ownership of a company automobile valued at $26,028 and reimbursement of tax on value of company automobile of $13,082 upon the retirement of one highly-compensated employee.*
(d) *Includes payment of accrued annual leave upon the retirement of one officer of $55,451.*
(e) *Amount revised from $157,034 presented in the 2013 Annual Report as a result of revised actuarial assumptions.*
(f) *The changes in pension values in 2014 as reflected in the table above resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.*

Pension Benefits Table
As of December 31, 2014

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2014
CEO:					
Leon T. Amerson	2014	AgFirst Farm Credit Retirement Plan	28.42	$ 2,103,050	$ –
Leon T. Amerson	2014	AgFirst Farm Credit Bank Supplemental Retirement Plan	28.42	3,114,068	–
				$ 5,217,118	$ –
Senior Officers and Highly Compensated Employees:					
1 Officers, excluding the CEO	2014	AgFirst Farm Credit Retirement Plan	17.25*	$ 1,216,453	$ –
5 Officers, excluding the CEO	2014	AgFirst Farm Credit Cash Balance Retirement Plan	4.47*	161,049	–
6 Total				$ 1,377,502	$ –

* *Represents the average years of credited service for the group.*

Executive Incentive Compensation Plan

In addition to a base salary, certain named senior officers may earn additional compensation under the Bank's Executive Incentive Plan, which has a short-term and a long-term component. Participation in the plan is at the sole discretion of the CEO or in the case of the CEO at the sole discretion of the Board of Directors. The objectives of this plan are to provide a market-competitive financial rewards package to executives, provide incentive for the achievement of the AgFirst short- and long-term business objectives, and to provide the Bank the ability to attract and retain key executives. The plan's payments are based upon the Bank's achievement of minimum performance thresholds for net collateral ratio, net income sufficient to pay patronage and dividend distributions, achievement of a targeted threshold customer satisfaction score, and the senior officers' overall performance achievement as determined by an individual performance rating. Short-term incentive awards are shown in the year earned and payments are made in the first quarter of the following year.

Effective with the 2014 plan year, the long-term component of the plan is subject to forfeiture based upon AgFirst's performance during the three-year performance period immediately following the plan year. Specifically, the long-term award for a particular plan year will be reduced by an amount equal to one-third of the original award for each subsequent year during the three-year performance period in which any one of the performance thresholds are not achieved.

For the 2013 plan year, the long-term component of the plan is subject to forfeiture based upon AgFirst's performance during the two-year performance period immediately following the plan year. Specifically, the long-term award will be reduced by an amount equal to one-half of the original award for each subsequent year during the two-year performance period in which any one of the performance thresholds are not achieved.

A long-term incentive transition award, equal in calculation to the 2014 long-term component of the plan, was established for the 2014 plan year with a two-year performance period. The purpose of this transition award was to avoid an interruption in long-term award payments that would occur as a result of changing from a two-year performance period to a three-year performance period. The transition award is subject to the same forfeiture guidelines as described above for the 2013 plan year.

Long-term incentive award amounts are shown in the year accrued and are vested over a period of time composed of the plan year and the performance period subsequent to the end of the plan year. Incentive awards are forfeited if the participant fails to remain employed until the end of the performance period subsequent to the end of the plan year.

Retirement and Deferred Compensation Plans

The Bank's compensation programs include retirement and deferred compensation plans designed to provide income following an employee's retirement. Although retirement benefits are paid following an employee's retirement, the benefits are earned while employed. The objective of the Bank is to offer benefit plans that are market competitive and aligned with the Bank's strategic objectives. The plans are designed to enable the Bank to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that supports the Bank's mission and that allows the Bank to align the human capital needs with the Bank's overall strategic plan.

Employees participate in one of two qualified defined benefit retirement plans.

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees hired on or after January 1, 2003, but prior to November 4, 2014, participate in the AgFirst Farm Credit Cash Balance Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 with a minimum of 5 years of credited service or at age 55 with a minimum of 10 years of credited service. Upon retirement, payout is determined using a percent of eligible compensation formula, subject to the Internal Revenue Code limitation on compensation, and regular interest credits. For purposes of determining the payout, "compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security. Benefit accruals in the plan were frozen as of December 31, 2014, at which time active participants were fully vested regardless of years of credited service. The plan will be terminated effective as of December 31, 2015, and benefits in the plan will be distributed to plan participants after the plan has been submitted to and reviewed by the Internal Revenue Service.

Employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan which has an employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to $0.50 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003 receive a maximum employer matching contribution equal to $1.00 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Beginning January 1, 2015, employees hired on or after January 1, 2003 also received an employer nonelective contribution equal to 3 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

Senior officers and other highly compensated employees participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Bank.

Chief Executive Officer

Mr. Amerson participates in the AgFirst Farm Credit Retirement Plan, as described above. Mr. Lowery also participated in the AgFirst Farm Credit Retirement Plan until his retirement on June 30, 2012 at which time he was eligible to begin drawing unreduced pension benefits.

Mr. Amerson participates in the AgFirst Farm Credit Bank Supplemental Retirement Plan, a nonqualified supplemental executive retirement plan. Mr. Lowery also participated in the AgFirst Farm Credit Bank Supplemental Retirement Plan until his retirement on June 30, 2012 at which time he was eligible to begin drawing benefits. Benefits that would have accrued in the qualified defined benefit retirement plan in the absence of Internal Revenue Code limitations are made up through the nonqualified supplemental executive retirement plan. At the election of the retiree, benefits are paid based upon various annuity terms.

Mr. Amerson participates in the Farm Credit Benefits Alliance 401(k) Plan, as described above. Mr. Lowery also participated in the Farm Credit Benefits Alliance 401(k) Plan until his retirement on June 30, 2012.

Mr. Amerson participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above. Mr. Lowery also participated in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan until his retirement on June 30, 2012.

Mr. Amerson was employed pursuant to an employment and retention agreement that expired on June 30, 2014. There is currently no employment agreement for Mr. Amerson.

Senior Officers

Senior officers participate in one of two qualified defined benefit retirement plans based upon date of hire, as described above.

Senior officers participate in the Farm Credit Benefits Alliance 401(k) Plan and the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, as described above.

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

Bank compensation plans are reviewed annually by the Board of Directors' Compensation Committee.

Additional Compensation Information

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

AgFirst Farm Credit Bank Board of Directors

Name	Position	Term of Office
Robert H. Spiers, Jr.	Chairman	December 31, 2017
Dale R. Hershey	Vice Chairman	December 31, 2015
Jack W. Bentley, Jr.	Director	December 31, 2017
James C. Carter, Jr.	Director	December 31, 2018*
Bonnie V. Hancock	Director	December 31, 2017
Curtis R. Hancock, Jr.	Director	December 31, 2016
Walter C. Hopkins	Director	December 31, 2016
Paul M. House	Director	December 31, 2015
William K. Jackson	Director	December 31, 2016
John S. Langford	Director	December 31, 2015
S. Jerry Layman	Director	December 31, 2018**
S. Alan Marsh	Director	December 31, 2017
James L. May	Director	December 31, 2017
Fred R. Moore, Jr.	Director	December 31, 2017
James M. Norsworthy, III	Director	December 31, 2015
Katherine A. Pace	Director	December 31, 2015
Thomas E. Porter, Jr.	Director	December 31, 2017
Jimmy D. Poston	Director	December 31, 2014
Robert G. Sexton	Director	December 31, 2016
Michael T. Stone	Director	December 31, 2018**
Ellis W. Taylor	Director	December 31, 2015
William H. Voss	Director	December 31, 2014

* *This director was re-elected to a 4-year term commencing January 1, 2015.*
** *These directors were newly elected in 2014 to a 4-year term commencing January 1, 2015.*

Robert H. Spiers, Jr., Chairman of the Board, is a full-time farmer, with a tobacco, corn, soybeans, milo, wheat and timber operation on 1,400 acres in Dinwiddie County, Virginia. He currently serves on the boards of Colonial Farm Credit, ACA, the national Farm Credit Council (a trade organization), Tobacco Associates, Inc. (which promotes export of US tobacco), and Dinwiddie County Farm Bureau. He is also a governor-appointed director on the Virginia Flue-cured Tobacco Board, and the Virginia Tobacco Indemnification Commission. He has been active on a number of Virginia Farm Bureau advisory committees. Mr. Spiers has a BS in Ag Economics from Virginia Tech University. He is Vice Chair of the AgFirst Plan Sponsor Committee and a member of the AgFirst/FCBT Plan Sponsor Committee. As Chairman of the Board, Mr. Spiers served as an ex-officio member of all Board Committees in 2014 and will serve on the Board Risk Policy Committee in 2015.

Dale R. Hershey, Vice Chairman of the Board, from Manheim, Pennsylvania is a senior partner in Hershey Brothers Dairy Farms, managing the operations' real estate and cropping enterprises. The operation includes a dairy operation which milks 300 cows, raises 250 dairy replacements and grows corn, alfalfa, soybeans, barley, and rye and grass hay. He serves on the board of directors of MidAtlantic Farm Credit, ACA and the national Farm Credit Council. He is a member of Pennsylvania Farm Bureau, the Pennsylvania Holstein Association, Lancaster County Blue Ribbon Commission for Agriculture and the Penn Township Ag Advisory Committee. Mr. Hershey has a BS in Community Development and a MS in Ag Economics and Rural Sociology from Penn State University. In addition, he has taken special courses at Eastern Mennonite University. He served on the Board Compensation Committee in 2014. Mr. Hershey was elected as Chairman of the Board for 2015 and will serve as an ex-officio member of all Board Committees.

Jack W. Bentley, Jr., a dairy farmer in Tignall, Georgia, owns and operates A&J Dairy, a 370-cow dairy that includes 668 acres of pasture, crops and timberland, and an additional 500 acres of leased farmland. Mr. Bentley is a director of AgGeorgia Farm Credit, ACA, Southeast United Dairy Industry Association, American Dairy Association, LoanStar Milk Producers and the Wilkes County Farm Bureau. He is past chairman of the Wilkes County Board of Tax Assessors and USDA Farm Service Agency. Mr. Bentley has a BS in Ag Mechanics and Business from Clemson University and has attended numerous Leadership Institutes for Banking. He serves on the Board Compensation Committee. Mr. Bentley is also the Board-appointed member of both the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee.

James C. Carter, Jr., owns and operates with his son, Southern Belle Farm, Inc., located in McDonough, Georgia. The 330-acre beef cattle and hay farm, includes fruit and vegetable crops, and agriculturally-related educational activities. Mr. Carter also operates a feed, mineral and supplements business from the farm and provides artificial insemination services and supplies for cattle. Mr. Carter is a director of AgSouth Farm Credit, ACA, the national Farm Credit Council (a trade organization) and serves as chairman of the Henry County Water Authority. He is a representative on the Ocmulgee River Basin Advisory Council and serves as vice president of the Henry County Farm Bureau. He is a member of the board for the Henry County Cattleman's Association. Mr. Carter has a BS in Agriculture and MS from the University of Georgia. Mr. Carter serves on the Board Governance Committee.

Bonnie V. Hancock is Executive Director of the Enterprise Risk Management Initiative at North Carolina State University (NCSU). She also teaches courses in financial management, enterprise risk management, strategy and financial statement analysis. Prior to joining NCSU, she worked with Progress Energy as senior vice president of finance and information technology and later as president of Progress Fuels, a subsidiary that produces and markets gas, coal and synthetic fuels, and operates fuel terminals and ash management facilities. Ms. Hancock is a graduate of Georgetown University with a Master's in taxation. She is also a graduate of the College of William and Mary with a BS in business administration with an accounting major. She lives in Wake Forest, North Carolina, and is a member of the boards of Powell Industries, designer and manufacturer of electrical equipment systems that monitor the flow of electricity in industrial facilities, where she serves on the audit and compensation committees, the Office of Mortgage Settlement Oversight, where she serves as chair of the audit committee and the North Carolina Coastal Pines Girl Scout Council, where she serves as chair of the audit committee. Ms. Hancock serves as chair of the Board Risk Policy Committee.

Curtis R. Hancock, Jr., from Fulton, Kentucky, is owner and operator of Hancock Farms. His operations consist of 1,400 acres of row crops, including corn, wheat and soybeans. He serves on the board of River Valley ACA; the national Farm Credit Council (a trade organization); Farm Credit Council Services (a Farm Credit System service provider); and Kentucky Small Grain Growers. He is a former member of the Hickman County Farm Bureau, the local Southern States Cooperative, and of the Hickman County Farm Service Agency. Mr. Hancock received a BS in Agriculture from the University of Tennessee-Martin and a MS in Ag Economics from the University of Tennessee. Mr. Hancock served on the Board Governance Committee in 2014 and will serve on the Board Audit Committee in 2015.

Walter C. Hopkins is from Lewes, Delaware, and he along with his son operates a dairy and grain farm, Green Acres Farm, consisting of 600 cows, 550 replacement heifers and 1,000 acres of crops. He is also manager of Lyons LLC, a land holding company. He serves on the board of directors of MidAtlantic Farm Credit, ACA, and is chair of both the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee. He is a member of Delaware Farm Bureau, Land O' Lakes Cooperative, Genex Cooperative and Delaware Holstein Association. Mr. Hopkins has a BS in Agricultural Engineering from the University of Delaware, and has attended several professional development programs. Mr. Hopkins serves as chair of the Board Compensation Committee.

Paul M. House is from Nokesville, Virginia, where he grows corn, soybeans, wheat, hay and turf grass. He also operates a dairy. He serves as a director of Farm Credit of the Virginias, ACA. Mr. House attended Glenville State and completed various courses in principles of real estate, turfgrass ecology and management. Mr. House serves on the Board Compensation Committee.

William K. Jackson, from New Salem, Pennsylvania, is a partner in Jackson Farms, an 800-acre dairy that milks 160 registered Holsteins and grows corn and alfalfa. He is president of Jackson Farms 2, LLC, a small dairy processing facility that bottles milk and makes ice cream which are marketed to area stores and are also sold via an on-site convenience store. He is also president of Jackson Farms 3, LLC and Jackson Farms Limited Partnership, which are involved in the production of natural gas. He serves on the boards of AgChoice Farm Credit, ACA; the Fay Penn Economic Development Council; the Fayette County Fair Board; and the Penn State Fayette-Eberly Campus Advisory Board. Mr. Jackson has a BS in Agricultural Business Management from Penn State University. Mr. Jackson serves on the Board Risk Policy Committee.

John S. Langford, from Lakeland, Florida, has been a citrus grower for 48 years. Mr. Langford has also been a realtor for 35 years, specializing in agricultural lands. He currently serves as a director on the board of Farm Credit of Central Florida, ACA, as chairman of the board of the Community Southern Bank, and on the boards of Lake Wales Citrus Growers Association and Polk County Florida Farm Bureau. Mr. Langford obtained his BA degree from Emory University, his MBA from Harvard Business School, and graduated from the Graduate School of Banking at Louisiana State University in 2014. He served as chair of the Board Audit Committee in 2014 and will serve on the Board Compensation Committee in 2015. Mr. Langford was elected Vice Chairman of the Board for 2015.

