AgFirst Farm Credit Bank & District Associations

First Quarter

2015 Quarterly Report

Farm Credit

FIRST QUARTER 2015

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CERTIFICATION

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

Dale R. Hershey
Chairman of the Board

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

May 8, 2015

Report on Internal Control Over Financial Reporting

AgFirst Farm Credit Bank's (Bank) and each affiliated District Agricultural Credit Association's (District Association) principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Bank's and each District Association's respective 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 Bank's and each District 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 respective 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 Bank and each District 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 Bank and each District Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's and each District Association's assets that could have a material effect on its Consolidated Financial Statements.

The Bank's and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2015. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

Leon T. Amerson
Chief Executive Officer & President

Charl L. Butler
Chief Financial Officer

May 8, 2015

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three month period ended March 31, 2015. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Combined Financial Statements, and the 2014 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of March 31, 2015, the District included nineteen Associations, all of which were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate both long-term and short- and intermediate-term loans.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. However, results of operations for the three months may not be indicative of an entire year due to the seasonal nature of a portion of District's business.

FORWARD-LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from the District's expectations and predictions due to a number of risks and uncertainties, many of which are beyond the District's control. These risks and uncertainties include, but are not limited to:

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

FINANCIAL CONDITION

Loan Portfolio

The District's aggregate loan portfolio consists primarily of direct loans made by the Associations to eligible borrowers located within their chartered territories. Bank loans to District Associations have been eliminated in the combined District presentation. Diversification of the loan volume by Farm Credit Administration (FCA) regulatory type is illustrated in the following table:

Loan Portfolio *(dollars in thousands)*	**March 31, 2015**		**December 31, 2014**		**March 31, 2014**	
Real Estate Mortgage	$ 10,806,185	45%	$ 10,749,817	44%	$ 10,260,598	44%
Production and Intermediate-Term	7,270,707	30	7,650,543	31	7,101,602	31
Rural Residential Real Estate	2,982,563	12	2,954,004	12	2,838,403	12
Processing and Marketing	1,385,387	6	1,404,051	6	1,232,371	5
Energy and Water/Waste Disposal	452,566	2	468,589	2	500,930	2
Farm-Related Business	457,321	2	410,026	2	361,492	2
Communication	376,137	2	356,825	2	403,103	2
Loans to Cooperatives	290,043	1	261,652	1	367,161	2
Loans to Other Financing Institutions (OFIs)	96,732	–	95,512	–	83,375	–
Other (including Mission Related)	59,294	–	60,005	–	62,871	
Lease Receivables	4,385	–	4,945	–	4,650	
Total	$ 24,181,320	100%	$ 24,415,969	100%	$ 23,216,556	100%

Total loans outstanding were $24.181 billion at March 31, 2015, a decrease of $234.6 million, or 0.96 percent, compared to total loans outstanding at December 31, 2014 and an increase of $964.8 million, or 4.16 percent, since March 31, 2014. Loan volume since year-end 2014 was negatively impacted by the seasonal nature of Association lending activity as borrowers typically pay down loans during the first quarter using proceeds from crop sales. The increase in loan volume compared to March 31, 2014 resulted from improved economic conditions positively impacting borrowers in economically sensitive segments such as forestry and borrowers dependent on non-farm income. Also, loan demand over the previous twelve months benefitted from improved conditions in specific commodities such as the poultry, cattle, and swine sectors. Future loan demand is difficult to predict; however, it is expected to modestly increase for the remainder of 2015.

Credit Quality

Credit quality of the District's loans is shown below:

	Total Loan Portfolio Credit Quality as of:		
Classification	**March 31, 2015**	**December 31, 2014**	**March 31, 2014**
Acceptable	94.18%	94.28%	92.63%
OAEM *	2.88%	2.92%	3.63%
Adverse**	2.94%	2.80%	3.74%

* *Other Assets Especially Mentioned*
** *Adverse loans include substandard, doubtful, and loss loans.*

Loan portfolio credit quality remained relatively constant at March 31, 2015 compared to December 31, 2014. Credit quality at March 31, 2015 compared to March 31, 2014 reflected improvement, as shown in the table above, primarily due to the stabilization of economic conditions. Grain prices have declined due to higher than expected inventory and harvest levels. This benefitted the poultry, cattle, and swine sectors but pressured margins of grain producers. Due to the geographic location, District borrowers are predominately net grain consumers. Improved housing starts continue to positively impact certain housing-related segments such as forestry and nursery/greenhouse. Credit quality is expected to remain stable for the remainder of 2015 given anticipated economic conditions.

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at March 31, 2015 were $304.4 million compared to $311.0 million at December 31, 2014. The decrease of $6.6 million resulted primarily from repayments of $19.6 million, reinstatements to accrual status of $11.6 million, transfers to other property owned of $5.9 million, and charge-offs of $2.6 million. Offsetting these decreases were $25.0 million of loan balances transferred to nonaccrual status, advances of $4.8 million, and recoveries of charge-offs of $2.2 million. The ten largest nonaccrual borrower relationships at March 31, 2015 accounted for 28.08 percent of the total nonaccrual balance. At March 31, 2015, total nonaccrual loans were primarily classified in the forestry (20.17 percent of the total), nursery/greenhouse (15.22 percent), poultry (11.51 percent), and field crops (7.63 percent) segments. Nonaccrual loans were 1.26 percent and 1.27 percent of total loans outstanding at March 31, 2015 and December 31, 2014, respectively.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. TDRs increased $2.7 million since December 31, 2014 and totaled $259.6 million at March 31, 2015. TDRs at March 31, 2015 were comprised of $123.8 million of accruing restructured loans and $135.8 million of nonaccrual restructured loans. Restructured loans were primarily in the forestry (23.02 percent of the total), nursery/greenhouse (20.84 percent), and poultry (10.37 percent) segments.

Other Property Owned

Other property owned (OPO) consists primarily of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO is generally comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $806 thousand since December 31, 2014 and totaled $45.2 million at March 31, 2015. The decrease was primarily due to disposals of $6.8 million and writedowns of $474 thousand offset by transfers to OPO of $6.4 million. The largest OPO holding at March 31, 2015 was in the other real estate segment and totaled $6.7 million. See discussion of OPO expense in the *Noninterest Expense* section below.

Allowance for Loan Losses

The District maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. Although aggregated in the District's combined financial statements, the allowance for loan losses of each District entity is particular to that institution and is not available to absorb losses realized by other District entities.

The allowance for loan losses was $176.1 million at March 31, 2015, as compared with $174.9 million at December 31, 2014, which was an increase of $1.3 million. Activity which increased the allowance during the three months ended March 31, 2015 included loan recoveries of $2.2 million and provision expense of $1.7 million. Offsetting these increases were charge-offs of $2.6 million as loan collectability became more measurable and apparent. Charge-offs during the three month period were related primarily to borrowers in the dairy (19.26 percent of the total), forestry (9.78 percent), nursery/greenhouse (9.76 percent), and poultry (9.44 percent) segments. Recoveries during the three month period were related primarily to borrowers in the nursery/greenhouse (52.99 percent of the total), forestry (12.26 percent), and field crops (10.94 percent) segments. The allowance at March 31, 2015 included specific reserves of $32.8 million (18.62 percent of the total) and $143.4 million (81.38 percent) of general reserves. The largest commodity segments included in the allowance at March 31, 2015 were the forestry (14.33 percent of the total), cattle (9.54 percent), poultry (9.51 percent), field crops (9.36 percent), and nursery/greenhouse (6.91 percent) segments. See Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information. See *Provision for Loan Losses* section below for additional details regarding loan loss provision expense and reversals.

Liquidity and Funding Sources

AgFirst and the District Associations maintain adequate liquidity to satisfy the District's daily cash needs. Along with normal cash flows associated with lending operations, the District has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments. The Bank also maintains several lines of credit with commercial banks, as well as securities repurchase agreement facilities. Providing liquidity for the District's operations is primarily the responsibility of the Bank.

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

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

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

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

At March 31, 2015, AgFirst had $26.522 billion in total debt outstanding compared to $26.847 billion at December 31, 2014. Total interest-bearing liabilities declined slightly primarily due to lower funding needs related to decreases in loans and liquidity investments as discussed elsewhere in this report.

Cash and cash equivalents, which increased $64.5 million from December 31, 2014 to a total of $960.7 million at March 31, 2015, consist primarily of cash on deposit and money market securities that are short-term in nature (from overnight maturities to maturities that range up to 90 days). Incremental movements in cash balances are due primarily to changes in liquidity needs in relation to upcoming debt maturities between reporting periods.

Investment securities totaled $7.454 billion, or 22.59 percent of total assets at March 31, 2015, compared to $7.543 billion, or 22.67 percent, as of December 31, 2014. Investment securities decreased $89.6 million (1.19 percent), compared to December 31, 2014. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines. In March 2015, the Bank sold 204 agency mortgage-backed securities totaling $28.0 million which resulted in gains of $1.1 million. The proceeds were used to purchase one U.S. government guaranteed security. These transactions benefitted the Bank by reducing carrying costs and improving liquidity.

