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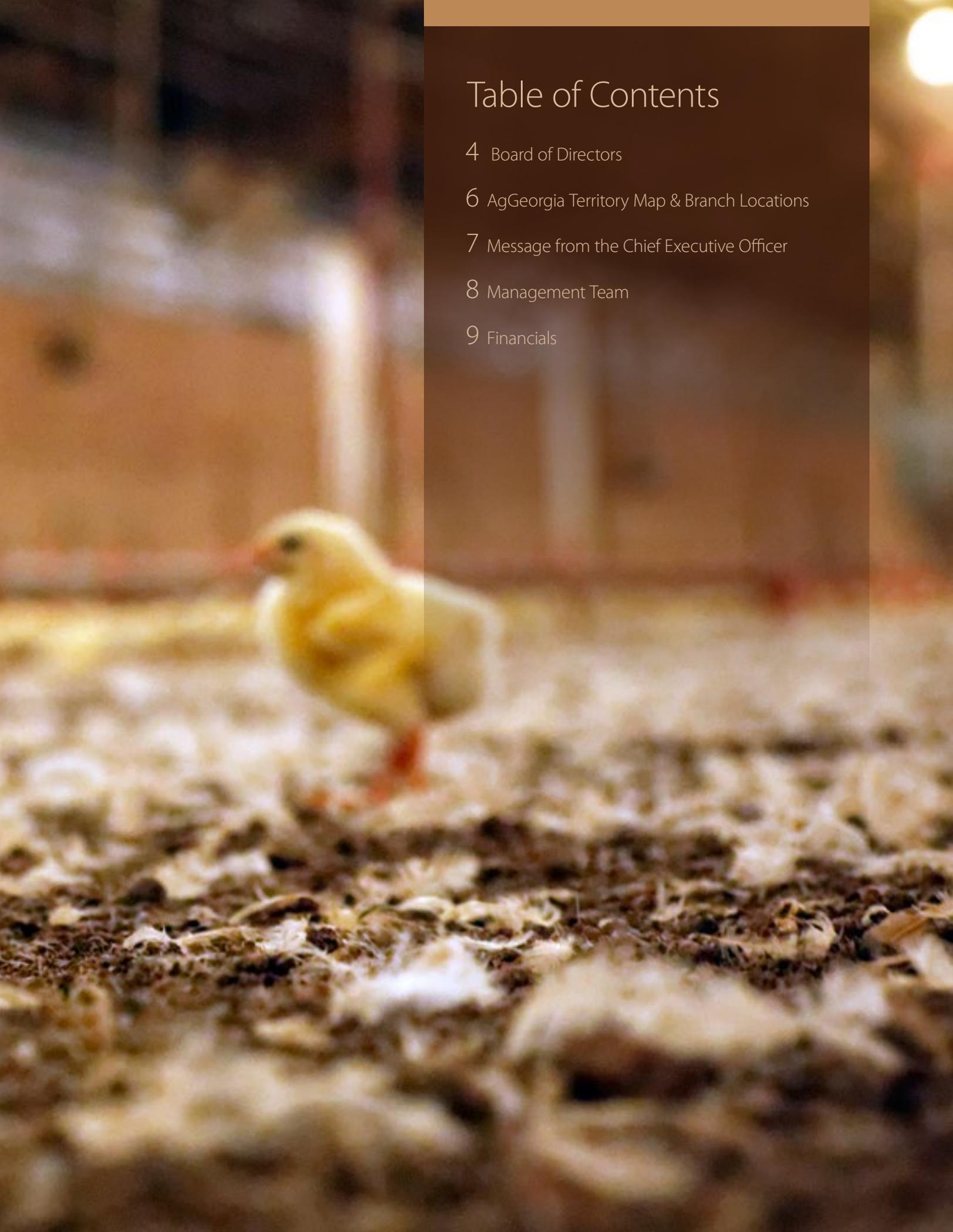
ANNUAL  
REPORT

Helping Georgia Grow For Generations



AGGEORGIA  
FARM CREDIT



A photograph of a yellow chick in a barn. The chick is in the foreground, slightly out of focus, standing on a floor covered with wood shavings. In the background, there are wooden structures, possibly nesting boxes or feeders, and a warm, dimly lit atmosphere. The right side of the image is partially obscured by a dark brown vertical bar containing the table of contents text.

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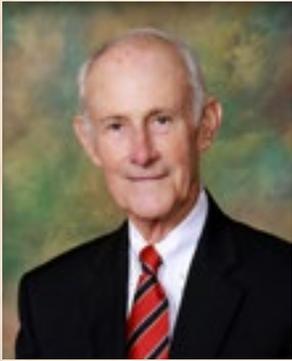
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# AgGeorgia Board of Directors



**Edward M. Beckham II**  
Houston County



**Jack W. Bentley Jr.**  
Wilkes County



**James B. Carlton**  
Hart County



**Billy J. Clary**  
Crisp County



**Dan N. Crumpton**  
Warren County



**Guy A. Daughtrey**  
Cook County



**Howard Lawson**  
Brooks County



**Ronney S. Ledford**  
Dooly County



**Joseph Marion Meeks**  
Washington County



**Robert G. "Bobby" Miller**  
Hall County



**Richard David "Dave" Neff**  
Hall County



**J. Dan Raines Jr.**  
Turner County



**George R. Reeves**  
McDuffie County



**Anne G. (Sisk) Smith**  
Madison County



**David H. Smith**  
Bartow County



**Glee C. Smith**  
Warren County



**Franklin B. Wright**  
Gilmer County

**Board Chairman**  
Mr. J. Dan Raines, Jr.\*

**Board Vice Chairman**  
Mr. Robert G. Miller

**Audit Committee**  
**Chairman:** Mr. Robert G. Miller  
**Vice Chairman:** Vacant\*\*  
**Financial Expert:** Mr. Robert G. Miller  
**Members:** Mr. James B. Carlton, Mr. Dan N. Crumpton,  
Mr. Joseph M. Meeks

**Compensation Committee**  
**Chairman:** Mr. Franklin B. Wright  
**Vice Chairman:** Mr. Billy J. Clary  
**Members:** Mr. Edward M. Beckham II, Mr. Howard Lawson,  
Mrs. Anne G. (Sisk) Smith

**Governance Committee**  
**Chairman:** Mr. Guy A. Daughtrey  
**Vice Chairman:** Mr. Jack W. Bentley, Jr.  
**Members:** Mr. George R. Reeves, Mr. David H. Smith, Ms. Glee C. Smith

**Credit Risk Committee**  
**Chairman:** Mr. Ronney S. Ledford  
**Vice Chairman:** Mr. Franklin B. Wright  
**Members:** Mr. Guy A. Daughtrey, Mr. Richard David "Dave" Neff,  
Mr. Robert G. Miller

**Outside Directors**  
Mr. Richard David "Dave" Neff and Ms. Glee C. Smith

**All Directors are members of the Executive Committee.**

\* As Board Chairman, Mr. J. Dan Raines, Jr., is an ex-officio (non-voting) member of all committees.

\*\* Not pictured, 2014 Board Member William L. Brown, deceased.



## Message From the Chief Executive Officer



**Jack C. Drew Jr.**  
Chief Executive Officer

Our focus, which has been honed to strengthen existing relationships as well as attract new and loyal customers, will be the cornerstone of operations for 2015.

On behalf of the Board of Directors, management and staff, I am pleased to present the 2014 Annual Report of AgGeorgia Farm Credit, ACA. Over the course of the last several years, the Association has delivered on a meaningful and progressive strategic plan to improve the performance of your cooperative. As you review the information contained in this Report, we are confident you will find that our exercise in adhering to a strong risk management program, sound credit underwriting philosophy and customer-focused culture have proven successful in building a strong and resilient financial position for AgGeorgia and as well as long-term value to you as a stockholder. We are proud of the progress made by your Association, the bottom-line results of this past year and the products, service and reputation that sets AgGeorgia and its people apart from others in agricultural lending.

In highlighting 2014 accomplishments, we are pleased that the vast majority of our financial goals were met and exceeded for the year. Of particular importance, asset quality continued to improve, loan volume stabilized, and our financial performance ratios have rebounded to pre-“Great Recession” levels. I am also pleased to report that all internal and external audits conducted during the period yielded excellent results validating the dedicated efforts of our Board, management team and staff.

The Association had final net income of \$22.3 million for 2014, which was well above projections. As in 2013, earnings for 2014 were not typical. In addition to the strong core earnings for 2014, we benefited from a nonrecurring special patronage of \$7.8 million from AgFirst Farm Credit Bank in December. This culminated in our key financial ratios reaching an impressive return on assets at 2.52%, return on equity at 10.11% and permanent capital level of 25.02%. Your Association has performed well for the year and we will strive to continue this trend as we enter an uncertain agricultural economy.

For our industry, the road ahead offers challenges. In agriculture, concerns about commodity prices, input costs and weather remain a constant. We will continue to execute our core strategies focusing on disciplined loan growth and dedication to customer service. Our focus, which has been honed to strengthen existing relationships as well as attract new and loyal customers, will be the cornerstone of operations for 2015. AgGeorgia is well positioned to meet the capital demands of both opportunity and adversity, and I am quite confident that we can continue to provide the best value and service in a highly competitive market. In keeping with history, our business results over the years have allowed AgGeorgia to pay patronage refunds every year since 1988, even during the most difficult of times. For that, we are extremely proud. A major highlight for 2014 was a much anticipated return to revolvment of excess surplus. We are proud to report that the Association will again pay patronage for 2014 as well as carefully examine the revolvment of surplus in 2015. Since 1988, AgGeorgia and its predecessor Associations have returned cash representing patronage and surplus revolvment totaling \$288 million to our stockholders, much of which is reinvested in Georgia’s agricultural industry.

On behalf of AgGeorgia’s Board of Directors and employees, I would like to express our sincere gratitude for your loyal support, patronage and trust. We appreciate the business you have conducted with us in the past and look forward to many more promising years of serving as your lender of choice.

**Jack C. Drew Jr.**  
Chief Executive Officer

# AgGeorgia Management Team



**Back Row:** Stephen M. Yearata, Commercial Lending Manager; Carrie B. McCall, Chief Financial Officer; Jack C. Drew, Jr., Chief Executive Officer; Marvin J. Moore, Chief Lending Officer; T. Lacy Royal, Retail Lending Manager

**Front Row:** Stephen Connelly, Director of Information Technology; John P. Lowry, III, Director of Risk Management; Vikki J. Wooley, Corporate Secretary; Corey W. Cottle, Director of Marketing

## AgGeorgia Branch Offices

**Perry Corporate Office**

468 Perry Parkway  
Perry, Georgia 31069  
(478) 987-8300

**Cartersville**

1300 East Main Street  
Cartersville, GA 30120  
(770) 382-3637

**Chatsworth**

19 Woodlake Drive  
Chatsworth, GA 30705  
(706) 695-0020

**Clarkesville**

102 Blacksnake Road  
Mt. Airy, GA 30563  
(706) 754-4158

**Cordele**

1207 South Greer Street  
Cordele, GA 31015  
(229) 273-3927

**Dublin**

826 Bellevue Avenue  
Dublin, GA 31021  
(478) 272-3255

**Ocilla**

302 South Cherry Street  
Ocilla, GA 31774  
(229) 468-5900

**Perry**

468 Perry Parkway  
Perry, GA 31069  
(478) 987-1434

**Quitman**

504 East Screven Street  
Quitman, GA 31643  
(229) 263-7551

**Rome**

701 East 2nd Avenue  
Rome, GA 30162  
(706) 291-6340

**Royston**

675 Church Street  
Royston, GA 30662  
(706) 245-6142

**Gainesville**

501 Broad Street  
Gainesville, GA 30501  
(770) 534-5395

**LaFayette**

700 East Villanow Street  
LaFayette, GA 30728  
(706) 638-1940

**Montezuma**

317 Walnut Street  
Montezuma, GA 31063  
(478) 472-5156

**Moultrie**

22 5th Avenue, S.E.  
Moultrie, GA 31768  
(229) 985-3893

**Nashville**

707 North Davis Street  
Nashville, GA 31639  
(229) 686-5081

**Sandersville**

775 Sparta Road  
Sandersville, GA 31082  
(478) 552-6922

**Sylvester**

105 Dexter Wilson  
Boulevard  
Sylvester, GA 31791  
(229) 776-5599

**Tifton**

1807 King Road  
Tifton, GA 31794  
(229) 382-4300

**Washington**

US 78, 311 North Bypass  
Washington, GA 30673  
(706) 678-7088

**Waynesboro**

176 Hwy. 80 West  
Waynesboro, GA 30830  
(706) 554-2107



# Financials

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# Report of Management

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

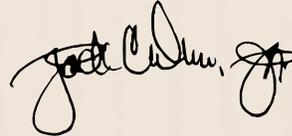
Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the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