S. Jerry Layman, assists with Layman Farms LLC, a 3,800 acre no-till corn and soybean operation, with his brother. They also operate Layman Farm Drainage, a local agricultural tile installation business. Mr. Layman currently serves as Chairman of the Board of AgCredit, ACA. He represents AgCredit on the Independent Associations' Retirement Plan Sponsor Committee and is a member of the AgFirst/FCBT Plan Sponsor Committee. He is a member of American/Ohio Soybean Association, American/Ohio Corn/Wheat Growers Association, Hardin County Farm Bureau/American and Hardin County Soil and Water Conservation District. Mr. Layman is a stockholder in Truepointe Ag Coop and Heritage Farm Coop. Mr. Layman has a BS in Agriculture Education from the Ohio State University and a MS of Education Leadership from the University of Dayton. Mr. Layman serves on the Board Compensation Committee.

S. Alan Marsh is a third-generation farmer, and partner in Marsh Farms in Madison, Alabama. His operation consists of 3,000 acres of row crops, including cotton, soybeans, wheat and corn. Mr. Marsh is a director of First South Farm Credit, ACA, and Limestone County Farmers Federation, and he is president and stockholder of South Limestone Co-op Gin (an Association borrower). He is also an advisory board member for Staplcotn, a cotton cooperative association. Mr. Marsh received a Business Management Certification from Stratford Career Institute and has attended numerous special courses/workshops on director training, marketing, scouting, irrigation, pesticides and farm safety. Mr. Marsh served on the Board Risk Policy Committee in 2014 and will serve on the Board Governance Committee in 2015.

James L. May is owner and operator of Mayhaven Farm in Waynesburg, Kentucky, where he owns 650 acres and leases another 350 acres. His farming program consists of a 150 beef cow herd. The operation also includes 100 acres of alfalfa hay and 500 acres of corn and soybeans. He also operates Mayhaven Seed Sales, an agricultural seed sales business. He currently serves as a member of the board of Central Kentucky Ag Credit, ACA, Lincoln County Extension Council, and the Lincoln County Farm Bureau Board. He is a former director of the Lincoln County Ag Development Board and the local cattleman's association. Mr. May has a BS in Agricultural Economics from the University of Kentucky and has attended special courses for farm managers and rural appraisers. Mr. May served on the Independent Associations' Retirement Plan Sponsor Committee in 2014. Mr. May served on the Board Risk Policy Committee in 2014 and will serve on the Board Audit Committee in 2015.

Fred R. Moore, Jr., is from Eden, Maryland. He is president of Fred R. Moore & Sons, Inc. d/b/a Collins Wharf Sod, a turf and grain operation, which grows sod (turf), corn, soybeans and wheat on 650 acres. He is also partner of F&E Properties, LLC, a rental business. He currently serves on the boards of MidAtlantic Farm Credit, ACA, Wicomico Soil Conservation District and Wicomico County Farm Bureau. In addition, he is a member of the FFA Alumni Association and currently serves as an assistant chief of the Allen Volunteer Fire Company. Mr. Moore has a BS from the University of Maryland Eastern Shore. Mr. Moore serves on the Board Audit Committee.

James M. Norsworthy, III, from Jackson, Louisiana runs 100 Cedars Cattle Farm, a 145-head cow-calf operation. He also has a commercial hay operation with 125 acres in Alicia Bermuda hay and 150 acres in Bahia Grass hay and manages a 500 acre pine and hardwood timber operation. He is a member of the board of directors of First South Farm Credit, ACA and a school board member for Centreville Academy. He is a member of Feliciana Farm Bureau, East Feliciana Cattlemen's Association, American Angus Association and the Feliciana Forestry Association. Mr. Norsworthy served as a former mayor of the town of Jackson, Louisiana. Mr. Norsworthy has a BS of Vo Ag Education from Louisiana State University. Mr. Norsworthy serves as chair of the Board Governance Committee.

Katherine A. Pace, from Orlando, Florida, is a certified public accountant and principal of Family Business Consulting, LLC, which provides financial and strategic planning for closely-held businesses. Prior to forming her own company, she was a tax partner with KPMG, LLP, an audit, tax and advisory service firm, from 1985-2005. While at KPMG, her practice included a variety of cooperative and agribusiness clients as well as participation in trade associations, such as the National Society of Accountants for Cooperatives. Ms. Pace obtained her BS degree in accounting from Furman University. She served as an independent director on the board of B & W Quality Growers, Inc., a grower and processor of specialty produce during 2014. She is a member of the American Institute of Certified Public Accountants, the Florida Institute of Certified Public Accountants and current and past member and director of numerous trade and charitable organizations. Ms. Pace serves as a member of and is the board designated financial expert on the Board Audit Committee.

Thomas E. Porter, Jr., is from Concord, North Carolina, where he owns and operates Porter Farms, Inc. Porter Farms consists of a 2,200 sow, farrow to wean operation, 4 pullet houses and 4 layer houses. They also run a 400 head cow-calf operation on 900 owned acres, additional rented acres are also part of the operation. Agritourism has recently become an important part of the farm. He currently serves on the Carolina Farm Credit, ACA board of directors, the Cabarrus County Ag Advisory Board, and the Cabarrus County Extension Advisory Board. He is also a member of the North Carolina Poultry Federation and is President of Cabarrus County Farm Bureau. Mr. Porter serves on the Board Governance Committee.

Jimmy D. Poston, from Johnsonville, South Carolina, owns and operates Triple P Farms together with his brother. His operation consists of 2,500 acres of corn, peanuts, soybeans, tobacco, turf grass, strawberries and timber. Mr. Poston serves on the boards of ArborOne Farm Credit, ACA, Southern Agriculture Alumni, South Carolina Tobacco Growers Association and is a District Commissioner for the Florence County Soil and Water Conservation District. He is a member of the South Carolina Farm Bureau, and the South Carolina Corn and Soybean Growers Associations. Mr. Poston participated in the Phillip Morris Leadership Scholarship Program and the Advanced Phillip Morris Leadership Program. Mr. Poston served on the Board Governance Committee in 2014. Mr. Poston's term expired December 31, 2014.

Robert G. Sexton is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association, co-owner of Lost Legend, LLC, and owner of Orchid Island Juice Company. He serves as a director of Farm Credit of Florida, ACA; Oslo Citrus Growers Association; Lost Legend, LLC; Florida Citrus Packers; Indian River Citrus League; Highland Exchange Service Co-op, a packinghouse supply cooperative; McArthur Management Company, a management company for a large dairy, cattle and citrus agribusiness, and an association borrower; Sexton Grove Holdings, a family citrus company; Sexton Properties, Oslo Packing Company, and Sexton, Inc., family commercial real estate companies. In addition, he is a member of the Indian River Farm Bureau. He obtained both his B.S. degree in business administration and his MBA in finance from the University of Florida. Mr. Sexton served on the Board Audit Committee in 2014 and will serve on the Board Risk Policy Committee in 2015.

Michael T. Stone, owns and operates a 2,300 acre row crop farm with his wife and parents producing corn, wheat, and soybeans. They operate a swine finishing operation under contract with Murphy Brown and own a 65 head cow/calf herd. The family grows 2.5 acres of strawberries and 5 acres of sweet corn to sell at their roadside stand. The family also manages approximately 600 acres of timber. Mr. Stone is a member of Cape Fear Farm Credit, ACA, a director of Southeastern Health hospital, and a director of Dillon Christian School. He is member of North Carolina Farm Bureau Energy and Transportation Committee. Mr. Stone has a BS in Ag Business Management with a minor in Animal Science and a MS in Agriculture from North Carolina State University. Mr. Stone serves on the Board Governance Committee.

Ellis W. Taylor, from Roanoke Rapids, North Carolina, is an owner/operator of a row crop operation, Mush Island Farms, LLC, which consists of cotton, soybeans, wheat, corn and timber. He also is part owner of Roanoke Cotton Company, LLC, which operates three cotton gins and one warehouse. He is a director on the boards of AgCarolina Farm Credit, ACA, and Northampton County Farm Bureau. Mr. Taylor has a BS in Agronomy, a BS in Ag Business Management and a Master's of Economics from North Carolina State University. Mr. Taylor serves on the Board Audit Committee and as chair of the Committee in 2015.

William H. Voss is from McComb, Mississippi. He has commercial cattle, hay and timber operations in Southwest Mississippi and is involved in land and commercial property management. His career includes production agriculture, agribusiness and real estate. He obtained his B.S. degree from the University of Southern Mississippi, and currently serves on the board of directors of First South Farm Credit, ACA. He is a former agricultural commodities and securities broker and has served as Chairman of the Mississippi Real Estate Commission and Chairman of the Pike County Farm Service Committee. Mr. Voss served on the Board Compensation Committee in 2014. Mr. Voss's term expired December 31, 2014.

Committees

The Board has established an audit committee, compensation committee, risk policy committee, and governance committee. All members of the Board, other than the Chairman, serve on a committee. The Chairman of the Board serves as an ex officio member of all Board committees, and the Vice Chairman serves as a member of the Board compensation committee. The Board has one designated financial expert who serves on the audit committee. The responsibilities for each committee are set forth in its respective board approved charter.

Compensation of Directors

Directors were compensated in 2014 in cash at the rate of $56,408 per year, payable at $4,701 per month. This is compensation for attendance at Board meetings, Board committee meetings, certain other meetings pre-approved by the Board, and other duties as assigned. Farm Credit Administration (FCA) regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. In this regard, additional compensation was paid for certain leadership positions on the Board, including the Chairman of the Board, Vice Chairman of the Board, Chair of each Board standing committee as well as to members of the Board audit committee in recognition of greater than normal participation in Board activities. Total cash compensation paid to all directors as a group during 2014 was $1,190,160. Directors received no non-cash compensation during 2014. Additional information for each director who served during 2014 is provided in the following table.

Name of Director	Number of Days Served: Board Meetings	Other Official Activities*	Farm Credit Council Bd. Activities	Total Comp. Paid During 2014
Jack W. Bentley, Jr.**	19.00	15.00	4.00	$ 56,408
James C. Carter, Jr.	19.00	14.75	4.00	56,408
Bonnie V. Hancock	16.00	14.75	4.00	61,408
Curtis R. Hancock, Jr.	19.00	15.00	4.00	56,408
Dale R. Hershey	19.00	15.75	4.00	61,408
Walter C. Hopkins	19.00	18.75	4.00	61,408
Paul M. House	19.00	15.00	4.00	56,408
William K. Jackson	19.00	14.50	4.00	56,408
John S. Langford	19.00	14.50	4.00	66,408
S. Alan Marsh	19.00	14.50	4.00	56,408
James L. May	19.00	11.50	4.00	56,408
Fred R. Moore, Jr.	19.00	16.75	4.00	61,408
James M. Norsworthy, III	19.00	15.75	4.00	61,408
Katherine A. Pace	19.00	16.50	4.00	61,408
Thomas E. Porter, Jr.	19.00	15.00	4.00	56,408
Jimmy D. Poston	19.00	14.75	4.00	56,408
Robert G. Sexton	19.00	13.50	4.00	61,408
Robert H. Spiers, Jr.	19.00	14.50	4.00	68,408
Ellis W. Taylor	19.00	16.75	4.00	61,408
William H. Voss	19.00	12.00	4.00	56,408
Total				$ 1,190,160

* *Other official activities include Board committee meetings and Board training.*
** *Does not include 4.5 days served as Board-appointed member of the AgFirst and AgFirst/FCBT Plan Sponsor Committees.*

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $211,519 for 2014, $226,664 for 2013 and $265,496 for 2012.

Transactions with Senior Officers and Directors

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

Involvement in Certain Legal Proceedings

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

Relationship with Independent Certified Public Accountants

There were no changes in or material disagreements with the Bank's independent certified public accountants on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees expensed by the Bank for services rendered by its independent certified public accountants for the year ended December 31, 2014 were as follows:

	2014
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP	
Audit services	$ 515,467
Audit-related services	3,937
Non-audit services	104,996
Total	$ 624,400

Audit fees of $515,467 were for the annual audits of financial statements of the Bank and District, of which $132,541 related to the 2013 audit. Audit-related fees were for benefit plan audits. Non-audit fees were for agreed upon procedures for Financial Institution Shared Assessments Program, Farmer Mac minimum servicing standards attestation, and agreed upon procedures for Board of Directors elections. Out of pocket expenses are included in the fee amounts reported above.

All non-audit services provided by PwC require pre-approval by the Audit Committee.

Financial Statements

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

Borrower Information Regulations

FCA regulations require that borrower information be held in strict confidence by Farm Credit institutions, their directors, officers, and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

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

Shareholder Investment

Shareholder investment in a District 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 and combined information concerning AgFirst Farm Credit Bank and District Associations are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, Financial Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. This information can also be obtained at the Bank's website, **www.agfirst.com**.The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of each Quarterly Report within 40 days after the end of each fiscal quarter, except that no report is prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

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

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

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

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

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

Ellis W. Taylor

Ellis W. Taylor
Chairman of the Audit Committee

Members of Audit Committee

Curtis R. Hancock, Jr.
James L. May
Fred R. Moore, Jr.
Katherine A. Pace

March 11, 2015

pwc

Report of Independent Certified Public Accountants

To the Board of Directors
of AgFirst Farm Credit Bank

We have audited the accompanying financial statements of AgFirst Farm Credit Bank (the Bank), which comprise the balance sheets as of December 31, 2014, 2013, and 2012, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Certified Public Accountants' Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 11, 2015

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

Balance Sheets

(dollars in thousands)	As of December 31, 2014	2013	2012
Assets			
Cash	**$ 622,503**	$ 1,038,870	$ 723,576
Cash equivalents	**224,847**	144,885	149,589
Investment securities:			
Available for sale (amortized cost of $6,646,772, $6,462,222, and $6,708,382, respectively)	**6,754,419**	6,562,976	6,882,929
Held to maturity (fair value of $686,970, $599,601, and $656,292, respectively)	**659,520**	589,812	601,482
Total investment securities	**7,413,939**	7,152,788	7,484,411
Loans	**20,894,591**	20,201,235	20,209,251
Allowance for loan losses	**(15,535)**	(22,908)	(44,539)
Net loans	**20,879,056**	20,178,327	20,164,712
Accrued interest receivable	**62,973**	63,070	72,549
Accounts receivable	**98,864**	55,933	76,257
Investments in other Farm Credit System institutions	**67,850**	67,466	66,828
Premises and equipment, net	**66,568**	52,599	41,662
Other property owned	**2,808**	9,621	19,477
Other assets	**63,814**	80,783	91,486
Total assets	**$ 29,503,222**	$ 28,844,342	$ 28,890,547
Liabilities			
Systemwide bonds payable	**$ 22,814,656**	$ 24,315,776	$ 24,293,168
Systemwide notes payable	**4,032,590**	1,909,103	1,993,590
Accrued interest payable	**47,375**	54,059	40,681
Accounts payable	**345,342**	368,670	213,591
Other liabilities	**55,852**	49,987	51,287
Total liabilities	**27,295,815**	26,697,595	26,592,317
Commitments and contingencies (Note 11)			
Shareholders' Equity			
Perpetual preferred stock	**125,250**	125,250	275,250
Capital stock and participation certificates	**303,180**	308,972	332,705
Additional paid-in-capital	**36,580**	36,580	36,580
Retained earnings			
Allocated	**692**	726	795
Unallocated	**1,639,757**	1,577,676	1,481,432
Accumulated other comprehensive income (loss)	**101,948**	97,543	171,468
Total shareholders' equity	**2,207,407**	2,146,747	2,298,230
Total liabilities and equity	**$ 29,503,222**	$ 28,844,342	$ 28,890,547