Investment securities classified as being available-for-sale totaled $6.686 billion at March 31, 2015. Available-for-sale investments at March 31, 2015 included $3.701 billion in U.S. government guaranteed securities, $2.340 billion in U.S. government agency guaranteed securities, $497.3 million in asset-backed securities, and $148.3 million in non-agency collateralized mortgage obligations. Since the majority of the portfolio is invested in U.S. government guaranteed and agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of March 31, 2015, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short-term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank.

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

At March 31, 2015, AgFirst met all individual level criteria and had a total of 204 days of maturing debt coverage compared to 222 days at December 31, 2014. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

Net unrealized gains related to investment securities were $106.3 million at March 31, 2015, compared to $108.9 million at December 31, 2014. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the District recognized other-than-temporary credit related impairment of $107 thousand and $1.4 million for the three months ended March 31, 2015 and 2014, respectively, which was included in Net Other-than-temporary Impairment Losses in the Statements of Income. See Note 3, *Investments*, in the Notes to the Combined Financial Statements for further information.

Capital Resources

Total shareholders' equity increased $139.4 million (2.58 percent) from December 31, 2014 to a total of $5.542 billion at March 31, 2015. This increase is primarily attributed to 2015 unallocated retained earnings from net income of $135.1 million.

On September 4, 2014, the FCA published a proposed rule to modify the regulatory capital requirements for System banks and associations. See *Regulatory Matters* section below for further discussion on the proposed rule.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2015 was $135.1 million compared to $148.6 million for the three months ended March 31, 2014, a decrease of $13.5 million, or 9.07 percent. See below for further discussion of change in net income by major components.

Key Results of Operations Comparisons

	Annualized for the three months ended March 31, 2015	For the year ended December 31, 2014	Annualized for the three months ended March 31, 2014
Return on average assets	1.66%	1.96%	1.90%
Return on average shareholders' equity	10.34%	11.85%	11.69%
Net interest margin	3.15%	3.32%	3.34%
Operating expense as a percentage of net interest income and noninterest income	46.66%	42.35%	43.82%
Net (charge-offs) recoveries to average loans	(0.01)%	–%	0.03%

The first three ratios above have declined in 2015 primarily due to a decrease in net interest income. For the operating expense as a percentage of net interest income and noninterest income ratio, operating expense consists primarily of noninterest expense excluding losses (gains) from other property owned. This ratio also was negatively impacted by the decline in net interest income. The net (charge-offs) recoveries to average loans ratio has deteriorated slightly due to higher charge-offs in 2015. See *Allowance for Loan Losses*, *Net Interest Income*, *Noninterest Income*, and *Noninterest Expenses* sections for further discussion.

Net Interest Income

Net interest income for the three months ended March 31, 2015 was $248.0 million compared to $251.6 million for the same period of 2014, a decrease of $3.7 million or 1.45 percent. The net interest margin, which is net interest income as a percentage of average earning assets, was 3.15 percent and 3.34 percent for the three months ended March 31, 2015 and 2014, respectively, a decrease of 19 basis points. The decline was primarily the result of lower yields on interest earning assets, in part due to competitive pressures. In addition, it was negatively impacted by higher rates paid and higher average balances for interest bearing liabilities. Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will continue to diminish. The positive impact of higher average balances of earning assets partially offset some of the decline in net interest income.

The effects of changes in volume and interest rates on net interest income in the first quarter of 2015, as compared with the first quarter of 2014, are presented in the following table. The table distinguishes between the changes in interest income and interest expense related to average outstanding balances and to the levels of average interest rates. Accordingly, the benefit derived from funding earning assets with interest-free funds (principally capital) is reflected solely as a volume increase.

	For the three months ended March 31, 2015 vs. March 31, 2014		
	Increase (decrease) due to changes in:		
(dollars in thousands)	**Volume**	**Rate**	**Total**
Interest Income:			
Loans	$ 10,767	$ (5,716)	$ 5,051
Investments & Cash Equivalents	1,613	(5,390)	(3,777)
Total Interest Income	$ 12,380	$ (11,106)	$ 1,274
Interest Expense:			
Interest-Bearing Liabilities	$ 1,915	$ 3,012	$ 4,927
Changes in Net Interest Income	$ 10,465	$ (14,118)	$ (3,653)

Provision for Loan Losses

AgFirst and the Associations measure risks inherent in their individual loan portfolios on an ongoing basis and, as necessary, recognize provision for loan loss expense so that appropriate allowances for loan losses are maintained. Provision for loan losses was a net expense of $1.7 million for the three months period ended March 31, 2015 compared to a net reversal (recovery) of $2.3 million for three months ended March 31, 2014. For the three months ended March 31, 2015, the net provision expense consisted of $2.4 million of general reserve expense partially offset by $709 thousand of specific reserve reversals. For the first quarter of 2015, the net provision expense was comprised primarily of provision expense related to the processing ($1.5 million), cattle ($626 thousand), field crops ($338 thousand), and tree fruits and nuts ($332 thousand) segments, partially offset by net provision reversals related to the nursery/greenhouse ($883 thousand) and poultry ($475 thousand) segments. See Note 2, *Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information.

Noninterest Income

The following table illustrates the changes in noninterest income:

Change in Noninterest Income	**For the three months ended March 31,**		
(dollars in thousands)	**2015**	**2014**	**Increase/ (Decrease)**
Loan fees	$ 7,545	$ 6,989	$ 556
Fees for financially related services	1,351	1,345	6
Building lease income	944	1,030	(86)
Net impairment losses on investments	(107)	(1,351)	1,244
Gains (losses) on investments, net	1,126	149	977
Gains (losses) on called debt	(4,304)	(2,863)	(1,441)
Gains (losses) on other transactions	715	1,352	(637)
Other noninterest income	3,073	2,961	112
Total noninterest income	$ 10,343	$ 9,612	$ 731

Noninterest income increased $731 thousand for the three months ended March 31, 2015 compared to the corresponding period in 2014. The increase was primarily due to increases in gains on investments and loan fees and lower impairment losses on investments, partially offset by higher losses on called debt and lower gains on other transactions.

Loan fees increased $556 thousand for the three month period ended March 31, 2015 compared to the same period in the prior year primarily due to a $709 thousand increase in new loan fees resulting from an increase in loan originations.

Lower net impairment losses on investments for the three month periods of $1.2 million resulted primarily from improvement in credit quality of home equity loans which collateralize most of the District's impaired investments.

For the three months ended March 31, 2015 gains on investments increased $977 thousand compared to the three months ended March 31, 2014. In March 2015, the Bank sold 204 agency mortgage-backed securities totaling $28.0 million which resulted in gains of $1.1 million. The proceeds were used to purchase one U.S. government guaranteed security. These transactions benefitted the Bank by reducing carrying costs and improving liquidity. See discussion of investments in *Liquidity and Funding Sources* section above and in Note 3, *Investments*, in the Notes to the Combined Financial Statements for further information.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Losses on called debt increased $1.4 million for the three month period in 2015 compared to the three month period in 2014. Call options were exercised on bonds totaling $2.042 billion during the first quarter of 2015 compared to $2.855 billion for the same period in 2014. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

For the three month periods, gains on other transactions decreased $637 thousand primarily as a result of a $913 thousand increase in provision expense for unfunded commitments. Changes in the reserve for unfunded commitments result from fluctuations in both the balance and composition of unfunded commitments between periods. This negative impact was partially offset by an increase of $423 thousand in gains on the sale of rural home loans.

Noninterest Expenses

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expenses	**For the three months ended March 31,**		
(dollars in thousands)	**2015**	**2014**	**Increase/ (Decrease)**
Salaries and employee benefits	$ 76,649	$ 71,150	$ 5,499
Occupancy and equipment	9,973	9,955	18
Insurance Fund premiums	6,959	6,017	942
Other operating expenses	26,943	27,361	(418)
Losses (gains) from other property owned	531	(28)	559
Total noninterest expenses	$ 121,055	$ 114,455	$ 6,600

Noninterest expense increased $6.6 million for the three months ended March 31, 2015 compared to the corresponding period in 2014. The increase was due primarily to an increase in salaries and employee benefits and higher insurance fund premiums.

Salaries and employee benefits increased $5.5 million for the three month period ended March 31, 2015. This increase resulted primarily from a $919 thousand increase in salaries due mainly to normal salary administration and a $4.6 million increase in pension and other postretirement benefits expenses. The higher pension and other postretirement expenses in 2015 resulted primarily from a decrease in the discount rate in 2015 used to calculate net periodic pension and other postretirement benefit costs as well as from the adoption of updated mortality tables reflecting increases in life expectancy.

Insurance Fund premiums increased $942 thousand for the first three months of 2015 compared to the same period in 2014. This increase resulted primarily from an increase in the base annual premium rate and a change in the composition of the Bank's investment portfolio. The base annual premium rate was increased to 13 basis points in 2015 from 12 basis points in 2014. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount which is based upon insured debt outstanding at System banks. The Bank's investment portfolio in the first quarter of 2015 reflected a reduction in federally guaranteed investments and an increase in GSE guaranteed and other investments compared to the first quarter of 2014. Therefore, less of the investment portfolio balance is excluded from the insurance premium calculation.

