



Quarterly Report To Stockholders

Quarter Ended March 31, 2015

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (the Association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the quarterly report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' (Bank) and the Association's accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The annual consolidated financial statements are examined by PricewaterhouseCoopers LLP, independent auditors, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the board of directors has oversight responsibility for the Association's systems of internal controls and financial reporting. The Audit Committee consults regularly with management and the internal auditors and meets periodically with the independent auditors to review the scope and results of their work. The independent auditors and internal auditors have direct access to the Audit Committee.

The undersigned certify that this quarterly report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his knowledge and belief.



Ben R. Novosad,
Chief Executive Officer



Phillip Munden,
Chairman, Board of Directors



Don VandeVanter,
Chief Financial Officer

May 7, 2015

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in thousands)**

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively referred to as the Association) for the quarter ended March 31, 2015. These comments should be read in conjunction with the accompanying consolidated financial statements and the December 31, 2014 Annual Report of the Association. Results for interim periods are not necessarily indicative of results to be expected for future periods.

The National economy was off to a slow start during the first quarter of 2015. Oil prices continued to decline into March and the housing market continued to struggle for momentum. However, unemployment levels are improving and new jobs are being added. The agricultural sector is benefitting from favorable beef prices and improved growing conditions. Recent rains over large parts of the state have improved planting and pasture conditions considerably. On the negative side, lower cotton and grain prices will put a lot of pressure on crop producers' margins.

Patronage Refunds by Association

The Association distributed its patronage refund for 2014 in March 2015. \$71,979 of this distribution was paid in cash and \$70,067 was distributed in the form of nonqualified allocated equity. The owners of these nonqualified distributions will not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the Association, allowing the stockholders to benefit more fully from the earnings of the Association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made. In March 2014, the Association made its patronage distribution for 2013, with cash distribution of \$65,477 and nonqualified allocations of \$78,648.

Loan Portfolio

Total loan volume was \$5,925,598 at March 31, 2015. This compares with loan volume owned by the Association at December 31, 2014 of \$5,886,775. This represents an increase of \$38,823, or approximately 0.7 percent. Most of this increase was realized in the real estate mortgage segment. The Association is experiencing growth in the agribusiness, rural residential real estate and communication portfolios as well. The Association has increased its marketing efforts and implemented new loan programs in an effort to continue to grow its loan portfolio.

The quality of the Association's loan portfolio remained stable during the first quarter with an increase in loans 90 days past due and still accruing interest, mostly offset with declines in nonaccrual loans, restructured loans and other property owned. The following table summarizes the Association's components and trends of high-risk assets:

| | March 31, 2015 | % | December 31, 2014 | % |
|--|---------------------------|--------------|----------------------|----------|
| Nonaccrual loans | \$ 75,186 | 79.1 | \$ 76,065 | 80.9 |
| Loans 90 days past due and still accruing interest | 3,703 | 3.9 | 385 | 0.4 |
| Formally restructured loans | 13,625 | 14.3 | 13,783 | 14.6 |
| Other property owned, net | 2,543 | 2.7 | 3,841 | 4.1 |
| Total | \$ 95,057 | 100.0 | \$ 94,074 | 100.0 |

Nonaccrual loans decreased \$879 during the first three months of 2015. This decrease was recognized in the real estate mortgage sector, which was somewhat offset by an increase in the production sector.

Loans that are 90 or more days past due and still accruing interest increased \$3,318 in the first three months of 2015. This increase was recognized in all sectors, with the most significant increase noted in production loans. Loans in this category are to customers that have a documented plan that details how and when the amount owed will be paid.

Formally restructured loans decreased \$158 during the first three months of 2015 as a result of loan pay offs. The Association is cooperating with distressed borrowers to work through temporary repayment problems, where possible. These restructurings may include a modification of loan terms to accommodate the financial difficulties of the customer.

Other property owned decreased \$1,298 during the first three months of 2015. The decrease resulted from the sale of several acquired properties. The Association is actively working with real estate professionals to ensure properties are accurately valued on the Association's books and that proactive marketing activities are in place.

Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with problem customers and industries through periods of adversity.

Results of Operations

The Association's net income for the three months ended March 31, 2015 was \$31,903 as compared to \$33,681 for the three months ended March 31, 2014, a decrease of \$1,778, or 5.3 percent.

The decline in net income was affected by an increase in the provision for loan losses, and an increase in noninterest expenses, offset by an improvement in net interest income and noninterest income. Net interest income increased by \$3,255 during the first three months of 2015 compared to the same time period for 2014. An increase in average loan volume and higher average capital was the catalyst for the improvement in net interest income. Noninterest income increased \$3,343 during the first three months of 2015 compared to the same time period of 2014. The increase in noninterest income was mainly attributed to an increase in accrual of patronage income from the Bank and income generated by the recently acquired crop insurance business. In addition, net income was negatively affected by an increase in provision for loan losses of \$2,311 during the first three months of 2015 compared to the same time period for 2014. This increase was mainly attributed to provision for loan losses related to one large participation loan. Furthermore, noninterest expense increased \$6,064 during the first three months of 2015 compared to the same time period of 2014.