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

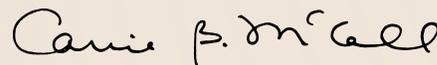
The consolidated financial statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2014 Annual Report of AgGeorgia Farm Credit, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



J. Dan Raines, Jr.  
Chairman of the Board



Jack C. Drew, Jr.  
Chief Executive Officer



Carrie B. McCall  
Chief Financial Officer

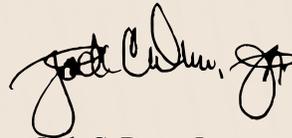
March 11, 2015

# Report on Internal Control Over Financial Reporting

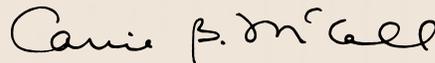
The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

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

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



Jack C. Drew, Jr.  
Chief Executive Officer



Carrie B. McCall  
Chief Financial Officer

March 11, 2015

# Consolidated Five-Year Summary of Selected Financial Data

<i>(dollars in thousands)</i>	<b>2014</b>	<b>2013</b>	<b>December 31, 2012</b>	<b>2011</b>	<b>2010</b>
<b>Balance Sheet Data</b>					
Cash	\$ 80	\$ 1,304	\$ 1,371	\$ 1,479	\$ 433
Loans	830,645	840,992	924,304	1,065,755	1,111,650
Less: allowance for loan losses	(5,999)	(10,575)	(10,976)	(13,182)	(11,943)
Net loans	824,646	830,417	913,328	1,052,573	1,099,707
Investments in other Farm Credit institutions	10,070	13,474	16,628	21,924	22,314
Other property owned	8,269	7,345	10,672	16,865	9,757
Other assets	40,990	44,174	37,859	42,663	45,092
Total assets	<b>\$ 884,055</b>	<b>\$ 896,714</b>	<b>\$ 979,858</b>	<b>\$1,135,504</b>	<b>\$1,177,303</b>
Notes payable to AgFirst Farm Credit Bank*	\$ 636,993	\$ 661,719	\$ 759,981	\$ 926,894	\$ 969,723
Accrued interest payable and other liabilities with maturities of less than one year	21,746	19,089	18,502	17,610	20,245
Total liabilities	658,739	680,808	778,483	944,504	989,968
Protected borrower stock	5	8	33	83	131
Capital stock and participation certificates	3,796	3,744	3,889	4,265	4,162
Retained earnings					
Allocated	95,454	94,741	89,580	86,243	86,521
Unallocated	126,220	117,487	107,979	100,462	96,546
Accumulated other comprehensive income (loss)	(159)	(74)	(106)	(53)	(25)
Total members' equity	225,316	215,906	201,375	191,000	187,335
Total liabilities and members' equity	<b>\$ 884,055</b>	<b>\$ 896,714</b>	<b>\$ 979,858</b>	<b>\$1,135,504</b>	<b>\$1,177,303</b>
<b>Statement of Income Data</b>					
Net interest income	\$ 30,616	\$ 31,467	\$ 34,420	\$ 35,879	\$ 33,627
Provision for (reversal of allowance for) loan losses	(103)	4,373	8,329	14,849	7,115
Noninterest income (expense), net	(8,388)	(7,897)	(14,171)	(13,469)	(6,780)
Net income	<b>\$ 22,331</b>	<b>\$ 19,197</b>	<b>\$ 11,920</b>	<b>\$ 7,561</b>	<b>\$ 19,732</b>
<b>Key Financial Ratios</b>					
Rate of return on average:					
Total assets	2.52%	2.04%	1.11%	0.64%	1.70%
Total members' equity	10.11%	9.10%	6.08%	3.90%	10.68%
Net interest income as a percentage of average earning assets	3.63%	3.52%	3.38%	3.18%	3.05%
Net (chargeoffs) recoveries to average loans	(0.530)%	(0.534)%	(1.035)%	(1.207)%	(0.367)%
Total members' equity to total assets	25.49%	24.08%	20.55%	16.82%	15.91%
Debt to members' equity (:1)	2.92	3.15	3.87	4.95	5.28
Allowance for loan losses to loans	0.72%	1.26%	1.19%	1.24%	1.07%
Permanent capital ratio	25.02%	23.51%	18.20%	14.98%	13.84%
Total surplus ratio	24.57%	23.07%	17.80%	14.61%	13.61%
Core surplus ratio	20.92%	19.87%	16.48%	12.20%	11.27%
<b>Net Income Distribution</b>					
Estimated patronage refunds:					
Cash	\$ 4,040	\$ 2,684	\$ 989	\$ 807	\$ 3,904
Qualified allocated retained earnings	9,428	6,264	3,131	2,757	9,035
Nonqualified allocated retained earnings	—	—	—	—	74

\* General financing agreement is renewable on a one-year cycle. The next renewal date is January 1, 2016.

# Management's Discussion & Analysis of Financial Condition & Results of Operations

(dollars in thousands, except as noted)

## GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of AgGeorgia Farm Credit, ACA, (Association) for the year ended December 31, 2014 with comparisons to the years ended December 31, 2013 and December 31, 2012. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying Consolidated Financial Statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of Georgia. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, [www.agfirst.com](http://www.agfirst.com), or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, [www.aggeorgia.com](http://www.aggeorgia.com), or by calling 1-800-868-6404, or writing Carrie B. McCall, AgGeorgia Farm Credit, P.O. Box 1820, Perry, GA 31069. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of

the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the internet, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

## FORWARD LOOKING INFORMATION

This annual information statement 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 our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

## AGRICULTURAL OUTLOOK

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

## Management's Discussion &amp; Analysis of Financial Condition &amp; Results of Operations—continued

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

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

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

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

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

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

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

2014 to \$327.4 billion in 2015. Farm business equity (assets minus debt) is expected to remain at \$2.68 trillion in 2015.

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

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

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

## CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.
- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. In addition, the Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is

recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including expected long-term rate of return on plan assets and discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of our future benefit obligations. The discount rate was selected by reference to analysis and yield curves of the plans' actuary and industry norms.

## ECONOMIC CONDITIONS

Georgia is a uniquely diversified agricultural state, with production of the following commodities in order of total Farmgate value: Broilers, Cotton, Eggs, Beef, Timber, Corn, Peanuts, Dairy, Horses, Pecans, Blueberries and Greenhouse.

Low feed prices will help to keep poultry production profitable in 2015 according to an agriculture forecast presented by University of Georgia economists in January. Relatively high corn and soybean stocks mean that feed will continue to be abundant in the coming year. Exports will continue to account for a large part of U.S. chicken production, economists predicted. These factors should result in very favorable economic returns for growers and integrators. Beef production is also expected to be profitable due to low feed prices.

Georgia's row crop producers experienced low commodity prices, periodic adverse weather conditions, and high input costs in 2014. This combination of factors lead to very tight profit margins, and in some cases losses that will have to be overcome in the future. Georgia's cotton yielded an average of 911 pounds per acre on 1.37 million acres in 2014. Georgia growers planted 595,000 acres of peanuts with an average yield of 4,000 pounds per acre. While overall production was favorable, low prices for cotton in the \$0.65/lb. range had a drastic negative effect on profitability. Conversely, substantially lower fuel costs and stable prices for fertilizers and chemicals should help offset some of the weakness in commodity prices.

## Management's Discussion &amp; Analysis of Financial Condition &amp; Results of Operations—continued

**LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types.

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	2014		December 31, 2013		2012	
	<i>(dollars in thousands)</i>					
Real estate mortgage	\$ 413,221	49.74 %	\$ 413,890	49.21 %	\$ 448,696	48.54 %
Production and intermediate-term	385,232	46.38	398,987	47.44	444,088	48.05
Loans to Cooperatives	—	—	23	—	1,554	0.17
Processing and marketing	14,102	1.70	12,671	1.51	11,511	1.25
Farm-related business	7,031	0.85	4,510	0.54	9,444	1.02
Communication	3,244	0.39	2,772	0.33	—	—
Rural residential real estate	7,815	0.94	8,139	0.97	9,011	0.97
<b>Total</b>	<b>\$ 830,645</b>	<b>100.00 %</b>	<b>\$ 840,992</b>	<b>100.00 %</b>	<b>\$ 924,304</b>	<b>100.00 %</b>

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The geographic distribution of the loan volume by branch/city for the past three years is as follows:

Branch	December 31,		
	2014	2013	2012
Cartersville	5.53%	5.63%	6.31%
Chatsworth	5.13	4.90	5.09
Clarksessville	3.55	3.61	3.95
Cordele	7.64	7.64	7.34
Dublin	5.17	4.96	4.22
Gainesville	4.56	4.89	4.89
Moultrie	4.65	4.21	4.45
Nashville	2.19	1.87	2.04
Ocilla	3.80	3.18	2.75
Perry	9.02	8.88	8.37
Quitman	3.62	3.37	2.91
Royston	13.19	14.15	14.70
Sandersville	5.87	5.96	5.73
Sylvester	3.30	3.48	3.64
Tifton	6.02	5.62	5.23
Washington	5.37	5.91	5.56
Waynesboro	3.78	3.43	3.00
Participations Purchased	4.13	2.00	4.30
Special Assets	3.48	6.31	5.52
	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Commodity and industry categories are based upon the Standard Industrial Classification (SIC) system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are Poultry, Forestry, Cotton, and Row Crops, which constitute approximately 73 percent of the entire portfolio.

Commodity Group	2014		December 31, 2013		2012	
	<i>(dollars in thousands)</i>					
Poultry	\$ 267,347	32%	\$ 305,054	38%	\$ 363,573	39%
Forestry	110,649	13	113,320	13	136,140	15
Cotton	138,336	17	128,238	15	123,466	13
Row Crops	92,334	11	84,956	10	80,396	9
Livestock	74,883	9	69,608	8	76,854	8
Horticulture	41,458	5	39,377	5	32,926	4
Landlords	26,992	3	28,842	3	33,207	4
Dairy	22,037	3	19,745	2	22,066	2
Peanuts	17,715	2	18,592	2	23,081	2
Rural Home	7,731	1	8,955	1	9,346	1
Other	31,163	4	24,305	3	23,249	3
<b>Total</b>	<b>\$ 830,645</b>	<b>100%</b>	<b>\$ 840,992</b>	<b>100%</b>	<b>\$ 924,304</b>	<b>100%</b>

Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the income of borrowers that is not associated with farming. The Association's loan portfolio contains a concentration of poultry producers. Although a large percentage of the loan portfolio is concentrated in these enterprises, many of these operations have diversified income sources that reduce overall risk exposure. Demand for poultry products, prices of feed, energy, and other inputs, as well as international trade are some of the factors affecting the income producing capacity in the poultry industry. Even though the concentration of large loans has increased over the past several years, the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory. Commodity concentration risk is also mitigated by the use of loan guarantees.

The decrease in gross loan volume for the twelve months ended December 31, 2014, is primarily attributed to a decline in demand caused by the slow economy and a tightening of loan underwriting standards made during 2012 and 2013.



## Management's Discussion &amp; Analysis of Financial Condition &amp; Results of Operations—continued

been suspended. Nonaccrual loans decreased \$12,061 or 29 percent in 2014. This decrease resulted from aggressive management of nonearning assets. Of the \$29,003 in nonaccrual volume at December 31, 2014, \$15,705 or 54 percent, compared to 39 percent and 38 percent at December 31, 2013 and 2012, respectively, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Other property owned increased in 2014 from \$7,345 to \$8,269. The Association currently owns 9 properties foreclosed upon in 2014, 1 foreclosed upon in 2013, and 1 foreclosed upon in 2011.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

#### Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio.

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

Allowance for Loan Losses Activity:	Year Ended December 31,		
	2014	2013	2012
	<i>(dollars in thousands)</i>		
Balance at beginning of year	\$ 10,575	\$ 10,976	\$ 13,182
Charge-offs:			
Real estate mortgage	(2,179)	(2,792)	(5,627)
Production and intermediate-term	(3,379)	(2,904)	(4,511)
Agribusiness	(407)	(294)	(715)
Rural residential real estate	(6)	(5)	—
Total charge-offs	(5,971)	(5,995)	(10,853)
Recoveries:			
Real estate mortgage	357	511	116
Production and intermediate-term	1,141	611	201
Agribusiness	—	99	1
Other	—	—	—
Total recoveries	1,498	1,221	318
Net (charge-offs) recoveries	(4,473)	(4,774)	(10,535)
Provision for (reversal of allowance for) loan losses	(103)	4,373	8,329
Balance at end of year	\$ 5,999	\$ 10,575	\$ 10,976
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.530)%	(0.534)%	(1.035)%

The net loan charge-offs were primarily associated with real estate and production and intermediate term loans and were primarily the result of declines in real estate value of the underlying collateral.

