*MidAtlantic Farm Credit, ACA*

# SECOND QUARTER 2015

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**CERTIFICATION**

The undersigned certify that we have reviewed the June 30, 2015 quarterly report of MidAtlantic 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.

J. Robert Frazee
Chief Executive Officer

John E. Wheeler, Jr.
Chief Financial Officer

M. Wayne Lambertson
Chairman of the Board

August 7, 2015

*MidAtlantic 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 June 30, 2015. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of June 30, 2015, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association's management determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2015.

J. Robert Frazee
Chief Executive Officer

John E. Wheeler, Jr.
Chief Financial Officer

August 7, 2015

*MidAtlantic 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 MidAtlantic Farm Credit, ACA (Association) for the period ended June 30, 2015. The comments contained in this report 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 the financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well-diversified range of agricultural commodities, with cash grains, poultry and dairy representing the largest segments. In addition, the Association provides a significant amount of loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Gross loans at June 30, 2015 totaled $2,333,002 compared to $2,276,982 at December 31, 2014, increasing $56,020 (2.46 percent) during the first six months. The Association's allowance for loan losses of $25,237 increased $283 (1.13 percent) during the first six months of 2015 resulting in net loans (gross loans less allowance for loan losses) of $2,307,765 and $2,252,028 at June 30, 2015 and December 31, 2014, respectively. Nonaccrual loans decreased $488 (1.95 percent) from $25,008 at December 31, 2014 to $24,520 at June 30, 2015 resulting in a decrease in the ratio of nonaccrual loans to total loans from 1.10 percent to 1.05 percent. In addition, Other property owned increased from $844 at December 31, 2014 (four properties) to $1,491 at June 30, 2015 (four properties).

There is an inherent risk in the extension of any type of credit and, accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. During the first half of 2015, the net impact of recoveries in excess of charge-offs and the transfer of $567 from the allowance to the reserve for unfunded commitments resulted in a $283 increase in the allowance at June 30, 2015. The allowance for loan losses represented 1.08 percent and 1.10 percent of total loans, and 102.92 percent and 99.78 percent of Nonaccrual loans, at June 30, 2015 and December 31, 2014, respectively. See also Note 2 of "Notes to the Consolidated Financial Statements".

**RESULTS OF OPERATIONS**

***For the three months ended June 30, 2015***

Net income for the three months ended June 30, 2015 totaled $10,812, a decrease of $1,185 (9.88 percent) compared to the three months ended June 30, 2014. Major changes in the components of net income are identified as follows:

- Net interest income decreased $799 (4.71 percent) for the quarter ended June 30, 2015 compared to the same period in 2014. The decrease in net interest income is primarily attributable to (a) a $265 increase in the Association's earnings credit due to an increase in the Association's equity and a 3.87 percent increase in the interest credit rate, (b) a $454 increase due to a $83 million increase in the average daily balance of accruing portfolio volume, and (c) a $76 increase in net interest recognized attributable to nonaccruing loans. These increases were offset by a $1,499 decrease in the Association's portfolio margin primarily resulting from increased competition.

- The risks identified in the Association's portfolio did not require a provision for loan losses to be recorded in the second quarters of 2015 and 2014, respectively. The Association's Nonaccrual loans decreased from 1.10 percent at December 31, 2014 to 1.05 percent of the portfolio at June 30, 2015 and decreased from 1.29 percent at June 30, 2014. Nonaccrual loans are the lowest since the end of the second quarter of 2008 when Nonaccrual loans were $15.8 million, or 0.82 percent of the total portfolio; this further illustrates the continuing improvement in the quality of the Association's portfolio. See also Note 2 of "Notes to the Consolidated Financial Statements".

- At June 30, 2015 and 2014, the Association accrued an estimated patronage receipt (reported as "Patronage refunds from other Farm Credit institutions" on the

Consolidated Statements of Income) of $3,400 and $3,354, respectively, which is based on first quarter operations only; management anticipates additional income for the remaining quarters in 2015. Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The increase in the accrual in 2015 is due to the impact of an increase in loan volume.

- Noninterest income increase in the second quarter of $69 (1.43 percent) included (a) an increase of $150 in Net gains on sales of rural home loans, (b) an increase of $61 from fees for financially related services, (c) a $46 increase in Patronage refunds, offset by, (d) a $172 decrease in Other noninterest income, and (e) a $22 decrease in Loan fees.

- Noninterest expense for the second quarter of 2015 was $9,942 as compared to $9,468 for the second quarter of 2014 or an increase of $474 (5.01 percent). The increase of $405 (6.07 percent) for Salaries and benefits is primarily comprised of routine annual salary and benefit increases and an increase in personnel primarily related to the Farm Credit Express Program. See also Note 7 of "Notes to the Consolidated Financial Statements".

  Insurance fund premium expense increased $57 (11.22 percent) due to the increase in the Farm Credit System Insurance Corporation (FCSIC) premium from 0.12 percent of loans outstanding in 2014 to 0.13 percent in 2015.

  Occupancy and equipment and Other operating expenses decreased $104 (4.31 percent) from $2,311 to $2,415. The decreases were primarily related to purchased services, cost of space, and other expenses offset by an increase in director's expenses, travel, furniture and equipment, and public and member expenses.

- The Association recorded a Provision for income taxes of $287 and $306, respectively, for the second quarters of 2015 and 2014.