The effects of changes in average volume and interest rates on net interest income in the three months ended March 31, 2015, as compared with the corresponding period of the prior year, are presented in the following tables:

| | For the three months ended March 31, 2015 | | For the three months ended March 31, 2014 | |
|-------------------------------|--|-----------|--|-----------|
| | Average Balance | Interest | Average Balance | Interest |
| Accrual loans and investments | \$ 5,810,439 | \$ 71,899 | \$ 5,350,334 | \$ 66,454 |
| Interest-bearing liabilities | 4,913,905 | 22,877 | 4,485,686 | 20,687 |
| Impact of capital | \$ 896,534 | | \$ 864,648 | |
| Net interest income | | \$ 49,022 | | \$ 45,767 |

| | Average Yield | Average Yield |
|---|---------------|---------------|
| Yield on loans | 5.02% | 5.04% |
| Cost of interest-bearing Liabilities | 1.89% | 1.87% |
| Net interest margin | 3.13% | 3.17% |

| | 2015 vs. 2014 | | |
|---------------------|----------------------------|----------|----------|
| | Increase (decrease) due to | | |
| | Volume | Rate | Total |
| Interest income | \$ 5,715 | \$ (270) | \$ 5,445 |
| Interest expense | 1,975 | 215 | 2,190 |
| Net interest income | \$ 3,740 | \$ (485) | \$ 3,255 |

The Association's noninterest income increased from \$4,776 in the first three months of 2014 to \$8,119 in the first three months of 2015. The Association has received a patronage refund over the last several years from the Bank. This refund is paid annually to the Association in December by a direct reduction in its Note Payable to Bank. For the first quarter of 2014, the Association accrued a 0.30 percent of its average Note Payable balance. In its 2015 Capital Plan, the Bank declared its intention to pay 0.40 percent of the average Note Payable. Therefore, the Association will accrue 0.40 percent of its average Note Payable each quarter in 2015. For the first quarter, the patronage income is \$1,569 more in 2015 than for the same period in 2014. In addition, other income increased from \$370 in the first three months of 2014 to \$1,974 in the first three months of 2015, as the Association recognized income generated by the crop insurance business as well as savings allocated to the Association by the Farm Credit System Association Captive Insurance Company savings allocated to the Association.

Noninterest expenses increased \$6,064, or 34.8 percent in the first three months of 2015 as compared to the same time period in 2014. This increase is primarily attributable to an increase of \$4,649 in salary and employee benefits. The Association is accruing a quarterly estimate of its annual performance incentive in 2015, whereas historically a one-time accrual was recognized at year end. The accrual was \$2,991 in the first quarter 2015. In addition, there was an increase of 29 full-time employees as compared to the same time period in 2014, as the Association hires staff in anticipation of pending retirements, new business initiatives to support future business growth and additional regulatory compliance. Furthermore, the Association's 2014 goal achievement exceeded anticipated results at year end. As a result, the incentives paid for 2014 were \$794 greater than those accrued at the end of 2014. Details of the net change in salary and benefits are presented in the following table:

| | Net Change from March 2014 |
|--|-------------------------------|
| Salaries and Benefits changes from personnel increases | \$ 717 |
| Quarterly incentive and related benefit accrual | 2,991 |
| Incentives paid for 2014 in excess of original estimates | 794 |
| Contributions to pension plan | 147 |
| | \$ 4,649 |

In addition, the Association had an \$822 increase in purchased services. This increase was the result of higher legal expenses and for the purchase of software licenses that support the lending and training programs for the Association. All other noninterest expenses increased \$593 for the first three months of 2015.

Liquidity and Funding Sources

The interest rate risk inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the Association is its direct loan from the Bank. The Association had an outstanding balance of \$4,977,827 at March 31, 2015, as compared to \$4,922,588 at December 31, 2014. This increase in note payable to the Bank since December 2014 is the result of the increase in the Association's loan portfolio. The direct loan carried a weighted average interest rate of 1.89 percent for the three months ended March 31, 2015, compared to 1.88 percent for the year ended December 31, 2014. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by a financing agreement.

Under the Act, the Association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At March 31, 2015 the Association's note payable was within the specified limitations. The maximum amount the Association could borrow from the Bank as of March 31, 2015, was \$5,869,028, as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction, and to increase accrual loan volume. This policy will continue to be pursued during 2015. As borrower payments are received they are applied to the Association's note payable with the Bank.

The Association will continue to fund its operations through direct borrowings from the Bank, retained earnings, member stock and funds held in trust. It is management's opinion that funds available to the Association are sufficient to fund its operations for the next twelve months.

Capital Resources

The Association's capital position remains strong, with total capital of \$1,052,220 at March 31, 2015. This represents an increase of \$31,988 from the December 31, 2014 total capital level of \$1,020,232. This increase in capital is a direct result of the Association's net income for the period. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2015 was 15.46 percent. The Association's core surplus ratio and total surplus ratio at March 31, 2015 were 15.15 percent and 15.15 percent, respectively, which is in compliance with the FCA's minimum ratio requirements of 3.5 percent and 7.0 percent, respectively.

Regulatory Matters

On July 25, 2014, the Farm Credit Administration published a proposed rule to revise the requirements governing the eligibility of investments for System Banks and Associations. 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, and
- To revise the investment regulation for System Associations to improve their investment management practices so they are more resilient to risk.

The public comment period ended on October 23, 2014.

On September 4, 2014, the Farm Credit Administration published a proposed rule to modify the regulatory capital requirements for System Banks and Associations. 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, and
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The public comment period ended on February 16, 2015.

Relationship with the Farm Credit Bank of Texas

The Association's statutory obligation to borrow only from the Bank is described in the section "Liquidity and Funding Sources" of the Management's Discussion and Analysis, included in this quarterly report.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of Management's Discussion and Analysis," included in this quarterly report.

The Bank provides computer systems to support the critical operations of the Association. The Association also has operating systems and facility-based systems that are not supported by the Bank. The Bank also provides other services the Association can utilize.