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

Statements of Income

(dollars in thousands)	For the year ended December 31, 2014	2013	2012
Interest Income			
Investment securities and other	**$ 127,276**	$ 145,658	$ 183,166
Loans	**566,546**	589,573	631,806
Total interest income	**693,822**	735,231	814,972
Interest Expense	**209,630**	197,173	209,470
Net interest income	**484,192**	538,058	605,502
Provision for (reversal of allowance for) loan losses	**(8,451)**	(10,589)	14,946
Net interest income after provision for loan losses	**492,643**	548,647	590,556
Noninterest Income			
Loan fees	**8,524**	10,070	11,085
Building lease income	**3,311**	4,355	193
Total other-than-temporary impairment losses	**(74)**	(2,652)	(22,585)
Portion of loss recognized in other comprehensive income	**(1,378)**	33	18,823
Net other-than-temporary impairment losses	**(1,452)**	(2,619)	(3,762)
Gains (losses) on investments, net	**53**	7,592	—
Gains (losses) on called debt	**(7,724)**	(5,360)	(39,445)
Gains (losses) on other transactions	**(16)**	868	1,356
Insurance premium refund	**—**	—	10,363
Other noninterest income	**7,309**	8,152	7,660
Total noninterest income	**10,005**	23,058	(12,550)
Noninterest Expenses			
Salaries and employee benefits	**54,947**	50,857	49,127
Occupancy and equipment	**20,360**	17,919	15,034
Insurance Fund premiums	**9,484**	6,457	4,320
Other operating expenses	**37,916**	39,430	37,456
Losses (gains) from other property owned	**(408)**	(294)	3,459
Total noninterest expenses	**122,299**	114,369	109,396
Net income	**$ 380,349**	$ 457,336	$ 468,610

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

Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2014	2013	2012
Net income	**$ 380,349**	$ 457,336	$ 468,610
Other comprehensive income net of tax:			
Unrealized gains (losses) on investments:			
Other-than-temporarily impaired	**14,651**	18,404	(1,350)
Not other-than-temporarily impaired	**(7,702)**	(92,253)	43,071
Change in value of cash flow hedges	**(837)**	(1,225)	7,080
Employee benefit plans adjustments	**(1,707)**	1,149	(1,330)
Other comprehensive income (Note 7)	**4,405**	(73,925)	47,471
Comprehensive income	**$ 384,754**	$ 383,411	$ 516,081

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

Statements of Changes in Shareholders' Equity

(dollars in thousands)	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Additional Paid-In-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2011	$400,000	$ 405,767	$ —	$ 858	$ 1,218,648	$ 123,997	$ 2,149,270
Comprehensive income					468,610	47,471	516,081
Capital stock/participation certificates issued/(retired), net		(73,745)					(73,745)
Redemption of perpetual preferred stock (Note 7)	(124,750)		36,580				(88,170)
Stock dividends declared/paid		683			(683)		—
Dividends paid on perpetual preferred stock					(17,978)		(17,978)
Cash patronage declared					(187,165)		(187,165)
Retained earnings retired				(63)			(63)
Balance at December 31, 2012	$275,250	$ 332,705	$ 36,580	$ 795	$ 1,481,432	$ 171,468	$ 2,298,230
Comprehensive income					457,336	(73,925)	383,411
Capital stock/participation certificates issued/(retired), net		(24,665)					(24,665)
Redemption of perpetual preferred stock (Note 7)	(150,000)						(150,000)
Stock dividends declared/paid		932			(932)		—
Dividends paid on perpetual preferred stock					(6,347)		(6,347)
Cash patronage declared					(353,813)		(353,813)
Retained earnings retired				(69)			(69)
Balance at December 31, 2013	**$125,250**	**$ 308,972**	**$ 36,580**	**$ 726**	**$ 1,577,676**	**$ 97,543**	**$ 2,146,747**
Comprehensive income					**380,349**	**4,405**	**384,754**
Capital stock/participation certificates issued/(retired), net		**(7,111)**					**(7,111)**
Stock dividends declared/paid		**1,324**			**(1,324)**		**—**
Dividends paid on perpetual preferred stock					**(1,729)**		**(1,729)**
Cash patronage declared					**(315,218)**		**(315,218)**
Retained earnings retired				**(34)**			**(34)**
Patronage distribution adjustment		**(5)**			**3**		**(2)**
Balance at December 31, 2014	**$125,250**	**$ 303,180**	**$ 36,580**	**$ 692**	**$ 1,639,757**	**$ 101,948**	**$ 2,207,407**

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

Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2014	2013	2012
Cash flows from operating activities:			
Net income	**$ 380,349**	$ 457,336	$ 468,610
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	**7,791**	6,858	6,602
Premium amortization (discount accretion) on investment securities	**9,358**	12,983	11,626
(Premium amortization) discount accretion on bonds and notes	**6,289**	6,462	5,350
Provision for (reversal of allowance for) loan losses	**(8,451)**	(10,589)	14,946
(Gains) losses on other property owned, net	**(939)**	(519)	2,966
Net impairment losses on investments	**1,452**	2,619	3,762
(Gains) losses on investments, net	**(53)**	(7,592)	—
(Gains) losses on other transactions	**16**	(868)	(1,356)
Net change in loans held for sale	**9,507**	23,590	26,447
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**97**	9,479	6,357
(Increase) decrease in accounts receivable	**(42,931)**	20,324	(8,067)
(Increase) decrease in other assets	**5,721**	(3,167)	(3,347)
Increase (decrease) in accrued interest payable	**(6,684)**	13,378	(1,737)
Increase (decrease) in accounts payable	**5,080**	(12,531)	(6,879)
Increase (decrease) in other liabilities	**4,304**	1,835	(22,489)
Total adjustments	**(9,443)**	62,262	34,181
Net cash provided by (used in) operating activities	**370,906**	519,598	502,791
Cash flows from investing activities:			
Investment securities purchased	**(1,722,885)**	(1,842,621)	(1,427,265)
Investment securities sold or matured	**1,457,090**	2,091,160	1,756,539
Net (increase) decrease in loans	**(703,691)**	(43,195)	(88,930)
(Increase) decrease in investments in other Farm Credit System institutions	**(384)**	(638)	(864)
Purchase of premises and equipment, net	**(21,684)**	(17,814)	(33,252)
Proceeds from sale of other property owned	**9,420**	25,857	28,238
Net cash provided by (used in) investing activities	**(982,134)**	212,749	234,466
Cash flows from financing activities:			
Bonds and notes issued	**22,223,647**	21,360,584	40,927,927
Bonds and notes retired	**(21,596,321)**	(21,415,057)	(41,721,724)
Capital stock and participation certificates issued/retired, net	**(7,111)**	(24,665)	(73,745)
Cash distribution to shareholders	**(343,629)**	(186,203)	(191,908)
Redemption of perpetual preferred stock	**—**	(150,000)	(88,170)
Dividends paid on perpetual preferred stock	**(1,729)**	(6,347)	(17,978)
Retained earnings retired	**(34)**	(69)	(63)
Net cash provided by (used in) financing activities	**274,823**	(421,757)	(1,165,661)
Net increase (decrease) in cash and cash equivalents	**(336,405)**	310,590	(428,404)
Cash and cash equivalents, beginning of period	**1,183,755**	873,165	1,301,569
Cash and cash equivalents, end of period	**$ 847,350**	$ 1,183,755	$ 873,165
Supplemental schedule of non-cash investing and financing activities:			
Receipt of property in settlement of loans	**$ 1,668**	$ 15,482	$ 6,524
Change in unrealized gains (losses) on investments, net	**6,949**	(73,849)	41,721
Change in fair value of derivative instruments	**—**	—	319
Employee benefit plans adjustments	**1,707**	(1,149)	1,330
Non-cash changes related to interest rate hedging activities:			
Increase (decrease) in bonds and notes	**$ (11,248)**	$ (13,870)	$ (10,943)
Decrease (increase) in other assets	**11,248**	13,870	10,943
Supplemental information:			
Interest paid	**$ 210,025**	$ 177,333	$ 205,857

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

Notes to the Financial Statements

Note 1 — Organization and Operations

Organization: AgFirst Farm Credit Bank (the Bank or AgFirst) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers. The Bank is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of Ohio, Tennessee, Kentucky and Louisiana.

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

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB) (collectively, the System Banks), each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities. The System Banks obtain a substantial majority of the funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion from internally generated earnings, the issuance of common and preferred stock and, to a lesser extent, the issuance of subordinated debt.

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

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

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

Premiums are charged based upon each bank's pro rata share of outstanding Insured Debt. Premiums of up to 20 basis points on adjusted Insured Debt obligations can be assessed along with a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments. For 2014, 2013 and 2012, the premium was 12, 10, and 5 basis points, respectively. Effective January 1, 2015, the premium was increased to 13 basis points.

The Bank owned the Farm Credit Finance Corporation of Puerto Rico (the Finance Corporation) whose operations were suspended and placed into inactive status effective December 31, 2005. The Finance Company was dissolved June 30, 2012.

AgFirst, in conjunction with other System Banks, jointly owns organizations that were created to provide a variety of services for the System:

- Federal Farm Credit Banks Funding Corporation (Funding Corporation) – provides for the issuance, marketing and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.
- FCS Building Association – leases premises and equipment to the FCA.
- Farm Credit System Association Captive Insurance Company – being a reciprocal insurer, provides insurance services to its member organizations.

In addition, the Farm Credit Council acts as a full-service federated trade association, which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA, which then changed its name to Farm Credit of Florida, ACA. Effective July 1, 2012, Chattanooga, ACA, merged with and into Jackson Purchase, ACA, which then changed its name to River Valley AgCredit, ACA, reducing the number of Associations in the District to nineteen.

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

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

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

In addition to providing loan funds, the Bank provides District Associations with banking and support services such as: accounting, human resources, information systems, and marketing. The costs of these support services are included in the interest charges to the

Associations, or in some cases billed directly to certain Associations that use a specific service.

The Bank is also authorized to provide, in participation with other lenders and the secondary market, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses. The Bank may also lend to other financial institutions qualified to engage in lending to eligible borrowers.

Note 2 — Summary of Significant Accounting Policies

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

The accompanying Financial Statements include the accounts of the Bank, and reflect the investments in and allocated earnings of the service organizations in which the Bank has partial ownership interests. There were no transactions or balances between the Bank and the Finance Corporation for the years presented.

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

A. **Cash and Cash Equivalents:** Cash and Cash Equivalents include cash on hand and short-term investments with original maturities of three months or less.

B. **Loans and Allowance for Loan Losses:** The loan portfolio includes Direct Notes, loan participations/syndications purchased, Correspondent Lending loans (primarily first lien rural residential mortgages), and loans to OFIs.

   Long-term real estate mortgage loans generally have original maturities up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

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

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

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

   When loans are in nonaccrual status, if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash is generally recognized as interest income. Otherwise, loan payments are applied against the recorded investment in the loan asset. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss."

   Loans are charged off at the time they are determined to be uncollectible.

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

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

   Certain loan pools acquired from several of the District Associations are analyzed in accordance with the selling Association's allowance methodologies for assigning general and specific allowances.

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

   - Credit risk classifications,
   - Collateral values,
   - Risk concentrations,
   - Weather related conditions,
   - Current production and economic conditions, and
   - Prior loan loss experience.

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

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

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

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

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

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

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

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense and improvements that extend the useful life of the asset are capitalized.

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

F. **Investments:** The Bank holds investments and investment securities as described below.

Investments in Other Farm Credit System Institutions
Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are accounted for using the cost method and are analyzed for impairment similar to investment securities as discussed in the section below.

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

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

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

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

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

G. **Debt Issuance Cost:** Direct expenses incurred in issuing debt and mandatorily redeemable preferred stock are deferred and amortized using the straight-line method (which approximates the interest method) over the term of the related indebtedness or term of the mandatorily redeemable preferred stock.

H. **Employee Benefit Plans:** Employees participate in District and multi-District sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

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

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

Multi-Employer Defined Benefit Plans
Substantially all employees may participate in one or more defined benefit plans. The Plans are noncontributory and include eligible Bank and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. The actuarially-determined costs of the Plans are allocated to each participating entity by multiplying the Plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plan participants. The cumulative excess of amounts funded by the Bank over the cost allocated to the Bank is reflected as prepaid retirement expense, a component of Other Assets in the Bank's Balance Sheets.

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

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

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

Single Employer Defined Benefit Plans
The Bank also sponsors a defined benefit postretirement plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Bank applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements.

See Note 9 for additional information.

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

J. **Derivative Instruments and Hedging Activity:** The Bank is party to derivative financial instruments, primarily interest rate swaps, which are principally used to reduce funding costs. The Bank may also enter into forward contracts to create a fixed purchase price. Derivatives are included in the Balance Sheets as assets and liabilities and reflected at fair value.

Changes in the fair value of a derivative are recorded in current period earnings or Accumulated Other Comprehensive Income (AOCI) depending on the risk being hedged. For fair-value hedge transactions, which hedge changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value and changes reported in earnings. For cash-flow hedge transactions, which hedge the variability of future cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in AOCI. The gains and losses on the derivative that are deferred and reported in AOCI will be reclassified into earnings in the periods during which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recorded in current period earnings. For derivatives not designated as a hedging instrument, if any, the related change in fair value is recorded in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or (2) firm commitments or forecasted transactions. The Bank also formally assesses at the hedge's inception whether the derivatives that are used in hedging transactions will be highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Bank uses regression analysis (or other statistical analysis) to assess the effectiveness of its hedges on an ongoing basis. The Bank discontinues hedge accounting prospectively when the Bank determines that a derivative has not been or is not expected to be effective as a hedge. For cash flow hedges, any remaining AOCI would be amortized into earnings over the remaining life of the original hedged item. For fair value hedges, changes in the fair value of the derivative would be recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

The Bank may occasionally purchase a financial instrument in which a derivative instrument is "embedded." Upon purchasing the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and may be designated as either a fair value or cash flow hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

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

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Level 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

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

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

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

Please see further discussion in Note 8.