***For the six months ended June 30, 2015***

Net income for the six months ended June 30, 2015 totaled $21,606 or $968 (4.29 percent) lower than the six months ended June 30, 2014. Major changes in the components of net income are identified as follows:

- Net interest income for the six months was down $1,037 (3.07 percent); there are several key factors impacting the results. The significant reduction in the nonaccrual loan volume as compared to the first half of 2014 resulted in a decrease of $70 in foregone interest income for nonaccruing loan volume. In addition, the Association realized a (a) $433 increase in the Association's earnings credit due to (i) a change in the index employed by AgFirst Farm Credit Bank in computing the credit and (ii) an increase in the Association's equity, and (b) a $713 increase due to the increase in accruing loan volume. These increases were substantially offset by a $2,458 decrease in the Association's portfolio margin and a decrease of $229 in the income recognized from nonaccruing volume.

- Charge-offs and risks identified in the Association's loan portfolio required a reversal of allowance for loan losses of $567 to be recorded in the first six months of 2015 as compared to a $125 provision in the first half of 2014. The $567 was reclassified as unfunded commitments which is recorded as part of Gains (losses) on other transactions in the Noninterest Income section of the Consolidated Statements of Income.

- At the period ended June 30, 2015, the Association accrued an estimated patronage receipt of $6,702 as compared to $6,628 at June 30, 2014. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income.

- Noninterest income included (a) an increase of $109 in Fees for financially related services primarily related to Farm Credit Express processing fees, (b) a $365 increase in net Gains on sales of rural home loans, (c) a $40 increase in Gains on sales of premises and equipment, (d) a $32 increase in Other noninterest income, and (e) a $60 decrease in Loans fees.

- Noninterest expense increased $734 (3.81 percent) for the first six months of 2015 as compared to 2014. The year-to-date increase for Salaries and employee benefits of $719 (5.32 percent) includes an increase of $386 (29.31 percent) for medical benefits. The remaining Salaries and employee benefits increase of $348 includes annual salary and incentive compensation increases, payroll related benefit expenses, and filling several open staff positions.

  Insurance fund premium expense increased $110 (10.98 percent) resulting from the FCSIC premium increase for 2015.

  Occupancy and equipment and Other operating expenses decreased $264 (5.35 percent) from $4,937 to $4,673 which includes expense decreases in training, technology, purchased services, and other operating expenses which were somewhat offset by increases in director expenses, travel, communications and public and member expenses.

- Gains on other property owned, net decreased $169.

- The Association recorded a Provision for income taxes of $553 and $691, respectively, for the six months ended June 30, 2015 and 2014.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total Notes payable to the Bank at June 30, 2015 was $1,807,936 compared to $1,760,410 at December 31, 2014. This increase during the period of $47,526 (2.70 percent) corresponds to the receipt of prior year Bank patronage, current year net cash generated from operating activities reduced by the increase in the Association's loan volume and by patronage payments to stockholders.

## CAPITAL RESOURCES

Members' equity at June 30, 2015 totaled $533,475, an increase of $15,448 (2.98 percent) compared to total members' equity of $518,027 at December 31, 2014. Total Comprehensive income of $10,843 for the three months ended June 30, 2015 and net member capital stock/participation certificates issued of $75, an estimated cash patronage distribution accrual for the first three months of 2015 totaling $6,000, and net patronage distribution adjustment and retained earnings retired of $296 account for the change.

Farm Credit Administration (FCA) regulations require that all Farm Credit institutions maintain a minimum permanent capital ratio of 7.0 percent and total surplus and core surplus ratios equal to 3.5 percent. 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. At June 30, 2015, the Association exceeded the minimum regulatory standard for all of the ratios as permanent capital, total surplus and core surplus ratios equaled 20.95 percent, 20.58 percent and 20.58 percent, respectively.

## 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 Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).
- To modernize the investment eligibility criteria for System banks.
- To revise the investment regulation for System associations to improve their investment management practices so they are more resilient to risk.

On September 4, 2014, the FCA published a proposed rule in the Federal Register to modify the regulatory capital requirements for System banks and associations. The initial public comment period ended on February 16, 2015. On June 15, 2015, the FCA opened the comment period from June 26 to July 10, 2015. The stated objectives of the proposed rule are as follows:

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

## FINANCIAL REGULATORY REFORM

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

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

**NOTE:** Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association' annual and quarterly reports are also available upon request free of charge by calling 1-800-333-7950, or writing John E. Wheeler, Jr., Chief Financial Officer, MidAtlantic Farm Credit, ACA, 45 Aileron Court, Westminster, MD 21157-3022, or accessing the website, www.mafc.com. 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.

Reports of suspected or actual wrongdoing involving the Association, its employees and/or Directors, can be made anonymously and confidentially through the Association's Whistleblower Hotline (Listen Up) at 1-888-789-6627 or www.ListenUpReports.com