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31,		
	2014	2013	2012
	<i>(dollars in thousands)</i>		
Real estate mortgage	\$ 1,866	\$ 3,860	\$ 4,589
Production and intermediate-term	4,052	6,579	5,996
Agribusiness	44	101	369
Communication	4	4	—
Rural residential real estate	33	31	22
Total	\$ 5,999	\$ 10,575	\$ 10,976

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

Allowance for Loan Losses as a Percentage of:	December 31,		
	2014	2013	2012
Total loans	0.72%	1.26%	1.19%
Nonperforming loans	12.17%	17.52%	16.46%
Nonaccrual loans	20.68%	25.75%	20.83%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses.

## RESULTS OF OPERATIONS

### Net Interest Income

Net interest income was \$31 million, \$31 million and \$34 million in 2014, 2013 and 2012, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

#### Change in Net Interest Income:

	Volume*	Nonaccrual Income		Total
		Rate		
	<i>(dollars in thousands)</i>			
<b>12/31/14 - 12/31/13</b>				
Interest income	\$ (2,734)	\$ (657)	\$ (286)	\$ (3,677)
Interest expense	1,307	1,519	—	2,826
Change in net interest income	\$ (1,427)	\$ 862	\$ (286)	\$ (851)
<b>12/31/13 - 12/31/12</b>				
Interest income	\$ (5,297)	\$ (3,635)	\$ 236	\$ (8,696)
Interest expense	3,238	2,504	—	5,742
Change in net interest income	\$ (2,059)	\$ (1,131)	\$ 236	\$ (2,954)

\* Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.

*Noninterest Income*

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

Noninterest Income	For the Year Ended December 31,			Percentage Increase/(Decrease)	
	2014	2013	2012	2014/ 2013	2013/ 2012
<i>(dollars in thousands)</i>					
Loan fees	\$ 847	\$ 930	\$ 1,118	(8.92)%	(16.82)%
Fees for financially related services	22	54	34	(59.26)	58.82
Patronage refund from other Farm Credit Institutions	13,888	16,325	9,527	(14.93)	71.36
Gains (losses) on other property owned, net	(1,173)	(4,960)	(6,816)	(76.35)	(27.23)
Gains (losses) from sales of premises and equipment, net	75	128	64	(41.41)	100.00
Other noninterest income	150	551	1,611	(72.78)	(65.80)
<b>Total noninterest income</b>	<b>\$13,809</b>	<b>\$13,028</b>	<b>\$ 5,538</b>	<b>5.99%</b>	<b>135.25%</b>

The majority of noninterest income is related to Patronage refunds from other Farm Credit Institutions. Noninterest income increased 6 percent from 2013 to 2014 and increased 135 percent from 2012 to 2013. The increase in 2014 is primarily related to substantially lower losses on other property owned offset by lower patronage income from other Farm Credit Institutions. The sharp increase in 2013 is related to a special patronage distribution from AgFirst Bank in the amount of \$10.5 million. The Association also received a special patronage distribution in 2014 in the amount of \$7.8 million. These are one time distributions of excess capital that are not considered to be recurring transactions. The amount of patronage refunds directly correlates to loan volume, as the largest patronage refund from other institutions is the patronage from AgFirst which is based on the average volume of notes payable to AgFirst. Notes payable to AgFirst directly corresponds to loan volume outstanding. Both the general patronage received each year from AgFirst and the Special Patronage received from AgFirst this year is based upon the average volume of notes payable to AgFirst.

There was also a decrease in other noninterest income in 2014 compared to 2013, and in 2013 compared to 2012. In 2014, other noninterest income was lower due to a nonrecurring insurance refund in 2013. During the first quarter of 2012, the Association recorded \$1,428 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

*Noninterest Expense*

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

Noninterest Expense	For the Year Ended December 31,			Percentage Increase/(Decrease)	
	2014	2013	2012	2014/ 2013	2013/ 2012
<i>(dollars in thousands)</i>					
Salaries and employee benefits	\$15,677	\$15,258	\$14,205	2.75%	7.41%
Occupancy and equipment	1,306	1,613	1,301	(19.03)	23.98
Insurance Fund premiums	784	740	472	5.95	56.78
Other operating expense	4,414	3,290	3,708	34.16	(11.27)
<b>Total noninterest expense</b>	<b>\$22,181</b>	<b>\$20,901</b>	<b>\$19,686</b>	<b>6.12%</b>	<b>6.17%</b>

Salaries and employee benefits increased in 2014, compared to 2013, as a result of increased benefit expenses.

Insurance Fund premiums increased 6 percent for the twelve months ended December 31, 2014, compared to the same period of 2013. The Farm Credit System Insurance Corporation (FCSIC) changed the assessed premium rate for 2014. The premiums assessed for 2014 were 12 basis points on average outstanding debt, compared to 10 basis points in 2013, and 10 basis points on the average principal balance outstanding on nonaccrual loans, which remained unchanged in 2014 compared to 2013.

Other operating expense is primarily related to advertising and marketing costs, training and travel costs, communications and data costs, and insurance costs associated with the operation of the Association such as General Liability, Fleet Auto, Blanket Bond, and Director's and Officer's Liability.

*Income Taxes*

The Association recorded an income tax provision of \$26 for the year ended December 31, 2014, as compared to a provision of \$9 for 2013 and a provision of \$8 for 2012. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, and Note 12, *Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

*Key Results of Operations Comparisons*

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

Key Results of Operations Comparisons	For the 12 Months Ended		
	2014	2013	2012
Return on average assets	2.52%	2.04%	1.11%
Return on average members' equity	10.11%	9.10%	6.08%
Net interest income as a percentage of average earning assets	3.63%	5.52%	3.38%
Net (charge-offs) recoveries to average loans	(0.530)%	(0.534)%	(1.035)%

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the economy

## Management's Discussion &amp; Analysis of Financial Condition &amp; Results of Operations—continued

must rebound and show sustained improvement, and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

## LIQUIDITY AND FUNDING SOURCES

### *Liquidity and Funding*

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2014, was \$636,993 as compared to \$661,719 at December 31, 2013 and \$759,981 at December 31, 2012. The decrease of 4 percent and 13 percent compared to December 31, 2013 and December 31, 2012, respectively, directly corresponds to the level of loan volume of the Association. The average volume of outstanding notes payable to the Bank was \$651,625, \$718,988, and \$867,616 for the years ended December 31, 2014, 2013, and 2012, respectively. Refer to Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2014.

### *Funds Management*

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in

all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

### *Relationship with the Bank*

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this annual report.

The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this Annual Report.

## CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2014 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2014, increased 4 percent to \$225,317 from the December 31, 2013 total of \$215,906. At December 31, 2013 total members' equity increased 7 percent from the December 31, 2012 total of \$201,375. These increases were primarily attributed to an increase in the amount of net income retained as unallocated surplus.

Total capital stock and participation certificates were \$3,801 on December 31, 2014, compared to \$3,744 on December 31, 2013 and \$3,889 on December 31, 2012. The increase was attributed to a greater amount of stock retired than issued in the normal course of business.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. Risk adjusted assets are the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standard for all the ratios.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2014	2013	2012	Regulatory Minimum
Permanent capital ratio	25.02%	23.51%	18.20%	7.00%
Total surplus ratio	24.07%	23.07%	17.80%	7.00%
Core surplus ratio	20.92%	19.87%	16.48%	3.50%

The increase in the Association's permanent capital, total surplus ratio, and core surplus ratio for December 31, 2014 and December 31, 2013 represents the retention of a greater percentage of net income in 2014 compared to 2013 as well as a decline in loan volume. There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

## PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, and (b) participation loans purchased, remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions (current estimates) of \$13,471 in 2014, \$8,948 in 2013, and \$4,120 in 2012.

## YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young\*, Beginning\*\* and Small\*\*\* farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. While the Association fell short of its YBS goals in number and volume of YBS loans for 2014, and experienced a decline in number and volume of YBS loans, it is important to note that the recently released 2012 USDA Ag census data shows a decline overall in the number of YBS farmers in the Association's territory.

The 2012 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 23,748 reported farmers of which by definition 1,045 or 4.4 percent were Young, 4,719 or 19.9 percent were Beginning, and 19,994 or 84.2 percent were Small. Comparatively, as of December 31, 2014, the demographics of the Association's agricultural portfolio contained 4,059 farmers, of which by definition 669 or 16.5 percent were Young, 1,200 or 29.6 percent were Beginning and 2,816 or 69.4 percent were Small. Thus, Young and Beginning farmers are overall much better represented in the Association's agricultural portfolio than in the chartered territory of the Association, indicative of the Association's marketing efforts towards these groups. Small farmers, however, were recognized as being represented less in the Association portfolio than in the territory.

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2014	
	Number of Loans	Amount of Loans
Young	802	\$92,756
Beginning	1,515	171,825
Small	3,712	280,585

\* Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The Association focuses on education and financial support in helping YBS farmers finance their operations. Educational programs include seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities are both in-house, in the form of events held by the Association, and external, in which case, the Association provides a speaker or provides educational materials. The Association website, [www.ageorgia.com](http://www.ageorgia.com), includes an entire section of information and resources for YBS visitors to the site. Educational programs also include those activities in which the Association participates in local events as a sponsor (such as 4-H and FFA fairs) or as an exhibitor (such as industry or trade shows).

The focus on financial support addresses the specific credit programs and partnerships that the Association has developed to

## Management's Discussion &amp; Analysis of Financial Condition &amp; Results of Operations—continued

help small farmers, young farmers, and farmers just starting out. It includes programs such as those offered by the Farm Service Agency (FSA), which includes guaranteed and direct loans to qualifying borrowers. The Association is a “preferred lender,” the highest status designated by FSA.

A senior executive oversees the YBS program and coordinates the efforts of other staff members. The Association includes YBS goals in the annual strategic plan, and reports on those goals and achievements to the Board of Directors on a quarterly basis.

The Association is committed to the future success of Young, Beginning and Small farmers.

- \* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.
- \*\* Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.
- \*\*\* Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than \$250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

## REGULATORY MATTERS

On February 1, 2012 the FCA issued a letter of special supervision requiring the Association to address several concerns relative to credit quality and risk identification and mitigation. Effective October 15, 2014 the FCA rescinded the letter of special supervision acknowledging the Association has addressed all concerns noted in the special supervision letter, and the Association is now under normal supervision status.

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

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

- To strengthen the safety and soundness of System banks and associations.
- To ensure that System banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption.
- To enhance the ability of the System banks to supply credit to agricultural and aquatic producers.
- To comply with the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).
- To modernize the investment eligibility criteria for System banks.

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

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

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

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

## FINANCIAL REGULATORY REFORM

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

the impact of the Dodd-Frank Act may not be known for many more months or years.

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

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

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

Notwithstanding the above-mentioned exemptions from clearing and margin requirements for System institutions, counterparties

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

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

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

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

After Congressional approval of the Agriculture Act of 2014, the president signed the bill into law on February 7, 2014. Major reforms to the 2008 Farm Bill include the following:

- Repeals Direct Payments and limits producers to risk management tools that offer protection when they suffer significant losses.
- Limits on payments are reduced, eligibility rules are tightened, and means tests are streamlined to make farm programs more accountable.
- Strengthens crop insurance, a successful public/private partnership that ensures farmers invest in their own risk management.
- Provides historic reforms to dairy policy by repealing outdated and ineffective dairy programs. Offers producers a new, voluntary, margin protection program without imposing government-mandated supply controls.
- Reauthorizes and strengthens livestock disaster assistance.
- Supports small businesses and beginning farmers and ranchers with training and access to credit.

Additional reforms and regulatory relief include:

- Consolidates 23 duplicative and overlapping conservation programs into 13.
- Provides one year of full funding for the Payment In Lieu of Taxes (PILT) program, which provides funding for vital services in communities containing federal lands.
- Provides certainty to forest products industry by clarifying that forest roads should not be treated as a point source under the Clean Water Act.