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

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

- Direct Notes — direct loans to District Associations (see further discussion in Note 1).
- Real estate mortgage loans — generally to purchase farm real estate, refinance existing mortgages, construct various facilities used in agricultural operations, or purchase other rural residential/lifestyle real estate for both full-time and part-time farmers. In addition, credit for other agricultural purposes and family needs is available to full-time and part-time farmers. Real estate mortgage loans generally have maturities ranging from five to thirty years and must be secured by first liens on the real estate. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — for operating funds, equipment and other purposes. Eligible financing needs include operating inputs (such as labor, feed, fertilizer, and repairs), livestock, family living expenses, income taxes, debt payments on machinery or equipment, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically less than 12 months. Intermediate-term loans typically finance depreciable capital assets of a farm or ranch. Examples of the uses of intermediate-term loans are to purchase or refinance farm machinery, vehicles, equipment, breeding livestock, or farm buildings, to make improvements, or to provide working capital. Intermediate-term loans are made for a specific term, generally 10 years or less. These loans may be made on a secured or unsecured basis, but are normally secured.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, energy, and water and waste disposal.
- Processing and marketing loans — for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.
- Rural residential real estate loans — to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans must be secured by a first lien on the property, except that it may be secured by a second lien if the institution also holds the first lien on the property.
- Communication loans — primarily to finance rural communication companies.
- Energy loans — primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases (such as direct financing leases, leveraged leases, and sales-type leases) where the Bank is the lessor.
- Loans to OFIs — loans to other financing institutions with which the Bank has a lending relationship.
- Other (including Mission Related) — In addition to making loans to accomplish the System's Congressionally mandated mission to finance agriculture and rural America, the Bank may make investments in rural America to address the diverse needs of agriculture and rural communities across the country. The FCA approves these investments on a program or a case-by-case basis. Examples of investment programs that the FCA will consider include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding follows:

	December 31,		
(dollars in thousands)	**2014**	**2013**	**2012**
Direct notes	$ 14,281,165	$ 13,990,178	$ 13,833,602
Real estate mortgage	1,024,693	971,017	1,093,845
Production and intermediate-term	1,193,281	1,215,480	1,299,763
Loans to cooperatives	223,074	202,142	183,466
Processing and marketing	846,318	610,065	715,592
Farm-related business	177,453	141,530	128,680
Communication	184,405	198,546	207,852
Energy and water/waste disposal	433,738	453,361	488,416
Rural residential real estate	2,424,554	2,324,956	2,186,390
Loans to OFIs	95,512	83,116	60,479
Other (including Mission Related)	10,398	10,844	11,166
Total Loans	$ 20,894,591	$ 20,201,235	$ 20,209,251

A substantial portion of the Bank's loan portfolio consists of notes receivable from District Associations. As described in Note 1, these notes are used by the Associations to fund their loan portfolios, which collateralize the notes. Therefore, the Bank's concentration of credit risk in various agricultural commodities associated with these notes approximates that of the District as a whole. Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities, which would cause them to be similarly impacted by economic or other conditions. A substantial portion of the Associations' lending activities is collateralized, and their exposure to credit loss associated with lending activities is reduced accordingly, which further mitigates credit risk to the Bank.

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

	December 31, 2014							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct notes	$ –	$ –	$ –	$ 210,159	$ –	$ –	$ –	$ 210,159
Real estate mortgage	747,721	35,858	242,481	17,238	14,141	–	1,004,343	53,096
Production and intermediate-term	1,004,778	212,776	468,083	200,639	143,883	7,500	1,616,744	420,915
Loans to cooperatives	15,847	2,231	204,054	–	6,000	–	225,901	2,231
Processing and marketing	99,595	352,606	536,859	166,120	739,839	5,000	1,376,293	523,726
Farm-related business	37,134	37,677	96,366	–	82,193	–	215,693	37,677
Communication	–	67,861	252,729	–	–	–	252,729	67,861
Energy and water/waste disposal	–	14,622	443,627	–	6,525	–	450,152	14,622
Rural residential real estate	191	–	–	–	–	–	191	–
Other (including Mission Related)	10,545	–	–	–	–	–	10,545	–
Total	$ 1,915,811	$ 723,631	$ 2,244,199	$ 594,156	$ 992,581	$ 12,500	$ 5,152,591	$ 1,330,287

	December 31, 2013							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct notes	$ –	$ –	$ –	$ 200,000	$ –	$ –	$ –	$ 200,000
Real estate mortgage	780,538	33,918	163,856	30,554	15,607	–	960,001	64,472
Production and intermediate-term	1,137,162	210,211	346,781	220,747	185,446	18,333	1,669,389	449,291
Loans to cooperatives	4,409	4,425	188,961	–	13,942	–	207,312	4,425
Processing and marketing	45,388	282,395	371,087	17,685	497,901	–	914,376	300,080
Farm-related business	31,081	21,075	89,209	–	43,089	–	163,379	21,075
Communication	–	63,728	253,034	–	9,950	–	262,984	63,728
Energy and water/waste disposal	–	22,357	470,753	–	6,870	–	477,623	22,357
Rural residential real estate	202	–	–	–	–	–	202	–
Other (including Mission Related)	10,911	–	–	–	–	–	10,911	–
Total	$ 2,009,691	$ 638,109	$ 1,883,681	$ 468,986	$ 772,805	$ 18,333	$ 4,666,177	$ 1,125,428

	December 31, 2012							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Direct notes	$ –	$ –	$ –	$ 200,000	$ –	$ –	$ –	$ 200,000
Real estate mortgage	912,209	37,325	126,184	17,724	16,844	–	1,055,237	55,049
Production and intermediate-term	1,205,548	193,837	324,578	195,659	162,896	–	1,693,022	389,496
Loans to cooperatives	4,633	11,116	181,041	–	10,000	–	195,674	11,116
Processing and marketing	83,780	245,475	358,943	36,731	563,424	4,053	1,006,147	286,259
Farm-related business	26,006	26,552	97,630	–	32,293	–	155,929	26,552
Communication	–	74,577	283,382	–	–	–	283,382	74,577
Energy and water/waste disposal	86	24,854	507,647	–	7,204	–	514,937	24,854
Rural residential real estate	334	–	–	–	–	–	334	–
Other (including Mission Related)	46,474	12,494	–	19,776	–	2,910	46,474	35,180
Total	$ 2,279,070	$ 626,230	$ 1,879,405	$ 469,890	$ 792,661	$ 6,963	$ 4,951,136	$ 1,103,083

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

	December 31,			
(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Direct notes	$ 613,614	$ 2,984,582	$ 10,682,969	$ 14,281,165
Real estate mortgage	55,383	297,834	671,476	1,024,693
Production and intermediate-term	259,240	694,097	239,944	1,193,281
Loans to cooperatives	60,739	104,373	57,962	223,074
Processing and marketing	22,012	491,823	332,483	846,318
Farm-related business	16,520	118,344	42,589	177,453
Communication	–	180,961	3,444	184,405
Energy and water/waste disposal	51,624	132,402	249,712	433,738
Rural residential real estate	837	4,428	2,419,289	2,424,554
Loans to OFIs	94,762	–	750	95,512
Other (including Mission Related)	–	238	10,160	10,398
Total Loans	$ 1,174,731	$ 5,009,082	$ 14,710,778	$ 20,894,591
Percentage	5.62%	23.97%	70.41%	100.00%

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

	2014	2013	2012
Direct notes:			
Acceptable	94.71%	85.96%	90.12%
OAEM	5.29	9.23	3.39
Substandard/doubtful/loss	–	4.81	6.49
	100.00%	100.00%	100.00%
Real estate mortgage:			
Acceptable	88.72%	88.50%	86.49%
OAEM	5.61	3.77	7.27
Substandard/doubtful/loss	5.67	7.73	6.24
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	92.93%	88.34%	81.16%
OAEM	4.88	4.95	5.94
Substandard/doubtful/loss	2.19	6.71	12.90
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	99.41%	100.00%	99.53%
OAEM	0.59	–	0.47
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	99.24%	99.99%	93.28%
OAEM	–	–	2.05
Substandard/doubtful/loss	0.76	0.01	4.67
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	98.72%	97.78%	97.96%
OAEM	1.28	2.22	1.86
Substandard/doubtful/loss	–	–	0.18
	100.00%	100.00%	100.00%

	2014	2013	2012
Communication:			
Acceptable	96.93%	100.00%	100.00%
OAEM	3.07	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Energy and water/waste disposal:			
Acceptable	90.96%	100.00%	100.00%
OAEM	9.04	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	99.92%	99.97%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	0.08	0.03	–
	100.00%	100.00%	100.00%
Loans to OFIs:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Other (including Mission Related):			
Acceptable	100.00%	96.98%	97.73%
OAEM	–	–	–
Substandard/doubtful/loss	–	3.02	2.27
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	95.16%	89.00%	91.03%
OAEM	4.40	6.89	3.19
Substandard/doubtful/loss	0.44	4.11	5.78
	100.00%	100.00%	100.00%

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

	December 31, 2014					
(dollars in thousands)	**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**
Direct notes	$ –	$ –	$ –	$ 14,308,680	$ 14,308,680	$ –
Real estate mortgage	2,783	18,041	20,824	1,010,656	1,031,480	306
Production and intermediate-term	3,350	2,647	5,997	1,192,281	1,198,278	–
Loans to cooperatives	–	–	–	223,476	223,476	–
Processing and marketing	–	1,229	1,229	846,933	848,162	–
Farm-related business	–	–	–	177,912	177,912	–
Communication	–	–	–	184,566	184,566	–
Energy and water/waste disposal	–	–	–	435,673	435,673	–
Rural residential real estate	34,973	4,155	39,128	2,393,986	2,433,114	2,382
Loans to OFIs	–	–	–	95,646	95,646	–
Other (including Mission Related)	–	–	–	10,516	10,516	–
Total	$ 41,106	$ 26,072	$ 67,178	$ 20,880,325	$ 20,947,503	$ 2,688

	December 31, 2013					
(dollars in thousands)	**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**
Direct notes	$ –	$ –	$ –	$ 14,018,100	$ 14,018,100	$ –
Real estate mortgage	1,196	31,818	33,014	943,672	976,686	564
Production and intermediate-term	121	2,266	2,387	1,218,757	1,221,144	–
Loans to cooperatives	–	–	–	202,701	202,701	–
Processing and marketing	6	1,229	1,235	610,229	611,464	–
Farm-related business	–	–	–	141,930	141,930	–
Communication	–	–	–	198,721	198,721	–
Energy and water/waste disposal	–	–	–	454,410	454,410	–
Rural residential real estate	38,526	3,057	41,583	2,291,609	2,333,192	1,651
Loans to OFIs	–	–	–	83,228	83,228	–
Other (including Mission Related)	–	–	–	10,965	10,965	–
Total	$ 39,849	$ 38,370	$ 78,219	$ 20,174,322	$ 20,252,541	$ 2,215

	December 31, 2012					
(dollars in thousands)	**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**
Direct notes	$ –	$ –	$ –	$ 13,861,790	$ 13,861,790	$ –
Real estate mortgage	3,704	28,405	32,109	1,069,796	1,101,905	94
Production and intermediate-term	3,949	28,441	32,390	1,274,741	1,307,131	–
Loans to cooperatives	–	–	–	184,005	184,005	–
Processing and marketing	298	10,927	11,225	706,252	717,477	–
Farm-related business	–	–	–	128,893	128,893	–
Communication	–	–	–	208,156	208,156	–
Energy and water/waste disposal	–	–	–	489,532	489,532	–
Rural residential real estate	43,036	2,824	45,860	2,150,193	2,196,053	2,312
Loans to OFIs	–	–	–	60,544	60,544	–
Other (including Mission Related)	–	11	11	11,262	11,273	58
Total	$ 50,987	$ 70,608	$ 121,595	$ 20,145,164	$ 20,266,759	$ 2,464

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

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

	December 31,		
(dollars in thousands)	2014	2013	2012
Nonaccrual loans:			
Real estate mortgage	$ 40,257	$ 47,017	$ 33,388
Production and intermediate-term	6,123	10,188	33,941
Processing and marketing	–	–	10,927
Rural residential real estate	2,786	2,389	1,952
Total	$ 49,166	$ 59,594	$ 80,208
Accruing restructured loans:			
Real estate mortgage	$ 3,594	$ 4,218	$ 4,444
Production and intermediate-term	6,522	–	–
Rural residential real estate	975	–	–
Other (including Mission Related)	4,497	4,582	–
Total	$ 15,588	$ 8,800	$ 4,444
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 306	$ 564	$ 94
Rural residential real estate	2,382	1,651	2,312
Other (including Mission Related)	–	–	58
Total	$ 2,688	$ 2,215	$ 2,464
Total nonperforming loans	$ 67,442	$ 70,609	$ 87,116
Other property owned	2,808	9,621	19,477
Total nonperforming assets	$ 70,250	$ 80,230	$ 106,593
Nonaccrual loans as a percentage of total loans	0.24%	0.30%	0.40%
Nonperforming assets as a percentage of total loans and other property owned	0.34%	0.40%	0.53%
Nonperforming assets as a percentage of capital	3.18%	3.74%	4.64%

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

	December 31,		
(dollars in thousands)	2014	2013	2012
Impaired nonaccrual loans:			
Current as to principal and interest	$ 21,376	$ 23,234	$ 6,812
Past due	27,790	36,360	73,396
Total impaired nonaccrual loans	49,166	59,594	80,208
Impaired accrual loans:			
Restructured	15,588	8,800	4,444
90 days or more past due	2,688	2,215	2,464
Total impaired accrual loans	18,276	11,015	6,908
Total impaired loans	$ 67,442	$ 70,609	$ 87,116

Additional impaired loan information at period end is summarized as follows:

(dollars in thousands)	December 31, 2014			Year Ended December 31, 2014	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses					
Real estate mortgage	$ 13,911	$ 22,264	$ 2,605	$ 14,714	$ 52
Production and intermediate-term	4,921	6,441	1,165	6,546	2
Processing and marketing	–	–	–	–	–
Rural residential real estate	89	89	15	123	–
Other (including Mission Related)	4,438	4,451	153	4,074	279
Total	$ 23,359	$ 33,245	$ 3,938	$ 25,457	$ 333
With no related allowance for credit losses					
Real estate mortgage	$ 30,246	$ 50,087	$ –	$ 30,368	$ 205
Production and intermediate-term	7,724	8,343	–	3,765	698
Processing and marketing	–	1,229	–	7	–
Rural residential real estate	6,054	6,003	–	6,341	209
Other (including Mission Related)	59	–	–	503	–
Total	$ 44,083	$ 65,662	$ –	$ 40,984	$ 1,112
Total					
Real estate mortgage	$ 44,157	$ 72,351	$ 2,605	$ 45,082	$ 257
Production and intermediate-term	12,645	14,784	1,165	10,311	700
Processing and marketing	–	1,229	–	7	–
Rural residential real estate	6,143	6,092	15	6,464	209
Other (including Mission Related)	4,497	4,451	153	4,577	279
Total	$ 67,442	$ 98,907	$ 3,938	$ 66,441	$ 1,445

(dollars in thousands)	December 31, 2013			Year Ended December 31, 2013	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses					
Real estate mortgage	$ 24,138	$ 32,509	$ 6,276	$ 19,141	$ –
Production and intermediate-term	8,715	12,779	2,099	18,906	14
Processing and marketing	–	–	–	5,192	–
Rural residential real estate	–	–	–	169	–
Other (including Mission Related)	4,557	4,535	153	903	–
Total	$ 37,410	$ 49,823	$ 8,528	$ 44,311	$ 14
With no related allowance for credit losses					
Real estate mortgage	$ 27,661	$ 43,909	$ –	$ 27,311	$ 257
Production and intermediate-term	1,473	2,052	–	8,370	374
Processing and marketing	–	1,228	–	2,368	–
Rural residential real estate	4,040	4,040	–	4,338	104
Other (including Mission Related)	25	–	–	347	284
Total	$ 33,199	$ 51,229	$ –	$ 42,734	$ 1,019
Total					
Real estate mortgage	$ 51,799	$ 76,418	$ 6,276	$ 46,452	$ 257
Production and intermediate-term	10,188	14,831	2,099	27,276	388
Processing and marketing	–	1,228	–	7,560	–
Rural residential real estate	4,040	4,040	–	4,507	104
Other (including Mission Related)	4,582	4,535	153	1,250	284
Total	$ 70,609	$ 101,052	$ 8,528	$ 87,045	$ 1,033

(dollars in thousands)	December 31, 2012			Year Ended December 31, 2012	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses					
Real estate mortgage	$ 19,120	$ 20,249	$ 4,970	$ 17,922	$ –
Production and intermediate-term	30,386	33,872	15,747	23,113	–
Processing and marketing	10,880	10,880	3,430	6,221	–
Rural residential real estate	–	–	–	68	–
Other (including Mission Related)	–	–	–	140	–
Total	$ 60,386	$ 65,001	$ 24,147	$ 47,464	$ –
With no related allowance for credit losses					
Real estate mortgage	$ 18,806	$ 39,694	$ –	$ 21,116	$ 982
Production and intermediate-term	3,555	5,166	–	12,133	1,184
Processing and marketing	47	1,228	–	6,119	837
Rural residential real estate	4,264	4,264	–	5,585	172
Other (including Mission Related)	58	–	–	670	36
Total	$ 26,730	$ 50,352	$ –	$ 45,623	$ 3,211
Total					
Real estate mortgage	$ 37,926	$ 59,943	$ 4,970	$ 39,038	$ 982
Production and intermediate-term	33,941	39,038	15,747	35,246	1,184
Processing and marketing	10,927	12,108	3,430	12,340	837
Rural residential real estate	4,264	4,264	–	5,653	172
Other (including Mission Related)	58	–	–	810	36
Total	$ 87,116	$ 115,353	$ 24,147	$ 93,087	$ 3,211

Unpaid principal balance represents the contractual principal balance of the loan.