## MidAtlantic Farm Credit, ACA

# Consolidated Balance Sheets

| *(dollars in thousands)* | June 30, 2015 *(unaudited)* | December 31, 2014 *(audited)* |
|---|---|---|
| **Assets** | | |
| Cash | **$ 1,812** | $ 2,615 |
| Loans | **2,333,002** | 2,276,982 |
| Allowance for loan losses | **(25,237)** | (24,954) |
| Net loans | **2,307,765** | 2,252,028 |
| Loans held for sale | **1,521** | 373 |
| Accrued interest receivable | **16,783** | 11,917 |
| Investments in other Farm Credit institutions | **25,129** | 25,079 |
| Premises and equipment, net | **12,004** | 12,220 |
| Other property owned | **1,491** | 844 |
| Accounts receivable | **7,393** | 35,123 |
| Other assets | **4,958** | 7,609 |
| Total assets | **$ 2,378,856** | $ 2,347,808 |
| **Liabilities** | | |
| Notes payable to AgFirst Farm Credit Bank | **$ 1,807,936** | $ 1,760,410 |
| Accrued interest payable | **3,637** | 3,442 |
| Patronage refunds payable | **6,073** | 24,967 |
| Accounts payable | **2,962** | 3,386 |
| Other liabilities | **24,773** | 37,576 |
| Total liabilities | **1,845,381** | 1,829,781 |
| Commitments and contingencies (Note 8) | | |
| **Members' Equity** | | |
| Capital stock and participation certificates | **9,818** | 9,743 |
| Retained earnings | | |
| Allocated | **292,867** | 292,021 |
| Unallocated | **231,261** | 216,797 |
| Accumulated other comprehensive income (loss) | **(471)** | (534) |
| Total members' equity | **533,475** | 518,027 |
| Total liabilities and members' equity | **$ 2,378,856** | $ 2,347,808 |

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

## MidAtlantic Farm Credit, ACA

# Consolidated Statements of Income

*(unaudited)*

| *(dollars in thousands)* | For the three months ended June 30, 2015 | For the three months ended June 30, 2014 | For the six months ended June 30, 2015 | For the six months ended June 30, 2014 |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Loans | **$ 26,958** | $ 26,866 | **$ 53,921** | $ 53,338 |
| **Interest Expense** | | | | |
| Notes payable to AgFirst Farm Credit Bank | **10,798** | 9,907 | **21,129** | 19,509 |
| Net interest income | **16,160** | 16,959 | **32,792** | 33,829 |
| Provision for (reversal of allowance for) loan losses | **—** | — | **(567)** | 125 |
| Net interest income after provision for (reversal of allowance for) loan losses | **16,160** | 16,959 | **33,359** | 33,704 |
| **Noninterest Income** | | | | |
| Loan fees | **311** | 333 | **560** | 620 |
| Fees for financially related services | **711** | 650 | **1,025** | 916 |
| Patronage refunds from other Farm Credit institutions | **3,400** | 3,354 | **6,702** | 6,628 |
| Gains (losses) on sales of rural home loans, net | **333** | 183 | **682** | 317 |
| Gains (losses) on sales of premises and equipment, net | **80** | 60 | **100** | 60 |
| Gains (losses) on other transactions | **12** | 26 | **(523)** | 64 |
| Other noninterest income | **34** | 206 | **275** | 243 |
| Total noninterest income | **4,881** | 4,812 | **8,821** | 8,848 |
| **Noninterest Expense** | | | | |
| Salaries and employee benefits | **7,073** | 6,668 | **14,237** | 13,518 |
| Occupancy and equipment | **553** | 577 | **1,128** | 1,172 |
| Insurance Fund premiums | **565** | 508 | **1,112** | 1,002 |
| (Gains) losses on other property owned, net | **(7)** | (123) | **(1)** | (170) |
| Other operating expenses | **1,758** | 1,838 | **3,545** | 3,765 |
| Total noninterest expense | **9,942** | 9,468 | **20,021** | 19,287 |
| Income before income taxes | **11,099** | 12,303 | **22,159** | 23,265 |
| Provision for income taxes | **287** | 306 | **553** | 691 |
| Net income | **$ 10,812** | $ 11,997 | **$ 21,606** | $ 22,574 |

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

## MidAtlantic Farm Credit, ACA

# Consolidated Statements of Comprehensive Income

*(unaudited)*

| *(dollars in thousands)* | For the three months ended June 30, 2015 | For the three months ended June 30, 2014 | For the six months ended June 30, 2015 | For the six months ended June 30, 2014 |
|---|---|---|---|---|
| Net income | **$ 10,812** | $ 11,997 | **$ 21,606** | $ 22,574 |
| **Other comprehensive income net of tax** | | | | |
| Employee benefit plans adjustments | **31** | 16 | **63** | 32 |
| Comprehensive income | **$ 10,843** | $ 12,013 | **$ 21,669** | $ 22,606 |

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

## MidAtlantic 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 | $ 9,656 | $ 271,212 | $ 208,798 | $ (377) | $ 489,289 |
| Comprehensive income | | | 22,574 | 32 | 22,606 |
| Capital stock/participation certificates issued/(retired), net | 18 | | | | 18 |
| Patronage distribution | | | | | |
| Cash | | | (9,500) | | (9,500) |
| Retained earnings retired | | (280) | 50 | | (230) |
| Patronage distribution adjustment | | (2,091) | 1,677 | | (414) |
| Balance at June 30, 2014 | $ 9,674 | $ 268,841 | $ 223,599 | $ (345) | $ 501,769 |
| **Balance at December 31, 2014** | **$ 9,743** | **$ 292,021** | **$ 216,797** | **$ (534)** | **$ 518,027** |
| **Comprehensive income** | | | **21,606** | **63** | **21,669** |
| **Capital stock/participation certificates issued/(retired), net** | **75** | | | | **75** |
| **Patronage distribution** | | | | | |
| **Cash** | | | **(6,000)** | | **(6,000)** |
| **Retained earnings retired** | | **(121)** | **33** | | **(88)** |
| **Patronage distribution adjustment** | | **967** | **(1,175)** | | **(208)** |
| **Balance at June 30, 2015** | **$ 9,818** | **$ 292,867** | **$ 231,261** | **$ (471)** | **$ 533,475** |

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

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

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

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

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

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

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

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

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

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

- ASU 2015-07 Fair Value Measurement – In May, 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Topic 820 permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. To address diversity in practice related to how certain investments measured at net asset value with future redemption dates are categorized, the amendments in this Update remove the requirement to categorize investments for which fair values are measured using the net asset value per share practical expedient. It also limits disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the guidance is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Earlier application is permitted. The guidance is to be applied retrospectively to all periods presented. Application of this guidance is not expected to have an impact on the Association's financial condition or results of operations, but will require modifications to footnote disclosures.