- Creates a permanent subcommittee within the EPA Science Advisory Board to conduct peer review of EPA actions that would negatively impact agriculture.
- Eliminates duplicative reporting requirements for seed importers; requires improved economic analysis of FDA regulations.
- Fully funds specialty crop industry priorities such as Specialty Crop Block Grants.

**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

# Disclosure Required by Farm Credit Administration Regulations

### Description of Business

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

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

### Unincorporated Business Entities

The Association has an interest in three Unincorporated Business Entities (UBEs) that were formed for the purpose of acquiring and managing collateral associated with loans in which the Association was a participant. The UBEs in which the Association has an interest in are as follows:

Ethanol Holding Company, LLC - Ethanol Holding Company, LLC is a Delaware Limited Liability Company. It was organized for the stated purpose of acquiring, holding, managing, preserving and, if appropriate, operating the assets of BFE Operating Company, LLC, Buffalo Lakes Energy, LLC and Pioneer Trail Energy, LLC (the “BFE Entities”) and Ethanol Holding Company Minnesota Sub, LLC and Ethanol Holding Company Nebraska Sub, LLC, until such time as such assets may be sold or otherwise disposed of pursuant to the terms of the Operating Agreement of Ethanol Holding Company, LLC.

A-1 Ledges Wilder, LLC - A-1 Ledges Wilder, LLC is a Limited Liability Company. It was organized for the stated purpose of acquiring, holding, and preserving the former assets of J. J. Detweiler Enterprises, Inc. until such time as such assets may be sold.

A-1 Sequatchie Pointe, LLC - A-1 Sequatchie Pointe, LLC is a Limited Liability Company. It was organized for the stated purpose of acquiring, holding and preserving the former assets of J. J. Detweiler Enterprises, Inc. until such time as such assets may be sold.

### Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Georgia:

<u>Location</u>	<u>Description</u>	<u>Form of Ownership</u>
1300 East Main Street Cartersville 30120	Branch	Owned
102 Blacksnake Road Clarkesville/Mt. Airy 30563	Branch	Owned
1207 South Greer Street Cordele 31015	Branch	Owned
19 Woodlake Drive Chatsworth 30705	Branch	Owned
826 Bellevue Avenue Dublin 31021	Branch	Owned
501 Broad Street Gainesville 30501	Branch	Owned
700 East Villanow LaFayette 30728	Outpost of Chatsworth Branch	Owned
317 Walnut Street Montezuma, GA	Outpost of Perry Branch	Leased*
22 5th Avenue, SE Moultrie 31768	Branch	Owned
707 North Davis Street Nashville 31639	Branch	Owned
302 South Cherry Street Ocilla 31774	Branch	Owned
468 Perry Parkway Perry 31069	Corporate Office & Branch	Owned
504 East Screven Street Quitman 31643	Branch	Owned
701 East Second Avenue Rome 30162	Outpost of Cartersville Branch	Leased**
675 Church Street Royston 30662	Branch	Owned
Hobbs Street Royston, GA	2.81 Acres in 1113 <sup>th</sup> G.M. District, Hart Co.	Owned
775 Sparta Road Sandersville 31082	Branch	Owned
102 Dexter Wilson Blvd. Sylvester 31791	Branch	Owned
1807 King Road Tifton 31793	Branch	Owned
U.S. 78, 311 North Bypass Washington 30673	Branch	Owned
176 Highway 80 West Waynesboro 30830	Branch	Owned

\* Lease for 5 years expiring in 2018 (\$1,500/month); cancelable with 90 days notice.  
 \*\* Lease expires 06/01/2016 (\$1900/month); cancelable with 90 days notice.

Disclosure Required by Farm Credit Administration Regulations—continued

**Legal Proceedings**

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

**Description of Capital Structure**

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

**Description of Liabilities**

The description of liabilities, contingent liabilities and intrasystem financial assistance rights and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Consolidated Financial Statements included in this Annual Report.

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

**Senior Officers**

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

<u>Name and Title</u>	<u>Term of Office</u>	<u>Prior Experience</u>	<u>Other Business Interests</u>
Jack C. Drew, Jr. President & Chief Executive Officer	1/1/2010-present	COO since 6/1/2005; Division President in Credit and other positions since 1981	Serves as Director for Georgia Poultry Federation – Trade Organization
Marvin J. Moore, Jr. Executive Vice President & Chief Lending Officer	6/15/2009-present		
Carrie B. McCall Executive Vice President/Treasurer & Chief Financial Officer	11/16/2006 - present		
Stephen G. Connelly Executive Vice President & Director of Information Technology	12/1/2010-present	Senior Information Systems Specialist since 2002	
Corey W. Cottle Executive Vice President & Director of Marketing	5/1/2013 – present	Branch Manager and Loan Officer since 2005	
Timothy H. Dean, Executive Vice President & Chief Appraiser	7/1/2011-present	Principal Appraiser and other positions since 1987	
John P. Lowry III Executive Vice President & Director of Risk Management & Controls	12/1/2010-present	Director of Information Technology and other positions since 1988	
T. Lacy Royal Executive Vice President & Retail Lending Manager	4/1/2008-present		
Stephen M. Yearata Executive Vice President & Commercial Lending Manager	7/1/2009-present		

The total amount of compensation earned by the CEO and the senior officers as a group during the years ended December 31, 2014, 2013 and 2012, is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus*	Deferred Comp.	Change in Pension Value†	Perq/ Other**	Total
Jack C. Drew, Jr.	2014	\$ 319,012	\$ 63,800	\$ –	\$ 442,848	\$ 18,121	\$ 843,781
Jack C. Drew, Jr.	2013	\$ 290,000	\$ 46,400	\$ –	\$ (65,213)	\$ –	\$ 271,187
Jack C. Drew, Jr.	2012	\$ 245,010	\$ –	\$ –	\$ –	\$ –	\$ 245,010
8	2014	\$ 1,070,641	\$ 193,692	\$ –	\$ 1,523,618	\$ 14,880	\$ 2,802,831
8	2013	\$ 926,435	\$ 113,545	\$ –	\$ 59,393	\$ 5,094	\$ 1,104,467
9	2012	\$ 984,337	\$ 2,816	\$ –	\$ –	\$ 5,624	\$ 992,777

\* 2012 amounts related to years of service and retirement awards only as there were no incentive plan payouts

\*\* Primarily comprised of group life insurance premiums, relocation expenses and automobile compensation.

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

The disclosure of information on the total compensation paid during 2014 to any senior officer or to any other employee included in the aggregate group total as reported in the table above is available and will be disclosed to the shareholders of the institution upon request.

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

**Pension Benefits Table  
As of December 31, 2014**

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2014
<b>CEO:</b>					
Jack C. Drew, Jr.	2014	AgFirst Retirement Plan	35	\$ 2,463,367	\$ –
	2014	Supplemental Executive Retirement Plan		–	–
	2014	Executive Retirement Plan		–	–
				<u>\$ 2,463,367</u>	<u>\$ –</u>
<b>Senior Officers and Highly Compensated Employees:</b>					
8 Officers, excluding the CEO	2014	AgFirst Retirement Plan	*24.9	\$ 6,860,055	\$ –
	2014	Supplemental Executive Retirement Plan		–	–
	2014	Executive Retirement Plan		–	–
				<u>\$ 6,860,055</u>	<u>\$ –</u>

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

The present value of pension benefits is the value at a specific date of the expected future benefit payment stream based on actuarial assumptions, chiefly the discount rate. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values.

The discount rate, which is derived using an AA corporate bond yield curve, is updated every year based on the interest rate environment at December 31. A decrease in the discount rate will normally increase the present values and vice versa. A significant decrease in the discount rate assumption from the prior year caused the pension values to increase at December 31, 2014.

Also at December 31, 2014, the life expectancy actuarial assumption was updated to reflect recent mortality studies indicating longer life spans. This change further increased pension values as the benefit payments are expected to be made for a longer time span.

In addition, the assumptions used for the Cash Balance Plan values were updated to reflect expected payouts in two years in conjunction with the upcoming plan termination. See Note 9, Employee Benefit Plans, for further information. The acceleration of expected payments significantly increased the pension values for those individuals in the Cash Balance Plan.

Disclosure Required by Farm Credit Administration Regulations—continued

### CEO and Senior Officer Compensation

The Association strives to award compensation in a manner that is competitive in the market place, encourages retention and rewards employees for quantitative results-based performance metrics. Each year, the Compensation Committee reviews market studies for key positions to determine if the Association's compensation packages for the CEO and Senior Officers are in line with the market for those positions. A grading system ranks positions in pay ranges where the mid-point of the range is considered to be the market salary for that position.

The CEO's compensation package consists of a base salary, benefits and incentive opportunity. Compensation increases are awarded on an annual basis, and are based upon the association's financial performance in the areas of financial and operations, credit, audit, appraisal, marketing and business development and human resources. These metrics are determined by association performance standards set each year by the Board of Directors, and actual performance is measured against those standards. Financial and operations metrics include net income performance to budget, return on assets, return on equity, capital ratios and efficiency ratios. Metrics include credit quality, nonearning assets as a percentage of total assets, credit administration, delinquency ratio, and appraisal quality. Marketing and Development metrics include loan growth and results of an annual customer satisfaction survey, which are measured against the budget and standard set for those metrics. The human resources metric is budgeted personnel costs, and actual performance is measured against that budget amount. Performance versus metrics is measured annually and discussed each February by the Board Compensation Committee. Any salary increase for the CEO is determined by the Compensation Committee at this meeting, and any increase awarded is paid retroactively to January 1<sup>st</sup>.

The CEO administers, but does not participate in the Incentive Plan in which all other employees, including the Senior Officers, participate. The CEO's incentive is determined solely at the discretion of the Board of Directors. Factors that may be considered in awarding the CEO an incentive are performance of the Association, and market studies of incentives granted by similar size associations and companies. CEO incentive is typically awarded by the Compensation Committee during the fourth quarter and paid in December. The incentive awarded the CEO in 2014 was paid in December at the same time other Association employees were paid per the stipulations in the Incentive Plan.

The Senior Officers' compensation also consists of base salary, benefits, and incentive. Senior Officer compensation is administered annually, and increases are based on meeting qualitative and quantitative performance standards set forth each year. Senior Officers are measured by essentially the same standards as the CEO. Actual performance against metrics such as return on assets, return on equity, capital ratios, credit quality, delinquency ratios, loan growth, credit administration and nonearning assets to total assets are the basis for determining pay increases for this group. Senior officer compensation is reviewed annually, and any increases are paid beginning January 31<sup>st</sup>, retroactively to January 1<sup>st</sup>. Senior Officers participate in the same incentive plan as other Association employees, as detailed below.

The Association's CEO and Senior Officers participate in various employee benefit plans that are available to all employees under the same terms and conditions. These include health insurance, life insurance, dental insurance, and pension benefits. Because the CEO and Senior Officers receive these benefits on the same basis as other employees, they are not determined separately by the Compensation Committee for the CEO and Senior Officers.

The Incentive Plan is based on a fiscal year and is designed to motivate employees to exceed performance targets established by the Board of Directors. The Incentive Plan period is January 1, 2014 through December 31, 2014, and all employees eligible for benefits were eligible under this plan except as shown below.

- ❖ The Association CEO will administer all parts of the AgGeorgia Incentive Plan and will, therefore, not be eligible for distributions under any part of the plan. CEO bonus and/or incentive payments will be recommended by the Compensation Committee and approved by the Board of Directors.
- ❖ A combined payment to an individual employee under the plan shall not exceed 20% of regular pay (including any retroactive pay and overtime pay).

The profit sharing portion of the plan provides a means to allow Association employees to share in the net earnings of the Association to the extent that certain key financial and performance goals are exceeded. Individual payout under the profit sharing portion of the plan shall not exceed 10% of the regular pay for the calendar year 2014, and the amount is determined by meeting ROA, capital, nonearning asset and credit quality targets. The branch incentive portion of the plan is intended to motivate branch teams to increase the Association's profitability while maintaining high levels of credit quality and credit administration. Incentive relating to this portion of the plan is calculated separately for each branch team and distributed to all eligible employees in that branch as an equal percentage of their base salaries, and corporate employees not assigned to a branch will receive the weighted average of all the branches combined. Individual payout under the branch incentive portion of the plan shall not exceed 10% of the regular pay for the calendar year 2014.

All employees and senior officers are eligible for the same incentive percentage of 20% and are subject to the same criteria.

The board approved 75% of the estimated benefit to be paid out in November with the remainder paid during January 2015 when final numbers are calculated.