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at any of the period ends presented.

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

	Year Ended December 31,		
(dollars in thousands)	**2014**	**2013**	**2012**
Interest income which would have been recognized under the original loan terms	$ 8,064	$ 8,322	$ 9,488
Less: interest income recognized	1,302	996	3,121
Foregone interest income	$ 6,762	$ 7,326	$ 6,367

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

(dollars in thousands)	Direct Note	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Other**	Total
Activity related to the allowance from credit losses:									
Balance at December 31, 2013	$ –	$ 9,681	$ 8,763	$ 1,933	$ 497	$ 823	$ 1,052	$ 159	$ 22,908
Charge-offs	–	(46)	(326)	–	–	–	(188)	–	(560)
Recoveries	–	492	908	–	–	–	–	238	1,638
Provision for loan losses	–	(5,018)	(4,819)	846	82	509	54	(105)	(8,451)
Balance at December 31, 2014	$ –	$ 5,109	$ 4,526	$ 2,779	$ 579	$ 1,332	$ 918	$ 292	$ 15,535
Balance at December 31, 2012	$ –	$ 9,548	$ 26,933	$ 6,510	$ 405	$ 764	$ 1	$ 378	$ 44,539
Charge-offs	–	(1,040)	(8,455)	(3,782)	–	–	(413)	–	(13,690)
Recoveries	–	2,091	190	320	–	–	–	47	2,648
Provision for loan losses	–	(3,513)	(7,310)	(1,115)	92	59	1,464	(266)	(10,589)
Loan type reclassification	–	2,595	(2,595)	–	–	–	–	–	–
Balance at December 31, 2013	$ –	$ 9,681	$ 8,763	$ 1,933	$ 497	$ 823	$ 1,052	$ 159	$ 22,908
Balance at December 31, 2011	$ –	$ 8,882	$ 12,654	$ 4,974	$ 233	$ 305	$ 37	$ 629	$ 27,714
Charge-offs	–	(5,186)	(4,329)	(42)	–	–	(212)	(365)	(10,134)
Recoveries	–	3,689	8,318	–	–	–	–	6	12,013
Provision for loan losses	–	2,163	10,290	1,578	172	459	176	108	14,946
Balance at December 31, 2012	$ –	$ 9,548	$ 26,933	$ 6,510	$ 405	$ 764	$ 1	$ 378	$ 44,539
Allowance on loans evaluated for impairment:									
Individually	$ –	$ 2,605	$ 1,165	$ –	$ –	$ –	$ 15	$ 153	$ 3,938
Collectively	–	2,504	3,361	2,779	579	1,332	903	139	11,597
Balance at December 31, 2014	$ –	$ 5,109	$ 4,526	$ 2,779	$ 579	$ 1,332	$ 918	$ 292	$ 15,535
Individually	$ –	$ 6,276	$ 2,099	$ –	$ –	$ –	$ –	$ 153	$ 8,528
Collectively	–	3,405	6,664	1,933	497	823	1,052	6	14,380
Balance at December 31, 2013	$ –	$ 9,681	$ 8,763	$ 1,933	$ 497	$ 823	$ 1,052	$ 159	$ 22,908
Individually	$ –	$ 4,970	$ 15,747	$ 3,430	$ –	$ –	$ –	$ –	$ 24,147
Collectively	–	4,578	11,186	3,080	405	764	1	378	20,392
Balance at December 31, 2012	$ –	$ 9,548	$ 26,933	$ 6,510	$ 405	$ 764	$ 1	$ 378	$ 44,539
Recorded investment in loans evaluated for impairment:									
Individually	$ 14,308,680	$ 120,357	$ 12,625	$ –	$ –	$ –	$ 1,976,124	$ 4,438	$ 16,422,224
Collectively	–	911,123	1,185,653	1,249,550	184,566	435,673	456,990	101,724	4,525,279
Ending balance at December 31, 2014	$ 14,308,680	$ 1,031,480	$ 1,198,278	$ 1,249,550	$ 184,566	$ 435,673	$ 2,433,114	$ 106,162	$ 20,947,503
Individually	$ 14,018,100	$ 152,567	$ 81,899	$ 86	$ –	$ –	$ 2,316,505	$ 4,557	$ 16,573,714
Collectively	–	824,119	1,139,245	956,009	198,721	454,410	16,687	89,636	3,678,827
Ending balance at December 31, 2013	$ 14,018,100	$ 976,686	$ 1,221,144	$ 956,095	$ 198,721	$ 454,410	$ 2,333,192	$ 94,193	$ 20,252,541
Individually	$ 13,861,790	$ 125,908	$ 33,988	$ 10,927	$ –	$ –	$ 2,195,718	$ –	$ 16,228,331
Collectively	–	975,997	1,273,143	1,019,448	208,156	489,532	335	71,817	4,038,428
Ending balance at December 31, 2012	$ 13,861,790	$ 1,101,905	$ 1,307,131	$ 1,030,375	$ 208,156	$ 489,532	$ 2,196,053	$ 71,817	$ 20,266,759

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

To mitigate risk of loan losses, the Bank and Associations may enter into guarantee arrangements with certain government-sponsored enterprises (GSEs), including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Bank or the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $3.692 billion, $3.872 billion, and $3.921 billion at December 31, 2014, 2013, and 2012, respectively. Fees paid for such guarantee commitments totaled $7.3 million, $11.0 million, and $10.7 million for 2014, 2013, and 2012, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of modifications that occurred during the periods presented. The tables do not include any purchased credit impaired loans.

(dollars in thousands)	Year Ended December 31, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 293	$ –	$ 293	
Production and intermediate-term	–	6,652	–	6,652	
Total	$ –	$ 6,945	$ –	$ 6,945	
Post-modification:					
Real estate mortgage	$ –	$ 293	$ –	$ 293	$ –
Production and intermediate-term	–	6,652	–	6,652	–
Total	$ –	$ 6,945	$ –	$ 6,945	$ –

(dollars in thousands)	Year Ended December 31, 2013				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 15,575	$ 2,488	$ –	$ 18,063	
Production and intermediate-term	–	–	–	–	
Other (including Mission Related)	–	4,535	–	4,535	
Total	$ 15,575	$ 7,023	$ –	$ 22,598	
Post-modification:					
Real estate mortgage	$ 10,365	$ 2,488	$ –	$ 12,853	$ (7,824)
Production and intermediate-term	2,499	–	–	2,499	–
Other (including Mission Related)	–	4,535	–	4,535	–
Total	$ 12,864	$ 7,023	$ –	$ 19,887	$ (7,824)

(dollars in thousands)	Year Ended December 31, 2012				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 4,492	$ –	$ 4,492	
Production and intermediate-term	–	1,608	–	1,608	
Processing and marketing	–	10,883	–	10,883	
Total	$ –	$ 16,983	$ –	$ 16,983	
Post-modification:					
Real estate mortgage	$ –	$ 4,492	$ –	$ 4,492	$ –
Production and intermediate-term	–	1,608	–	1,608	–
Processing and marketing	–	10,883	–	10,883	–
Total	$ –	$ 16,983	$ –	$ 16,983	$ –

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.

	Year Ended December 31,		
(dollars in thousands)	**2014**	**2013**	**2012**
Defaulted troubled debt restructurings:			
Real estate mortgage	$ 503	$ –	$ 3,935
Production and intermediate-term	–	–	635
Total	$ 503	$ –	$ 4,570

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

	Total TDRs			**Nonaccrual TDRs**		
	December 31,			**December 31,**		
(dollars in thousands)	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
Real estate mortgage	$ 21,096	$ 24,861	$ 18,686	$ 17,502	$ 20,643	$ 14,242
Production and intermediate-term	8,039	7,393	8,489	1,517	7,393	8,489
Processing and marketing	–	–	10,880	–	–	10,880
Rural residential real estate	1,726	–	–	751	–	–
Other (including Mission Related)	4,497	4,582	–	–	–	–
Total	$ 35,358	$ 36,836	$ 38,055	$ 19,770	$ 28,036	$ 33,611
Additional commitments to lend	$ 2,893	$ 2,325	$ 13,938			

Note 4 — Investments

Other Farm Credit System Institutions
Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are accounted for using the cost method.

Investment Securities
AgFirst's investments consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential and commercial mortgages. They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

Included in the available-for-sale investments are non-agency collateralized mortgage obligations (CMOs) and asset backed securities (ABSs). These securities must meet the applicable FCA regulatory guidelines, which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, priority of payments for senior classes over junior classes, or bond insurance. All of the non-agency securities owned have one or more credit enhancement features.

The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to provide notification to the FCA when a security becomes ineligible. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at December 31, 2014 had a fair value of $151.9 million and $34.8 million, respectively.

Held-to-maturity investments consist of Mission Related Investments, acquired primarily under the Rural Housing Mortgage-Backed Securities (RHMS) and Rural America Bond (RAB) pilot programs. RHMS must be fully guaranteed by a government agency or government sponsored enterprise. RABs are private placement securities, which generally have some form of credit enhancement.

In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At December 31, 2014, the Bank held two Rural America Bonds whose credit quality had deteriorated beyond the program limits.

Effective December 31, 2014, the FCA ended each pilot program approved after 2004 as part of the Investment in Rural America program. Each institution participating in such programs may continue to hold its investment through the maturity dates for the investments, provided the institution continues to meet all approval conditions. The FCA can consider future participation in these programs on a case-by-case basis.

Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments follows:

	December 31, 2014				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Guaranteed	$ 3,774,428	$ 91,316	$ (6,538)	$ 3,859,206	1.85%
U.S. Govt. Agency Guaranteed	2,400,460	21,608	(6,537)	2,415,531	0.84
Non-Agency CMOs (a)	171,290	23	(18,302)	153,011	0.64
Non-Agency ABSs	300,594	26,523	(446)	326,671	0.87
Total	$ 6,646,772	$ 139,470	$ (31,823)	$ 6,754,419	1.41%

	December 31, 2013				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Guaranteed	$ 4,499,265	$ 109,799	$ (5,992)	$4,603,072	1.97%
U.S. Govt. Agency Guaranteed	1,741,732	20,351	(14,463)	1,747,620	1.04
Non-Agency CMOs (b)	200,246	18	(26,778)	173,486	0.63
Non-Agency ABSs	20,979	18,502	(683)	38,798	6.38
Total	$ 6,462,222	$ 148,670	$ (47,916)	$6,562,976	1.69%

	December 31, 2012				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Guaranteed	$ 4,814,556	$ 198,488	$ (12,431)	$5,000,613	2.18%
U.S. Govt. Agency Guaranteed	1,621,428	30,002	(7,203)	1,644,227	1.17
Non-Agency CMOs (c)	246,179	27	(41,507)	204,699	0.67
Non-Agency ABSs	26,219	8,236	(1,065)	33,390	5.67
Total	$ 6,708,382	$ 236,753	$ (62,206)	$6,882,929	1.89%

(a) Gross unrealized losses included non-credit related other-than-temporary impairment included in AOCI of $13.1 million for Non-Agency CMOs.

(b) Gross unrealized losses included non-credit related other-than temporary impairment included in AOCI of $19.7 million for Non-Agency CMOs.

(c) Gross unrealized losses included non-credit related other-than temporary impairment included in AOCI of $27.9 million for Non-Agency CMOs.

Held-to-maturity

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

	December 31, 2014				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency Guaranteed	$ 535,299	$ 22,151	$ (4,164)	$ 553,286	3.63%
RABs and Other (a)	124,221	9,828	(365)	133,684	6.01
Total	$ 659,520	$ 31,979	$ (4,529)	$ 686,970	4.07%

	December 31, 2013				
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
U.S. Govt. Agency Guaranteed	$ 449,938	$ 22,065	$ (16,819)	$ 455,184	4.23%
RABs and Other (b)	139,874	7,619	(3,076)	144,417	6.02
Total	$ 589,812	$ 29,684	$ (19,895)	$ 599,601	4.65%

	December 31, 2012				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 442,031	$ 38,420	$ (148)	$ 480,303	5.51%
RABs and Other	159,451	16,560	(22)	175,989	6.05
Total	$ 601,482	$ 54,980	$ (170)	$ 656,292	5.65%

(a) *Gross unrealized losses included no non-credit related other-than-temporary impairment in AOCI for RABs and Other.*
(b) *Gross unrealized losses included non-credit related other-than-temporary impairment in AOCI of $56 thousand for RABs and Other.*

Proceeds from sales and realized gains and losses on all sales of investment securities are as follows:

	Year Ended December 31,		
(dollars in thousands)	2014	2013	2012
Proceeds from sales	$ 2,713	$ 122,165	$ –
Realized gains	53	7,592	–
Realized losses	–	–	–

A summary of the contractual maturity, estimated fair value, and amortized cost of investment securities at December 31, 2014 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Guaranteed	$ –	– %	$ 28	0.36 %	$ 49,671	0.65 %	$ 3,809,507	1.87 %	$ 3,859,206	1.85 %
U.S. Govt. Agency Guaranteed	19,988	0.99	155,403	1.01	241,924	0.54	1,998,216	0.86	2,415,531	0.84
Non-Agency CMOs	–	–	–	–	1,154	0.88	151,857	0.63	153,011	0.64
Non-Agency ABSs	–	–	236,967	0.59	54,921	1.34	34,783	5.50	326,671	0.87
Total fair value	$ 19,988	0.99 %	$ 392,398	0.75 %	$ 347,670	0.68 %	$ 5,994,363	1.50 %	$ 6,754,419	1.41 %
Total amortized cost	$ 19,973		$ 392,390		$ 347,106		$ 5,887,303		$ 6,646,772	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ –	– %	$ 348	3.45 %	$ –	– %	$ 534,951	3.63 %	$ 535,299	3.63 %
RABs and Other	14,649	7.00	16,820	5.82	31,870	5.90	60,882	5.88	124,221	6.01
Total amortized cost	$ 14,649	7.00 %	$ 17,168	5.77 %	$ 31,870	5.90 %	$ 595,833	3.86 %	$ 659,520	4.07 %
Total fair value	$ 15,514		$ 18,401		$ 34,595		$ 618,460		$ 686,970	