***ASUs Pending Effective Date***

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

Potential effects of ASUs issued in previous periods:

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

***Accounting Standards Effective During the Period***

There were no changes in the accounting principles applied from the latest Annual Report, other than any discussed below.

No recently adopted accounting guidance issued by the FASB had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the ASUs below:

- ASU 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.

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

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

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

**Note 2 — Loans and Allowance for Loan Losses**

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

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

A summary of loans outstanding at period end follows:

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Real estate mortgage | $ 1,381,893 | $ 1,345,426 |
| Production and intermediate-term | 760,494 | 749,249 |
| Loans to cooperatives | 2,720 | 1,457 |
| Processing and marketing | 59,961 | 47,803 |
| Farm-related business | 58,319 | 64,004 |
| Communication | 38,245 | 35,747 |
| Energy and water/waste disposal | 3,140 | 4,677 |
| Rural residential real estate | 28,230 | 28,619 |
| Total Loans | $ 2,333,002 | $ 2,276,982 |

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

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

**June 30, 2015**

| | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 11,240 | $ – | $ – | $ – | $ – | $ – | $ 11,240 | $ – |
| Production and intermediate-term | 34,352 | 37,450 | 9,836 | 15,504 | 31,733 | 534 | 75,921 | 53,488 |
| Loans to cooperatives | – | – | 2,760 | – | – | – | 2,760 | – |
| Processing and marketing | 40,064 | – | 9,521 | – | 7,595 | – | 57,180 | – |
| Farm-related business | 963 | – | 23,419 | – | – | – | 24,382 | – |
| Communication | 3,277 | – | 35,073 | – | – | – | 38,350 | – |
| Energy and water/waste disposal | – | – | 3,147 | – | – | – | 3,147 | – |
| Total | $ 89,896 | $ 37,450 | $ 83,756 | $ 15,504 | $ 39,328 | $ 534 | $ 212,980 | $ 53,488 |

**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 | $ 10,587 | $ 300 | $ – | $ – | $ – | $ – | $ 10,587 | $ 300 |
| Production and intermediate-term | 32,406 | 39,802 | 13,529 | 17,579 | 32,176 | – | 78,111 | 57,381 |
| Loans to cooperatives | – | – | 1,470 | – | – | – | 1,470 | – |
| Processing and marketing | 30,258 | – | 6,551 | – | 8,203 | – | 45,012 | – |
| Farm-related business | – | – | 23,497 | – | 2,844 | – | 26,341 | – |
| Communication | – | – | 35,814 | – | – | – | 35,814 | – |
| Energy and water/waste disposal | – | – | 4,684 | – | – | – | 4,684 | – |
| Total | $ 73,251 | $ 40,102 | $ 85,545 | $ 17,579 | $ 43,223 | $ – | $ 202,019 | $ 57,681 |

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

**June 30, 2015**

| | Due less than 1 year | Due 1 Through 5 years | Due after 5 years | Total |
|---|---|---|---|---|
| Real estate mortgage | $ 38,936 | $ 477,587 | $ 865,370 | $ 1,381,893 |
| Production and intermediate-term | 166,727 | 407,883 | 185,884 | 760,494 |
| Loans to cooperatives | (4) | 2,724 | – | 2,720 |
| Processing and marketing | 345 | 32,978 | 26,638 | 59,961 |
| Farm-related business | 6,674 | 39,288 | 12,357 | 58,319 |
| Communication | – | 38,259 | (14) | 38,245 |
| Energy and water/waste disposal | – | – | 3,140 | 3,140 |
| Rural residential real estate | 2,600 | 9,615 | 16,015 | 28,230 |
| Total Loans | $ 215,278 | $ 1,008,334 | $ 1,109,390 | $ 2,333,002 |
| Percentage | 9.23% | 43.22% | 47.55% | 100.00% |

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

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Real estate mortgage:** | | |
| Acceptable | 94.59% | 93.40% |
| OAEM | 2.97 | 3.73 |
| Substandard/doubtful/loss | 2.44 | 2.87 |
| | 100.00% | 100.00% |
| **Production and intermediate-term:** | | |
| Acceptable | 94.64% | 91.82% |
| OAEM | 2.19 | 4.43 |
| Substandard/doubtful/loss | 3.17 | 3.75 |
| | 100.00% | 100.00% |
| **Loans to cooperatives:** | | |
| Acceptable | 100.00% | 99.21% |
| OAEM | 0.00 | 0.79 |
| Substandard/doubtful/loss | 0.00 | 0.00 |
| | 100.00% | 100.00% |
| **Processing and marketing:** | | |
| Acceptable | 99.92% | 99.91% |
| OAEM | 0.08 | 0.09 |
| Substandard/doubtful/loss | 0.00 | 0.00 |
| | 100.00% | 100.00% |
| **Farm-related business:** | | |
| Acceptable | 99.98% | 97.94% |
| OAEM | 0.00 | 0.05 |
| Substandard/doubtful/loss | 0.02 | 2.01 |
| | 100.00% | 100.00% |