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

**Directors**

The following chart details the year the director began serving on the board and the current term of expiration:

DIRECTOR	ORIGINAL YEAR OF ELECTION OR APPOINTMENT	CURRENT TERM EXPIRATION
J. Dan Raines, Jr., <i>Chairman</i>	1981	2016
Robert "Bobby" G. Miller, <i>Vice Chairman</i>	1992	2014*
Gerald D. Andrews, <i>Outside Director</i>	1990	2014**
Edward M. Beckham, II	1978	2016
Jack W. Bentley, Jr.	1985	2015
William L. Brown	1987	2014†
James B. Carlton	1977	2014*
Billy J. Clary	1986	2016
Dan N. Crumpton	1987	2014*
Guy A. Daughtrey	2001	2016
Howard Lawson	1974	2015
Ronney S. Ledford	1986	2014*
Joseph M. Meeks	1989	2014*
Richard D. "Dave" Neff, <i>Outside Director</i>	2002	2014***
George R. Reeves	1982	2015
Anne G. (Sisk) Smith	2001	2014*
David H. Smith	1992	2016
Glee C. Smith, <i>Outside Director</i>	2013	2016
Franklin B. Wright	1992	2016

\*Director re-elected to a three year term expiring 2017.  
 \*\*Director retired from board 2/19/2014.  
 \*\*\*Outside Director reappointed to a three year term expiring 2017.  
 †Director deceased 9/18/2014. Board declared position vacant through 12/31/2014.

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

**J. Dan Raines, Jr., Chairman**, is involved in production agriculture consisting of beef cattle and timber. He serves as a director of the Ashburn Housing Authority (public housing).

**Robert (Bobby) G. Miller, Vice Chairman**, is a commercial beef cattle farmer and manages rental properties and real estate. He serves on the board of H. R. Miller, LLC, Jan-Ann Rob, LLC, RGM Foothills Property, LLC, and Jebeha, LLC (commercial and residential rentals and real estate) as manager. Mr. Miller is the Association's Financial Expert appointed by the Board.

**Gerald D. Andrews, Outside Director**, retired from the Board on 2/19/2014.

**Edward M. Beckham, II**, is a partner in a general row crop farming operation and is a real estate developer.

**Jack W. Bentley, Jr.** is owner/operator of A & J Dairy. He also serves on the board of directors of the AgFirst Farm Credit Bank (Agricultural Lending); the American Dairy Association of Georgia (promotion of milk); the Southeast United Dairy Industry Association (promotion of milk), the Wilkes County Farm Bureau (insurance sales and farm commodities) and Lonestar Milk Producers (milk production).

**William L. Brown**, deceased 9/18/2014.

**James B. Carlton** is a breeder hen farmer.

**Billy J. Clary** is a general row crop farmer and grows cotton, peanuts and wheat.

**Dan N. Crumpton** is a tree farmer, consulting forester with Forest & Land Services, Inc. and Timberland Sales, Inc., and he is a Real Estate Broker. He also serves on the board of directors of the Warren County Soil and Water District (conservation of natural resources).

**Guy A. Daughtrey** is a pecan and timber famer. He serves on the board of directors of the Wiregrass Technical College (post-secondary education).

**Howard Lawson** is a semi-retired farmer and grows pecans, cotton and pines. He also serves on the board of directors of BCT Gin (cotton ginning).

**Ronney S. Ledford** is a general row crop farmer and grows cotton and peanuts.

**Joseph Marion Meeks** is a beef cattle farmer.

**Richard D. "Dave" Neff, Outside Director**, is a poultry industry executive and is employed with International Poultry Breeders/Wincorp International, Inc.

**George R. Reeves** has a cow/calf operation and is a tree farmer.

**Anne G. (Sisk) Smith** is a broiler grower and owns a cow-calf operation.

**David H. Smith** is owner/operator of Smith Farms (general row crops), Tri County Gin, LLC (cotton ginning/processing), and Carroll Fertilizer, LLC (Commercial and residential fertilizer products).

**Glee C. Smith, Outside Director**, is an attorney, and former legislative director and counsel for Senator Johnny Isakson (2010-2011). She is owner/president of GCS Enterprises, Inc. (rental property) and Glee Smith Ventures, LLC – DBA Glee's Closet (retail).

**Franklin B. Wright** raises dairy replacement heifers, and is a beef and hog farmer and works in agri-tourism. He serves on the board of directors of the Gilmer County Farm Bureau (insurance sales and farm commodities).

**Director Compensation**

Subject to approval by the board, the Association may allow directors honoraria of \$425 for attendance at meetings, committee meetings, or special assignments. They are also paid \$100 for participating in conference calls. Directors are paid a quarterly retainer fee of \$500 except for the chairman of the board who receives \$750. Total compensation paid to directors as a group was \$312,075 for 2014, compared to \$280,000 for 2013. No director received more than \$5,000 in non-cash compensation during the year.

## Disclosure Required by Farm Credit Administration Regulations—continued

The following chart details the number of meetings, other activities and additional compensation paid for other activities (if applicable) for each director:

Name of Director	Days Served		Committee Assignments	Comp. Paid for other Activities*	Qtrly Retainer and Regular Meeting Compensation	Total Compensation for 2014
	Regular Board Meetings	Other Official Activities*				
J. Dan Raines, Jr., <i>Chairman</i>	9	41	Executive, Credit Review, Credit Risk, Audit, Compensation, Governance, Ad Hoc	\$14,825	\$6,575	\$21,400
Robert G. Miller, <i>Vice-Chairman</i>	9	36	Executive, Credit Review, Audit, Credit Risk	\$12,725	\$5,825	\$18,550
Gerald D. Andrews, <i>Outside Director</i>	-	-	Executive, Credit Review			
Edward M. Beckham, II	9	21	Executive, Credit Review, Compensation	\$7,975	\$5,825	\$13,800
Jack W. Bentley, Jr.	8	18	Executive, Credit Review, Governance	\$6,675	\$5,400	\$12,075
William L. Brown	6	8	Executive, Credit Review, Audit	\$2,425	\$4,550	\$6,975
James B. Carlton	9	25	Executive, Credit Review, Audit	\$8,675	\$5,825	\$14,500
Billy J. Clary	7	23	Executive, Credit Review, Compensation	\$8,750	\$4,975	\$13,725
Dan N. Crumpton	9	37	Executive, Credit Review, Audit, Ad Hoc	\$13,725	\$5,825	\$19,550
Guy A. Daughtrey	9	42	Executive, Credit Review, Credit Risk, Governance, Ad Hoc	\$16,175	\$5,825	\$22,000
Howard Lawson	9	38	Executive, Credit Review, Compensation	\$15,200	\$5,825	\$21,025
Ronney S. Ledford	9	31	Executive, Credit Review, Credit Risk	\$12,225	\$5,825	\$18,050
Joseph M. Meeks	9	29	Executive, Credit Review, Audit	\$10,975	\$5,825	\$16,800
Richard D. "Dave" Neff <i>Outside Director</i>	6	32	Executive, Credit Review, Credit Risk, Ad Hoc	\$11,925	\$4,550	\$16,475
George R. Reeves	9	39	Executive, Credit Review, Governance	\$15,225	\$5,825	\$21,050
Anne G. (Sisk) Smith	9	38	Executive, Credit Review, Compensation, Ad Hoc	\$14,475	\$6,075	\$20,550
David H. Smith	8	24	Executive, Credit Review, Governance	\$8,900	\$5,400	\$14,300
Glee C. Smith <i>Outside Director</i>	8	36	Executive, Credit Review, Governance	\$13,950	\$5,400	\$19,350
Franklin B. Wright	9	41	Executive, Credit Review, Compensation, Credit Risk	\$16,075	\$5,825	\$21,900
						\$312,075

\*Includes board committee meetings and other board activities other than regular board meetings

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

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$153,465 for 2014, \$196,654 for 2013 and \$168,725 for 2012.

#### Transactions with Senior Officers and Directors

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

#### Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior

officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

#### Relationship with Independent Certified Public Accountants

There were no changes in or material disagreements with our independent certified public accountant on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees incurred by the Association for services rendered by its independent certified public accountant for the year ended December 31, 2014 were as follows:

	2014
<i>Independent Certified Public Accountant</i>	
PricewaterhouseCoopers LLP	
Audit services	\$ 81,154
Total	\$ 81,154

Audit fees were for the annual audit of the Consolidated Financial Statements. There were no nonaudit services provided by the Association's independent certified public accountant during 2014. All nonaudit service fees incurred by the Association require approval by the Audit Committee.

### Consolidated Financial Statements

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

Copies of the Association's Annual and Quarterly reports are available upon request free of charge by calling 800-868-6404, Ext. 120 or writing Carrie B. McCall, Chief Financial Officer, P.O. Box 1820, Perry, GA 31069 or accessing the web site, [www.aggeorgia.com](http://www.aggeorgia.com). The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

### Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

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

### Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to the shareholders.

### Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at [www.agfirst.com](http://www.agfirst.com). The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

# Report of the Audit Committee

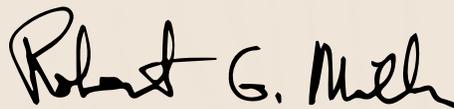
The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of AgGeorgia Farm Credit (Association) and in the opinion of the Board of Directors, each is free of any relationship with the Association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

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

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

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

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



Robert G. Miller  
Chairman of the Audit Committee

## **Members of Audit Committee**

James B. Carlton  
Dan N. Crumpton  
Joseph M. Meeks

March 11, 2015



## Report of Independent Certified Public Accountants

To the Board of Directors of  
AgGeorgia Farm Credit, ACA:

We have audited the accompanying consolidated financial statements of AgGeorgia Farm Credit, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2014, 2013 and 2012, and the related consolidated statements of income, of comprehensive income, of changes in members' equity and of cash flows for the years then ended.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Certified Public Accountants' Responsibility*

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

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

### *Opinion*

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

March 11, 2015

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

# Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Assets</b>			
Cash	\$ 80	\$ 1,304	\$ 1,371
Loans	830,645	840,992	924,304
Allowance for loan losses	(5,999)	(10,575)	(10,976)
Net loans	824,646	830,417	913,328
Accrued interest receivable	11,054	10,920	11,472
Investments in other Farm Credit institutions	10,070	13,474	16,628
Premises and equipment, net	7,381	7,619	7,955
Other property owned	8,269	7,345	10,672
Accounts receivable	14,115	16,028	9,007
Other assets	8,440	9,607	9,425
<b>Total assets</b>	<b>\$ 884,055</b>	<b>\$ 896,714</b>	<b>\$ 979,858</b>
<b>Liabilities</b>			
Notes payable to AgFirst Farm Credit Bank	\$ 636,993	\$ 661,719	\$ 759,981
Accrued interest payable	1,267	1,412	1,685
Patronage refunds payable	4,474	2,921	1,236
Accounts payable	1,274	984	1,190
Other liabilities	14,731	13,772	14,391
<b>Total liabilities</b>	<b>658,739</b>	<b>680,808</b>	<b>778,483</b>
Commitments and contingencies			
<b>Members' Equity</b>			
Protected borrower stock	5	8	33
Capital stock and participation certificates	3,796	3,744	3,889
Retained earnings			
Allocated	95,454	94,741	89,580
Unallocated	126,220	117,487	107,979
Accumulated other comprehensive income (loss)	(159)	(74)	(106)
<b>Total members' equity</b>	<b>225,316</b>	<b>215,906</b>	<b>201,375</b>
<b>Total liabilities and members' equity</b>	<b>\$ 884,055</b>	<b>\$ 896,714</b>	<b>\$ 979,858</b>

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

# Consolidated Statements of Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2014	2013	2012
<b>Interest Income</b>			
Loans	\$ 45,597	\$ 49,274	\$ 57,969
<b>Interest Expense</b>			
Notes payable to AgFirst Farm Credit Bank	14,981	17,807	23,549
Net interest income	30,616	31,467	34,420
Provision for (reversal of allowance for) loan losses	(103)	4,373	8,329
Net interest income after provision for (reversal of allowance for) loan losses	30,719	27,094	26,091
<b>Noninterest Income</b>			
Loan fees	847	915	1,103
Fees for financially related services	22	54	34
Patronage refunds from other Farm Credit institutions	13,888	16,324	9,544
Gains (losses) on sales of premises and equipment, net	75	95	64
Gains (losses) on other transactions	15	33	32
Insurance Fund refunds	—	—	1,428
Other noninterest income (loss)	145	552	134
Total noninterest income	14,992	17,973	12,339
<b>Noninterest Expense</b>			
Salaries and employee benefits	15,677	15,258	14,205
Occupancy and equipment	1,053	1,037	1,075
Insurance Fund premiums	784	740	472
(Gains) losses on other property owned, net	1,173	4,960	6,816
Other operating expenses	4,667	3,866	3,934
Total noninterest expense	23,354	25,861	26,502
Income before income taxes	22,357	19,206	11,928
Provision (benefit) for income taxes	26	9	8
Net income	\$ 22,331	\$ 19,197	\$ 11,920

