First South Farm Credit, ACA

FIRST QUARTER 2015

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CERTIFICATION

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

Dan West
Chairman of the Board

Roger F. Chappell
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

May 8, 2015

First South Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements. The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2015. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

Roger F. Chappell

Roger F. Chappell
Chief Executive Officer

Bryan Applewhite

Bryan Applewhite
Chief Financial Officer

May 8, 2015

First South Farm Credit, ACA

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

(dollars in thousands)

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

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, cotton, livestock and forestry. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

Comparison of March 31, 2015 to December 31, 2014

The gross loan volume of the Association as of March 31, 2015, was $1,442, as compared to $1,440 at December 31, 2014. Net loans outstanding at March 31, 2015, were $1,432 as compared to $1,430 at December 31, 2014. Net loans accounted for 92.88 percent of total assets at March 31, 2015, as compared to 90.31 percent of total assets at December 31, 2014.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased to $4,865 at March 31, 2015 from $5,289 at December 31, 2014, a decrease of $424.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2015, was $9,962 compared to $10,127 at December 31, 2014, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2015

Net income for the three months ended March 31, 2015, totaled $4,708, as compared to $5,051 for the same period in 2014. The decrease in net income primarily relates to a decrease in non patronage refunds from other farm credit institutions along with an increase in salaries and employee benefits. These changes are further discussed below.

Noninterest income for the three months ended March 31, 2015 totaled $4,277, as compared to $4,603 for the same period of 2014, a decrease of $326. The decrease is primarily the result of decreased patronage refunds from other Farm Credit institutions of $272, a decrease in fees for financially related services of $60 and a decrease in loan fees and fees for financially related services of $12. These decreases were offset by an increase in other noninterest income of $18.

Noninterest expense for the three months ended March 31, 2015 increased $613 compared to the same period of 2014. The increase is attributable to increased salaries and employee benefits of $825, an increase in other operating expenses of $77, and an increase in Insurance Fund premiums of $51. These increases were offset by a decreased net loss on other property owned of $292 and a reduction in occupancy and equipment of $48.

The Association recorded a provision for loan losses of $143 for the three months ended March 31, 2015, compared to a provision for loan losses of $287 for the same period in 2014. The Association recorded a provision of $11 for income taxes for the three months ended March 31, 2015, compared to a provision for income taxes of $4 for the same period of 2014.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the AgFirst Farm Credit Bank (Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2015 was $1,152,297 as compared to $1,194,897 at December 31, 2014, a decrease of $42,600. The decrease in notes payable from December 31, 2014 to March 31, 2015 is primarily related seasonal paydowns of loans and favorable crop conditions in 2014 which have reduced the need for crop advances thus far in 2015.

CAPITAL RESOURCES

Total members' equity at March 31, 2015 and December 31, 2014 was $324 and $323, respectively. Capital stock declined primarily due to the decrease in the stock requirement noted below. Allocated and unallocated retained earnings changes reflect the impact of normal earnings and patronage payments.

In January 2013, the stock requirement on loans was changed from the lessor of 2% of the loan or $5,000 to the lessor of 2% of the loan or $1,000.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2015, the Association's permanent capital ratio, total surplus ratio and core surplus ratio were 19.55, 18.85 and 18.06 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

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

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

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

FINANCIAL REGULATORY REFORM

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

STOCKHOLDER INVESTMENT

Stockholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank's Quarterly and Annual Reports are on the AgFirst website, *www.agfirst.com*, or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also on the Association's website, *www.firstsouthland.com*, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Bryan Applewhite, First South Farm Credit, ACA, 574 Highland Colony Parkway, Suite 100, Ridgeland, MS 39157. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