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Communication:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | 0.00 | 0.00 |
| Substandard/doubtful/loss | 0.00 | 0.00 |
| | 100.00% | 100.00% |
| **Energy and water/waste disposal:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | 0.00 | 0.00 |
| Substandard/doubtful/loss | 0.00 | 0.00 |
| | 100.00% | 100.00% |
| **Rural residential real estate:** | | |
| Acceptable | 88.99% | 88.26% |
| OAEM | 5.28 | 6.36 |
| Substandard/doubtful/loss | 5.73 | 5.38 |
| | 100.00% | 100.00% |
| **Total Loans:** | | |
| Acceptable | 94.91% | 93.20% |
| OAEM | 2.54 | 3.74 |
| Substandard/doubtful/loss | 2.55 | 3.06 |
| | 100.00% | 100.00% |

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

| | June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | 30 Through 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment 90 Days or More Past Due and Accruing Interest |
| Real estate mortgage | $ 4,981 | $ 7,172 | $ 12,153 | $ 1,380,192 | $ 1,392,345 | $ 43 |
| Production and intermediate-term | 4,901 | 7,076 | 11,977 | 754,120 | 766,097 | – |
| Loans to cooperatives | – | – | – | 2,730 | 2,730 | – |
| Processing and marketing | – | – | – | 60,006 | 60,006 | – |
| Farm-related business | 11 | – | 11 | 58,827 | 58,838 | – |
| Communication | – | – | – | 38,249 | 38,249 | – |
| Energy and water/waste disposal | – | – | – | 3,174 | 3,174 | – |
| Rural residential real estate | 419 | 176 | 595 | 27,751 | 28,346 | – |
| Total | $ 10,312 | $ 14,424 | $ 24,736 | $ 2,325,049 | $ 2,349,785 | $ 43 |

| | 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 | $ 5,685 | $ 9,103 | $ 14,788 | $ 1,338,003 | $ 1,352,791 | $ – |
| Production and intermediate-term | 3,381 | 7,234 | 10,615 | 742,862 | 753,477 | 257 |
| Loans to cooperatives | – | – | – | 1,460 | 1,460 | – |
| Processing and marketing | – | 349 | 349 | 47,512 | 47,861 | – |
| Farm-related business | 78 | – | 78 | 64,055 | 64,133 | – |
| Communication | – | – | – | 35,751 | 35,751 | – |
| Energy and water/waste disposal | – | – | – | 4,717 | 4,717 | – |
| Rural residential real estate | 565 | 110 | 675 | 28,034 | 28,709 | – |
| Total | $ 9,709 | $ 16,796 | $ 26,505 | $ 2,262,394 | $ 2,288,899 | $ 257 |

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | $ 12,671 | $ 11,905 |
| Production and intermediate-term | 11,203 | 12,446 |
| Farm-related business | – | (1) |
| Rural residential real estate | 646 | 658 |
| Total | $ 24,520 | $ 25,008 |
| **Accruing restructured loans:** | | |
| Real estate mortgage | $ 5,942 | $ 6,743 |
| Production and intermediate-term | 11,557 | 11,961 |
| Rural residential real estate | 590 | 894 |
| Total | $ 18,089 | $ 19,598 |
| **Accruing loans 90 days or more past due:** | | |
| Real estate mortgage | $ 43 | $ – |
| Production and intermediate-term | – | 257 |
| Total | $ 43 | $ 257 |
| Total nonperforming loans | $ 42,652 | $ 44,863 |
| Other property owned | 1,491 | 844 |
| Total nonperforming assets | $ 44,143 | $ 45,707 |
| Nonaccrual loans as a percentage of total loans | 1.05% | 1.10% |
| Nonperforming assets as a percentage of total loans and other property owned | 1.89% | 2.01% |
| Nonperforming assets as a percentage of capital | 8.27% | 8.82% |

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

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Impaired nonaccrual loans:** | | |
| Current as to principal and interest | $ 7,437 | $ 6,956 |
| Past due | 17,083 | 18,052 |
| Total | 24,520 | 25,008 |
| **Impaired accrual loans:** | | |
| Restructured | 18,089 | 19,598 |
| 90 days or more past due | 43 | 257 |
| Total | 18,132 | 19,855 |
| Total impaired loans | $ 42,652 | $ 44,863 |