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

# Consolidated Statements of Comprehensive Income

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2014	2013	2012
Net income	\$ 22,331	\$ 19,197	\$ 11,920
<b>Other comprehensive income net of tax</b>			
Employee benefit plans adjustments	(85)	32	(53)
Comprehensive income	\$ 22,246	\$ 19,229	\$ 11,867

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

# Consolidated Statements of Changes in Members' Equity

*(dollars in thousands)*

	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2011	\$ 83	\$ 4,265	\$ 86,243	\$ 100,462	\$ (53)	\$ 191,000
Comprehensive income				11,920	(53)	11,867
Protected borrower stock issued/(retired), net	(50)					(50)
Capital stock/participation certificates issued/(retired), net		(376)				(376)
Patronage distribution						
Cash				(989)		(989)
Qualified allocated retained earnings			3,131	(3,131)		—
Patronage distribution adjustment			206	(283)		(77)
Balance at December 31, 2012	\$ 33	\$ 3,889	\$ 89,580	\$ 107,979	\$ (106)	\$ 201,375
Comprehensive income				19,197	32	19,229
Protected borrower stock issued/(retired), net	(25)					(25)
Capital stock/participation certificates issued/(retired), net		(145)				(145)
Patronage distribution						
Cash				(2,684)		(2,684)
Qualified allocated retained earnings			6,264	(6,264)		—
Retained earnings retired			(1,810)			(1,810)
Patronage distribution adjustment			707	(741)		(34)
Balance at December 31, 2013	\$ 8	\$ 3,744	\$ 94,741	\$ 117,487	\$ (74)	\$ 215,906
Comprehensive income				22,331	(85)	22,246
Protected borrower stock issued/(retired), net	(3)					(3)
Capital stock/participation certificates issued/(retired), net		52				52
Patronage distribution						
Cash				(4,040)		(4,040)
Qualified allocated retained earnings			9,428	(9,428)		—
Retained earnings retired			(8,801)			(8,801)
Patronage distribution adjustment			86	(130)		(44)
Balance at December 31, 2014	\$ 5	\$ 3,796	\$ 95,454	\$ 126,220	\$ (159)	\$ 225,316

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

# Consolidated Statements of Cash Flows

<i>(dollars in thousands)</i>	For the year ended December 31,		
	2014	2013	2012
<b>Cash flows from operating activities:</b>			
Net income	\$ 22,331	\$ 19,197	\$ 11,920
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	619	633	664
Amortization (accretion) of net deferred loan costs (fees)	(323)	(344)	(476)
Provision for (reversal of allowance for) loan losses	(103)	4,373	8,329
(Gains) losses on other property owned	599	4,578	6,197
(Gains) losses on sales of premises and equipment, net	(75)	(95)	(64)
(Gains) losses on other transactions	(15)	(33)	(32)
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	(134)	552	2,971
(Increase) decrease in accounts receivable	1,913	(7,021)	1,135
(Increase) decrease in other assets	1,167	(182)	381
Increase (decrease) in accrued interest payable	(145)	(273)	(599)
Increase (decrease) in accounts payable	290	(206)	(31)
Increase (decrease) in other liabilities	504	(549)	1,350
Total adjustments	4,297	1,433	19,825
Net cash provided by (used in) operating activities	26,628	20,630	31,745
<b>Cash flows from investing activities:</b>			
Net (increase) decrease in loans	(1,560)	68,248	121,517
(Increase) decrease in investment in other Farm Credit institutions	3,404	3,154	5,296
Purchases of premises and equipment	(415)	(297)	(346)
Proceeds from sales of premises and equipment	109	95	64
Proceeds from sales of other property owned	6,619	9,378	9,920
Net cash provided by (used in) investing activities	8,157	80,578	136,451
<b>Cash flows from financing activities:</b>			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	(24,726)	(98,262)	(166,913)
Protected borrower stock retired	(3)	(25)	(50)
Capital stock and participation certificates issued/(retired), net	52	(145)	(376)
Patronage refunds and dividends paid	(2,531)	(1,033)	(965)
Retained earnings retired	(8,801)	(1,810)	—
Net cash provided by (used in) financing activities	(36,009)	(101,275)	(168,304)
Net increase (decrease) in cash	(1,224)	(67)	(108)
Cash, beginning of period	1,304	1,371	1,479
Cash, end of period	\$ 80	\$ 1,304	\$ 1,371
<b>Supplemental schedule of non-cash activities:</b>			
Financed sales of other property owned	\$ 1,491	\$ 1,834	\$ 278
Receipt of property in settlement of loans	9,248	12,468	10,153
Estimated cash dividends or patronage distributions declared or payable	4,040	2,684	989
Employee benefit plans adjustments (Note 9)	85	(32)	53
<b>Supplemental information:</b>			
Interest paid	\$ 15,126	\$ 18,080	\$ 24,148
Taxes (refunded) paid, net	40	14	5

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

# Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

## Note 1 — Organization and Operations

A. **Organization:** AgGeorgia Farm Credit, ACA (Association or AgGeorgia) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Baldwin, Banks, Barrow, Bartow, Ben Hill, Berrien, Bibb, Bleckley, Brooks, Burke, Catoosa, Chattooga, Cherokee, Clarke, Cobb, Colquitt, Columbia, Cook, Crawford, Crisp, Dade, Dawson, Dodge, Dooly, Echols, Elbert, Fannin, Floyd, Forsyth, Franklin, Gilmer, Glascock, Gordon, Habersham, Hall, Hancock, Hart, Houston, Irwin, Jackson, Jefferson, Johnson, Jones, Lanier, Laurens, Lincoln, Lowndes, Lumpkin, Macon, Madison, McDuffie, Murray, Oglethorpe, Paulding, Peach, Pickens, Polk, Pulaski, Rabun, Richmond, Stephens, Taliaferro, Taylor, Telfair, Tift, Towns, Treutlen, Turner, Twiggs, Union, Walker, Warren, Washington, White, Whitfield, Wilcox, Wilkes, Wilkinson and Worth in the state of Georgia.

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

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

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

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

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

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

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

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

In addition to providing loan funds, the Bank provides District Associations with banking and support services such as: accounting, human resources, information systems, and marketing. The costs of these support services are included in the interest charges to the Associations, or in some cases billed directly to certain Associations that use a specific service.

## Notes to the Consolidated Financial Statements—continued

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

**Note 2 — Summary of Significant Accounting Policies**

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

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

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

- A. **Cash:** Cash represents cash on hand and on deposit at banks.
- B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

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

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include

nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

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

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

Loans are charged off, wholly or partially, as appropriate, at the time they are determined to be uncollectible.

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

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

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

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

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

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

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

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

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

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

As of December 31, 2014 there were no loans held for sale.

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

- E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized.

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

- F. **Investments:** The Association may hold investments as described below.

***Investment in Other Farm Credit Institutions***

The Association is required to maintain ownership in the Bank in the form of Class B and Class C stock, as presented on the consolidated balance sheet as investments in Other Farm Credit Institutions. Accounting for this investment is on the cost plus allocated equities basis.

***Other Investments***

As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust accounts and are reported at fair value. Holding period gains and losses are included within other noninterest income on the consolidated statements of comprehensive income and the balance of these investments, totaling \$231, is included in Other Assets on the accompanying consolidated balance sheet as of December 31, 2014.

- G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated

## Notes to the Consolidated Financial Statements—continued

Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

- H. **Employee Benefit Plans:** The Association participates in District and multi-District sponsored benefit plans. These plans include a defined benefit final average pay retirement plan, a defined benefit cash balance retirement plan, a defined benefit other postretirement benefits plan, and a defined contribution 401(k) plan.

**Multi-Employer Defined Benefit Plans**

Substantially all employees may participate in either the AgFirst Farm Credit Retirement Plan or the AgFirst Farm Credit Cash Balance Retirement Plan (collectively referred to as the “Plans”), which are defined benefit plans and considered multi-employer under FASB accounting guidance. The Plans are noncontributory and include eligible Association and District employees. The “Projected Unit Credit” actuarial method is used for financial reporting purposes. The actuarially-determined costs of the Plans are allocated to each participating entity by multiplying the Plans’ net pension expense by each institution’s eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all Plan participants. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of other assets in the Association’s Consolidated Balance Sheets.

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

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

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

**Single Employer Defined Benefit Plans**

The Association also sponsors a single employer defined benefit supplemental retirement plan and offers a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the Association’s Consolidated Balance Sheets in Other Liabilities.

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

See Note 9 for additional information.

**Defined Contribution Plans**

Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

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

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

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state, and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock, or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of taxable income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable

income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of our expected patronage program, which reduces taxable earnings.

**J. Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District associations on an accrual basis.

**K. Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value which are discussed in Note 8.

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

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

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

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

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

which could have material positive or negative effects on results of operations.

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

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

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

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

In November, 2014, the FASB issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. Under GAAP, features such as conversion rights, redemption rights, dividend payment preferences, and others that are included in instruments issued in the form of shares may qualify as derivatives. If so, the shares issued are considered hybrid financial instruments. To determine the proper accounting for hybrid financial instruments, investors and issuers in the instruments must determine whether the nature of the host contract containing the feature is more akin to debt or equity as well as whether the economic characteristics and risks of the embedded derivative feature

## Notes to the Consolidated Financial Statements—continued

are clearly and closely related to the host contract. The purpose of the update is to eliminate diversity in accounting for hybrid financial instruments by both issuers and investors. When evaluating the host contract to determine whether it is more akin to debt or equity, the reporting entity should consider all relevant terms and features of the contract, including the embedded derivative feature that is being evaluated for separation. The amendments in this Update are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption, including adoption in an interim period, is permitted. It is expected that adoption will not have a material impact on the Association's financial condition or results of operation.

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

In August, 2014, the FASB issued ASU 2014-14, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. Currently, there is diversity in practice related to how creditors classify government-guaranteed mortgage loans, including FHA or VA guaranteed loans, upon foreclosure. The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1. The loan has a government guarantee that is not separable from the loan before foreclosure; 2. At the time of foreclosure, the creditor has the intent to convey the real estate property to

the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; 3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For all other entities, the amendments in this Update are effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. It is expected that adoption will not have a material impact on the Association's financial condition or results of operations.

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

In May 2014, the FASB, responsible for U.S. Generally Accepted Accounting Principles (U.S. GAAP), and the International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS), jointly issued converged standards on the recognition of revenue from contracts with customers. Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" and IFRS 15 "Revenue from Contracts with Customers" are intended to improve the financial reporting of revenue and comparability of the top line in financial statements globally and supersede substantially all previous revenue recognition guidance. The core principle of the new standards is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company

expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Because of the pervasive nature of the new guidance, the boards have established a joint transition resource group in order to aid transition to the new standard. For public entities reporting under U.S. GAAP, the amendments in the Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For nonpublic entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to adopt this guidance earlier under certain circumstances. The amendments are to be applied retrospectively. The Association has identified ancillary revenues that will be subject to this guidance. However, because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

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

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

effective upon issuance for both public entities and nonpublic entities.