First South Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2015 (unaudited)	December 31, 2014 (audited)
Assets		
Cash	**$ 1,694**	$ 15,609
Loans	**1,442,444**	1,440,403
Allowance for loan losses	**(9,962)**	(10,127)
Net loans	**1,432,482**	1,430,276
Accrued interest receivable	**11,956**	13,231
Investments in other Farm Credit institutions	**78,587**	79,291
Premises and equipment, net	**9,605**	9,672
Other property owned	**2,334**	2,247
Accounts receivable	**3,896**	31,981
Other assets	**1,726**	1,465
Total assets	**$ 1,542,280**	$ 1,583,772
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 1,152,297**	$ 1,194,897
Accrued interest payable	**2,332**	2,397
Patronage refunds payable	**21**	11,546
Accounts payable	**1,959**	4,906
Other liabilities	**62,029**	47,036
Total liabilities	**1,218,638**	1,260,782
Commitments and contingencies (Note 8)		
Members' Equity		
Capital stock and participation certificates	**60,013**	60,348
Retained earnings		
Allocated	**183,828**	186,287
Unallocated	**109,399**	106,543
Accumulated other comprehensive income (loss)	**(29,598)**	(30,188)
Total members' equity	**323,642**	322,990
Total liabilities and members' equity	**$ 1,542,280**	$ 1,583,772

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

First South Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2015	2014
Interest Income		
Loans	**$ 16,900**	$ 15,602
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**6,677**	5,838
Net interest income	**10,223**	9,764
Provision for loan losses	**143**	287
Net interest income after provision for loan losses	**10,080**	9,477
Noninterest Income		
Loan fees	**800**	812
Fees for financially related services	**(56)**	4
Patronage refunds from other Farm Credit institutions	**3,362**	3,634
Other noninterest income	**171**	153
Total noninterest income	**4,277**	4,603
Noninterest Expense		
Salaries and employee benefits	**6,926**	6,101
Occupancy and equipment	**380**	428
Insurance Fund premiums	**328**	277
(Gains) losses on other property owned, net	**9**	301
Other operating expenses	**1,995**	1,918
Total noninterest expense	**9,638**	9,025
Income before income taxes	**4,719**	5,055
Provision for income taxes	**11**	4
Net income	**$ 4,708**	$ 5,051

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

First South Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2015	2014
Net income	**$ 4,708**	$ 5,051
Other comprehensive income net of tax		
Employee benefit plans adjustments	**590**	249
Comprehensive income	**$ 5,298**	$ 5,300

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

First South Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2013	$ 61,513	$ 161,836	$ 102,939	$ (17,412)	$ 308,876
Comprehensive income			5,051	249	5,300
Capital stock/participation certificates issued/(retired), net	(343)				(343)
Retained earnings retired		(2,336)			(2,336)
Patronage distribution adjustment		1,570	(1,169)		401
Balance at March 31, 2014	$ 61,170	$ 161,070	$ 106,821	$ (17,163)	$ 311,898
Balance at December 31, 2014	**$ 60,348**	**$ 186,287**	**$ 106,543**	**$ (30,188)**	**$ 322,990**
Comprehensive income			**4,708**	**590**	**5,298**
Capital stock/participation certificates issued/(retired), net	**(335)**				**(335)**
Retained earnings retired		**(4,481)**			**(4,481)**
Patronage distribution adjustment		**2,022**	**(1,852)**		**170**
Balance at March 31, 2015	**$ 60,013**	**$ 183,828**	**$ 109,399**	**$ (29,598)**	**$ 323,642**

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

First South Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	March 31, 2015	December 31, 2014
Real estate mortgage	$ 624,057	$ 589,259
Production and intermediate-term	770,093	798,383
Loans to cooperatives	5,753	4,955
Processing and marketing	17,743	24,396
Farm-related business	6,106	6,976
Communication	15,059	13,082
Rural residential real estate	3,633	3,352
Total Loans	$ 1,442,444	$ 1,440,403

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

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

	March 31, 2015							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,765	$ 61,833	$ –	$ –	$ 44,193	$ –	$ 45,958	$ 61,833
Production and intermediate-term	3,666	120,799	7,783	–	21,519	–	32,968	120,799
Loans to cooperatives	1,099	–	1,518	–	1,915	–	4,532	–
Processing and marketing	12,814	147	–	1,181	–	–	12,814	1,328
Farm-related business	630	71	–	–	139	–	769	71
Communication	15,073	–	–	–	–	–	15,073	–
Rural residential real estate	–	–	–	–	250	–	250	–
Total	$ 35,047	$ 182,850	$ 9,301	$ 1,181	$ 68,016	$ –	$ 112,364	$ 184,031