Other operating expenses decreased $418 thousand for the three months ended March 31, 2015 compared to the same period in 2014. The decrease resulted primarily from a decline of $856 thousand in costs related to nonaccrual loans, primarily legal fees and property taxes, as the balance of nonaccrual loans decreased from the first quarter of 2014 to the first quarter of 2015 and a $470 thousand decrease in guarantee fees. These decreases were partially offset by a $596 thousand increase in service provider fees for certain system enhancements. The remainder of the fluctuation in other operating expenses consisted of numerous and varied expenses, none of which individually had a significant variance.

Losses on other property owned increased $559 thousand for the three month period in 2015 compared with the same period in the prior year. The increase in losses for the three month periods primarily resulted from $1.0 million lower net gains on OPO sales for the 2015 period. The lower net gains were partially offset by a reduction in expenses on OPO of $354 thousand for the first quarter of 2015 compared to the first quarter of 2014. See *Other Property Owned* section above for further information.

REGULATORY MATTERS

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

- To strengthen the safety and soundness of System banks and associations.

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

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

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

FINANCIAL REGULATORY REFORM

See discussion of the Dodd-Frank Act in the Financial Regulatory Reform section of the 2014 Annual Report of AgFirst Farm Credit Bank and District Associations.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Combined Financial Statements, and the 2014 Annual Report of AgFirst Farm Credit Bank and District Associations for recently issued accounting pronouncements.

NOTE: Shareholder investment in a District Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, *www.agfirst.com*. AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Combined Balance Sheets

(dollars in thousands)	March 31, 2015	December 31, 2014
	(unaudited)	*(audited)*
Assets		
Cash	**$ 741,633**	$ 671,342
Cash equivalents	**219,097**	224,847
Investment securities:		
Available for sale (amortized cost of $6,581,033 and $6,646,772, respectively)	**6,686,141**	6,754,419
Held to maturity (fair value of $804,290 and $819,047, respectively)	**767,586**	788,939
Total investment securities	**7,453,727**	7,543,358
Loans held for sale	**9,986**	7,185
Loans	**24,181,320**	24,415,969
Allowance for loan losses	**(176,146)**	(174,853)
Net loans	**24,005,174**	24,241,116
Accrued interest receivable	**180,168**	184,705
Accounts receivable	**50,456**	64,218
Investments in other Farm Credit System institutions	**16,031**	15,920
Other investments	**251**	251
Premises and equipment, net	**187,958**	190,833
Other property owned	**45,180**	45,986
Other assets	**89,311**	82,206
Total assets	**$ 32,998,972**	$ 33,271,967
Liabilities		
Systemwide bonds payable	**$ 22,256,493**	$ 22,814,656
Systemwide notes payable	**4,477,048**	4,243,708
Accrued interest payable	**46,733**	47,528
Accounts payable	**35,270**	230,196
Advanced conditional payments	**9,440**	8,468
Other liabilities	**632,261**	525,052
Total liabilities	**27,457,245**	27,869,608
Commitments and contingencies (Note 8)		
Shareholders' Equity		
Perpetual preferred stock	**125,250**	125,250
Protected borrower equity	**631**	655
Capital stock and participation certificates	**163,557**	154,471
Additional paid-in-capital	**60,270**	60,270
Retained earnings		
Allocated	**1,816,733**	1,818,123
Unallocated	**3,666,086**	3,540,901
Accumulated other comprehensive income (loss)	**(290,800)**	(297,311)
Total shareholders' equity	**5,541,727**	5,402,359
Total liabilities and equity	**$ 32,998,972**	$ 33,271,967

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

Combined Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2015	2014
Interest Income		
Investments	**$ 31,471**	$ 35,248
Loans	**275,009**	269,958
Total interest income	**306,480**	305,206
Interest Expense	**58,499**	53,572
Net interest income	**247,981**	251,634
Provision for (reversal of allowance for) loan losses	**1,713**	(2,344)
Net interest income after provision for (reversal of allowance for) loan losses	**246,268**	253,978
Noninterest Income		
Loan fees	**7,545**	6,989
Fees for financially related services	**1,351**	1,345
Building lease income	**944**	1,030
Total other-than-temporary impairment losses	**—**	(74)
Portion of loss recognized in other comprehensive income	**(107)**	(1,277)
Net other-than-temporary impairment losses	**(107)**	(1,351)
Gains (losses) on investments, net	**1,126**	149
Gains (losses) on called debt	**(4,304)**	(2,863)
Gains (losses) on other transactions	**715**	1,352
Other noninterest income	**3,073**	2,961
Total noninterest income	**10,343**	9,612
Noninterest Expenses		
Salaries and employee benefits	**76,649**	71,150
Occupancy and equipment	**9,973**	9,955
Insurance Fund premiums	**6,959**	6,017
Other operating expenses	**26,943**	27,361
Losses (gains) from other property owned	**531**	(28)
Total noninterest expenses	**121,055**	114,455
Income before income taxes	**135,556**	149,135
Provision for income taxes	**432**	540
Net income	**$ 135,124**	$ 148,595

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

Combined Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2015	2014
Net income	**$ 135,124**	$ 148,595
Other comprehensive income net of tax:		
Unrealized gains (losses) on investments:		
Other-than-temporarily impaired	**1,994**	6,929
Not other-than-temporarily impaired	**(4,549)**	(470)
Change in value of cash flow hedges	**(153)**	(263)
Employee benefit plans adjustments	**9,219**	5,096
Other comprehensive income (Note 5)	**6,511**	11,292
Comprehensive income	**$ 141,635**	$ 159,887

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

Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2013	$ 125,250	$ 901	$ 156,382	$ 60,270	$ 1,693,689	$ 3,313,471	$ (175,289)	$ 5,174,674
Comprehensive income						148,595	11,292	159,887
Protected borrower equity retired		(51)						(51)
Capital stock/participation certificates issued (retired), net			3,928					3,928
Dividends declared/paid			113			(162)		(49)
Dividends paid on perpetual preferred stock						(435)		(435)
Cash patronage distribution						(4,750)		(4,750)
Retained earnings retired					(6,488)	11		(6,477)
Patronage distribution adjustment					(326)	(630)		(956)
Balance at March 31, 2014	$ 125,250	$ 850	$ 160,423	$ 60,270	$ 1,686,875	$ 3,456,100	$ (163,997)	$ 5,325,771
Balance at December 31, 2014	$ 125,250	$ 655	$ 154,471	$ 60,270	$ 1,818,123	$ 3,540,901	$ (297,311)	$ 5,402,359
Comprehensive income						**135,124**	**6,511**	**141,635**
Protected borrower equity retired		**(24)**						**(24)**
Capital stock/participation certificates issued (retired), net			**8,973**					**8,973**
Dividends declared/paid			**113**			**(160)**		**(47)**
Dividends paid on perpetual preferred stock						**(434)**		**(434)**
Cash patronage distribution						**(3,000)**		**(3,000)**
Retained earnings retired					**(8,117)**	**24**		**(8,093)**
Patronage distribution adjustment					**6,727**	**(6,369)**		**358**
Balance at March 31, 2015	**$ 125,250**	**$ 631**	**$ 163,557**	**$ 60,270**	**$ 1,816,733**	**$ 3,666,086**	**$ (290,800)**	**$ 5,541,727**

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

Combined Statements of Cash Flows

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2015	2014
Cash flows from operating activities:		
Net income	**$ 135,124**	$ 148,595
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	**4,544**	4,476
Amortization of net deferred loan (fees) costs and premium amortization (discount accretion)	**(736)**	(1,080)
Premium amortization (discount accretion) on investment securities	**2,510**	2,378
(Premium amortization) discount accretion on bonds and notes	**2,001**	1,805
Amortization (accretion) of yield mark resulting from merger	**(425)**	(595)
Provision for loan losses	**1,713**	(2,344)
(Gains) losses on other property owned	**166**	(725)
Net impairment losses on investments	**107**	1,351
(Gains) losses on investments, net	**(1,126)**	(149)
(Gains) losses on other transactions	**(715)**	(1,352)
Net change in loans held for sale	**364**	194
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	**4,537**	3,744
(Increase) decrease in accounts receivable	**13,762**	1,379
(Increase) decrease in other assets	**(8,469)**	(10,110)
Increase (decrease) in accrued interest payable	**(795)**	(7,815)
Increase (decrease) in accounts payable	**(24,471)**	(21,790)
Increase (decrease) in other liabilities	**116,206**	121,928
Total adjustments	**109,173**	91,295
Net cash provided by (used in) operating activities	**244,297**	239,890
Cash flows from investing activities:		
Investment securities purchased	**(333,025)**	(67,412)
Proceeds from investment securities sold or matured	**418,492**	326,322
Net (increase) decrease in loans	**227,676**	43,263
(Increase) decrease in investments in other Farm Credit System institutions	**(111)**	(30)
Proceeds from payments received on other investments	**—**	83,954
Purchase of premises and equipment, net	**(2,998)**	(8,331)
Proceeds from sale of premises and equipment, net	**550**	352
Proceeds from sale of other property owned	**5,804**	12,347
Net cash provided by (used in) investing activities	**316,388**	390,465
Cash flows from financing activities:		
Bonds and notes issued	**5,627,283**	6,037,210
Bonds and notes retired	**(5,951,677)**	(7,005,701)
Net increase (decrease) in advanced conditional payments	**972**	3,249
Protected borrower equity retired	**(24)**	(51)
Capital stock and participation certificates issued/retired, net	**8,973**	3,928
Patronage refunds and dividends paid	**(173,144)**	(149,245)
Dividends paid on perpetual preferred stock	**(434)**	(435)
Retained earnings retired	**(8,093)**	(6,477)
Net cash provided by (used in) financing activities	**(496,144)**	(1,117,522)
Net increase (decrease) in cash and cash equivalents	**64,541**	(487,167)
Cash and cash equivalents, beginning of period	**896,189**	1,230,374
Cash and cash equivalents, end of period	**$ 960,730**	$ 743,207
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	**$ 1,257**	$ 663
Receipt of property in settlement of loans	**6,421**	12,013
Change in unrealized gains (losses) on investments, net	**(2,555)**	6,459
Employee benefit plans adjustments (Note 7)	**(9,219)**	(5,096)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	**$ (2,427)**	$ (2,699)
Decrease (increase) in other assets	**2,427**	2,699
Supplemental information:		
Interest paid	**$ 57,361**	$ 59,702
Taxes paid, net	**250**	744