The Association's financial condition may be impacted by factors that affect the Bank as discussed in Note 1 to the consolidated financial statements, "Organization and Significant Accounting Policies," included in this quarterly report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the Association.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P. O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing Bank@farmcreditBank.com. The District's annual and quarterly stockholder reports are also available on its Website at www.farmcreditBank.com.

The Association's annual and quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Capital Farm Credit, ACA, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the Association's quarterly and annual stockholder reports are also available on its Website at www.capitalfarmcredit.com or can be requested by e-mailing isela.morales@capitalfarmcredit.com.

CAPITAL FARM CREDIT, ACA
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

| | March 31, 2015 (Unaudited) | December 31, 2014 (Audited) |
|---|---|--|
| <u>ASSETS</u> | | |
| Loans | \$ 5,925,598 | \$ 5,886,775 |
| Less: Allowance for losses | (15,844) | (15,773) |
| Net loans | 5,909,754 | 5,871,002 |
| Cash | 28 | 37 |
| Accrued interest receivable - loans | 47,016 | 46,502 |
| Accrued interest receivable - investments | 231 | 215 |
| Investments – held-to-maturity | 9,845 | 11,474 |
| Investment in and receivable from the Bank: | | |
| Capital stock | 92,734 | 92,734 |
| Receivable | 9,233 | 9,937 |
| Investments in other Farm Credit Institutions | 5,058 | 4,798 |
| Other property owned, net | 2,543 | 3,841 |
| Premises and equipment, net | 16,496 | 17,344 |
| Other assets | 31,874 | 27,843 |
| Total assets | \$ 6,124,812 | \$ 6,085,727 |
| <u>LIABILITIES</u> | | |
| Note payable to the Bank | \$ 4,977,827 | \$ 4,922,588 |
| Advanced conditional payments | 5,662 | 5,763 |
| Accrued interest payable | 7,919 | 7,823 |
| Drafts outstanding | 1,631 | 2,955 |
| Patronage distributions payable | 1 | 72,004 |
| Unfunded post retirement medical obligation | 23,681 | 23,451 |
| Other liabilities | 55,871 | 30,911 |
| Total liabilities | 5,072,592 | 5,065,495 |
| <u>MEMBERS' EQUITY</u> | | |
| Capital stock and participation certificates | 23,517 | 23,417 |
| Non-qualified allocated retained earnings | 446,474 | 446,477 |
| Unallocated retained earnings | 585,285 | 553,366 |
| Accumulated other comprehensive income | (3,056) | (3,028) |
| Total members' equity | 1,052,220 | 1,020,232 |
| Total liabilities and members' equity | \$ 6,124,812 | \$ 6,085,727 |

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(UNAUDITED)

| | For the three months ended March 31, 2015 | For the three months ended March 31, 2014 |
|--|--|--|
| <u>INTEREST INCOME</u> | | |
| Loans | \$ 71,769 | \$ 66,288 |
| Investments | 130 | 166 |
| Total interest income | 71,899 | 66,454 |
| <u>INTEREST EXPENSE</u> | | |
| Note payable to the Bank and others | 22,877 | 20,687 |
| Net interest income | 49,022 | 45,767 |
| <u>PROVISION FOR LOAN LOSSES</u> | | |
| Provision for (reversal of) loan losses | 1,736 | (575) |
| Net interest income after provision for losses | 47,286 | 46,342 |
| <u>NONINTEREST INCOME</u> | | |
| Patronage income from the Bank | 5,319 | 3,750 |
| Loan fees | 698 | 480 |
| Gain (loss) on other property owned, net | 128 | 176 |
| Other income | 1,974 | 370 |
| Total noninterest income | 8,119 | 4,776 |
| <u>NONINTEREST EXPENSES</u> | | |
| Salaries and employee benefits | 15,008 | 10,359 |
| Farm Credit System insurance premium | 1,501 | 1,260 |
| Purchased services and allocations | 1,294 | 472 |
| Occupancy and equipment | 1,283 | 1,096 |
| Advertising | 904 | 781 |
| Public and member relations | 853 | 768 |
| Travel | 492 | 553 |
| FCA supervisory and exam expense | 337 | 306 |
| Communications | 288 | 283 |
| Directors' expense | 225 | 227 |
| Other expenses | 1,312 | 1,328 |
| Total noninterest expenses | 23,497 | 17,433 |
| Income before federal income tax | 31,908 | 33,685 |
| Federal income tax | 5 | 4 |
| NET INCOME | \$ 31,903 | \$ 33,681 |
| Other comprehensive loss: | | |
| Change in postretirement benefit plans | (28) | (81) |
| Income tax expense related to items of other comprehensive income | - | - |
| Other comprehensive loss, net of tax | (28) | (81) |
| COMPREHENSIVE INCOME | \$ 31,875 | \$ 33,600 |