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

| | June 30, 2015 | | | Quarter Ended June 30, 2015 | | Six Months Ended June 30, 2015 | |
|---|---|---|---|---|---|---|---|
| **Impaired loans** | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Impaired Loans** | **Interest Income Recognized on Impaired Loans** | **Average Impaired Loans** | **Interest Income Recognized on Impaired Loans** |
| **With a related allowance for credit losses:** | | | | | | | |
| Real estate mortgage | $ 8,114 | $ 9,443 | $ 1,140 | $ 8,320 | $ 98 | $ 8,389 | $ 208 |
| Production and intermediate-term | 7,063 | 9,507 | 3,218 | 7,244 | 86 | 7,303 | 181 |
| Processing and marketing | – | – | – | – | – | – | – |
| Farm-related business | – | – | – | – | – | – | – |
| Rural residential real estate | 647 | 838 | 166 | 663 | 8 | 669 | 17 |
| Total | $ 15,824 | $ 19,788 | $ 4,524 | $ 16,227 | $ 192 | $ 16,361 | $ 406 |
| **With no related allowance for credit losses:** | | | | | | | |
| Real estate mortgage | $ 10,542 | $ 11,673 | $ – | $ 10,812 | $ 129 | $ 10,900 | $ 270 |
| Production and intermediate-term | 15,697 | 17,821 | – | 16,097 | 191 | 16,230 | 403 |
| Processing and marketing | – | 2,107 | – | – | – | – | – |
| Farm-related business | – | 4 | – | – | – | – | – |
| Rural residential real estate | 589 | 704 | – | 604 | 7 | 608 | 15 |
| Total | $ 26,828 | $ 32,309 | $ – | $ 27,513 | $ 327 | $ 27,738 | $ 688 |
| **Total:** | | | | | | | |
| Real estate mortgage | $ 18,656 | $ 21,116 | $ 1,140 | $ 19,132 | $ 227 | $ 19,289 | $ 478 |
| Production and intermediate-term | 22,760 | 27,328 | 3,218 | 23,341 | 277 | 23,533 | 584 |
| Processing and marketing | – | 2,107 | – | – | – | – | – |
| Farm-related business | – | 4 | – | – | – | – | – |
| Rural residential real estate | 1,236 | 1,542 | 166 | 1,267 | 15 | 1,277 | 32 |
| Total | $ 42,652 | $ 52,097 | $ 4,524 | $ 43,740 | $ 519 | $ 44,099 | $ 1,094 |

| | December 31, 2014 | | | Year Ended December 31, 2014 | |
|---|---|---|---|---|---|
| **Impaired loans** | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Impaired Loans** | **Interest Income Recognized on Impaired Loans** |
| **With a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 7,019 | $ 8,203 | $ 1,560 | $ 7,072 | $ 302 |
| Production and intermediate-term | 5,954 | 7,191 | 2,776 | 5,999 | 256 |
| Processing and marketing | – | – | – | – | – |
| Farm-related business | – | – | – | – | – |
| Rural residential real estate | 658 | 847 | 174 | 663 | 28 |
| Total | $ 13,631 | $ 16,241 | $ 4,510 | $ 13,734 | $ 586 |
| **With no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 11,629 | $ 12,885 | $ – | $ 11,716 | $ 499 |
| Production and intermediate-term | 18,710 | 22,467 | – | 18,851 | 804 |
| Processing and marketing | – | 3,045 | – | – | – |
| Farm-related business | (1) | 4 | – | (1) | – |
| Rural residential real estate | 894 | 1,007 | – | 901 | 39 |
| Total | $ 31,232 | $ 39,408 | $ – | $ 31,467 | $ 1,342 |
| **Total:** | | | | | |
| Real estate mortgage | $ 18,648 | $ 21,088 | $ 1,560 | $ 18,788 | $ 801 |
| Production and intermediate-term | 24,664 | 29,658 | 2,776 | 24,850 | 1,060 |
| Processing and marketing | – | 3,045 | – | – | – |
| Farm-related business | (1) | 4 | – | (1) | – |
| Rural residential real estate | 1,552 | 1,854 | 174 | 1,564 | 67 |
| Total | $ 44,863 | $ 55,649 | $ 4,510 | $ 45,201 | $ 1,928 |