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

Notes to the Combined Financial Statements

(unaudited)

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

Organization

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank) and its related Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District). A complete description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the District as of and for the year ended December 31, 2014 are contained in the 2014 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

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

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

Accounting Standards Updates (ASUs) Issued During the Period

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

- 2015-03 Imputation of Interest – In April, 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. To simplify presentation of debt issuance costs, the amendments in this Update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the Update, debt issuance costs were required to be presented in the balance sheet as a deferred charge (asset). The recognition and measurement guidance for debt issuance costs are not affected by the amendments. For public business entities, the amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years.

ASUs Effective During the Period

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

No recently adopted accounting guidance issued by the 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:

- 2014-14 Classification of Certain Government-Guaranteed Mortgage Loans – The District did not have a significant amount of loans that met the criteria of the guidance.

- 2014-11 Repurchase-to-Maturity Transactions – The criteria of the standard were not significantly different from the District's policy in place at adoption.

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

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

Note 2 — Loans and Allowance for Loan Losses

The District 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 District 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 District manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank and each Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the boards of directors.

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

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (as discussed in Note 1 above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk is related to the structure of a credit (tenor, terms, and collateral).

A summary of loans outstanding at period end follows:

(dollars in thousands)	**March 31, 2015**	**December 31, 2014**
Real estate mortgage	$ 10,806,185	$ 10,749,817
Production and intermediate-term	7,270,707	7,650,543
Loans to cooperatives	290,043	261,652
Processing and marketing	1,385,387	1,404,051
Farm-related business	457,321	410,026
Communication	376,137	356,825
Energy and water/waste disposal	452,566	468,589
Rural residential real estate	2,982,563	2,954,004
Lease receivables	4,385	4,945
Loans to other financing institutions (OFIs)	96,732	95,512
Other (including Mission Related)	59,294	60,005
Total Loans	$ 24,181,320	$ 24,415,969

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

	March 31, 2015					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 253,899	$ 50,321	$ 74,085	$ 4,442	$ 327,984	$ 54,763
Production and intermediate-term	594,241	292,295	456,368	25,764	1,050,609	318,059
Loans to cooperatives	266,429	–	10,897	–	277,326	–
Processing and marketing	572,891	175,687	861,903	–	1,434,794	175,687
Farm-related business	143,402	9,001	130,890	–	274,292	9,001
Communication	377,358	–	–	–	377,358	–
Energy and water/waste disposal	447,982	–	6,428	–	454,410	–
Rural residential real estate	–	–	2,352	–	2,352	–
Lease receivables	2,421	–	–	–	2,421	–
Other (including Mission Related)	12,000	–	7,291	–	19,291	–
Total	$ 2,670,623	$ 527,304	$ 1,550,214	$ 30,206	$ 4,220,837	$ 557,510

	December 31, 2014					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 255,972	$ 41,303	$ 74,472	$ 4,530	$ 330,444	$ 45,833
Production and intermediate-term	582,468	366,108	469,793	34,034	1,052,261	400,142
Loans to cooperatives	226,648	–	10,993	–	237,641	–
Processing and marketing	600,381	186,418	839,640	–	1,440,021	186,418
Farm-related business	119,902	1,743	87,567	–	207,469	1,743
Communication	357,623	–	–	–	357,623	–
Energy and water/waste disposal	463,833	–	6,524	–	470,357	–
Rural residential real estate	–	–	2,261	–	2,261	–
Lease receivables	2,663	–	–	–	2,663	–
Other (including Mission Related)	12,000	–	7,623	–	19,623	–
Total	$ 2,621,490	$ 595,572	$ 1,498,873	$ 38,564	$ 4,120,363	$ 634,136

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

	March 31, 2015			
(dollars in thousands)	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Real estate mortgage	$ 537,182	$ 2,533,357	$ 7,735,646	$ 10,806,185
Production and intermediate-term	1,713,305	3,420,919	2,136,483	7,270,707
Loans to cooperatives	62,464	161,470	66,109	290,043
Processing and marketing	63,508	769,330	552,549	1,385,387
Farm-related business	55,673	296,420	105,228	457,321
Communication	–	341,183	34,954	376,137
Energy and water/waste disposal	33,575	153,569	265,422	452,566
Rural residential real estate	28,717	69,415	2,884,431	2,982,563
Lease receivables	2,180	2,205	–	4,385
Loans to OFIs	96,732	–	–	96,732
Other (including Mission Related)	2,066	15,157	42,071	59,294
Total Loans	$ 2,595,402	$ 7,763,025	$ 13,822,893	$ 24,181,320
Percentage	10.73%	32.10%	57.17%	100.00%

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

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

	March 31, 2015	December 31, 2014
Real estate mortgage:		
Acceptable	93.56%	93.38%
OAEM	3.11	3.17
Substandard/doubtful/loss	3.33	3.45
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	91.95%	92.66%
OAEM	3.89	3.86
Substandard/doubtful/loss	4.16	3.48
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	97.55%	99.25%
OAEM	1.11	0.75
Substandard/doubtful/loss	1.34	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	97.67%	97.72%
OAEM	0.54	0.50
Substandard/doubtful/loss	1.79	1.78
	100.00%	100.00%
Farm-related business:		
Acceptable	98.45%	98.05%
OAEM	1.27	1.31
Substandard/doubtful/loss	0.28	0.64
	100.00%	100.00%
Communication:		
Acceptable	97.62%	97.73%
OAEM	2.38	2.27
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2015	December 31, 2014
Energy and water/waste disposal:		
Acceptable	90.58%	90.91%
OAEM	9.12	8.79
Substandard/doubtful/loss	0.30	0.30
	100.00%	100.00%
Rural residential real estate:		
Acceptable	99.19%	99.21%
OAEM	0.31	0.30
Substandard/doubtful/loss	0.50	0.49
	100.00%	100.00%
Lease receivables:		
Acceptable	96.52%	96.72%
OAEM	2.87	2.66
Substandard/doubtful/loss	0.61	0.62
	100.00%	100.00%
Loans to OFIs:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Other (including Mission Related):		
Acceptable	94.35%	89.16%
OAEM	–	5.17
Substandard/doubtful/loss	5.65	5.67
	100.00%	100.00%
Total Loans:		
Acceptable	94.18%	94.28%
OAEM	2.88	2.92
Substandard/doubtful/loss	2.94	2.80
	100.00%	100.00%

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

	March 31, 2015					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 54,558	$ 61,269	$ 115,827	$ 10,780,376	$ 10,896,203	$ –
Production and intermediate-term	38,481	60,842	99,323	7,231,152	7,330,475	258
Loans to cooperatives	–	–	–	290,951	290,951	–
Processing and marketing	–	1,328	1,328	1,386,962	1,388,290	–
Farm-related business	4	626	630	458,343	458,973	–
Communication	–	–	–	376,448	376,448	–
Energy and water/waste disposal	–	1,383	1,383	453,142	454,525	–
Rural residential real estate	26,506	3,774	30,280	2,963,386	2,993,666	1,062
Lease receivables	–	13	13	4,381	4,394	–
Loans to OFIs	–	–	–	96,868	96,868	–
Other (including Mission Related)	148	914	1,062	58,775	59,837	–
Total	$ 119,697	$ 130,149	$ 249,846	$ 24,100,784	$ 24,350,630	$ 1,320

	December 31, 2014					
(dollars in thousands)	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 60,519	$ 61,763	$ 122,282	$ 10,715,330	$ 10,837,612	$ 712
Production and intermediate-term	27,730	60,645	88,375	7,629,402	7,717,777	2,130
Loans to cooperatives	12	–	12	262,190	262,202	–
Processing and marketing	109	1,567	1,676	1,405,430	1,407,106	–
Farm-related business	116	631	747	410,725	411,472	–
Communication	–	–	–	357,083	357,083	–
Energy and water/waste disposal	–	–	–	470,614	470,614	–
Rural residential real estate	40,678	5,314	45,992	2,918,662	2,964,654	2,382
Lease receivables	–	15	15	4,940	4,955	–
Loans to OFIs	–	–	–	95,646	95,646	–
Other (including Mission Related)	779	2,632	3,411	57,226	60,637	–
Total	$ 129,943	$ 132,567	$ 262,510	$ 24,327,248	$ 24,589,758	$ 5,224

Nonperforming assets (including the recorded investment for loans) and related credit quality statistics are summarized as follows:

(dollars in thousands)	March 31, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	$ 166,233	$ 174,528
Production and intermediate-term	117,430	115,917
Processing and marketing	5,897	5,693
Farm-related business	3,376	3,416
Energy and water/waste disposal	1,383	1,400
Rural residential real estate	7,440	7,378
Lease receivables	13	15
Other (including Mission Related)	2,594	2,627
Total	$ 304,366	$ 310,974
Accruing restructured loans:		
Real estate mortgage	$ 55,203	$ 59,690
Production and intermediate-term	55,655	58,536
Farm-related business	743	761
Rural residential real estate	2,497	3,000
Other (including Mission Related)	9,673	9,532
Total	$ 123,771	$ 131,519
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ 712
Production and intermediate-term	258	2,130
Rural residential real estate	1,062	2,382
Total	$ 1,320	$ 5,224
Total nonperforming loans	$ 429,457	$ 447,717
Other property owned	45,180	45,986
Total nonperforming assets	$ 474,637	$ 493,703
Nonaccrual loans as a percentage of total loans	1.26%	1.27%
Nonperforming assets as a percentage of total loans and other property owned	1.96%	2.02%
Nonperforming assets as a percentage of capital	8.56%	9.14%

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.