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

CAPITAL FARM CREDIT, ACA
CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(Dollars in thousands)
(UNAUDITED)

| | Capital Stock/ Participation Certificates | Retained Earnings | | Accumulated Other Comprehensive Income | Total Members' Equity |
|---|---|----------------------------|-------------------|---|--------------------------|
| | | Non-qualified Allocated | Unallocated | | |
| Balance at December 31, 2013 | \$ 22,651 | \$ 376,634 | \$ 551,319 | \$ 1,992 | \$ 952,596 |
| Net income | - | - | 33,681 | - | 33,681 |
| Other comprehensive loss | - | - | - | (81) | (81) |
| Capital stock/participation certificates issued | 783 | - | - | - | 783 |
| Capital stock/participation certificates/ allocated equities retired | (775) | - | - | - | (775) |
| Other adjustments | - | (227) | 30 | - | (197) |
| Balance at March 31, 2014 | 22,659 | 376,407 | 585,030 | 1,911 | 986,007 |
| Net income | - | - | 110,402 | - | 110,402 |
| Other comprehensive loss | - | - | - | (4,939) | (4,939) |
| Capital stock/participation certificates issued | 2,870 | - | - | - | 2,870 |
| Capital stock/participation certificates/ allocated equities retired | (2,112) | - | - | - | (2,112) |
| Patronage distributions declared: | | | | | |
| Cash | - | - | (71,995) | - | (71,995) |
| Nonqualified allocations | - | 70,070 | (70,070) | - | - |
| Other adjustments | - | - | (1) | - | (1) |
| Balance at December 31, 2014 | 23,417 | 446,477 | 553,366 | (3,028) | 1,020,232 |
| Net income | - | - | 31,903 | - | 31,903 |
| Other comprehensive loss | - | - | - | (28) | (28) |
| Capital stock/participation certificates issued | 867 | - | - | - | 867 |
| Capital stock/participation certificates/ allocated equities retired | (767) | - | - | - | (767) |
| Other adjustments | - | (3) | 16 | - | 13 |
| Balance at March 31, 2015 | \$ 23,517 | \$ 446,474 | \$ 585,285 | \$ (3,056) | \$ 1,052,220 |

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

CAPITAL FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands)
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Capital Farm Credit, ACA including its wholly owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA, (collectively called the “Association”), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in 192 counties in the state of Texas.

The Association is a lending institution of the Farm Credit System (System) which was established by acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Act.)

A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of December 31, 2014 are contained in the 2014 Annual Report to Stockholders.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2014 as contained in the 2014 Annual Report to Stockholders.

The Bank and its related Associations are collectively referred to as the “District.” The Association’s financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders’ investment in the Association. Upon request, stockholders of the Association will be provided the Tenth Farm Credit District’s Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District Associations. The District’s annual report discusses the material aspects of the financial condition, changes in financial condition, and results of operations for the Bank and the District. In addition, the District’s annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Farm Credit System Insurance Corporation.

In the opinion of management, the unaudited financial information is complete and reflects, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2015. Descriptions of the significant accounting policies are included in the 2014 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the Banking industry.

In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled “Presentation of Financial Statements — Going Concern.” The guidance governs management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016. Management does not anticipate this guidance to be applicable to the Association, based upon its current financial condition.

In May 2014, the FASB issued guidance entitled, “Revenue from Contracts with Customers.” The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. The Association is in the process of reviewing contracts to determine the effect, if any, on their financial condition or results of operations. Management anticipates the adoption of this guidance to have very little impact to the financial condition or results of operations for the Association.

Certain amounts in the prior period’s financial statements have been reclassified to conform to the current period’s financial statement presentation.

NOTE 2 — INVESTMENTS:

Investments Held-to-Maturity

The Association’s held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

| March 31, 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield | Weighted Average Life (Years) |
|---|----------------|------------------------------|-------------------------------|------------|------------------------------|-------------------------------------|
| Agricultural mortgage-backed securities | \$ 9,845 | \$ 150 | \$ - | \$ 9,995 | 5.21% | 2.91 |

| December 31, 2014 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Weighted Average Yield | Weighted Average Life (Years) |
|---|----------------|------------------------------|-------------------------------|------------|------------------------------|-------------------------------------|
| Agricultural mortgage-backed securities | \$ 11,474 | \$ 115 | \$ - | \$ 11,589 | 4.99% | 3.11 |

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitment to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The Association continues to service the loans included in the transaction.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

| Industry | March 31, 2015 | % | December 31, 2014 | % |
|----------------------------------|-------------------|-------|----------------------|-------|
| Production agriculture: | | | | |
| Real estate mortgage | \$ 4,587,997 | 77.5 | \$ 4,547,614 | 77.3 |
| Production and intermediate term | 676,269 | 11.4 | 710,391 | 12.1 |
| Agribusiness | 417,056 | 7.0 | 402,344 | 6.8 |
| Rural residential real estate | 121,831 | 2.1 | 119,731 | 2.0 |
| Communication | 59,315 | 1.0 | 41,766 | 0.7 |
| Energy | 48,762 | 0.8 | 50,183 | 0.9 |
| Mission related investments | 8,366 | 0.1 | 8,410 | 0.1 |
| Lease receivables | 3,474 | 0.1 | 3,763 | 0.1 |
| Water and waste disposal | 2,528 | 0.0 | 2,573 | 0.0 |
| Total | \$ 5,925,598 | 100.0 | \$ 5,886,775 | 100.0 |

At March 31, 2015, the Association held four transactions, which are reported as loans on the consolidated balance sheet totaling \$6,656 and with \$44 in remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold as of March 31, 2015:

| | <u>Other Farm Credit Institutions</u> | | <u>Non-Farm Credit Institutions</u> | | <u>Total</u> | |
|-------------------------------------|---------------------------------------|--------------------------------|-------------------------------------|--------------------------------|-------------------------------------|--------------------------------|
| | <u>Participations Purchased</u> | <u>Participations Sold</u> | <u>Participations Purchased</u> | <u>Participations Sold</u> | <u>Participations Purchased</u> | <u>Participations Sold</u> |
| Real estate mortgage | \$ 90,132 | \$ 61,585 | \$ 2,502 | \$ - | \$ 92,634 | \$ 61,585 |
| Production and intermediate term | 146,674 | 453,316 | - | - | 146,674 | 453,316 |
| Agribusiness | 297,335 | 29,165 | 2,247 | - | 299,582 | 29,165 |
| Communication | 59,315 | - | - | - | 59,315 | - |
| Energy | 48,762 | - | - | - | 48,762 | - |
| Water and waste disposal | 2,313 | - | - | - | 2,313 | - |
| Lease receivables | 3,474 | - | - | - | 3,474 | - |
| Mission related investments | 2,309 | - | 4,347 | - | 6,656 | - |
| Total | \$ 650,314 | \$ 544,066 | \$ 9,096 | \$ - | \$ 659,410 | \$ 544,066 |