A substantial portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities will 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. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following tables show the fair value and gross unrealized losses for all investments that have been in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	December 31, 2014					
	Less than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 679,802	$ (2,094)	$ 504,943	$ (4,444)	$ 1,184,745	$ (6,538)
U.S. Govt. Agency Guaranteed	504,898	(1,306)	816,972	(9,395)	1,321,870	(10,701)
Non-Agency CMOs	14,324	(647)	137,670	(17,655)	151,994	(18,302)
Non-Agency ABSs	181,809	(178)	2,068	(268)	183,877	(446)
RABs and Other	–	–	21,084	(365)	21,084	(365)
Total	$ 1,380,833	$ (4,225)	$ 1,482,737	$ (32,127)	$ 2,863,570	$ (36,352)

	December 31, 2013					
	Less than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 880,174	$ (4,540)	$ 146,638	$ (1,452)	$ 1,026,812	$ (5,992)
U.S. Govt. Agency Guaranteed	935,615	(23,928)	380,282	(7,354)	1,315,897	(31,282)
Non-Agency CMOs	–	–	173,289	(26,778)	173,289	(26,778)
Non-Agency ABSs	–	–	7,915	(683)	7,915	(683)
RABs and Other	42,919	(2,745)	2,282	(331)	45,201	(3,076)
Total	$ 1,858,708	$ (31,213)	$ 710,406	$ (36,598)	$ 2,569,114	$ (67,811)

	December 31, 2012					
	Less than 12 Months		12 Months Or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 318,804	$ (10,537)	$ 183,098	$ (1,894)	$ 501,902	$ (12,431)
U.S. Govt. Agency Guaranteed	98,792	(410)	446,896	(6,941)	545,688	(7,351)
Non-Agency CMOs	–	–	204,459	(41,507)	204,459	(41,507)
Non-Agency ABSs	–	–	9,526	(1,065)	9,526	(1,065)
RABs and Other	2,631	(22)	–	–	2,631	(22)
Total	$ 420,227	$ (10,969)	$ 843,979	$ (51,407)	$ 1,264,206	$ (62,376)

The recording of an impairment loss is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Bank 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 Bank 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 Bank performs periodic credit reviews, including other-than-temporary impairment (OTTI) 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 Bank 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 Bank obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party.

Following are the assumptions used for the periods presented:

Assumptions Used	Mortgage-backed Securities	Asset-backed Securities
December 31, 2014		
Default rate by range	0.83% to 31.49%	6.72% to 52.16%
Prepayment rate by range	6.17% to 16.72%	5.36% to 12.04%
Loss severity by range	4.37% to 68.03%	64.72% to 100.00%
December 31, 2013		
Default rate by range	0.46% to 46.36%	7.77% to 61.91%
Prepayment rate by range	4.59% to 10.37%	5.02% to 15.08%
Loss severity by range	4.16% to 64.28%	57.46% to 100.00%
December 31, 2012		
Default rate by range	0.53% to 32.62%	5.49% to 57.89%
Prepayment rate by range	7.07% to 19.62%	5.65% to 17.57%
Loss severity by range	3.88% to 71.36%	56.22% to 100.00%

Based on the results of all analyses, the Bank has recognized credit-related OTTI of $1.5 million for 2014, which is included in Impairment Losses in the Statements of Income. Since the Bank does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total OTTI is reflected in the Statements of Income with: (1) a net amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

For the year ended December 31, 2014, net unrealized losses of $7.7 million were recognized in other comprehensive income on available-for-sale investments that are not other-than-temporarily impaired.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings for which a portion of an other-than-temporary impairment was recognized in other comprehensive income:

	For the Year Ended December 31,		
(dollars in thousands)	2014	2013	2012
Amount related to credit loss-beginning balance	$ 57,131	$ 55,654	$ 52,980
Additions for initial credit impairments	–	408	1,768
Additions for subsequent credit impairments	1,452	2,211	1,994
Reductions for increases in expected cash flows	(786)	(1,042)	(1,088)
Reductions for securities sold/settled/matured	(338)	(100)	–
Amount related to credit loss-ending balance	57,459	57,131	55,654
Life to date incurred credit losses	(19,217)	(19,404)	(17,437)
Remaining unrealized credit losses	$ 38,242	$ 37,727	$ 38,217

For all other impaired investments, the Bank has not recognized any credit losses as the impairments are deemed temporary and result from non-credit related factors. The Bank has the ability and intent to hold these 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. Substantially all of these investments were in U.S. government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost.

Note 5 — Real Estate and Other Property

Premises and Equipment
Premises and equipment consisted of the following:

	December 31,		
(dollars in thousands)	2014	2013	2012
Land	$ 11,460	$ 11,353	$ 11,349
Buildings and improvements	41,313	28,172	27,940
Furniture and equipment	60,797	56,240	63,337
Work in progress	934	15,952	1,165
	114,504	111,717	103,791
Less: accumulated depreciation	47,936	59,118	62,129
Total	$ 66,568	$ 52,599	$ 41,662

In 2012, the Bank purchased two buildings and land to serve as its future headquarters. The purchase price was approximately $29.3 million.

Other Property Owned
Net losses (gains) from other property owned and held for sale consisted of the following:

	December 31,		
(dollars in thousands)	2014	2013	2012
Losses (gains) on sale, net	$ (2,882)	$ (5,420)	$ (1,315)
Carrying value adjustments	1,943	4,901	4,281
Operating (income) expense, net	531	225	493
Net Total	$ (408)	$ (294)	$ 3,459

Deferred gains on sales of other property owned totaled $0, $2.4 million, and $4.7 million at December 31, 2014, 2013, and 2012, respectively. Gains were deferred as the sales involved financing from the Bank and did not meet the criteria for immediate recognition.

Note 6 — Debt

Bonds and Notes
AgFirst, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued jointly by the System banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks. The System banks and the Funding Corporation have entered into the Second Amended and Restated Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liabilities. At December 31, 2014, AgFirst was in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

In accordance with FCA regulations, each issuance of Systemwide Debt Securities ranks equally with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the following types of Systemwide Debt Securities:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes,
- Federal Farm Credit Banks Global Debt Securities, and
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes.

Additional information regarding Systemwide Debt Securities can be found in their respective offering circulars.

The following table provides a summary of AgFirst's participation in outstanding Systemwide Debt Securities by maturity. Weighted average interest rates include the effect of related derivative financial instruments.

	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
			(dollars in thousands)			
2015	$ 6,525,411	0.29%	$ 4,032,590	0.15%	$ 10,558,001	0.24%
2016	4,994,565	0.55	–	–	4,994,565	0.55
2017	3,786,891	0.78	–	–	3,786,891	0.78
2018	1,900,052	1.38	–	–	1,900,052	1.38
2019	1,664,239	1.60	–	–	1,664,239	1.60
2020 and after	3,943,498	2.47	–	–	3,943,498	2.47
Total	$ 22,814,656	0.99%	$ 4,032,590	0.15%	$ 26,847,246	0.87%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at December 31, 2014 was 129 days.

Systemwide debt includes callable bonds consisting of the following:

Amortized Cost	First Call Date	Year of Maturity
(dollars in thousands)		
$ 11,981,342	2015	2015 – 2029
$ 11,981,342	Total	

Most callable debt may be called on the first call date and any time thereafter.

As described in Note 1, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide Debt Securities (Insured Debt) of System banks to the extent net assets are available in the Insurance Fund and not designated for specific use. All other liabilities on the financial statements are uninsured. At December 31, 2014, the assets of the Insurance Fund aggregated $3.750 billion; however, due to the other authorized uses of the Insurance Fund there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal or interest on an Insured Debt obligation in the event of a default by any System bank having primary liability thereon.

Note 7 — Shareholders' Equity

Descriptions of the Bank's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

A. **Description of Equities:** In accordance with the Farm Credit Act and the Bank's capitalization bylaws, the Bank is authorized to issue and have outstanding Classes B, C, and D Common Stock, Participation Certificates, Preferred Stock, and other classes of equity as may be provided for in the bylaws. All Common Stock and Participation Certificates have a par or face value of five dollars ($5.00) per share.

   The Bank had the following shares of common equities outstanding at December 31, 2014:

		Shares Outstanding *(dollars in thousands)*	
Class	Protected Status	Number	Aggregate Par Value
B Common/NonOFI	No	1,399,137	$ 6,996
C Common/Voting	No	56,329,970	281,650
D Common/Nonvoting	No	2,691,698	13,458
Participation Certificates/Nonvoting	No	215,228	1,076
Total Capital Stock and Participation Certificates		60,636,033	$ 303,180

B. **Perpetual Preferred Stock:** On October 14, 2003, AgFirst issued $150.0 million of Perpetual Non-Cumulative Preferred Stock at a par value of $1 thousand per share. Dividends on the stock were non-cumulative and payable on the 15th day of June and December in each year, commencing December 15, 2003, at an annual rate equal to 7.30 percent. In the event dividends were not declared on the preferred stock for payment on any dividend payment date, then such dividends did not cumulate and ceased to accrue and be payable. On or after the dividend payment date in December 2008, AgFirst could, at its option, redeem the preferred stock in whole or in part at any time at the redemption price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption. On May 15, 2013, the Bank redeemed and cancelled the entire $150.0 million of Perpetual Non-Cumulative Preferred Stock issued October 14, 2003. The stock was redeemed at its par value together with accrued and unpaid dividends.

   On June 8, 2007, AgFirst issued $250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. Dividends on the stock are non-cumulative and are payable semi-annually in arrears on the 15th day of June and December in each year, commencing December 15, 2007, and ending on June 15, 2012, at an annual rate equal to 6.585 percent of the par value of $1 thousand per share, and will thereafter, commencing September 15, 2012, be payable quarterly in arrears on the 15th day of March, June, September, and December in each year, at an annual rate equal to 3-Month USD LIBOR plus 1.13 percent. In the event dividends are not declared on the Class B, Series 1 Preferred Stock for payment on any dividend payment date, then such dividends shall not accumulate and shall cease to accrue and be payable. The stock may be redeemed on any five-year anniversary of its issuance at a price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption.

   During 2012, the Bank repurchased, through privately negotiated transactions, and cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $124.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $124.8 million and increase additional paid-in-capital by $36.6 million.

   Payment of dividends or redemption price on the Preferred Stock may be restricted if the Bank fails to satisfy applicable minimum capital adequacy, surplus, and collateral requirements.

C. **Capital Stock:** District Associations are required to maintain ownership in the Bank in the form of Class B or Class C Common Stock as determined by the Bank. At December 31, 2014, 2013, and 2012, the Associations' minimum stock requirement was 1.40 percent of Association Direct Note balances, and a stock equalization computation is made annually. The Bank may require additional capital contributions to maintain its capital levels.

   Additionally, the Bank has issued Class D Common Stock in connection with participations purchased by the Bank from other System institutions. Class D Common Stock issued in connection with participations has no voting rights. Such Stock may be retired at the discretion of the Board, and if retired, shall be retired at book value not to exceed its par value.

Class D Common Stock shall also be purchased by borrowers eligible to hold it as a condition for obtaining a loan in an amount as may be determined by the Board at its discretion within a range between a minimum of two percent (2.00%) of the loan amount or $1 thousand, whichever is less, and a maximum not to exceed ten percent (10.00%) of the loan amount. The Bank currently has no such loans outstanding.

D. **Other Equity:** OFIs are required to capitalize their loans at the same level as the District Associations. See section C above.

E. **Order of Priority Upon Impairment or Liquidation:**

Impairment

Net losses, to the extent they exceed unallocated surplus, shall, except as otherwise provided in the Act, be treated as impairing Stock in the following order:

First, Class B Common Stock, Class C Common Stock, Class D Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until such Stock is fully impaired; and

Second, Preferred Stock in proportion to the number of shares of each class and series thereof then issued and outstanding (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in reverse order of priority first to the most junior ranking series and then successively to each next most junior ranking series) and consistent with the terms of each such class or series until such Stock is fully impaired; and

Third, subject to the Act, as amended, and the regulations thereunder, in such manner as shall be determined by the Board.

Liquidation

In the event of liquidation or dissolution of AgFirst, any assets of AgFirst remaining after payment or retirement of all liabilities shall be distributed in the following order or priority:

First, to the holders of Preferred Stock, in proportion to the number of shares of each class and series thereof then issued and outstanding and consistent with the terms of each such series until an amount equal to the liquidation preference provided for in the terms of such series of Preferred Stock has been distributed to such holders (applied, as among series that rank differently upon liquidation or dissolution of AgFirst, in order of priority first to the most senior ranking series and then successively to each next most senior ranking series); and

Second, to the holders of Class B Common Stock, Class C Common Stock, Class D Common Stock, and Participation Certificates, pro rata, in proportion to the number of shares or units of each such class of Stock then issued and outstanding, until an amount equal to the aggregate par or face value of all such shares or units has been distributed to such holders; and

Third, in accordance with the memorandum accounting established in the Agreement and Plan of Consolidation between The Farm Credit Bank of Columbia and The Farm Credit Bank of Baltimore, dated as of October 31, 1994; and

Fourth, all remaining assets of AgFirst after such distributions shall be to the extent practicable distributed to all Stockholders and holders of Participation Certificates on a patronage basis.

F. **Regulatory Capitalization Requirements and Restrictions:** FCA's capital adequacy regulations require the Bank to achieve permanent capital of seven percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent permanent capital requirement can lead to the initiation of certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Bank's operations and financial statements. The Bank is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. FCA regulations also require all System institutions to achieve and maintain additional capital adequacy ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and core surplus as a percentage of risk-adjusted assets of three and one-half percent. The Bank's permanent capital, total surplus and core surplus ratios at December 31, 2014 were 21.83 percent, 21.80 percent and 19.38 percent, respectively. The FCA notified AgFirst that the June 2007 issuance of $250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock could be included in core surplus only up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. At December 31, 2014 and 2013, the remaining amount of this preferred stock issuance could be included in core surplus.

Capital adequacy is also evaluated using a ratio of net collateral to total liabilities. FCA requires a minimum net collateral ratio of 103.00 percent. At December 31, 2014, the Bank's net collateral ratio was 106.79 percent. For purposes of calculating this ratio, net collateral is not risk adjusted.

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

G. **Accumulated Other Comprehensive Income:** The following presents activity related to AOCI for the periods presented.