	December 31, 2014							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 1,835	$ 64,757	$ –	$ –	$ 44,566	$ –	$ 46,401	$ 64,757
Production and intermediate-term	653	127,052	6,000	–	22,326	–	28,979	127,052
Loans to cooperatives	–	–	1,848	–	1,918	–	3,766	–
Processing and marketing	12,237	146	–	3,634	–	–	12,237	3,780
Farm-related business	458	71	–	–	140	–	598	71
Communication	13,088	–	–	–	–	–	13,088	–
Rural residential real estate	–	–	–	–	46	–	46	–
Total	$ 28,271	$ 192,026	$ 7,848	$ 3,634	$ 68,996	$ –	$ 105,115	$ 195,660

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

	March 31, 2015			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 20,814	$ 180,774	$ 422,469	$ 624,057
Production and intermediate-term	137,250	310,520	322,323	770,093
Loans to cooperatives	1,363	3,429	961	5,753
Processing and marketing	3,593	9,629	4,521	17,743
Farm-related business	2,260	1,605	2,241	6,106
Communication	–	11,702	3,357	15,059
Rural residential real estate	672	1,183	1,778	3,633
Total Loans	$ 165,952	$ 518,842	$ 757,650	$ 1,442,444
Percentage	11.50%	35.97%	52.53%	100.00%

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

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

	March 31, 2015	December 31, 2014
Real estate mortgage:		
Acceptable	95.15%	94.85%
OAEM	2.05	2.15
Substandard/doubtful/loss	2.80	3.00
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	93.52%	94.02%
OAEM	3.42	3.12
Substandard/doubtful/loss	3.06	2.86
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	89.60%	93.01%
OAEM	10.40	6.99
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2015	December 31, 2014
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	90.49%	90.71%
OAEM	5.60	6.12
Substandard/doubtful/loss	3.91	3.17
	100.00%	100.00%
Total Loans:		
Acceptable	94.38%	94.53%
OAEM	2.77	2.62
Substandard/doubtful/loss	2.85	2.85
	100.00%	100.00%

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

	March 31, 2015					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 995	$ 85	$ 1,080	$ 627,850	$ 628,930	$ –
Production and intermediate-term	2,744	1,703	4,447	772,447	776,894	–
Loans to cooperatives	–	–	–	5,792	5,792	–
Processing and marketing	–	–	–	17,787	17,787	–
Farm-related business	–	–	–	6,236	6,236	–
Communication	–	–	–	15,096	15,096	–
Rural residential real estate	143	–	143	3,522	3,665	–
Total	$ 3,882	$ 1,788	$ 5,670	$ 1,448,730	$ 1,454,400	$ –

	December 31, 2014					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,066	$ 325	$ 1,391	$ 592,786	$ 594,177	$ –
Production and intermediate-term	1,741	1,361	3,102	803,335	806,437	–
Loans to cooperatives	–	–	–	4,992	4,992	–
Processing and marketing	–	–	–	24,469	24,469	–
Farm-related business	–	–	–	7,082	7,082	–
Communication	–	–	–	13,108	13,108	–
Rural residential real estate	37	–	37	3,332	3,369	–
Total	$ 2,844	$ 1,686	$ 4,530	$ 1,449,104	$ 1,453,634	$ –

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

	March 31, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	$ 807	$ 677
Production and intermediate-term	3,951	4,505
Rural residential real estate	107	107
Total	$ 4,865	$ 5,289
Accruing restructured loans:		
Real estate mortgage	$ 6,328	$ 6,392
Production and intermediate-term	6,392	6,343
Total	$ 12,720	$ 12,735
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 17,585	$ 18,024
Other property owned	2,334	2,247
Total nonperforming assets	$ 19,919	$ 20,271
Nonaccrual loans as a percentage of total loans	0.34%	0.37%
Nonperforming assets as a percentage of total loans and other property owned	1.38%	1.41%
Nonperforming assets as a percentage of capital	6.15%	6.28%