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

| | March 31, 2015 | December 31, 2014 |
|---|---------------------------|----------------------|
| Nonaccrual loans: | | |
| Real estate mortgage | \$ 62,230 | \$ 65,336 |
| Production and intermediate-term | 8,590 | 6,212 |
| Agribusiness | 3,974 | 4,301 |
| Residential Real Estate | 364 | 184 |
| Lease receivable | 28 | 32 |
| Total nonaccrual loans | <u>\$ 75,186</u> | <u>\$ 76,065</u> |
| Accruing restructured loans: | | |
| Real estate mortgage | \$ 4,619 | \$ 4,960 |
| Production and intermediate-term | 6,736 | 6,533 |
| Mission related investments | 2,368 | 2,334 |
| Residential real estate | - | 80 |
| Total accruing restructured loans | <u>\$ 13,723</u> | <u>\$ 13,907</u> |
| Accruing loans 90 days or more past due: | | |
| Real estate mortgage | \$ 1,331 | \$ 234 |
| Production and intermediate-term | 2,061 | - |
| Mission related investments | 443 | - |
| Agribusiness | - | 1 |
| Residential Real Estate | - | 157 |
| Total accruing loans 90 days or more past due | <u>\$ 3,835</u> | <u>\$ 392</u> |
| Total nonperforming loans | <u>\$ 92,744</u> | <u>\$ 90,364</u> |
| Other property owned | 2,543 | 3,841 |
| Total nonperforming assets | <u>\$ 95,287</u> | <u>\$ 94,205</u> |

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- 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 factors, conditions and values that make collection in full highly questionable, and
- Loss – assets are considered uncollectible.

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

| | March 31, 2015 | December 31, 2014 |
|---|---------------------------|------------------------------|
| Real estate mortgage | | |
| Acceptable | 96.9% | 96.8% |
| OAEM | 1.2% | 1.3% |
| Substandard/doubtful | 1.9% | 1.9% |
| | <u>100.0%</u> | <u>100.0%</u> |
| Production and intermediate-term | | |
| Acceptable | 94.1% | 95.2% |
| OAEM | 2.6% | 2.2% |
| Substandard/doubtful | 3.3% | 2.6% |
| | <u>100.0%</u> | <u>100.0%</u> |
| Agribusiness | | |
| Acceptable | 95.6% | 94.9% |
| OAEM | 3.3% | 4.0% |
| Substandard/doubtful | 1.1% | 1.1% |
| | <u>100.0%</u> | <u>100.0%</u> |
| Energy | | |
| Acceptable | 100.0% | 100.0% |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | <u>100.0%</u> | <u>100.0%</u> |
| Water and waste disposal | | |
| Acceptable | 100.0% | 100.0% |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | <u>100.0%</u> | <u>100.0%</u> |
| Communication | | |
| Acceptable | 100.0% | 100.0% |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | <u>100.0%</u> | <u>100.0%</u> |
| Rural residential real estate | | |
| Acceptable | 97.6% | 97.8% |
| OAEM | 1.5% | 1.4% |
| Substandard/doubtful | 0.9% | 0.8% |
| | <u>100.0%</u> | <u>100.0%</u> |
| Lease receivables | | |
| Acceptable | 93.3% | 93.3% |
| OAEM | 5.7% | 5.7% |
| Substandard/doubtful | 1.0% | 1.0% |
| | <u>100.0%</u> | <u>100.0%</u> |
| Mission related investments | | |
| Acceptable | 100.0% | 100.0% |
| OAEM | - | - |
| Substandard/doubtful | - | - |
| | <u>100.0%</u> | <u>100.0%</u> |
| Total Loans | | |
| Acceptable | 96.6% | 96.6% |
| OAEM | 1.5% | 1.6% |
| Substandard/doubtful | 1.9% | 1.8% |
| | <u>100.0%</u> | <u>100.0%</u> |

The following table provides an age analysis of past due loans (including accrued interest) as of:

| March 31, 2015 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or less than 30 Days Past Due | Total Loans | Loans > 90 Days and Accruing |
|----------------------------------|---------------------------|--------------------------------|-------------------|--|--------------------|---------------------------------|
| Real estate mortgage | \$ 28,682 | \$27,214 | \$ 55,896 | \$ 4,553,801 | 4,609,697 | \$ 1,331 |
| Production and intermediate term | 9,619 | 3,857 | 13,476 | 672,190 | 685,666 | 2,061 |
| Agribusiness | 8 | 2,018 | 2,026 | 416,619 | 418,645 | - |
| Communication | - | - | - | 59,360 | 59,360 | - |
| Energy | - | - | - | 48,804 | 48,804 | - |
| Water and waste disposal | - | - | - | 2,529 | 2,529 | - |
| Rural residential real estate | 1,086 | 3 | 1,089 | 134,760 | 135,849 | - |
| Lease receivables | - | - | - | 3,542 | 3,542 | - |
| Mission related investments | - | 443 | 443 | 8,079 | 8,522 | 443 |
| Total | <u>\$ 39,395</u> | <u>\$33,535</u> | <u>\$ 72,930</u> | <u>\$ 5,899,684</u> | <u>\$5,972,614</u> | <u>\$ 3,835</u> |