(dollars in thousands)	March 31, 2015	December 31, 2014
Impaired nonaccrual loans:		
Current as to principal and interest	$ 158,787	$ 155,112
Past due	145,579	155,862
Total	304,366	310,974
Impaired accrual loans:		
Restructured	123,771	131,519
90 days or more past due	1,320	5,224
Total	125,091	136,743
Total impaired loans	$ 429,457	$ 447,717

Additional impaired loan information at period end is summarized as follows. Unpaid principal balance represents the contractual principal balance of the loan.

(dollars in thousands)	March 31, 2015			Quarter Ended March 31, 2015	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 65,767	$ 83,120	$ 12,995	$ 63,477	$ 377
Production and intermediate-term	54,714	68,676	17,219	53,857	718
Processing and marketing	–	–	–	–	–
Farm-related business	3,310	3,865	337	3,249	29
Energy and water/waste disposal	1,383	1,426	804	1,358	15
Rural residential real estate	3,461	3,835	867	3,407	23
Lease receivables	–	–	–	–	–
Other (including Mission Related)	8,202	8,064	573	7,734	82
Total	$ 136,837	$ 168,986	$ 32,795	$ 133,082	$ 1,244
With no related allowance for credit losses:					
Real estate mortgage	$ 155,669	$ 210,934	$ –	$ 154,668	$ 1,139
Production and intermediate-term	118,629	166,256	–	118,595	1,694
Processing and marketing	5,897	10,495	–	5,790	62
Farm-related business	809	1,261	–	794	6
Energy and water/waste disposal	–	–	–	–	–
Rural residential real estate	7,538	9,644	–	6,615	70
Lease receivables	13	67	–	13	–
Other (including Mission Related)	4,065	4,803	–	4,501	15
Total	$ 292,620	$ 403,460	$ –	$ 290,976	$ 2,986
Total:					
Real estate mortgage	$ 221,436	$ 294,054	$ 12,995	$ 218,145	$ 1,516
Production and intermediate-term	173,343	234,932	17,219	172,452	2,412
Processing and marketing	5,897	10,495	–	5,790	62
Farm-related business	4,119	5,126	337	4,043	35
Energy and water/waste disposal	1,383	1,426	804	1,358	15
Rural residential real estate	10,999	13,479	867	10,022	93
Lease receivables	13	67	–	13	–
Other (including Mission Related)	12,267	12,867	573	12,235	97
Total	$ 429,457	$ 572,446	$ 32,795	$ 424,058	$ 4,230

(dollars in thousands)	December 31, 2014			Year Ended December 31, 2014	
Impaired Loans	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 66,102	$ 83,694	$ 13,671	$ 70,001	$ 2,799
Production and intermediate-term	55,710	68,737	16,858	68,642	2,610
Processing and marketing	5,684	5,684	745	5,987	357
Farm-related business	3,377	3,895	370	3,539	191
Energy and water/waste disposal	1,400	1,426	805	685	88
Rural residential real estate	3,136	3,497	900	3,623	159
Lease receivables	–	–	–	–	–
Other (including Mission Related)	8,069	8,070	574	9,357	425
Total	$ 143,478	$ 175,003	$ 33,923	$ 161,834	$ 6,629
With no related allowance for credit losses:					
Real estate mortgage	$ 168,828	$ 226,865	$ –	$ 180,094	$ 7,499
Production and intermediate-term	120,873	172,489	–	123,154	6,507
Processing and marketing	9	5,529	–	237	–
Farm-related business	800	1,254	–	839	45
Communication	–	–	–	–	–
Energy and water/waste disposal	–	–	–	–	–
Rural residential real estate	9,624	11,674	–	10,914	396
Lease receivables	15	69	–	19	1
Other (including Mission Related)	4,090	4,827	–	3,631	163
Total	$ 304,239	$ 422,707	$ –	$ 318,888	$ 14,611
Total:					
Real estate mortgage	$ 234,930	$ 310,559	$ 13,671	$ 250,095	$ 10,298
Production and intermediate-term	176,583	241,226	16,858	191,796	9,117
Processing and marketing	5,693	11,213	745	6,224	357
Farm-related business	4,177	5,149	370	4,378	236
Communication	–	–	–	–	–
Energy and water/waste disposal	1,400	1,426	805	685	88
Rural residential real estate	12,760	15,171	900	14,537	555
Lease receivables	15	69	–	19	1
Other (including Mission Related)	12,159	12,897	574	12,988	588
Total	$ 447,717	$ 597,710	$ 33,923	$ 480,722	$ 21,240

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:

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other (including Mission Related)	Total
Activity related to the allowance for credit losses:									
Balance at December 31, 2014	$ 69,773	$ 82,467	$ 11,930	$ 1,519	$ 2,406	$ 5,681	$ 80	$ 997	$ 174,853
Charge-offs	(928)	(1,600)	–	–	–	(104)	–	–	(2,632)
Recoveries	725	497	978	–	–	7	–	5	2,212
Provision for loan losses	1,314	956	(883)	140	(39)	350	(15)	(110)	1,713
Loan type reclassifications	–	(48)	–	–	–	–	–	48	–
Balance at March 31, 2015	$ 70,884	$ 82,272	$ 12,025	$ 1,659	$ 2,367	$ 5,934	$ 65	$ 940	$ 176,146
Balance at December 31, 2013	$ 74,933	$ 92,180	$ 10,049	$ 1,065	$ 1,427	$ 6,487	$ 91	$ 1,205	$ 187,437
Charge-offs	(1,683)	(1,150)	(1)	–	–	(90)	–	–	(2,924)
Recoveries	1,567	1,224	1,565	–	–	19	–	4	4,379
Provision for loan losses	(801)	(1,813)	(715)	43	216	1,027	(9)	(292)	(2,344)
Balance at March 31, 2014	$ 74,016	$ 90,441	$ 10,898	$ 1,108	$ 1,643	$ 7,443	$ 82	$ 917	$ 186,548
Allowance on loans evaluated for impairment:									
Individually	$ 12,838	$ 17,219	$ 337	$ –	$ 804	$ 867	$ –	$ 573	$ 32,638
Collectively	57,889	65,053	11,688	1,659	1,563	5,067	65	367	143,351
PCI**	157	–	–	–	–	–	–	–	157
Balance at March 31, 2015	$ 70,884	$ 82,272	$ 12,025	$ 1,659	$ 2,367	$ 5,934	$ 65	$ 940	$ 176,146
Individually	$ 13,514	$ 16,858	$ 1,115	$ –	$ 805	$ 900	$ –	$ 574	$ 33,766
Collectively	56,102	65,609	10,815	1,519	1,601	4,781	80	423	140,930
PCI**	157	–	–	–	–	–	–	–	157
Balance at December 31, 2014	$ 69,773	$ 82,467	$ 11,930	$ 1,519	$ 2,406	$ 5,681	$ 80	$ 997	$ 174,853
Recorded investment in loans evaluated for impairment:									
Individually	$ 280,422	$ 156,573	$ 8,810	$ –	$ 1,383	$ 1,992,127	$ –	$ 12,214	$ 2,451,529
Collectively	10,612,191	7,172,943	2,129,404	376,448	453,142	1,001,391	4,394	144,491	21,894,404
PCI**	3,590	959	–	–	–	148	–	–	4,697
Balance at March 31, 2015	$ 10,896,203	$ 7,330,475	$ 2,138,214	$ 376,448	$ 454,525	$ 2,993,666	$ 4,394	$ 156,705	$ 24,350,630
Individually	$ 283,362	$ 147,187	$ 18,317	$ –	$ 1,400	$ 1,961,185	$ 151	$ 7,070	$ 2,418,672
Collectively	10,550,203	7,569,548	2,062,463	357,083	469,214	1,003,313	4,804	149,213	22,165,841
PCI**	4,047	1,042	–	–	–	156	–	–	5,245
Balance at December 31, 2014	$ 10,837,612	$ 7,717,777	$ 2,080,780	$ 357,083	$ 470,614	$ 2,964,654	$ 4,955	$ 156,283	$ 24,589,758

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

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. The tables do not include any purchased credit impaired (PCI) loans.