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

	March 31, 2015	December 31, 2014
Impaired nonaccrual loans:		
Current as to principal and interest	$ 2,795	$ 3,031
Past due	2,070	2,258
Total	4,865	5,289
Impaired accrual loans:		
Restructured	12,720	12,735
90 days or more past due	–	–
Total	12,720	12,735
Total impaired loans	$ 17,585	$ 18,024

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

	March 31, 2015			Quarter Ended March 31, 2015	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 69	$ 83	$ 14	$ 70	$ 1
Production and intermediate-term	336	330	71	340	3
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 405	$ 413	$ 85	$ 410	$ 4
With no related allowance for credit losses:					
Real estate mortgage	$ 7,066	$ 7,302	$ –	$ 7,157	$ 75
Production and intermediate-term	10,007	13,085	–	10,137	108
Farm-related business	–	3	–	–	–
Rural residential real estate	107	164	–	108	1
Total	$ 17,180	$ 20,554	$ –	$ 17,402	$ 184
Total:					
Real estate mortgage	$ 7,135	$ 7,385	$ 14	$ 7,227	$ 76
Production and intermediate-term	10,343	13,415	71	10,477	111
Farm-related business	–	3	–	–	–
Rural residential real estate	107	164	–	108	1
Total	$ 17,585	$ 20,967	$ 85	$ 17,812	$ 188

Impaired loans:	December 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2014 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	1,723	2,083	309	1,706	62
Total	$ 1,723	$ 2,083	$ 309	$ 1,706	$ 62
With no related allowance for credit losses:					
Real estate mortgage	$ 7,069	$ 7,465	$ –	$ 7,000	$ 252
Production and intermediate-term	9,125	12,024	–	9,035	325
Farm-related business	–	4	–	–	–
Rural residential real estate	107	164	–	106	4
Total	$ 16,301	$ 19,657	$ –	$ 16,141	$ 581
Total:					
Real estate mortgage	$ 7,069	$ 7,465	$ –	$ 7,000	$ 252
Production and intermediate-term	10,848	14,107	309	10,741	387
Farm-related business	–	4	–	–	–
Rural residential real estate	107	164	–	106	4
Total	$ 18,024	$ 21,740	$ 309	$ 17,847	$ 643

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

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:						
Balance at December 31, 2014	$ 3,949	$ 5,949	$ 151	$ 49	$ 29	$ 10,127
Charge-offs	(14)	(382)	–	–	–	(396)
Recoveries	–	88	–	–	–	88
Provision for loan losses	153	(7)	(14)	9	2	143
Balance at March 31, 2015	$ 4,088	$ 5,648	$ 137	$ 58	$ 31	$ 9,962
Balance at December 31, 2013	$ 3,338	$ 5,471	$ 294	$ 39	$ 38	$ 9,180
Charge-offs	–	(17)	–	–	–	(17)
Recoveries	–	4	–	–	–	4
Provision for loan losses	147	127	18	5	(10)	287
Balance at March 31, 2014	$ 3,485	$ 5,585	$ 312	$ 44	$ 28	$ 9,454
Allowance on loans evaluated for impairment:						
Individually	$ 14	$ 71	$ –	$ –	$ –	$ 85
Collectively	4,074	5,577	137	58	31	9,877
Balance at March 31, 2015	$ 4,088	$ 5,648	$ 137	$ 58	$ 31	$ 9,962
Individually	$ –	$ 309	$ –	$ –	$ –	$ 309
Collectively	3,949	5,640	151	49	29	9,818
Balance at December 31, 2014	$ 3,949	$ 5,949	$ 151	$ 49	$ 29	$ 10,127
Recorded investment in loans evaluated for impairment:						
Individually	$ 7,135	$ 10,343	$ –	$ –	$ 107	$ 17,585
Collectively	621,795	766,551	29,815	15,096	3,558	1,436,815
Balance at March 31, 2015	$ 628,930	$ 776,894	$ 29,815	$ 15,096	$ 3,665	$ 1,454,400
Individually	$ 7,069	$ 10,848	$ –	$ –	$ 107	$ 18,024
Collectively	587,108	795,589	36,543	13,108	3,262	1,435,610
Balance at December 31, 2014	$ 594,177	$ 806,437	$ 36,543	$ 13,108	$ 3,369	$ 1,453,634

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following table presents additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no TDRs for the period ended March 31, 2015.