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

### Note 3 — Loans and Allowance for Loan Losses

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

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

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

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

## Notes to the Consolidated Financial Statements—continued

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

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

A summary of loans outstanding at period end follows:

	December 31,		
	2014	2013	2012
Real estate mortgage	\$ 413,221	\$ 413,890	\$ 448,696
Production and intermediate-term	385,232	398,987	444,088
Loans to cooperatives	-	23	1,554
Processing and marketing	14,102	12,671	11,511
Farm-related business	7,031	4,510	9,444
Communication	3,244	2,772	-
Rural residential real estate	7,815	8,139	9,011
Total Loans	\$ 830,645	\$ 840,992	\$ 924,304

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

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property’s appraised value. However, a decline in a property’s market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

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

**December 31, 2014**

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 1,837	\$ 5,175	\$ –	\$ –	\$ –	\$ –	\$ 1,837	\$ 5,175
Production and intermediate-term	4,332	26,053	–	–	421	–	4,753	26,053
Processing and marketing	9,367	–	–	–	–	–	9,367	–
Farm-related business	2,217	1,767	–	–	–	–	2,217	1,767
Communication	3,243	–	–	–	–	–	3,243	–
<b>Total</b>	<b>\$ 20,996</b>	<b>\$ 32,995</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 421</b>	<b>\$ –</b>	<b>\$ 21,417</b>	<b>\$ 32,995</b>

**December 31, 2013**

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 1,961	\$ 21,026	\$ –	\$ –	\$ –	\$ –	\$ 1,961	\$ 21,026
Production and intermediate-term	5,820	9,760	–	–	447	–	6,267	9,760
Processing and marketing	5,938	–	–	–	–	–	5,938	–
Farm-related business	–	1,500	–	–	–	–	–	1,500
Communication	2,775	–	–	–	–	–	2,775	–
<b>Total</b>	<b>\$ 16,494</b>	<b>\$ 32,286</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 447</b>	<b>\$ –</b>	<b>\$ 16,941</b>	<b>\$ 32,286</b>

**December 31, 2012**

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 4,710	\$ 28,154	\$ 2,032	\$ –	\$ –	\$ –	\$ 6,742	\$ 28,154
Production and intermediate-term	10,872	48,094	–	–	35,010	–	45,882	48,094
Loans to cooperatives	1,548	–	–	–	–	–	1,548	–
Processing and marketing	3,753	–	–	–	–	–	3,753	–
Farm-related business	–	2,245	–	–	–	–	–	2,245
Rural residential real estate	–	123	–	–	–	–	–	123
<b>Total</b>	<b>\$ 20,883</b>	<b>\$ 78,616</b>	<b>\$ 2,032</b>	<b>\$ –</b>	<b>\$ 35,010</b>	<b>\$ –</b>	<b>\$ 57,925</b>	<b>\$ 78,616</b>

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

**December 31, 2014**

	Due less than 1 year		Due 1 Through 5 years		Due after 5 years		Total
Real estate mortgage	\$ 31,563	\$ 88,377	\$ 293,281	\$ 413,221			
Production and intermediate term	120,544	132,369	132,319	385,232			
Processing and marketing	2,926	7,172	4,004	14,102			
Farm-related business	41	6,237	753	7,031			
Communication	–	3,244	–	3,244			
Rural residential real estate	354	1,573	5,888	7,815			
<b>Total Loans</b>	<b>\$ 155,428</b>	<b>\$ 238,972</b>	<b>\$ 436,245</b>	<b>\$ 830,645</b>			
Percentage	18.71%	28.77%	52.52%	100.00%			

## Notes to the Consolidated Financial Statements—continued

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

	December 31,				December 31,		
	2014	2013	2012		2014	2013	2012
<b>Real estate mortgage:</b>				<b>Farm-related business:</b>			
Acceptable	90.68%	86.80%	84.99%	Acceptable	100.00%	84.98%	97.46%
OAEM	4.98	6.13	6.34	OAEM	—	14.98	2.53
Substandard/doubtful/loss	4.34	7.07	8.67	Substandard/doubtful/loss	—	0.04	0.01
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>				<b>Communication:</b>			
Acceptable	86.23%	79.81%	79.20%	Acceptable	100.00%	100.00%	—%
OAEM	7.22	10.30	10.28	OAEM	—	—	—
Substandard/doubtful/loss	6.55	9.89	10.52	Substandard/doubtful/loss	—	—	—
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>—%</u>
<b>Loans to cooperatives:</b>				<b>Rural residential real estate:</b>			
Acceptable	—%	100.00%	0.36%	Acceptable	91.02%	84.64%	85.49%
OAEM	—	—	—	OAEM	5.52	12.29	10.55
Substandard/doubtful/loss	—	—	99.64	Substandard/doubtful/loss	3.46	3.07	3.96
	<u>—%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>				<b>Total Loans:</b>			
Acceptable	100.00%	95.63%	92.81%	Acceptable	88.89%	83.63%	82.30%
OAEM	—	4.37	—	OAEM	5.88	8.17	8.14
Substandard/doubtful/loss	—	—	7.19	Substandard/doubtful/loss	5.23	8.20	9.56
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

The following tables provide an age analysis of past due loans and related accrued interest as of:

	December 31, 2014						Recorded Investment 90 Days or More Past Due and Accruing Interest
	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		
Real estate mortgage	\$ 2,232	\$ 3,178	\$ 5,410	\$ 413,490	\$ 418,900	\$ —	
Production and intermediate-term	1,873	7,746	9,619	380,803	390,422	—	
Processing and marketing	—	—	—	14,219	14,219	—	
Farm-related business	—	—	—	7,065	7,065	—	
Communication	—	—	—	3,247	3,247	—	
Rural residential real estate	76	49	125	7,721	7,846	—	
Total	<u>\$ 4,181</u>	<u>\$ 10,973</u>	<u>\$ 15,154</u>	<u>\$ 826,545</u>	<u>\$ 841,699</u>	<u>\$ —</u>	

	December 31, 2013						Recorded Investment 90 Days or More Past Due and Accruing Interest
	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		
Real estate mortgage	\$ 4,821	\$ 6,258	\$ 11,079	\$ 408,363	\$ 419,442	\$ —	
Production and intermediate-term	6,728	10,878	17,606	386,516	404,122	—	
Loans to cooperatives	—	—	—	23	23	—	
Processing and marketing	—	—	—	12,792	12,792	—	
Farm-related business	—	2	2	4,571	4,573	—	
Communication	—	—	—	2,775	2,775	—	
Rural residential real estate	570	79	649	7,536	8,185	—	
Total	<u>\$ 12,119</u>	<u>\$ 17,217</u>	<u>\$ 29,336</u>	<u>\$ 822,576</u>	<u>\$ 851,912</u>	<u>\$ —</u>	

**December 31, 2012**

	<b>30 Through 89 Days Past Due</b>	<b>90 Days or More Past Due</b>	<b>Total Past Due</b>	<b>Not Past Due or Less Than 30 Days Past Due</b>	<b>Total Loans</b>	<b>Recorded Investment 90 Days or More Past Due and Accruing Interest</b>
Real estate mortgage	\$ 3,732	\$ 13,143	\$ 16,875	\$ 437,640	\$ 454,515	\$ -
Production and intermediate-term	6,240	13,472	19,712	429,678	449,390	-
Loans to cooperatives	-	1,548	1,548	6	1,554	-
Processing and marketing	-	-	-	11,697	11,697	-
Farm-related business	-	1	1	9,547	9,548	-
Rural residential real estate	272	-	272	8,800	9,072	-
Total	<u>\$ 10,244</u>	<u>\$ 28,164</u>	<u>\$ 38,408</u>	<u>\$ 897,368</u>	<u>\$ 935,776</u>	<u>\$ -</u>

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

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

	<b>December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Nonaccrual loans:</b>			
Real estate mortgage	\$ 13,396	\$ 17,314	\$ 23,228
Production and intermediate-term	15,516	23,630	26,812
Loans to cooperatives	-	-	1,548
Processing and marketing	-	-	841
Farm-related business	-	2	1
Rural residential real estate	91	118	251
Total	<u>\$ 29,003</u>	<u>\$ 41,064</u>	<u>\$ 52,681</u>
<b>Accruing restructured loans:</b>			
Real estate mortgage	\$ 5,871	\$ 6,489	\$ 6,088
Production and intermediate-term	6,030	5,454	7,931
Rural residential real estate	128	-	-
Total	<u>\$ 12,029</u>	<u>\$ 11,943</u>	<u>\$ 14,019</u>
<b>Accruing loans 90 days or more past due:</b>			
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 41,032	\$ 53,007	\$ 66,700
Other property owned	8,269	7,345	10,672
Total nonperforming assets	<u>\$ 49,301</u>	<u>\$ 60,352</u>	<u>\$ 77,372</u>
Nonaccrual loans as a percentage of total loans	3.49%	4.88%	5.70%
Nonperforming assets as a percentage of total loans and other property owned	5.88%	7.11%	8.28%
Nonperforming assets as a percentage of capital	<u>21.88%</u>	<u>27.95%</u>	<u>38.42%</u>

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

	<b>December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Impaired nonaccrual loans:</b>			
Current as to principal and interest	\$ 15,705	\$ 15,910	\$ 19,868
Past due	13,298	25,154	32,813
Total	<u>29,003</u>	<u>41,064</u>	<u>52,681</u>
<b>Impaired accrual loans:</b>			
Restructured	12,029	11,943	14,019
Total	<u>12,029</u>	<u>11,943</u>	<u>14,019</u>
Total impaired loans	<u>\$ 41,032</u>	<u>\$ 53,007</u>	<u>\$ 66,700</u>

## Notes to the Consolidated Financial Statements—continued

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

Impaired Loans	December 31, 2014			Year Ended December 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 4,084	\$ 4,941	\$ 634	\$ 4,745	\$ 151
Production and intermediate-term	6,704	9,031	1,029	7,788	247
Farm-related business	—	—	—	—	—
Rural residential real estate	49	60	2	56	2
Total	\$ 10,837	\$ 14,032	\$ 1,665	\$ 12,589	\$ 400
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 15,183	\$ 18,813	\$ —	\$ 17,637	\$ 560
Production and intermediate-term	14,842	19,164	—	17,242	547
Farm-related business	—	394	—	—	—
Rural residential real estate	170	189	—	198	6
Total	\$ 30,195	\$ 38,560	\$ —	\$ 35,077	\$ 1,113
<b>Total:</b>					
Real estate mortgage	\$ 19,267	\$ 23,754	\$ 634	\$ 22,382	\$ 711
Production and intermediate-term	21,546	28,195	1,029	25,030	794
Farm-related business	—	394	—	—	—
Rural residential real estate	219	249	2	254	8
Total	\$ 41,032	\$ 52,592	\$ 1,665	\$ 47,666	\$ 1,513

Impaired Loans	December 31, 2013			Year Ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>With a related allowance for credit losses:</b>					
Real estate mortgage	\$ 8,308	\$ 9,402	\$ 1,854	\$ 10,083	\$ 301
Production and intermediate-term	16,500	21,166	3,409	20,026	597
Farm-related business	—	—	—	—	—
Rural residential real estate	50	60	4	61	2
Total	\$ 24,858	\$ 30,628	\$ 5,267	\$ 30,170	\$ 900
<b>With no related allowance for credit losses:</b>					
Real estate mortgage	\$ 15,495	\$ 19,466	\$ —	\$ 18,806	\$ 561
Production and intermediate-term	12,584	16,391	—	15,273	456
Farm-related business	2	705	—	2	—
Rural residential real estate	68	74	—	82	2
Total	\$ 28,149	\$ 36,636	\$ —	\$ 34,163	\$ 1,019
<b>Total:</b>					
Real estate mortgage	\$ 23,803	\$ 28,868	\$ 1,854	\$ 28,889	\$ 862
Production and intermediate-term	29,084	37,557	3,409	35,299	1,053
Farm-related business	2	705	—	2	—
Rural residential real estate	118	134	4	143	4
Total	\$ 53,007	\$ 67,264	\$ 5,267	\$ 64,333	\$ 1,919