(dollars in thousands)	**Three months ended March 31, 2015**				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 384	$ 5,194	$ –	$ 5,578	
Production and intermediate-term	1,400	10,054	–	11,454	
Rural residential real estate	–	507	–	507	
Other (including Mission Related)	–	–	1,000	1,000	
Total	$ 1,784	$ 15,755	$ 1,000	$ 18,539	
Post-modification					
Real estate mortgage	$ 387	$ 4,305	$ –	$ 4,692	$ (43)
Production and intermediate-term	1,400	10,203	–	11,603	(2)
Rural residential real estate	–	490	–	490	–
Other (including Mission Related)	–	–	1,000	1,000	–
Total	$ 1,787	$ 14,998	$ 1,000	$ 17,785	$ (45)

(dollars in thousands)	Three months ended March 31, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification					
Real estate mortgage	$ 1,332	$ 3,211	$ –	$ 4,543	
Production and intermediate-term	953	10,158	–	11,111	
Rural residential real estate	255	118	–	373	
Total	$ 2,540	$ 13,487	$ –	$ 16,027	
Post-modification					
Real estate mortgage	$ 2,046	$ 2,762	$ –	$ 4,808	$ –
Production and intermediate-term	953	9,125	–	10,078	–
Rural residential real estate	254	100	–	354	–
Total	$ 3,253	$ 11,987	$ –	$ 15,240	$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension.

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.

(dollars in thousands)	Three months ended March 31,	
Defaulted Troubled Debt Restructurings	**2015**	**2014**
Real estate mortgage	$ 1,608	$ 417
Production and intermediate-term	1,781	1,735
Rural residential real estate	44	–
Total	$ 3,433	$ 2,152

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

	Total TDRs		Nonaccrual TDRs	
(dollars in thousands)	**March 31, 2015**	**December 31, 2014**	**March 31, 2015**	**December 31, 2014**
Real estate mortgage	$ 128,846	$ 133,794	$ 73,643	$ 74,104
Production and intermediate-term	109,412	104,300	53,757	45,764
Processing and marketing	–	–	–	–
Farm-related business	3,723	3,808	2,980	3,047
Rural residential real estate	5,382	5,466	2,885	2,466
Other (including Mission Related)	12,270	9,532	2,597	–
Total Loans	$ 259,633	$ 256,900	$ 135,862	$ 125,381
Additional commitments to lend	$ 4,450	$ 7,338		

The following table presents foreclosure information as of period end:

(dollars in thousands)	**March 31, 2015**
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ 1,831
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 3,753

PCI Loans

District entities acquire loans individually and in groups or portfolios. For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the holder would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. The amount of any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is not accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. It then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all purchased impaired loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

In connection with past mergers, certain Associations purchased impaired loans that are not accounted for as debt securities. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at March 31, 2015, were as follows.

(dollars in thousands)	
Real estate mortgage	$ 3,590
Production and intermediate-term	959
Rural residential real estate	148
Total Loans	$ 4,697

At both March 31, 2015 and December 31, 2014, the allowance for loan losses related to these loans was $157 thousand. During the three months ended March 31, 2015, provision for loan losses on these loans was an expense reversal of $41 thousand compared with an expense reversal of $163 thousand for the three month period ended March 31, 2014. See above for a summary of changes in the total allowance for loan losses for the period ended March 31, 2015. There were no loans acquired for 2015 or 2014 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain loans that are within the scope of purchased impaired loan guidance are accounted for using a cash basis method of income recognition because the acquiring Associations could not reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. At the time of purchase, the real estate markets were very unpredictable, making estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the acquiring Associations did not have the information necessary to reasonably estimate cash flows expected to be collected to compute their yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance.

Note 3 — Investments

Investment Securities

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

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

The FCA considers a non-agency security ineligible if it falls below AAA/Aaa credit rating criteria and requires Farm Credit System (System) institutions to provide notification to the FCA when a security becomes ineligible. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at March 31, 2015 had a fair value of $147.2 million and $34.4 million, respectively.

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

Held-to-maturity securities also include ABSs issued through the Small Business Administration and guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

In its Conditions of Approval for the program, the FCA considers an RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9. The FCA requires System institutions to provide notification when a security becomes ineligible. At March 31, 2015, the District held four RABs whose credit quality had deteriorated beyond the program limits.

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

During the first three months of 2015, proceeds from sales of investments were $29.1 million and realized gains were $1.1 million. During the first three months of 2014, proceeds from sales of investments were $7.6 million and realized gains were $149 thousand.

Available-for-sale

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

	March 31, 2015				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Guaranteed	$ 3,622,955	$ 81,449	$ (3,577)	$ 3,700,827	1.79%
U.S. Govt. Agency Guaranteed	2,322,793	22,793	(5,894)	2,339,692	0.84
Non-Agency CMOs (a)	164,954	20	(16,678)	148,296	0.65
ABSs	470,331	27,490	(495)	497,326	0.86
Total	$ 6,581,033	$ 131,752	$ (26,644)	$ 6,686,141	1.36%

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

(a) Gross unrealized losses included non-credit related other-than-temporary impairment included in Accumulated Other Comprehensive Income (AOCI) of $11.6 million for Non-Agency CMOs.

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

Held-to-maturity

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

(dollars in thousands)	March 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 519,066	$ 22,979	$ (2,036)	$ 540,009	3.63%
ABSs	39,214	728	(115)	39,827	1.82
RABs and Other (a)	209,306	15,608	(460)	224,454	5.76
Total	$ 767,586	$ 39,315	$ (2,611)	$ 804,290	4.12%

(dollars in thousands)	December 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency Guaranteed	$ 535,299	$ 22,151	$ (4,164)	$ 553,286	3.63%
ABSs	41,897	802	(107)	42,592	1.83
RABs and Other (b)	211,743	12,557	(1,131)	223,169	5.69
Total	$ 788,939	$ 35,510	$ (5,402)	$ 819,047	4.09%

(a) Gross unrealized losses included non-credit related other-than-temporary impairment included in AOCI of $106 thousand for RABs and Other.

(b) Gross unrealized losses included non-credit related other-than-temporary impairment included in AOCI of $107 thousand for RABs and Other.

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at March 31, 2015 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Guaranteed	$ –	– %	$ 21	0.38 %	$ 67,409	0.50 %	$ 3,633,397	1.82 %	$ 3,700,827	1.79 %
U.S. Govt. Agency Guaranteed	26,937	0.80	134,379	1.46	243,416	0.69	1,934,960	0.82	2,339,692	0.84
Non-Agency CMOs	–	–	–	–	1,097	0.89	147,199	0.65	148,296	0.65
ABSs	–	–	442,780	0.71	20,147	1.48	34,399	7.60	497,326	0.86
Total fair value	$ 26,937	0.80 %	$ 577,180	0.88 %	$ 332,069	0.70 %	$ 5,749,955	1.45 %	$ 6,686,141	1.36 %
Total amortized cost	$ 26,921		$ 575,430		$ 331,129		$ 5,647,553		$ 6,581,033	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency Guaranteed	$ –	– %	$ 325	4.66 %	$ –	– %	$ 518,741	3.63 %	$ 519,066	3.63 %
ABSs	184	0.03	28,968	1.67	7,140	1.98	2,922	3.03	39,214	1.82
RABs and Other	14,274	6.99	19,707	5.75	35,303	5.36	140,022	5.74	209,306	5.76
Total amortized cost	$ 14,458	6.90 %	$ 49,000	3.33 %	$ 42,443	4.79 %	$ 661,685	4.08 %	$ 767,586	4.12 %
Total fair value	$ 15,178		$ 50,701		$ 45,947		$ 692,464		$ 804,290	

A substantial portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following tables show the fair value and gross unrealized losses for all investments that have been in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	March 31, 2015					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 301,554	$ (562)	$ 515,153	$ (3,015)	$ 816,707	$ (3,577)
U.S. Govt. Agency Guaranteed	547,468	(1,299)	672,979	(6,631)	1,220,447	(7,930)
Non-Agency CMOs	9,479	(534)	138,641	(16,144)	148,120	(16,678)
ABSs	71,693	(50)	6,246	(560)	77,939	(610)
RABs and Other	2,972	(51)	11,851	(409)	14,823	(460)
Total	$ 933,166	$ (2,496)	$ 1,344,870	$ (26,759)	$ 2,278,036	$ (29,255)

	December 31, 2014					
	Less than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. Guaranteed	$ 679,802	$ (2,094)	$ 504,943	$ (4,444)	$ 1,184,745	$ (6,538)
U.S. Govt. Agency Guaranteed	504,898	(1,306)	816,972	(9,395)	1,321,870	(10,701)
Non-Agency CMOs	14,324	(647)	137,670	(17,655)	151,994	(18,302)
ABSs	185,727	(206)	7,168	(347)	192,895	(553)
RABs and Other	17,173	(147)	33,068	(984)	50,241	(1,131)
Total	$ 1,401,924	$ (4,400)	$ 1,499,821	$ (32,825)	$ 2,901,745	$ (37,225)

The recording of an impairment is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the District intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss recognized equals the full difference between amortized cost and fair value of the security. When the District does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and noncredit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The District performs periodic credit reviews, including other-than-temporary impairment (OTTI) analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the creditworthiness of bond insurers, and (7) volatility of the fair value changes.