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

(dollars in thousands)	For the Years Ended December 31, 2014	2013	2012
Gains (Losses) on Investments:			
Balance at beginning of period	$ 100,698	$ 174,547	$ 132,826
OCI before reclassifications	5,550	(68,876)	37,959
Amounts reclassified from AOCI	1,399	(4,973)	3,762
Period change in OCI	6,949	(73,849)	41,721
Balance at end of period	$ 107,647	$ 100,698	$ 174,547
Cash Flow Hedges:			
Balance at beginning of period	$ 289	$ 1,514	$ (5,566)
OCI before reclassifications	214	–	7,970
Amounts reclassified from AOCI	(1,051)	(1,225)	(890)
Period change in OCI	(837)	(1,225)	7,080
Balance at end of period	$ (548)	$ 289	$ 1,514
Employee Benefit Plans:			
Balance at beginning of period	$ (3,444)	$ (4,593)	$ (3,263)
OCI before reclassifications	(1,975)	776	(1,780)
Amounts reclassified from AOCI	268	373	450
Period change in OCI	(1,707)	1,149	(1,330)
Balance at end of period	$ (5,151)	$ (3,444)	$ (4,593)
Total AOCI:			
Balance at beginning of period	$ 97,543	$ 171,468	$ 123,997
OCI before reclassifications	3,789	(68,100)	44,149
Amounts reclassified from AOCI	616	(5,825)	3,322
Period change in OCI	4,405	(73,925)	47,471
Balance at end of period	$ 101,948	$ 97,543	$ 171,468

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

(dollars in thousands)	2014	2013	2012	Income Statement Line Item
Gains (Losses) on Investments:				
Sales gains & losses	$ 53	$ 7,592	$ –	Gains (losses) on investments, net
Holding gains & losses	(1,452)	(2,619)	(3,762)	Net other-than-temporary impairment
Amounts reclassified	(1,399)	4,973	(3,762)	
Cash Flow Hedges:				
Interest income	837	1,225	890	See Note 15.
Gains (losses) on other transactions	214	–	–	See Note 15.
Amounts reclassified	1,051	1,225	890	
Employee Benefit Plans:				
Periodic pension costs	(268)	(373)	(450)	See Note 9.
Amounts reclassified	(268)	(373)	(450)	
Reclassifications for the period	$ (616)	$ 5,825	$ (3,322)	

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

Note 8 — Fair Value Measurement

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

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.
Estimating the fair value of Investments in Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is carried at cost plus allocated equities.

The classifications within the fair value hierarchy are as follows:

Level 1
Level 1 assets consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

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

Level 2
The fair value of substantially all investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

Level 2 assets include investments in U.S. government and agency mortgage-backed securities and U.S. agency debt securities, all of which use unadjusted values from third parties or internal pricing models. The underlying loans for these investment securities are residential mortgages. Also included are federal funds sold, securities purchased under resale agreements, and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, plus accrued interest, as these instruments are highly-liquid, readily convertible to cash, and short-term in nature.

The fair value of derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models which use an income approach. These models incorporate benchmark interest rate curves (primarily the LIBOR swap curve), potential volatilities of future interest rate movements, and other inputs which are observable directly or indirectly in the marketplace. The Bank compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

Collateral liabilities are also considered Level 2. The majority of derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. Face value approximates the fair value of collateral liabilities.

Level 3

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

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

The Bank's non-agency ABS and CMO investment portfolios are also considered Level 3. The underlying loans for the ABSs are mortgage related. The underlying loans for the CMO securities are residential mortgages. Based on the currently illiquid marketplace for these investments and the lack of marketplace information available as inputs and assumptions to the valuation process, the Bank classified the non-agency ABS and CMO investment portfolios as Level 3 assets. Fair value estimates are obtained from third-party valuation services.

For other investments, fair value is estimated by discounting expected future cash flows using prevailing rates for similar instruments at the measurement date.

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

Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between Systemwide Debt Securities and Treasury securities. An appropriate yield-spread is estimated, taking into consideration selling group member (banks and securities dealers) yield indications, observed new GSE debt security pricing, and pricing levels in the related U.S. Dollar (USD) interest rate swap market.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Bank had no transfers of assets or liabilities into or out of Level 1, Level 2, or Level 3 during the reporting period.

(dollars in thousands)	**Non-Agency ABSs**	**Non-Agency CMOs**
Balance at December 31, 2013	$ 38,798	$ 173,486
Gains/(Losses) included in earnings	–	(1,321)
Gains/(Losses) included in OCI	8,405	8,481
Purchases	–	–
Sales	–	–
Settlements	(12,420)	(27,635)
Transfers in and/or out of Level 3	–	–
Balance at December 31, 2014	$ 34,783	$ 153,011

(dollars in thousands)	Non-Agency ABSs	Non-Agency CMOs
Balance at December 31, 2012	$ 33,390	$ 204,699
Gains/(Losses) included in earnings	(106)	(2,174)
Gains/(Losses) included in OCI	10,648	14,720
Purchases	–	–
Sales	–	–
Settlements	(5,134)	(43,759)
Transfers in and/or out of Level 3	–	–
Balance at December 31, 2013	$ 38,798	$ 173,486

(dollars in thousands)	Non-Agency ABSs	Non-Agency CMOs
Balance at December 31, 2011	$ 30,324	$ 241,756
Gains/(Losses) included in earnings	–	(3,762)
Gains/(Losses) included in OCI	11,583	8,140
Purchases	–	–
Sales	–	–
Settlements	(8,517)	(41,435)
Transfers in and/or out of Level 3	–	–
Balance at December 31, 2012	$ 33,390	$ 204,699

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.

Derivative Instruments
Level 3 derivative instruments consist of forward contracts that represent a hedge of an unrecognized firm commitment to purchase agency securities at a future date. The value of the forward is the difference between the fair value of the security at inception of the forward and the measurement date. Significant inputs for these valuations would be discount rate and volatility. These Level 3 derivatives would decrease (increase) in value based upon an increase (decrease) in the discount rate.

Generally, for derivative instruments which are subject to changes in the value of the underlying referenced instrument, change in the assumption used for default rate is accompanied by 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 prepayment rates.

Unobservable inputs for discount rate and volatility do not increase or decrease based on movements in other significant unobservable inputs for these Level 3 instruments.

Inputs to Valuation Techniques
Management determines the Bank's valuation policies and procedures. Internal valuation processes are calibrated annually by an independent consultant. Fair value measurements are analyzed on a periodic basis. Documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing.

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

(dollars in thousands)	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Forward contracts-when issued securities	$ –	Broker/Consensus pricing	Offered quotes	None outstanding
Non-agency securities	$ 187,794	Vendor priced	**	
Impaired loans and other property owned	$ 66,575	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.*
** *The significant unobservable inputs used to estimate fair value for Level 3 assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Investments available-for-sale	Discounted cash flow	Constant prepayment rate
		Probability of default
		Loss severity
	Quoted prices	Price for similar security
	Vendor priced	***
Federal funds sold, securities purchased under resale agreements and other	Carrying value	Par/principal and appropriate interest yield
Interest rate swaps	Discounted cash flow	Annualized volatility
		Counterparty credit risk
		Own credit risk

*** *The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Cash and cash equivalents	Carrying value	Par/principal and appropriate interest yield
RABs and Other	Discounted cash flow	Risk adjusted spread
		Prepayment rates
		Probability of default
		Loss severity
Assets held in trust funds	Quoted prices	Price for identical security
Bonds and notes	Discounted cash flow	Benchmark yield curve
		Derived yield spread
		Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

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

	At or for the Year Ended December 31, 2014					
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Earnings**
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 3,859,206	$ –	$ 3,859,206	$ –	$ 3,859,206	
U.S. Govt. Agency Guaranteed	2,415,531	–	2,415,531	–	2,415,531	
Non-Agency CMOs	153,011	–	–	153,011	153,011	
Asset-backed securities	326,671	–	291,888	34,783	326,671	
Total investments available-for-sale	6,754,419	–	6,566,625	187,794	6,754,419	
Federal funds sold, securities purchased under resale agreements, and other	224,847	–	224,847	–	224,847	
Interest rate swaps and other derivative instruments	16,267	–	16,267	–	16,267	
Assets held in trust funds	7,689	7,689	–	–	7,689	
Recurring Assets	$ 7,003,222	$ 7,689	$ 6,807,739	$ 187,794	$ 7,003,222	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 63,504	$ –	$ –	$ 63,504	$ 63,504	$ 5,668
Other property owned	2,808	–	–	3,071	3,071	939
Nonrecurring Assets	$ 66,312	$ –	$ –	$ 66,575	$ 66,575	$ 6,607
Other Financial Instruments						
Assets:						
Cash	$ 622,503	$ 622,503	$ –	$ –	$ 622,503	
Investments held to maturity	659,520	–	553,286	133,684	686,970	
Loans	20,815,552	–	–	20,769,806	20,769,806	
Other Financial Assets	$ 22,097,575	$ 622,503	$ 553,286	$ 20,903,490	$ 22,079,279	
Liabilities:						
Systemwide debt securities	$ 26,847,246	$ –	$ –	$ 26,799,032	$ 26,799,032	
Other Financial Liabilities	$ 26,847,246	$ –	$ –	$ 26,799,032	$ 26,799,032	

(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
	At or for the Year Ended December 31, 2013					
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 4,603,072	$ –	$ 4,603,072	$ –	$ 4,603,072	
U.S. Govt. Agency Guaranteed	1,747,620	–	1,747,620	–	1,747,620	
Non-Agency CMOs	173,486	–	–	173,486	173,486	
Non-Agency ABSs	38,798	–	–	38,798	38,798	
Total investments available-for-sale	6,562,976	–	6,350,692	212,284	6,562,976	
Federal funds sold, securities purchased under resale agreements, and other	144,885	–	144,885	–	144,885	
Interest rate swaps and other derivative instruments	27,514	–	27,514	–	27,514	
Assets held in trust funds	6,533	6,533	–	–	6,533	
Recurring Assets	$ 6,741,908	$ 6,533	$ 6,523,091	$ 212,284	$ 6,741,908	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 62,081	$ –	$ –	$ 62,081	$ 62,081	$ 4,577
Other property owned	9,621	–	–	10,387	10,387	519
Nonrecurring Assets	$ 71,702	$ –	$ –	$ 72,468	$ 72,468	$ 5,096
Other Financial Instruments						
Assets:						
Cash	$ 1,038,870	$ 1,038,870	$ –	$ –	$ 1,038,870	
Investments held to maturity	589,812	–	455,184	144,417	599,601	
Loans	20,116,246	–	–	19,938,324	19,938,324	
Other Financial Assets	$ 21,744,928	$ 1,038,870	$ 455,184	$ 20,082,741	$ 21,576,795	
Liabilities:						
Systemwide debt securities	$ 26,224,879	$ –	$ –	$ 25,994,336	$ 25,994,336	
Other Financial Liabilities	$ 26,224,879	$ –	$ –	$ 25,994,336	$ 25,994,336	

(dollars in thousands)	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
	At or for the Year Ended December 31, 2012					
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 5,000,613	$ –	$ 5,000,613	$ –	$ 5,000,613	
U.S. Govt. Agency Guaranteed	1,644,227	–	1,644,227	–	1,644,227	
Non-Agency CMOs	204,699	–	–	204,699	204,699	
Non-Agency ABSs	33,390	–	–	33,390	33,390	
Total investments available-for-sale	6,882,929	–	6,644,840	238,089	6,882,929	
Federal funds sold, securities purchased under resale agreements, and other	149,589	–	149,589	–	149,589	
Interest rate swaps and other derivative instruments	41,384	–	41,384	–	41,384	
Assets held in trust funds	4,816	4,816	–	–	4,816	
Recurring Assets	$ 7,078,718	$ 4,816	$ 6,835,813	$ 238,089	$ 7,078,718	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 62,969	$ –	$ –	$ 62,969	$ 62,969	$ (13,219)
Other property owned	19,477	–	–	20,807	20,807	(2,966)
Nonrecurring Assets	$ 82,446	$ –	$ –	$ 83,776	$ 83,776	$ (16,185)
Other Financial Instruments						
Assets:						
Cash	$ 723,576	$ 723,576	$ –	$ –	$ 723,576	
Investments held to maturity	601,482	–	480,303	175,989	656,292	
Loans	20,101,743	–	–	20,319,578	20,319,578	
Other Financial Assets	$ 21,426,801	$ 723,576	$ 480,303	$ 20,495,567	$ 21,699,446	
Liabilities:						
Systemwide debt securities	$ 26,286,758	$ –	$ –	$ 26,378,278	$ 26,378,278	
Other Financial Liabilities	$ 26,286,758	$ –	$ –	$ 26,378,278	$ 26,378,278	

Note 9 — Employee Benefit Plans

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

a) Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c) If the Bank chooses to stop participating in some of its multiemployer plans, the Bank may be required to contribute to eliminate the underfunded status of the plan related to its participants.

The Bank's participation in the multiemployer defined benefit plans for the annual periods ended December 31, 2014, 2013 and 2012 is outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" and "Percentage of Total Contributions" columns represent the Bank's respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
AgFirst Farm Credit Retirement Plan	84.56%	89.47%	77.35%	$5,434	$7,498	$7,153	14.31%	14.90%	15.71%
AgFirst Farm Credit Cash Balance Retirement Plan	100.07%	95.06%	86.01%	$1,318	$469	$359	26.48%	26.55%	26.29%

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$1,074	$1,011	$915	13.89%	14.55%	14.74%

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

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

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

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

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

Substantially all employees of the Bank are eligible to participate in either the FAP Plan or the CB Plan. These two Plans are noncontributory and include eligible Bank and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. See below for a discussion of changes in the CB Plan. The actuarially-determined costs of these plans are allocated to each participating entity, including the Bank, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were $9.5 million for 2014, $8.8 million for 2013, and $8.8 million for 2012. The cumulative excess of amounts funded by the Bank over the cost allocated to the Bank is reflected as prepaid retirement expense, a component of Other Assets in the Balance Sheets.

In addition to providing pension benefits, the Bank provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Bank employees may become eligible for the benefits if they reach early retirement age while working for the Bank. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Additionally, employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Bank charges related to this plan are an allocation of District charges based on the Bank's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $1.1 million for 2014, $1.1 thousand for 2013, and $894 thousand for 2012. The cumulative excess of cost allocated to the Bank over the amounts funded by the Bank is reflected as postretirement benefits other than pensions, a component of Other Liabilities in the Bank's Balance Sheets.

The Bank also participates in defined contribution plan, as described in Note 2, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Bank contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Bank contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $1.6 million, $1.3 million, and $1.2 million for the years ended December 31, 2014, 2013, and 2012, respectively.

In addition to the multi-employer plans above, the Bank sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Bank's Balance Sheets in Other Liabilities. The Bank funded the benefit payments of $577 thousand, $577 thousand, and $435 thousand for the years ended December 31, 2014, 2013, and 2012, respectively, for the defined benefit supplemental retirement plan. The expenses of these nonqualified plans included in the Bank's employee benefit costs were $185, $0 thousand, and $158 thousand for the years ended December 31, 2014, 2013, and 2012, respectively.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2014, 2013, and 2012, $(1.7) million, $1.1 million and $(1.3) million, respectively, has been recognized as a net debit, net credit, and net debit to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of $12.5 million and a net under-funded status of $12.5 million at December 31, 2014. Net periodic pension cost for 2014 was $884 thousand. Assumptions used to determine the projected benefit obligation as of December 31, 2014 included a discount rate of 4.20 percent and a rate of compensation increase of 4.50 percent.

Changes in the mortality and discount rate assumptions significantly increased projected benefit obligations at December 31, 2014. Additional information can be found in Note 9 of the Notes to the Combined Financial Statements of AgFirst Farm Credit Bank and District Associations' Annual Report.

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

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

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

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

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

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

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

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

Note 10 — Related Party Transactions

As discussed in Note 1, the Bank lends funds to the District Associations primarily to fund their loan portfolios. Further disclosure regarding these related party transactions is found in Notes 3, 7, and 11.

Interest income recognized on direct notes receivable from District Associations and OFIs was $327.3 million, $330.7 million and $356.8 million for 2014, 2013, and 2012, respectively.