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 | Energy and Water/Waste Disposal | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|---|---|
| **Activity related to the allowance for credit losses:** | | | | | | | |
| Balance at March 31, 2015 | $ 6,845 | $ 16,187 | $ 1,470 | $ 151 | $ 10 | $ 526 | $ 25,189 |
| Charge-offs | – | (78) | – | – | – | – | (78) |
| Recoveries | 11 | 107 | 4 | – | – | 4 | 126 |
| Provision for loan losses | 1,012 | (1,438) | 331 | 59 | 1 | 35 | – |
| Balance at June 30, 2015 | $ 7,868 | $ 14,778 | $ 1,805 | $ 210 | $ 11 | $ 565 | $ 25,237 |
| Balance at December 31, 2014 | $ 6,306 | $ 16,778 | $ 1,321 | $ 100 | $ 9 | $ 440 | $ 24,954 |
| Charge-offs | (96) | (166) | – | – | – | – | (262) |
| Recoveries | 11 | 113 | 981 | – | – | 7 | 1,112 |
| Provision for loan losses | 1,647 | (1,947) | (497) | 110 | 2 | 118 | (567) |
| Balance at June 30, 2015 | $ 7,868 | $ 14,778 | $ 1,805 | $ 210 | $ 11 | $ 565 | $ 25,237 |
| Balance at March 31, 2014 | $ 6,334 | $ 16,427 | $ 1,571 | $ 136 | $ 13 | $ 817 | $ 25,298 |
| Charge-offs | (91) | (96) | – | – | – | – | (187) |
| Recoveries | 1 | 103 | 569 | – | – | 3 | 676 |
| Provision for loan losses | (338) | 1,450 | (908) | (42) | (5) | (157) | – |
| Balance at June 30, 2014 | $ 5,906 | $ 17,884 | $ 1,232 | $ 94 | $ 8 | $ 663 | $ 25,787 |
| Balance at December 31, 2013 | $ 5,894 | $ 15,797 | $ 1,219 | $ 119 | $ 11 | $ 690 | $ 23,730 |
| Charge-offs | (159) | (102) | – | – | – | – | (261) |
| Recoveries | 18 | 135 | 2,034 | – | – | 6 | 2,193 |
| Provision for loan losses | 153 | 2,054 | (2,021) | (25) | (3) | (33) | 125 |
| Balance at June 30, 2014 | $ 5,906 | $ 17,884 | $ 1,232 | $ 94 | $ 8 | $ 663 | $ 25,787 |
| **Allowance on loans evaluated for impairment:** | | | | | | | |
| Individually | $ 1,140 | $ 3,218 | $ – | $ – | $ – | $ 166 | $ 4,524 |
| Collectively | 6,728 | 11,560 | 1,805 | 210 | 11 | 399 | 20,713 |
| Balance at June 30, 2015 | $ 7,868 | $ 14,778 | $ 1,805 | $ 210 | $ 11 | $ 565 | $ 25,237 |
| Individually | $ 1,560 | $ 2,776 | $ – | $ – | $ – | $ 174 | $ 4,510 |
| Collectively | 4,746 | 14,002 | 1,321 | 100 | 9 | 266 | 20,444 |
| Balance at December 31, 2014 | $ 6,306 | $ 16,778 | $ 1,321 | $ 100 | $ 9 | $ 440 | $ 24,954 |
| **Recorded investment in loans evaluated for impairment:** | | | | | | | |
| Individually | $ 12,671 | $ 11,203 | $ – | $ – | $ – | $ 646 | $ 24,520 |
| Collectively | 1,379,674 | 754,894 | 121,574 | 38,249 | 3,174 | 27,700 | 2,325,265 |
| Balance at June 30, 2015 | $ 1,392,345 | $ 766,097 | $ 121,574 | $ 38,249 | $ 3,174 | $ 28,346 | $ 2,349,785 |
| Individually | $ 11,905 | $ 12,446 | $ (1) | $ – | $ – | $ 658 | $ 25,008 |
| Collectively | 1,340,886 | 741,031 | 113,455 | 35,751 | 4,717 | 28,051 | 2,263,891 |
| Balance at December 31, 2014 | $ 1,352,791 | $ 753,477 | $ 113,454 | $ 35,751 | $ 4,717 | $ 28,709 | $ 2,288,899 |

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

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

| | Three Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| **Outstanding Recorded Investment** | **Interest Concessions** | **Principal Concessions** | **Other Concessions** | **Total** | **Charge-offs** |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ – | $ 1,520 | $ – | $ 1,520 | |
| Production and intermediate-term | 242 | 3,942 | – | 4,184 | |
| Total | $ 242 | $ 5,462 | $ – | $ 5,704 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ – | $ 1,602 | $ – | $ 1,602 | $ – |
| Production and intermediate-term | 242 | 3,944 | – | 4,186 | – |
| Total | $ 242 | $ 5,546 | $ – | $ 5,788 | $ – |

| Outstanding Recorded Investment | Six Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ 164 | $ 1,853 | $ – | $ 2,017 | |
| Production and intermediate-term | 242 | 5,863 | – | 6,105 | |
| Total | $ 406 | $ 7,716 | $ – | $ 8,122 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ 150 | $ 1,935 | $ – | $ 2,085 | $ – |
| Production and intermediate-term | 242 | 5,892 | – | 6,134 | – |
| Total | $ 392 | $ 7,827 | $ – | $ 8,219 | $ – |

| Outstanding Recorded Investment | Three Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| **Pre-modification:** | | | | | |
| Production and intermediate-term | $ – | $ 6,901 | $ – | $ 6,901 | |
| Rural residential real estate | – | 13 | – | 13 | |
| Total | $ – | $ 6,914 | $ – | $ 6,914 | |
| **Post-modification:** | | | | | |
| Production and intermediate-term | $ – | $ 6,894 | $ – | $ 6,894 | – |
| Rural residential real estate | – | 14 | – | 14 | – |
| Total | $ – | $ 6,908 | $ – | $ 6,908 | $ – |

| Outstanding Recorded Investment | Six Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| | Interest Concessions | Principal Concessions | Other Concessions | Total | Charge-offs |
| **Pre-modification:** | | | | | |
| Real estate mortgage | $ 195 | $ – | $ – | $ 195 | |
| Production and intermediate-term | – | 8,129 | – | 8,129 | |
| Rural residential real estate | 255 | 13 | – | 268 | |
| Total | $ 450 | $ 8,142 | $ – | $ 8,592 | |
| **Post-modification:** | | | | | |
| Real estate mortgage | $ 879 | $ – | $ – | $ 879 | $ – |
| Production and intermediate-term | – | 8,123 | – | 8,123 | – |
| Rural residential real estate | 254 | 14 | – | 268 | – |
| Total | $ 1,133 | $ 8,137 | $ – | $ 9,270 | $ – |

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Production and intermediate-term | $ 1,880 | $ – | $ 1,905 | $ – |
| Rural residential real estate | 35 | – | 70 | – |
| Total | $ 1,915 | $ – | $ 1,975 | $ – |

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

| | Total TDRs | | Nonaccrual TDRs | |
|---|---|---|---|---|
| | June 30, 2015 | December 31, 2014 | June 30, 2015 | December 31, 2014 |
| Real estate mortgage | $ 8,196 | $ 8,806 | $ 2,254 | $ 2,063 |
| Production and intermediate-term | 16,475 | 17,730 | 4,919 | 5,769 |
| Rural residential real estate | 635 | 905 | 45 | 11 |
| Total Loans | $ 25,306 | $ 27,441 | $ 7,218 | $ 7,843 |
| Additional commitments to lend | $ 1 | $ 4 | | |

The following table presents information as of period end:

| | June 30, 2015 |
|---|---|
| Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession | $ 86 |
| Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process | $ 72 |

## 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 9.63 percent of the issued stock of the Bank as of June 30, 2015 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.8 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $168 million for the first six months of 2015. In addition, the Association has an investment of $1,073 related to other Farm Credit institutions.