| December 31, 2014 | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or less than 30 Days Past Due | Total Loans | Loans > 90 Days and Accruing |
|----------------------------------|---------------------------|--------------------------------|-------------------|--|--------------------|---------------------------------|
| Real estate mortgage | \$ 26,065 | \$36,353 | \$ 62,418 | \$ 4,507,398 | \$4,569,816 | \$ 234 |
| Production and intermediate term | 9,344 | 1,778 | 11,122 | 707,566 | 718,688 | - |
| Agribusiness | 8,775 | 2,030 | 10,805 | 392,822 | 403,627 | 1 |
| Communication | - | - | - | 41,810 | 41,810 | - |
| Energy | - | - | - | 50,223 | 50,223 | - |
| Water and waste disposal | - | - | - | 2,573 | 2,573 | - |
| Rural residential real estate | 1,499 | 166 | 1,665 | 132,553 | 134,218 | 157 |
| Lease receivables | - | - | - | 3,849 | 3,849 | - |
| Mission related investments | - | - | - | 8,473 | 8,473 | - |
| Total | <u>\$ 45,683</u> | <u>\$40,327</u> | <u>\$ 86,010</u> | <u>\$ 5,847,267</u> | <u>\$5,933,277</u> | <u>\$ 392</u> |

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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of March 31, 2015 the total troubled debt restructured loans was \$16,182, including \$2,459 classified as nonaccrual and \$13,723 classified as accrual, with specific allowance for loan losses of \$89. As of March 31, 2015 commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were \$202.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation that occurred. Balance of Pre-TDR designation represents quarter-end loans just prior to restructuring and post-TDR represents the quarter-end loans immediately following the restructuring.

| | Troubled Debt Restructuring Activity | | | |
|----------------------------------|--------------------------------------|---------------------------------|--------------------------------|---------------------------------|
| | 2015 | | 2014 | |
| | Pre-TDR Designation Balance | Post-TDR Designation Balance | Pre-TDR Designation Balance | Post-TDR Designation Balance |
| Three months ended March 31: | | | | |
| Real Estate Mortgage | \$ 71 | \$ 70 | \$ - | \$ - |
| Production and intermediate term | 880 | 447 | 10 | 10 |
| Rural residential real estate | - | - | 94 | 91 |
| Total | <u>\$ 951</u> | <u>\$ 517</u> | <u>\$ 104</u> | <u>\$ 101</u> |

The Association had no loans that met the accounting criteria as a troubled debt restructuring and that occurred during the previous twelve months, and for which there was a payment default during that same period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

Additional impaired loan information is as follows:

| | At March 31, 2015 | | | At December 31, 2014 | | |
|--|-------------------|---|----------------------------------|----------------------|---|----------------------------------|
| | Loan Balance | Unpaid Principal Balance ^a | Related Specific Allowance | Loan Balance | Unpaid Principal Balance ^a | Related Specific Allowance |
| Impaired loans with a related allowance for loan losses: | | | | | | |
| Real estate mortgage | \$ 1,046 | \$ 1,351 | \$ 201 | \$ 986 | \$ 1,292 | \$ 18 |
| Production and intermediate term | 3,392 | 3,451 | 729 | 3,743 | 3,946 | 1,378 |
| Processing and marketing | 967 | 1,411 | 109 | 983 | 1,488 | 123 |
| Rural residential real estate | 3 | 61 | 1 | 10 | 61 | 1 |
| Mission related investments | 2,309 | 2,309 | 80 | 2,310 | 2,310 | 81 |
| Total | <u>\$ 7,717</u> | <u>\$ 8,583</u> | <u>\$ 1,120</u> | <u>\$ 8,032</u> | <u>\$ 9,097</u> | <u>\$ 1,601</u> |
| Impaired loans with no related allowance for loan losses: | | | | | | |
| Real estate mortgage | \$ 67,037 | \$ 74,375 | \$ - | \$ 69,522 | \$ 75,812 | \$ - |
| Production and intermediate term | 13,927 | 17,873 | - | 8,921 | 12,667 | - |
| Processing and marketing | 2,998 | 21,924 | - | 3,309 | 22,236 | - |
| Farm-related business | 9 | 358 | - | 10 | 373 | - |
| Rural residential real estate | 361 | 447 | - | 407 | 499 | - |
| Lease receivables | 28 | 28 | - | 32 | 32 | - |
| Mission related investments | 437 | 437 | - | - | - | - |
| Total | <u>\$ 84,797</u> | <u>\$ 115,442</u> | <u>\$ -</u> | <u>\$ 82,201</u> | <u>\$ 111,619</u> | <u>\$ -</u> |
| Total impaired loans: | | | | | | |
| Real estate mortgage | \$ 68,083 | \$ 75,726 | \$ 201 | \$ 70,508 | \$ 77,104 | \$ 18 |
| Production and intermediate term | 17,319 | 21,324 | 729 | 12,664 | 16,613 | 1,378 |
| Processing and marketing | 3,965 | 23,335 | 109 | 4,292 | 23,724 | 123 |
| Farm-related business | 9 | 358 | - | 10 | 373 | - |
| Rural residential real estate | 364 | 508 | 1 | 417 | 560 | 1 |
| Lease receivables | 28 | 28 | - | 32 | 32 | - |
| Mission related investments | 2,746 | 2,746 | 80 | 2,310 | 2,310 | 81 |
| Total | <u>\$ 92,514</u> | <u>\$ 124,025</u> | <u>\$ 1,120</u> | <u>\$ 90,233</u> | <u>\$ 120,716</u> | <u>\$ 1,601</u> |