	Three months ended March 31, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ –	$ 482	$ –	$ 482	
Total	$ –	$ 482	$ –	$ 482	
Post-modification:					
Production and intermediate-term	$ –	$ 482	$ –	$ 482	$ –
Total	$ –	$ 482	$ –	$ 482	$ –

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2015	**December 31, 2014**	**March 31, 2015**	**December 31, 2014**
Real estate mortgage	$ 6,422	$ 6,489	$ 94	$ 97
Production and intermediate-term	6,392	6,343	–	–
Total Loans	$ 12,814	$ 12,832	$ 94	$ 97
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

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

Note 3 — Investments

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owns 11.31 percent of the issued stock of the Bank as of March 31, 2015 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.9 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $83 million for the first three months of 2015. In addition, the Association has an investment of $79 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income

	Changes in Accumulated Other Comprehensive income by Component *(a)*	
	For the Three Months Ended March 31,	
	2015	2014
Employee Benefit Plans:		
Balance at beginning of period	$ (30,188)	$ (17,412)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	590	249
Net current period other comprehensive income	590	249
Balance at end of period	$ (29,598)	$ (17,163)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
	For the Three Months Ended March 31,		
	2015	2014	Income Statement Line Item
Defined Benefit Pension Plans:			
Periodic pension costs	$ (590)	$ (249)	See Note 7.
Net amounts reclassified	$ (590)	$ (249)	

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

Note 6 — Fair Value Measurement

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

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

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

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

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 20,184	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

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

	At or for the Three Months Ended March 31, 2015					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 17,500	$ –	$ –	$ 17,500	$ 17,500	$ (84)
Other property owned	2,334	–	–	2,684	2,684	–
Nonrecurring Assets	$ 19,834	$ –	$ –	$ 20,184	$ 20,184	$ (84)
Other Financial Instruments						
Assets:						
Cash	$ 1,694	$ 1,694	$ –	$ –	$ 1,694	
Loans	1,414,982	–	–	1,402,787	1,402,787	
Other Financial Assets	$ 1,416,676	$ 1,694	$ –	$ 1,402,787	$ 1,404,481	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,152,297	$ –	$ –	$ 1,146,670	$ 1,146,670	
Other Financial Liabilities	$ 1,152,297	$ –	$ –	$ 1,146,670	$ 1,146,670	

	At or for the Year Ended December 31, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 17,715	$ –	$ –	$ 17,715	$ 17,715	$ (174)
Other property owned	2,247	–	–	2,584	2,584	(9)
Nonrecurring Assets	$ 19,962	$ –	$ –	$ 20,299	$ 20,299	$ (183)
Other Financial Instruments						
Assets:						
Cash	$ 15,609	$ 15,609	$ –	$ –	$ 15,609	
Loans	1,412,561	–	–	1,394,646	1,394,646	
Other Financial Assets	$ 1,428,170	$ 15,609	$ –	$ 1,394,646	$ 1,410,255	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,194,897	$ –	$ –	$ 1,183,141	$ 1,183,141	
Other Financial Liabilities	$ 1,194,897	$ –	$ –	$ 1,183,141	$ 1,183,141	

Note 7 — Employee Benefit Plans

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

	For the three months ended March 31, 2015	2014
Pension	$ 918	$ 560
401(k)	177	120
Other postretirement benefits	415	273
Total	$ 1,510	$ 953

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

	Actual YTD Through 3/31/15	Projected Contributions For Remainder of 2015	Projected Total Contributions 2015
Pension	$ –	$ 2,964	$ 2,964
Other postretirement benefits	140	422	562
Total	$ 140	$ 3,386	$ 3,526

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

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