## Note 4 — Debt

***Notes Payable to AgFirst Farm Credit Bank***

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

## Note 5 — Members' Equity

***Accumulated Other Comprehensive Income (AOCI)***

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| **Employee Benefit Plans:** | | | | |
| Balance at beginning of period | $ (502) | $ (361) | $ (534) | $ (377) |
| Other comprehensive income before reclassifications | – | – | – | – |
| Amounts reclassified from AOCI | 31 | 16 | 63 | 32 |
| Net current period other comprehensive income | 31 | 16 | 63 | 32 |
| Balance at end of period | $ (471) | $ (345) | $ (471) | $ (345) |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | Income Statement Line Item |
| **Defined Benefit Pension Plans:** | | | | | |
| Periodic pension costs | $ (31) | $ (16) | $ (63) | $ (32) | See Note 7. |
| Net amounts reclassified | $ (31) | $ (16) | $ (63) | $ (32) | |

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

## Note 6 — Fair Value Measurement

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

**At or for the Six Months Ended June 30, 2015**

| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value | Fair Value Effects On Earnings |
|---|---|---|---|---|---|---|
| **Recurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Assets held in Trust funds | $ 1,670 | $ 1,670 | $ – | $ – | $ 1,670 | |
| Recurring Assets | $ 1,670 | $ 1,670 | $ – | $ – | $ 1,670 | |
| **Liabilities:** | | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans | $ 38,128 | $ – | $ – | $ 38,128 | $ 38,128 | $ 836 |
| Other property owned | 1,491 | – | – | 1,656 | 1,656 | 82 |
| Nonrecurring Assets | $ 39,619 | $ – | $ – | $ 39,784 | $ 39,784 | $ 918 |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 1,812 | $ 1,812 | $ – | $ – | $ 1,812 | |
| Loans | 2,271,158 | – | – | 2,257,188 | 2,257,188 | |
| Other Financial Assets | $ 2,272,970 | $ 1,812 | $ – | $ 2,257,188 | $ 2,259,000 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 1,807,936 | $ – | $ – | $ 1,794,110 | $ 1,794,110 | |
| Other Financial Liabilities | $ 1,807,936 | $ – | $ – | $ 1,794,110 | $ 1,794,110 | |

**At or for the Year Ended December 31, 2014**

| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value | Fair Value Effects On Earnings |
|---|---|---|---|---|---|---|
| **Recurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Assets held in Trust funds | $ 1,626 | $ 1,626 | $ – | $ – | $ 1,626 | |
| Recurring Assets | $ 1,626 | $ 1,626 | $ – | $ – | $ 1,626 | |
| **Liabilities:** | | | | | | |
| Recurring Liabilities | $ – | $ – | $ – | $ – | $ – | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans | $ 40,353 | $ – | $ – | $ 40,353 | $ 40,353 | $ (1,144) |
| Other property owned | 844 | – | – | 940 | 940 | 776 |
| Nonrecurring Assets | $ 41,197 | $ – | $ – | $ 41,293 | $ 41,293 | $ (368) |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 2,615 | $ 2,615 | $ – | $ – | $ 2,615 | |
| Loans | 2,212,048 | – | – | 2,202,991 | 2,202,991 | |
| Other Financial Assets | $ 2,214,663 | $ 2,615 | $ – | $ 2,202,991 | $ 2,205,606 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 1,760,410 | $ – | $ – | $ 1,747,340 | $ 1,747,340 | |
| Other Financial Liabilities | $ 1,760,410 | $ – | $ – | $ 1,747,340 | $ 1,747,340 | |

## 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 at June 30, 2015**

| | Fair Value | Valuation Technique(s) | Unobservable Input | Range |
|---|---|---|---|---|
| Impaired loans and other property owned | $ 39,784 | Appraisal | Income and expense | * |
| | | | Comparable sales | * |
| | | | Replacement cost | * |
| | | | Comparability adjustments | * |

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

**Information about Other Financial Instrument Fair Value Measurements**

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

## Note 7 — Employee Benefit Plans

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Pension | $ 1,510 | $ 1,501 | $ 3,020 | $ 3,003 |
| 401(k) | 205 | 154 | 422 | 298 |
| Other postretirement benefits | 400 | 237 | 801 | 474 |
| Total | $ 2,115 | $ 1,892 | $ 4,243 | $ 3,775 |

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

| | Actual YTD Through 6/30/15 | Projected Contributions For Remainder of 2015 | Projected Total Contributions 2015 |
|---|---|---|---|
| Pension | $ 6 | $ 5,936 | $ 5,942 |
| Other postretirement benefits | 271 | 269 | 540 |
| Total | $ 277 | $ 6,205 | $ 6,482 |

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

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

## Note 8 — Commitments and Contingent Liabilities

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

**Note 9 — Subsequent Events**

The Association evaluated subsequent events and determined there were none requiring disclosure through August 7, 2015, which was the date the financial statements were issued.