^aUnpaid principal balance represents the recorded principal balance of the loan.

| | For the Three Months Ended March 31, 2015 | | For the Year Ended December 31, 2014 | |
|--|--|----------------------------------|---|----------------------------------|
| | Average Impaired Loans | Interest Income Recognized | Average Impaired Loans | Interest Income Recognized |
| Impaired loans with a related allowance for loan losses: | | | | |
| Real estate mortgage | \$ 975 | \$ - | \$ 6,963 | \$ - |
| Production and intermediate term | 3,553 | 2 | 6,143 | 39 |
| Processing and marketing | 971 | - | 1,608 | - |
| Rural residential real estate | 8 | - | 11 | - |
| Mission related investments | 2,309 | 36 | 2,320 | 144 |
| Total | <u>\$ 7,816</u> | <u>\$ 38</u> | <u>\$ 17,045</u> | <u>\$ 183</u> |
| Impaired loans with no related allowance for loan losses: | | | | |
| Real estate mortgage | \$ 68,812 | \$ 115 | \$ 49,700 | \$ 1,697 |
| Production and intermediate term | 10,739 | 343 | 6,416 | 398 |
| Processing and marketing | 3,201 | - | 3,346 | 2 |
| Farm-related business | 9 | - | 14 | - |
| Rural residential real estate | 275 | 3 | 389 | 20 |
| Lease receivables | 29 | - | 39 | - |
| Mission related investments | 146 | 5 | - | - |
| Total | <u>\$ 83,211</u> | <u>\$ 466</u> | <u>\$ 59,904</u> | <u>\$ 2,117</u> |
| Total impaired loans: | | | | |
| Real estate mortgage | \$ 69,787 | \$ 115 | \$ 56,663 | \$ 1,697 |
| Production and intermediate term | 14,292 | 345 | 12,559 | 437 |
| Processing and marketing | 4,172 | - | 4,954 | 2 |
| Farm-related business | 9 | - | 14 | - |
| Rural residential real estate | 283 | 3 | 400 | 20 |
| Lease receivables | 29 | - | 39 | - |
| Mission related investments | 2,455 | 41 | 2,320 | 144 |
| Total | <u>\$ 91,027</u> | <u>\$ 504</u> | <u>\$ 76,949</u> | <u>\$ 2,300</u> |

A summary of changes in the allowance for loan losses and the ending balance including accrued interest of loans outstanding are as follows:

| | Real Estate Mortgage | Production and Intermediate Term | Agribusiness | Communication | Energy and water/waste water | Rural Residential Real Estate | Lease Receivable | Mission Related Investments | Total |
|---|-------------------------|--|-------------------|------------------|------------------------------------|-------------------------------------|---------------------|-----------------------------------|---------------------|
| Allowance for loan losses: | | | | | | | | | |
| Balance at | | | | | | | | | |
| December 30, 2014 | \$ 6,993 | \$ 6,662 | \$ 1,511 | \$ 133 | \$ 178 | \$ 191 | \$ 23 | \$ 82 | \$ 15,773 |
| Charge-offs | (3) | - | - | - | - | (7) | - | - | (10) |
| Recoveries | 3 | 33 | 105 | - | - | - | - | - | 141 |
| Provision for loan losses | 363 | (557) | 1,920 | (10) | 7 | 15 | (2) | - | 1,736 |
| Other * | - | - | (1,796) | - | - | - | - | - | (1,796) |
| Balance at | | | | | | | | | |
| March 31, 2015 | <u>\$ 7,356</u> | <u>\$ 6,138</u> | <u>\$ 1,740</u> | <u>\$ 123</u> | <u>\$ 185</u> | <u>\$ 199</u> | <u>\$ 21</u> | <u>\$ 82</u> | <u>\$ 15,844</u> |
| Allowance for loan losses: | | | | | | | | | |
| Ending Balance at March 31, 2015 | | | | | | | | | |
| Individually evaluated for impairment | | | | | | | | | |
| | \$ 201 | \$ 729 | \$ 109 | \$ - | \$ - | \$ 1 | \$ - | \$ 80 | \$ 1,120 |
| Allowance for loan losses: | | | | | | | | | |
| Collectively evaluated for impairment | | | | | | | | | |
| | \$ 7,155 | \$ 5,409 | \$ 1,631 | \$ 123 | \$ 185 | \$ 198 | \$ 21 | \$ 2 | \$ 14,724 |
| Balance at | | | | | | | | | |
| December 31, 2013 | \$ 9,284 | \$ 4,968 | \$ 4,326 | \$ 104 | \$ 502 | \$ 211 | \$ 26 | \$ 105 | \$ 19,526 |
| Charge-offs | (69) | (59) | - | - | - | - | - | - | (128) |
| Recoveries | 8 | 67 | 1 | - | - | - | - | - | 76 |
| Provision for loan losses | 1,216 | 892 | (2,496) | (6) | (185) | 5 | 2 | (3) | (575) |
| Balance at | | | | | | | | | |
| March 31, 2014 | <u>\$ 10,439</u> | <u>\$ 5,868</u> | <u>\$ 1,831</u> | <u>\$ 98</u> | <u>\$ 317</u> | <u>\$ 216</u> | <u>\$ 28</u> | <u>\$ 102</u> | <u>\$ 18,899</u> |
| Allowance for loan losses: | | | | | | | | | |
| Ending Balance at December 31, 2014 | | | | | | | | | |
| individually evaluated for impairment | | | | | | | | | |
| | \$ 18 | \$ 1,378 | \$ 123 | \$ - | \$ - | \$ 1 | \$ - | \$ 81 | \$ 1,601 |
| Allowance for loan losses: | | | | | | | | | |
| collectively evaluated for impairment | | | | | | | | | |
| | \$ 6,975 | \$ 5,284 | \$ 1,388 | \$ 133 | \$ 178 | \$ 190 | \$ 23 | \$ 1 | \$ 14,172 |
| Recorded Investments in Loans Outstanding: | | | | | | | | | |
| Ending Balance at | | | | | | | | | |
| March 31, 2015 | <u>\$ 4,609,696</u> | <u>\$ 685,666</u> | <u>\$ 418,646</u> | <u>\$ 59,360</u> | <u>\$ 51,333</u> | <u>\$ 135,849</u> | <u>\$ 3,542</u> | <u>\$ 8,522</u> | <u>\$ 5,972,614</u> |
| Individually evaluated for impairment | | | | | | | | | |
| | \$ 68,083 | \$ 17,319 | \$ 3,974 | \$ - | \$ - | \$ 364 | \$ 28 | \$ 2,746 | \$ 92,514 |
| Collectively evaluated for impairment | | | | | | | | | |
| | \$ 4,541,613 | \$ 668,347 | \$ 414,672 | \$ 59,360 | \$ 51,333 | \$ 135,485 | \$ 3,514 | \$ 5,776 | \$ 5,880,100 |
| Ending Balance at | | | | | | | | | |
| December 31, 2014 | <u>\$ 4,569,816</u> | <u>\$ 718,688</u> | <u>\$ 403,627</u> | <u>\$ 41,810</u> | <u>\$ 52,796</u> | <u>\$ 134,218</u> | <u>\$ 3,849</u> | <u>\$ 8,473</u> | <u>\$ 5,933,277</u> |
| Individually evaluated for impairment | | | | | | | | | |
| | \$ 70,508 | \$ 12,664 | \$ 4,302 | \$ - | \$ - | \$ 417 | \$ 32 | \$ 2,310 | \$ 90,233 |
| Collectively evaluated for impairment | | | | | | | | | |
| | \$ 4,499,308 | \$ 706,024 | \$ 399,325 | \$ 41,810 | \$ 52,796 | \$ 133,801 | \$ 3,817 | \$ 6,163 | \$ 5,843,044 |