The District uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The District obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party.

Following are the assumptions used for the periods ended:

Assumptions Used	MBSs	ABSs
March 31, 2015		
Default rate by range	1.24% to 30.27%	9.58% to 49.54%
Prepayment rate by range	6.39% to 17.24%	4.75% to 12.37%
Loss severity by range	4.18% to 59.66%	62.92% to 100.40%
December 31, 2014		
Default rate by range	0.83% to 31.49%	6.72% to 52.16%
Prepayment rate by range	6.17% to 16.72%	5.36% to 12.04%
Loss severity by range	4.37% to 68.03%	64.72% to 100.00%

Based on the results of all analyses, the District has recognized $107 thousand of credit-related OTTI for 2015, which is included in Net Other-than-temporary Impairment Losses in the Combined Statements of Income. Since the District does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total OTTI is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

For the three months ended March 31, 2015, net unrealized losses of $4.5 million were recognized in other comprehensive income on available-for-sale investments that are not other-than-temporarily impaired.

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

	For the three months ended March 31,	
(dollars in thousands)	**2015**	**2014**
Amount related to credit loss-beginning balance	$ 60,217	$ 60,071
Additions for initial credit impairments	–	–
Additions for subsequent credit impairments	107	1,351
Reductions for increases in expected cash flows	(137)	(177)
Reductions for securities sold/settled/matured	–	109
Amount related to credit loss-ending balance	60,187	61,354
Life to date incurred credit losses	(19,689)	(20,127)
Remaining unrealized credit losses	$ 40,498	$ 41,227

For all other impaired investments, the District has not recognized any credit losses as the impairments are deemed temporary and result from non-credit related factors. The District has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities. Substantially all of these investments were in U.S. government agency securities and the District expects these securities would not be settled at a price less than their amortized cost.

Note 4 — Debt

Bonds and Notes

AgFirst, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued jointly by the System banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks.

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

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

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

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

The following table provides a summary of AgFirst's participation in outstanding Systemwide Debt Securities by maturity. Weighted average interest rates include the effect of related derivative financial instruments. The table does not include $211.1 million of intra-system obligations.

	March 31, 2015					
(dollars in thousands)	Bonds		Discount Notes		Total	
Maturities	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**
One year or less	$ 6,009,304	0.40%	$ 4,265,935	0.15%	$ 10,275,239	0.30%
Greater than one year to two years	5,279,324	0.64	–	–	5,279,324	0.64
Greater than two years to three years	3,692,251	1.08	–	–	3,692,251	1.08
Greater than three years to four years	1,781,486	1.38	–	–	1,781,486	1.38
Greater than four years to five years	1,519,846	1.65	–	–	1,519,846	1.65
Greater than five years	3,974,282	2.42	–	–	3,974,282	2.42
Total	$ 22,256,493	1.09%	$ 4,265,935	0.15%	$ 26,522,428	0.94%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at March 31, 2015 was 94 days.

Note 5 — Shareholders' Equity

Perpetual Preferred Stock

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

Accumulated Other Comprehensive Income

The following presents activity related to AOCI for the periods presented below:

	Changes in Accumulated Other Comprehensive Income by Component *(a)*	
	For the three months ended March 31,	
(dollars in thousands)	2015	2014
Investment Securities:		
Balance at beginning of period	$ 108,886	$ 99,865
Other comprehensive income before reclassifications	(1,521)	5,257
Amounts reclassified from AOCI	(1,034)	1,202
Net current period other comprehensive income	(2,555)	6,459
Balance at end of period	$ 106,331	$ 106,324
Cash Flow Hedges:		
Balance at beginning of period	$ (548)	$ 289
Other comprehensive income before reclassifications	134	–
Amounts reclassified from AOCI	(287)	(263)
Net current period other comprehensive income	(153)	(263)
Balance at end of period	$ (701)	$ 26
Employee Benefit Plans:		
Balance at beginning of period	$ (405,649)	$ (275,443)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	9,219	5,096
Net current period other comprehensive income	9,219	5,096
Balance at end of period	$ (396,430)	$ (270,347)
Total Accumulated Other Comprehensive Income:		
Balance at beginning of period	$ (297,311)	$ (175,289)
Other comprehensive income before reclassifications	(1,387)	5,257
Amounts reclassified from AOCI	7,898	6,035
Net current period other comprehensive income	6,511	11,292
Balance at end of period	$ (290,800)	$ (163,997)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*		
(dollars in thousands)	For the three months ended March 31,		
	2015	2014	Income Statement Line Item
Investment Securities:			
Sales gains & losses	$ 1,126	$ 149	Gains (losses) on investments, net
Holding gains & losses	(107)	(1,351)	Net other-than-temporary impairment
Amortization	15	–	Interest income on investments
Net amounts reclassified	1,034	(1,202)	
Cash Flow Hedges:			
Interest income	153	263	See Note 10.
Gains (losses) on other transactions	134	–	See Note 10.
Net amounts reclassified	287	263	
Employee Benefit Plans:			
Periodic pension costs	(9,219)	(5,096)	See Note 7.
Net amounts reclassified	(9,219)	(5,096)	
Total reclassifications for period	$ (7,898)	$ (6,035)	

(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 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets.

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

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

The District had no transfers of assets or liabilities measured on a recurring basis into or out of Level 1 or Level 2 during the reporting period. For Level 3 assets and liabilities measured at fair value on a recurring basis, the tables below present a reconciliation from the opening balances to the closing balances, and any transfers into or out of Level 3.

(dollars in thousands)	**ABSs**	**Non-Agency CMOs**	**RABs and Other**
Balance at December 31, 2014	$ 34,783	$ 153,011	$ –
Gains or (losses) included in earnings	–	(107)	–
Gains or (losses) included in OCI	320	1,621	–
Purchases	–	–	–
Sales	–	–	–
Settlements	(704)	(6,229)	–
Transfers in and/or out of Level 3	–	–	–
Balance at March 31, 2015	$ 34,399	$ 148,296	$ –

(dollars in thousands)	**ABSs**	**Non-Agency CMOs**	**RABs and Other**
Balance at December 31, 2013	$ 38,798	$ 173,486	$ 41,286
Gains or (losses) included in earnings	–	(1,220)	96
Gains or (losses) included in OCI	2,554	5,819	1,338
Purchases	–	–	–
Sales	–	–	(4,886)
Settlements	(961)	(5,843)	(142)
Transfers in and/or out of Level 3	–	–	–
Balance at March 31, 2014	$ 40,391	$ 172,242	$ 37,692

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities
The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

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

Generally, for derivative instruments which are subject to changes in the value of the underlying referenced instrument, change in the assumption used for default rate is accompanied by directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayment rates.

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

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Forward contracts – when-issued securities	$ –	Broker/Consensus pricing	Offered quotes	None outstanding
RABs and other	$ –	Discounted cash flow	Risk adjusted spread	None outstanding
Non-agency CMOs	$ 148,296	Vendor priced	**	
ABSs	$ 34,399	Vendor priced	**	
Impaired loans and other property owned	$ 446,651	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Other investments – RBIC	$ 251	Third party evaluation	Income, expense, capital	Not applicable

** Ranges for this type of input are not useful because each collateral property is unique.*
*** The significant unobservable inputs used to estimate fair value for Level 3 assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

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

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

Information about Other Financial Instrument Fair Value Measurements

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

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

	At or for the Three Months Ended March 31, 2015					
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Earnings**
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 3,700,827	$ –	$ 3,700,827	$ –	$ 3,700,827	
U.S. Govt. Agency Guaranteed	2,339,692	–	2,339,692	–	2,339,692	
Non-Agency CMOs	148,296	–	–	148,296	148,296	
ABSs	497,326	–	462,927	34,399	497,326	
Total investments available-for-sale	6,686,141	–	6,503,446	182,695	6,686,141	
Federal funds sold, securities purchased under resale agreements, and other	219,097	–	219,097	–	219,097	
Interest rate swaps and other derivative instruments	13,840	–	13,840	–	13,840	
Assets held in trust funds	22,315	22,315	–	–	22,315	
Recurring Assets	$ 6,941,393	$ 22,315	$ 6,736,383	$ 182,695	$ 6,941,393	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 396,662	$ –	$ –	$ 396,662	$ 396,662	$ 709
Other property owned	45,180	–	–	49,989	49,989	(166)
Other Investments	251	–	–	251	251	–
Nonrecurring Assets	$ 442,093	$ –	$ –	$ 446,902	$ 446,902	$ 543
Other Financial Instruments						
Assets:						
Cash	$ 741,633	$ 741,633	$ –	$ –	$ 741,633	
Investments held to maturity	767,586	–	579,836	224,454	804,290	
Loans	23,618,498	–	–	23,743,028	23,743,028	
Other investments	–	–	–	–	–	
Other Financial Assets	$ 25,127,717	$ 741,633	$ 579,836	$ 23,967,482	$ 25,288,951	
Liabilities:						
Systemwide debt securities	$ 26,733,541	$ –	$ –	$ 26,774,874	$ 26,774,874	
Other Financial Liabilities	$ 26,733,541	$ –	$ –	$ 26,774,874	$ 26,774,874	