The Bank has had participation loans outstanding during the last year to certain of its directors, their immediate family members, and organizations with which the directors are affiliated. These loans were made in the ordinary course of business, and were made on substantially the same terms, including interest rate, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons. No loan to a director, or to any organization affiliated with such person, or to any immediate family member who resides in the same household as such person or in whose loan or business operation such person has a material financial or legal interest, involved more than the normal risk of collectability.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Bank in which claims for money damages are asserted. On at least a quarterly basis, the Bank 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 and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Bank. Because it is not probable that the Bank will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

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

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

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

At December 31, 2014, $2.808 billion of commitments to extend credit were outstanding with a related contingent loss of $1.0 million included in Other Liabilities in the Balance Sheets.

The Bank also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2014, standby letters of credit outstanding totaled $71.1 million, with expiration dates ranging from February 2015 to March 2020. The maximum potential amount of future payments the Bank may be required to make under these existing guarantees is $71.1 million.

Under the Farm Credit Act, each System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the four banks are jointly and severally liable for the bonds and notes of the other System banks under the terms of the Joint and Several Liability Allocation Agreement. Published in the Federal Register, the agreement prescribes the payment mechanisms to be employed in the event one of the banks is unable to meet its debt obligations.

In the event a bank is unable to timely pay principal or interest on an insured debt obligation for which the bank is primarily liable, the FCSIC must expend amounts in the Insurance Fund to the extent available to ensure the timely payment of principal and interest on the insured debt obligation. The provisions of the Farm Credit Act providing for joint and several liability of the banks on the obligation cannot be invoked until the amounts in the Insurance Fund have been exhausted. However, because of other mandatory and discretionary uses of the Insurance Fund, there is no assurance that there will be sufficient funds to pay the principal or interest on the insured debt obligation.

Once joint and several liability is initiated, the FCA is required to make "calls" to satisfy the liability first on all non-defaulting banks in the proportion that each non-defaulting bank's available collateral (collateral in excess of the aggregate of the banks' collateralized obligations) bears to the aggregate available collateral of all non-defaulting banks. If these calls do not satisfy the liability, then a further call would be made in proportion to each non-defaulting bank's remaining assets. Upon making a call on non-defaulting banks with respect to a Systemwide Debt Security issued on behalf of a defaulting bank, the FCA is required to appoint the FCSIC as the receiver for the defaulting bank. The receiver would be required to expeditiously liquidate the bank.

AgFirst did not anticipate making any payments on behalf of its co-obligors under the Joint and Several Liability Allocation Agreement for any of the periods presented.

The total amount outstanding and the carrying amount of the Bank's liability under the agreement are as follows:

	December 31,		
(dollars in billions)	**2014**	**2013**	**2012**
Total System bonds and notes	$ 225.437	$ 207.489	$ 197.966
AgFirst bonds and notes	26.847	26.225	26.287

The Bank also guarantees certain loans held by District Associations in the amount of $1.9 million expiring in less than one year and $1.7 million expiring in greater than one year. The notional amounts of these guarantees represent the maximum amount of exposure the Bank has related to these instruments as of December 31, 2014.

See Note 14, *Business Combinations*, for information related to a financial assistance agreement between the Bank and a District Association.

Note 12 — Income Taxes

The Bank is exempt from federal and other income taxes as provided in the Farm Credit Act.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

(dollars in thousands)	2014 First	Second	Third	Fourth	Total
Net interest income	$ 116,728	$ 120,975	$ 122,747	$ 123,742	$ 484,192
Provision for (reversal of allowance for) loan losses	549	(2,416)	(2,017)	(4,567)	(8,451)
Noninterest income (expense), net	(27,701)	(28,388)	(26,483)	(29,722)	(112,294)
Net income	$ 88,478	$ 95,003	$ 98,281	$ 98,587	$ 380,349

	2013 First	Second	Third	Fourth	Total
Net interest income	$ 140,284	$ 136,337	$ 131,840	$ 129,597	$ 538,058
Provision for (reversal of allowance for) loan losses	334	(1,814)	(5,732)	(3,377)	(10,589)
Noninterest income (expense), net	(18,762)	(27,319)	(19,508)	(25,722)	(91,311)
Net income	$ 121,188	$ 110,832	$ 118,064	$ 107,252	$ 457,336

	2012 First	Second	Third	Fourth	Total
Net interest income	$ 156,238	$ 151,819	$ 150,294	$ 147,151	$ 605,502
Provision for (reversal of allowance for) loan losses	(2,721)	(174)	13,838	4,003	14,946
Noninterest income (expense), net	(35,956)	(21,790)	(32,052)	(32,148)	(121,946)
Net income	$ 123,003	$ 130,203	$ 104,404	$ 111,000	$ 468,610

Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

(dollars in thousands)	December 31, 2014	2013	2012
Other assets:			
Unamortized debt issue costs	$ 20,276	$ 23,602	$ 23,174
Prepaid retirement expenses	12,919	15,709	16,498
Derivative assets	16,267	27,514	41,384
Other	14,352	13,958	10,430
Total	$ 63,814	$ 80,783	$ 91,486
Other liabilities:			
Postretirement benefits other than pensions	$ 15,916	$ 15,901	$ 15,835
Payroll liabilities	6,719	6,838	6,281
Bank drafts payable	11,250	10,770	8,655
Other	21,967	16,478	20,516
Total	$ 55,852	$ 49,987	$ 51,287

Offsetting of Financial and Derivative Assets

December 31, 2014

				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 16,267	$ –	$ 16,267	$ –	$ –	$ 16,267
Reverse repurchase and similar arrangements	224,847	–	224,847	(224,847)	–	–
Total	$ 241,114	$ –	$ 241,114	$ (224,847)	$ –	$ 16,267

December 31, 2013

				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 27,514	$ –	$ 27,514	$ (8,589)	$ –	$ 18,925
Reverse repurchase and similar arrangements	144,885	–	144,885	(144,885)	–	–
Total	$ 172,399	$ –	$ 172,399	$ (153,474)	$ –	$ 18,925

	December 31, 2012					
				Gross Amounts Not Offset in the Balance Sheets		
(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	$ 41,384	$ –	$ 41,384	$ (19,551)	$ –	$ 21,833
Reverse repurchase and similar arrangements	149,589	–	149,589	(149,589)	–	–
Total	$ 190,973	$ –	$ 190,973	$ (169,140)	$ –	$ 21,833

There were no liabilities subject to master netting arrangements or similar agreements during the reporting periods.

A description of the rights of setoff associated with recognized derivative assets and liabilities subject to enforceable master netting arrangements is located in Note 15, *Derivative Financial Instruments and Hedging Activities*.

The reverse repurchase agreements are accounted for as collateralized lending.

Note 14 — Business Combinations

Mergers are accounted for under the acquisition method. The accounting acquirer accounts for the transaction by using its historical information and accounting policies and adding the identifiable assets and liabilities of the acquiree as of the acquisition date at their respective fair values.

Effective July 1, 2012, Chattanooga, ACA, merged with and into Jackson Purchase, ACA. Jackson Purchase, ACA, then changed its name to River Valley AgCredit, ACA.

Effective January 1, 2011, Farm Credit of North Florida, ACA, Farm Credit of Southwest Florida, ACA, and Farm Credit of South Florida, ACA, merged to form Farm Credit of Florida, ACA. As part of the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. No assistance was provided by the Bank to the merged Association under the agreement at any time during 2014. This agreement was terminated effective October 15, 2014.

In February 2014, the Boards of Directors of AgChoice Farm Credit, ACA and MidAtlantic Farm Credit, ACA (collectively referred to as the "Merger Associations") signed a Letter of Intent to merge. The Letter of Intent to merge allowed the Merger Associations to explore the benefits of a merger. During the second quarter of 2014, the Boards of the Merger Associations determined a merger would not be in the best interests of their shareholders and merger discussions were discontinued.

Note 15 — Derivative Financial Instruments and Hedging Activities

One of the Bank's goals in using derivatives is to minimize interest rate sensitivity by managing the repricing characteristics of assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. The Bank maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to lower cost of funding or to reduce interest rate risk. Currently, the primary derivative type used by the Bank is interest rate swaps, which convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. They may allow the Bank to lower funding costs, allow it to diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Under these arrangements, the Bank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

The Bank may also purchase interest rate derivatives such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt, and floors, in order to reduce the impact of falling interest rates on its floating-rate assets. In addition, the Bank may also fix a price to be paid in the future which qualifies as a derivative forward contract.

As a result of interest rate fluctuations, interest income and interest expense related to hedged variable-rate assets and liabilities, respectively, will increase or decrease. Another result of interest rate fluctuations is that hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effects of any earnings variability or unrealized changes in market value are expected to be substantially offset by the Bank's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The Bank considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The primary type of derivative instrument used and the amount of activity for each year ended is summarized in the following table:

	2014		2013		2012	
Notional Amounts *(dollars in millions)*	Receive-Fixed Swaps	Forward Contracts	Receive-Fixed Swaps	Forward Contracts	Receive-Fixed Swaps	Forward Contracts
Balance at beginning of period	$ 250	$ –	$ 360	$ –	$ 535	$ 66
Additions	–	13	–	–	–	542
Maturities/amortization	–	(12)	(110)	–	(175)	(608)
Terminations	–	–	–	–	–	–
Balance at end of period	$ 250	$ 1	$ 250	$ –	$ 360	$ –

By using derivative instruments, the Bank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Bank's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Bank, thus creating a repayment risk for the Bank. When the fair value of the derivative contract is negative, the Bank owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the Bank transacts with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of, and levels of exposure to, individual counterparties. The Bank typically enters into master agreements that contain netting provisions. These provisions allow the Bank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties.

Counterparty exposure related to derivatives at:

	December 31,		
(dollars in millions)	2014	2013	2012
Estimated Gross Credit Risk	$16.3	$27.5	$41.4
Percent of Notional	6.51%	11.01%	11.50%
Cash Collateral Held *(on balance sheet)*	$–	$–	$–
Securities Collateral Held *(off balance sheet)*	$–	$8.6	$19.6
Cash Collateral Posted *(off balance sheet)*	$–	$–	$–
Securities Collateral Posted *(on balance sheet)*	$–	$–	$–

The Bank's derivative activities are monitored by its Asset/Liability Management Committee (ALCO) as part of the Committee's oversight of the Bank's asset/liability and treasury functions. The ALCO is responsible for approving hedging strategies that are developed within parameters established by the Board of Directors through the analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Bank's overall interest rate risk-management strategies.

Fair-Value Hedges

For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Bank includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the year ended December 31, 2014 was $11.2 million, while the amount of the gain on the Systemwide Debt Securities was $11.2 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

From time to time, the Bank may acquire when-issued securities, generally government agency guaranteed bonds. The when-issued transactions are contracts to purchase securities that will not be delivered until 30, or more, days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Any difference in market value of the contracted securities, between the purchase and reporting or settlement date, represent the value of the forward contracts. These amounts are included in OCI, and Other Liabilities or Other Assets as appropriate, as firm commitments in the Bank's Balance Sheet for each period end. At December 31, 2014, 2013, and 2012, the Bank had no commitments to purchase any when-issued bonds.

For derivative instruments that are designated and qualify as a cash flow hedge, such as the Bank's forward contracts, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The following tables represent the fair value of derivatives designated as hedging instruments at periods ended:

(dollars in thousands)	Balance Sheet Classification Assets	12/31/14 Fair Value	Balance Sheet Classification Liabilities	12/31/14 Fair Value
Receive-fixed swaps	Other Assets	$ 16,267	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 16,267		$ –

(dollars in thousands)	Balance Sheet Classification Assets	12/31/13 Fair Value	Balance Sheet Classification Liabilities	12/31/13 Fair Value
Receive-fixed swaps	Other Assets	$ 27,514	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 27,514		$ –

(dollars in thousands)	Balance Sheet Classification Assets	12/31/12 Fair Value	Balance Sheet Classification Liabilities	12/31/12 Fair Value
Receive-fixed swaps	Other Assets	$ 41,384	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 41,384		$ –

The following table sets forth the amount of net gain (loss) on derivatives recognized in earnings and, for cash flow hedges, the amount of net gain (loss) recognized in AOCI for the periods presented. See Note 7, *Shareholders' Equity*.

(dollars in thousands)	Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income	Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income **			Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)			Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		
		2014	2013	2012	2014	2013	2012	2014	2013	2012
Fair Value Hedges:										
Receive-fixed swaps	Noninterest income	$ –	$ –	$ –						
Cash Flow Hedges:										
Firm Commitments	Interest Income	$ 837	$ 1,225	$ 890	$ –	$ –	$ –	$ –	$ –	$ 7,970
Forward Contracts	Gains (Losses) on Other Transactions	214	–	–	–	–	–	214	–	–

***Represents total gain or loss for fair value hedges and effective portion for cash flow hedges.*

Note 16 — Subsequent Events

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

Glossary of Certain Acronyms

ABO	Accumulated benefit obligation
ABS	Asset backed security
ACA	Agricultural Credit Association
ACB	Agricultural Credit Bank
AFS	Available- for- sale
ALCO	Asset/Liability Management Committee
ALM	Asset and liability management
AOCI	Accumulated Other Comprehensive Income
ARM	Adjustable rate mortgage
ASU	Accounting Standards Update
CEO	Chief Executive Officer
CFPB	Consumer Financial Protection Bureau
CFTC	Commodity Futures Trading Commission
CIPA	Contractual Interbank Performance Agreement
CMO	Collateralized Mortgage Obligation
EIN	Employee Identification Number
FAMC	Federal Agricultural Mortgage Corporation (Farmer Mac)
FASB	Financial Accounting Standards Board
FCA	Farm Credit Administration
FCB	Farm Credit Bank
FCBA	Farm Credit Benefits Alliance
FCSIC	Farm Credit System Insurance Corporation
FHA	Federal Housing Administration
FHLMC	Federal Home Loan Mortgage Corporation (Freddie Mac)
FIP	Financial improvement plan
FLCA	Federal Land Credit Association
FNMA	Federal National Mortgage Association (Fannie Mae)
FSA	Farm Service Agency
GAAP	Generally Accepted Accounting Principles
GCFI	Gross cash farm income
GFA	General Financing Agreement
GNMA	Government National Mortgage Association (Ginnie Mae)
GSE	Government-sponsored enterprise
HTM	Held to maturity
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
LIBOR	London Inter-Bank Offered Rate
LLC	Limited liability company
MAA	Market Access Agreement
MBS	Mortgage-backed security
MD&A	Management's Discussion and Analysis
NRSRO	Nationally Recognized Statistical Rating Organization
OAEM	Other Assets Especially Mentioned
OCI	Other Comprehensive Income
OFI	Other financing institution
OPO	Other property owned
OTTI	Other-than-temporary impairment
PBO	Projected benefit obligation
PCA	Production Credit Association
PPA	Pension Protection Act
RAB	Rural America Bond
RBIC	Rural Business Investment Company
RHMS	Rural Housing Mortgage-Backed Securityies
RP	Rehabilitation plan
SEC	Securities and Exchange Commission
SIIC	Successor-in-Interest Contract
TDR	Troubled debt restructuring
UBE	Unincorporated business entity
USD	U.S. dollar
USDA	United States Department of Agriculture
YBS	Young, beginning, and small

AgFirst
FARM CREDIT BANK

1901 MAIN STREET | COLUMBIA, SC 29201 | WWW.AGFIRST.COM