*The Association recognized a provision for loan loss of \$1,796 on unfunded commitments in the first quarter 2015. Because this loss is recognized on a letter of credit that has yet to be funded, it is included in Other Liabilities in the Consolidated Balance Sheet as of March 31, 2015.

NOTE 4 — FAIR VALUE MEASUREMENTS:

Accounting 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. See Note 14 “Fair Value Measurements” of the 2014 Annual Report to stockholders for a more complete description.

Assets held in nonqualified benefits trusts related to deferred compensation and supplemental retirement plans are classified as Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net assets values that are quoted in the marketplace. These assets are measured at fair value on a recurring basis and are summarized below:

| | Total Fair Value March 31, 2015 | Total Fair Value December 31, 2014 |
|--|--|---|
| Beginning Balance | \$ 5,097 | \$ 4,402 |
| Transfers In | 324 | 217 |
| Other Market Changes | <u>151</u> | <u>478</u> |
| Assets held in non-qualified benefits trusts | <u>\$ 5,572</u> | <u>\$ 5,097</u> |

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on internal models that consider 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.

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. The Association utilizes appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

These assets are measured at fair value on a nonrecurring basis and are summarized below:

| | Total Fair Value March 31, 2015 | Total Fair Value December 31, 2014 |
|----------------------|--|---|
| Impaired Loans | \$ 6,597 | \$ 6,431 |
| Other property owned | 2,543 | 3,841 |
| Total | <u>\$ 9,140</u> | <u>\$ 10,272</u> |

NOTE 5 — MEMBERS EQUITY:

The board of directors approved a \$142,065 patronage distribution for 2014. \$71,995 of this distribution was to be paid in cash in March 2015. \$70,070 was to be distributed in the form of nonqualified allocated equity. In March 2015 the Association finalized the computation of these distributions which resulted in a reduction in cash patronage payable of \$16 for an actual cash distribution of \$71,979. In addition, nonqualified allocations were also adjusted by a reduction of \$3 resulting in an actual allocation of \$70,067. The owners of these nonqualified distributions will not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the Association, allowing the stockholders to benefit more fully from the earnings of the Association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the Association's capital position and determine if some cash retirements of these equities can be made. In 2013, the board of directors approved a \$144,361 patronage distribution for 2013, with cash patronage payable of \$65,486 and \$78,875 in nonqualified allocations. In March 2014 the Association finalized the computation of these distributions which resulted in a reduction in cash patronage payable of \$29 for an actual cash distribution of \$65,477. In addition, nonqualified allocations were also adjusted by a reduction of \$227 resulting in an actual allocation of \$78,648.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The Association expects to contribute \$4,365 to its pension plan in 2015, which will be \$588 more than the 2014 contribution. Pension plan funding expense was \$1,091 and \$944 for the three months ended March 31, 2015 and 2014 respectively.

NOTE 7 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 7, 2015 which is the date the financial statements were issued and there are no significant events requiring disclosure as of this date.