(dollars in thousands)	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:						
Investments available-for-sale:						
U.S. Govt. Guaranteed	$ 3,859,206	$ –	$ 3,859,206	$ –	$ 3,859,206	
U.S. Govt. Agency Guaranteed	2,415,531	–	2,415,531	–	2,415,531	
Non-Agency CMOs	153,011	–	–	153,011	153,011	
ABSs	326,671	–	291,888	34,783	326,671	
Total investments available-for-sale	6,754,419	–	6,566,625	187,794	6,754,419	
Federal funds sold, securities purchased under resale agreements, and other	224,847	–	224,847	–	224,847	
Interest rate swaps and other derivative instruments	16,267	–	16,267	–	16,267	
Assets held in trust funds	20,239	20,239	–	–	20,239	
Recurring Assets	$ 7,015,772	$ 20,239	$ 6,807,739	$ 187,794	$ 7,015,772	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 413,794	$ –	$ –	$ 413,794	$ 413,794	$ 13,115
Other property owned	45,986	–	–	50,536	50,536	(1,762)
Other investments	251	–	–	251	251	–
Nonrecurring Assets	$ 460,031	$ –	$ –	$ 464,581	$ 464,581	$ 11,353
Other Financial Instruments						
Assets:						
Cash	$ 671,342	$ 671,342	$ –	$ –	$ 671,342	
Investments held to maturity	788,939	–	595,878	223,169	819,047	
Loans	23,834,507	–	–	23,866,235	23,866,235	
Other Financial Assets	$ 25,294,788	$ 671,342	$ 595,878	$ 24,089,404	$ 25,356,624	
Liabilities:						
Systemwide debt securities	$ 27,058,364	$ –	$ –	$ 27,009,191	$ 27,009,191	
Other Financial Liabilities	$ 27,058,364	$ –	$ –	$ 27,009,191	$ 27,009,191	

Note 7 — Employee Benefit Plans

Following are retirement and other postretirement benefit expenses for the District:

(dollars in thousands)	For the three months ended March 31, 2015	2014
Pension	$ 11,067	$ 8,951
401k	2,972	2,103
Other postretirement benefits	4,259	2,615
Total	$ 18,298	$ 13,669

Following are retirement and other postretirement benefit contributions for the District. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2014.

(dollars in thousands)	Actual YTD Through 3/31/15	Projected Contributions for Remainder of 2015	Projected Total Contributions 2015
Pensions	$ 257	$ 61,849	$ 62,106
Other postretirement benefits	1,905	5,705	7,610
Total	$ 2,162	$ 67,554	$ 69,716

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the District participates. These amounts may change when a total funding amount and allocation is determined by the respective Plans' Sponsor Committees. 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 most recent 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 Contingencies

Under the Farm Credit Act of 1971, each System bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the four banks are jointly and severally liable for the bonds and notes of the other System banks under the terms of the Joint and Several Liability Allocation Agreement. Published in the Federal Register, the agreement prescribes the payment mechanisms to be employed in the event one of the banks is unable to meet its debt obligations.

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

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

During the periods presented, AgFirst did not make any payments, and as of the report date does not anticipate making any payments, on behalf of its co-obligors under the Joint and Several Liability Allocation Agreement.

(dollars in billions)	**3/31/15**	**12/31/14**
Total System bonds and notes	$ 222.172	$ 225.437
AgFirst bonds and notes	$ 26.522	$ 26.847

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

Note 9 — Additional Financial Information

Offsetting of Financial and Derivative Assets

March 31, 2015

(dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Gross Amounts Not Offset in the Balance Sheets: Financial Instruments	Gross Amounts Not Offset in the Balance Sheets: Cash Collateral Received	Net Amount
Derivatives	$ 13,840	$ –	$ 13,840	$ –	$ –	$ 13,840
Reverse repurchase and similar arrangements	219,097	–	219,097	(219,097)	–	–
Total	$ 232,937	$ –	$ 232,937	$ (219,097)	$ –	$ 13,840

December 31, 2014

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

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

A description of the rights of setoff associated with recognized derivative assets and liabilities subject to enforceable master netting arrangements is located in Note 10, *Derivative Financial Instruments and Hedging Activities*.

The reverse repurchase agreements are accounted for as collateralized lending.

Bank Only Financial Data

Condensed financial information of the Bank follows:

Balance Sheets

(dollars in thousands)	March 31, 2015	December 31, 2014
	(unaudited)	(audited)
Cash, cash equivalents and investment securities	$ 8,263,022	$ 8,261,289
Loans		
To District Associations	13,776,781	14,280,193
To others	6,567,485	6,613,426
Total loans	20,344,266	20,893,619
Allowance for loan losses	(16,868)	(15,535)
Net loans	20,327,398	20,878,084
Other assets	324,685	363,849
Total assets	$ 28,915,105	$ 29,503,222
Bonds and notes	$ 26,522,428	$ 26,847,246
Other liabilities	105,129	448,569
Total liabilities	26,627,557	27,295,815
Perpetual preferred stock	125,250	125,250
Capital stock and participation certificates	302,917	303,180
Additional paid-in-capital	36,580	36,580
Retained earnings	1,723,446	1,640,449
Accumulated other comprehensive income (loss)	99,355	101,948
Total shareholders' equity	2,287,548	2,207,407
Total liabilities and equity	$ 28,915,105	$ 29,503,222

Statements of Income

(dollars in thousands)	For the three months ended March 31, 2015	2014
	(unaudited)	
Interest income	$ 171,884	$ 170,038
Interest expense	58,088	53,310
Net interest income	113,796	116,728
Provision for (reversal of) loan losses	1,369	549
Net interest income after provision for loan losses	112,427	116,179
Noninterest expense, net	(28,941)	(27,701)
Net income	$ 83,486	$ 88,478

Note 10 — Derivative Financial Instruments and Hedging Activities

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

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

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

The primary types of derivative instruments used and the amount of activity for the periods presented is summarized in the following table:

	For the Three Months Ended March 31, 2015		2014	
Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 250	$ 1	$ 250	$ –
Additions	–	2	–	–
Maturities/amortization	–	(2)	–	–
Terminations	–	–	–	–
Balance at end of period	$ 250	$ 1	$ 250	$ –

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

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

Counterparty exposure related to derivatives at:

(dollars in millions)	**March 31, 2015**	**December 31, 2014**
Estimated Gross Credit Risk	$13.8	$16.3
Percent of Notional	5.54%	6.51%
Cash Collateral Held *(on balance sheet)*	$–	$–
Securities Collateral Held *(off balance sheet)*	$–	$–
Cash Collateral Posted *(off balance sheet)*	$–	$–
Securities Collateral Posted *(on balance sheet)*	$–	$–

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

Fair Value Hedges

For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The District includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the three months ended March 31, 2015 was $2.4 million, while the amount of the gain on the Systemwide Debt Securities was $2.4 million. The amount of the loss on interest rate swaps recognized in interest expense for the three months ended March 31, 2014 was $2.7 million, while the amount of the gain on the Systemwide Debt Securities was $2.7 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

From time to time, the District may acquire when-issued securities, generally government agency guaranteed bonds. The when-issued transactions are contracts to purchase securities that will not be delivered until 30 or more days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Any differences in market value of the contracted securities, between the purchase and reporting or settlement date, represent the value of the forward contracts. These amounts are included in Other Comprehensive Income (OCI), and Other Liabilities or Other Assets as appropriate, as firm commitments in the District's Balance Sheet for each period end. As of the periods presented, the District had not committed to purchase any when-issued bonds.

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

Fair Values of Derivative Instruments

The following tables represent the fair value of derivative instruments designated as hedging instruments for the periods presented:

(dollars in thousands)	Balance Sheet Classification – Assets	3/31/15 Fair Value	Balance Sheet Classification – Liabilities	3/31/15 Fair Value
Receive-fixed swaps	Other Assets	$ 13,840	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 13,840		$ –

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

The following table sets forth the amount of net gain (loss) on derivatives recognized in earnings and, for cash flow hedges, the amount of net gain (loss) recognized in AOCI for the periods presented. See Note 5, *Shareholders' Equity*.

(dollars in thousands)	Location of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income	Amount of Gain or (Loss) Recognized in, or Reclassified from AOCI into, Income *		Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	
		2015	2014	2015	2014	2015	2014
Fair Value Hedges:							
Receive-fixed swaps	Noninterest income	$ –	$ –				
Cash Flow Hedges:							
Firm Commitments	Interest Income	$ 153	$ 263	$ –	$ –	$ –	$ –
Forward Contracts	Gains (Losses) on Other Transactions	134	–	–	–	134	–

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

Note 11 — Regulatory Enforcement Matters

At March 31, 2015, two District Associations, with combined total assets of approximately $994.8 million, were operating under written agreements with the FCA. Those agreements require the District Associations to take corrective actions with respect to specific areas of their operations. These enforcement actions are not expected to have a significant impact on the District's financial condition or results of operations.

Note 12 — Subsequent Events

The District evaluated subsequent events and determined that, except as described below, there were none requiring disclosure through May 8, 2015, which was the date the financial statements were issued.

Effective April 1, 2015, the Bank sold an additional participation interest of approximately $210.2 million in a Direct Note to another System bank, bringing the total amount sold to approximately $420.4 million.