Notes to the Consolidated Financial Statements—continued

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Communication	Rural Residential Real Estate	Total
<b>Activity related to the allowance for credit losses:</b>						
Balance at December 31, 2013	\$ 3,860	\$ 6,579	\$ 101	\$ 4	\$ 31	\$ 10,575
Charge-offs	(2,179)	(3,379)	(407)	—	(6)	(5,971)
Recoveries	357	1,141	—	—	—	1,498
Provision for loan losses	(172)	(289)	350	—	8	(103)
Balance at December 31, 2014	\$ 1,866	\$ 4,052	\$ 44	\$ 4	\$ 33	\$ 5,999
Balance at December 31, 2012	\$ 4,589	\$ 5,996	\$ 369	\$ —	\$ 22	\$ 10,976
Charge-offs	(2,792)	(2,904)	(294)	—	(5)	(5,995)
Recoveries	511	611	99	—	—	1,221
Provision for loan losses	1,552	2,876	(73)	4	14	4,373
Balance at December 31, 2013	\$ 3,860	\$ 6,579	\$ 101	\$ 4	\$ 31	\$ 10,575
Balance at December 31, 2011	\$ 4,629	\$ 8,208	\$ 324	\$ —	\$ 21	\$ 13,182
Charge-offs	(5,627)	(4,511)	(715)	—	—	(10,853)
Recoveries	116	201	1	—	—	318
Provision for loan losses	5,471	2,098	759	—	1	8,329
Balance at December 31, 2012	\$ 4,589	\$ 5,996	\$ 369	\$ —	\$ 22	\$ 10,976
<b>Allowance on loans evaluated for impairment:</b>						
Individually	\$ 634	\$ 1,029	\$ —	\$ —	\$ 2	\$ 1,665
Collectively	1,232	3,023	44	4	31	4,334
Balance at December 31, 2014	\$ 1,866	\$ 4,052	\$ 44	\$ 4	\$ 33	\$ 5,999
Individually	\$ 1,854	\$ 3,409	\$ —	\$ —	\$ 4	\$ 5,267
Collectively	2,006	3,170	101	4	27	5,308
Balance at December 31, 2013	\$ 3,860	\$ 6,579	\$ 101	\$ 4	\$ 31	\$ 10,575
Individually	\$ 2,570	\$ 3,254	\$ 265	\$ —	\$ —	\$ 6,089
Collectively	2,019	2,742	104	—	22	4,887
Balance at December 31, 2012	\$ 4,589	\$ 5,996	\$ 369	\$ —	\$ 22	\$ 10,976
<b>Recorded investment in loans evaluated for impairment:</b>						
Individually	\$ 19,267	\$ 21,547	\$ —	\$ —	\$ 218	\$ 41,032
Collectively	399,633	368,875	21,284	3,247	7,628	800,667
Balance at December 31, 2014	\$ 418,900	\$ 390,422	\$ 21,284	\$ 3,247	\$ 7,846	\$ 841,699
Individually	\$ 23,803	\$ 28,819	\$ 2	\$ —	\$ 118	\$ 52,742
Collectively	395,639	375,303	17,386	2,775	8,067	799,170
Balance at December 31, 2013	\$ 419,442	\$ 404,122	\$ 17,388	\$ 2,775	\$ 8,185	\$ 851,912
Individually	\$ 29,316	\$ 34,743	\$ 2,390	\$ —	\$ 251	\$ 66,700
Collectively	425,199	414,647	20,409	—	8,821	869,076
Balance at December 31, 2012	\$ 454,515	\$ 449,390	\$ 22,799	\$ —	\$ 9,072	\$ 935,776

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

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

Outstanding Recorded Investment	Year Ended December 31, 2014				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ —	\$ 8,830	\$ —	\$ 8,830	
Production and intermediate-term	—	9,198	—	9,198	
Total	\$ —	\$ 18,028	\$ —	\$ 18,028	
<b>Post-modification:</b>					
Real estate mortgage	\$ —	\$ 7,265	\$ —	\$ 7,265	\$ (3)
Production and intermediate-term	—	8,216	—	8,216	(1)
Total	\$ —	\$ 15,481	\$ —	\$ 15,481	\$ (4)

Year Ended December 31, 2013					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 10,363	\$ -	\$ 10,363	
Production and intermediate-term	-	7,156	-	7,156	
Total	\$ -	\$ 17,519	\$ -	\$ 17,519	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 10,508	\$ -	\$ 10,508	\$ -
Production and intermediate-term	-	7,284	-	7,284	(4)
Total	\$ -	\$ 17,792	\$ -	\$ 17,792	\$ (4)

Year Ended December 31, 2012					
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
<b>Pre-modification:</b>					
Real estate mortgage	\$ -	\$ 7,606	\$ -	\$ 7,606	
Production and intermediate-term	-	12,221	-	12,221	
Rural residential real estate	-	34	-	34	
Total	\$ -	\$ 19,861	\$ -	\$ 19,861	
<b>Post-modification:</b>					
Real estate mortgage	\$ -	\$ 7,613	\$ -	\$ 7,613	\$ -
Production and intermediate-term	-	12,233	-	12,233	(1)
Rural residential real estate	-	38	-	38	-
Total	\$ -	\$ 19,884	\$ -	\$ 19,884	\$ (1)

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets. The majority of AgGeorgia's principal concessions are principal deferments. The post-modification balances for principal deferments may include fees that have been financed, which causes the post-modification balances to be higher than the pre-modification balances.

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

Year Ended December 31,			
Defaulted troubled debt restructurings	2014	2013	2012
Real estate mortgage	\$ -	\$ 472	\$ 981
Production and intermediate-term	310	1,457	193
Total	\$ 310	\$ 1,929	\$ 1,174

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2014	2013	2012	2014	2013	2012
Real estate mortgage	\$ 16,163	\$ 15,885	\$ 12,729	\$ 10,292	\$ 7,684	\$ 6,641
Production and intermediate-term	13,462	14,163	14,601	7,432	8,079	6,670
Processing and marketing	-	-	840	-	-	840
Rural residential real estate	154	39	47	27	39	47
Total Loans	\$ 29,779	\$ 30,087	\$ 28,217	\$ 17,751	\$ 15,802	\$ 14,198
Additional commitments to lend	\$ -	\$ 5	\$ 704			

#### Note 4 — Investment in Other Farm Credit Institutions

Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. The Association is required to maintain ownership in the Bank in the

form of Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. Accounting for this investment is on the cost plus allocated equities basis.

The Association's investment in the Bank totaled \$9,299 for 2014, \$12,588 for 2013 and \$15,738 for 2012. The Association

## Notes to the Consolidated Financial Statements—continued

owns 3.72 percent of the issued stock of the Bank as of December 31, 2014 net of any reciprocal investment. As of that date, the Bank's assets totaled \$29.5 billion and shareholders' equity totaled \$2.2 billion. The Bank's earnings were \$380 million at December 31, 2014. In addition, the Association has an investment of \$771 related to other Farm Credit institutions.

**Note 5 — Real Estate and Other Property****Premises and Equipment**

Premises and equipment consists of the following:

	December 31,		
	2014	2013	2012
Land	\$ 2,102	\$ 2,102	\$ 2,102
Buildings and improvements	7,825	7,795	7,782
Furniture and equipment	3,896	3,842	3,842
	13,823	13,739	13,726
Less: accumulated depreciation	6,442	6,120	5,771
Total	\$ 7,381	\$ 7,619	\$ 7,955

**Other Property Owned**

Net (gains) losses on other property owned consist of the following:

	December 31,		
	2014	2013	2012
(Gains) losses on sale, net	\$ (326)	\$ 767	\$ 529
Carrying value unrealized (gains) losses	925	3,811	5,668
Operating (income) expense, net	574	382	619
(Gains) losses on other property owned, net	\$ 1,173	\$ 4,960	\$ 6,816

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. Deferred gains totaled \$429, \$44, and \$49 at December 31, 2014, 2013, and 2012, respectively.

**Note 6 — Debt****Notes Payable to AgFirst Farm Credit Bank**

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2014, the Association's notes payable were within the specified limitations.

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 1.44 percent for LIBOR-based loans and 1.59 percent for Prime-based loans, and the weighted average remaining maturities were 4.2 years and 1.3 years, respectively, at December 31, 2014. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 2.52 percent, and the weighted average remaining maturity was 7.5 years at December 31, 2014. The weighted-average interest rate on all interest-bearing notes payable was 2.34 percent and the weighted-average remaining maturity was 6.5 years at December 31, 2014. Variable rate and fixed rate notes payable represent approximately -8.55 percent and 108.55 percent, respectively, of total notes payable at December 31, 2014. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

**Note 7 — Members' Equity**

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

- A. **Protected Borrower Stock:** Protection of certain borrower stock is provided under the Farm Credit Act, which requires the Association, when retiring protected borrower stock, to retire such stock at par or stated value regardless of its book value. Protected borrower stock includes capital stock and participation certificates, which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.
- B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to 2.0 percent or \$1 thousand, whichever is less. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no

voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

- C. Regulatory Capitalization Requirements and Restrictions:** FCA regulations require that certain minimum standards for capital be achieved and maintained. These standards are measured based on capital as a percentage of risk-adjusted assets and off-balance-sheet commitments and surplus levels as a percentage of risk-adjusted assets.

Failure to meet the capital requirements can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met.

The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

	2014	2013	2012	Regulatory Minimum
Permanent capital ratio	25.02%	23.51%	18.20%	7.00%
Total surplus ratio	24.57%	23.07%	17.80%	7.00%
Core surplus ratio	20.92%	19.87%	16.48%	3.50%

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

There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

- D. Description of Equities:** The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B, and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars (\$5.00) per share.

The Association had the following shares outstanding at December 31, 2014:

Class	Protected	Shares Outstanding	
		Number	Aggregate Par Value
B Common/Nonvoting	Yes	1,060	\$ 5
C Common/Voting	No	725,720	3,628
C Participation Certificates/Nonvoting	No	33,527	168
Total Capital Stock and Participation Certificates		760,307	\$ 3,801

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

*Retained Earnings*

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met.

At December 31, 2014, allocated members' equity consisted of \$83,877 of qualified and \$11,577 of nonqualified distributions. Nonqualified distributions are tax deductible only when redeemed.

## Notes to the Consolidated Financial Statements—continued

*Dividends*

The Association may declare non-cumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 8 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B, or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B, and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

*Patronage Distributions*

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

*Transfer*

Classes A and D Preferred, Classes A, B, and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

*Impairment*

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

- a) **First**, Assistance Preferred Stock issued and outstanding;

- b) **Second**, allocated surplus in its entirety, with application to most recent allocation first and then in reverse order until all allocated surplus has been exhausted;
- c) **Third**, Class C Common Stock and Class C Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;
- d) **Fourth**, Class A Common and Class B Common Stock and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired; and
- e) **Fifth**, Class A Preferred and Class D Preferred Stock issued and outstanding, if any.

Impairments shall be considered as being applied pro rata to each share and/or unit outstanding in the class.

*Liquidation*

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

- a) **First**, to the holders of Class A Preferred and Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;
- b) **Second**, to the holders of Class A Common, Class B Common and Class B Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificates then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;
- c) **Third**, pro rata to the holders of Class C Common Stock and Class C Participation Certificates, until an amount equal to the aggregate par value or face amount of all such shares or units then issued and outstanding has been distributed to such holders;
- d) **Fourth**, to the holders of allocated surplus pro rata, on the basis of oldest allocations first, until an amount equal to the total account has been distributed to the holders;
- e) **Fifth**, all unallocated surplus issued after May 4, 1995 (the effective date of this bylaw amendment) shall be distributed to the holders of Class C Stock and Class C Participation Certificates on a patronage basis; and
- f) **Sixth**, any remaining assets of the Association after such distribution shall be distributed ratably to the holders of all classes of stock and participation certificates.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made pro rata in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

**E. Accumulated Other Comprehensive Income:** The following tables present activity related to AOCI for the periods presented.

<b>Changes in Accumulated Other Comprehensive Income by Component (a)</b>			
<b>For the years ended December 31,</b>			
	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Employee Benefit Plans:</b>			
Balance at beginning of period	\$ (74)	\$ (106)	\$ (53)
Other comprehensive income before reclassifications	(86)	29	(54)
Amounts reclassified from AOCI	1	3	1
Period change in OCI	(85)	32	(53)
Balance at end of period	\$ (159)	\$ (74)	\$ (106)

<b>Reclassifications Out of Accumulated Other Comprehensive Income (b)</b>				
<b>Year to Date</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>Income Statement Line Item</b>
<b>Defined Benefit Pension Plans:</b>				
Periodic pension costs	\$ (1)	\$ (3)	\$ (1)	See Note 9.
Amounts reclassified	\$ (1)	\$ (3)	\$ (1)	

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

**Note 8 — Fair Value Measurement**

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

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

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

The classifications within the fair value hierarchy are as follows:

**Level 1**

Assets held in trust funds, related to deferred compensation plans, and assets held in mutual funds, related to the Association’s Corporate Giving Fund, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

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

**Level 2**

The Association had no Level 2 assets and liabilities measured at fair value on a recurring basis.

**Level 3**

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

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

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association’s loan receivables. This assumption implies that earnings on the Association’s interest margin are used to fund operating expenses and capital expenditures.

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best

Notes to the Consolidated Financial Statements—continued

use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

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

**SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS**

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

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument

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

**Inputs to Valuation Techniques**

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

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

**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 48,574	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

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

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

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

At or for the Year ended December 31, 2014						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 231	\$ 231	\$ -	\$ -	\$ 231	
Recurring Assets	\$ 231	\$ 231	\$ -	\$ -	\$ 231	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 39,367	\$ -	\$ -	\$ 39,367	\$ 39,367	\$ (870)
Other property owned	8,269	-	-	9,205	9,205	(599)
Nonrecurring Assets	\$ 47,636	\$ -	\$ -	\$ 48,572	\$ 48,572	\$ (1,469)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 80	\$ 80	\$ -	\$ -	\$ 80	
Loans	785,279	-	-	786,950	786,950	
Other Financial Assets	\$ 785,359	\$ 80	\$ -	\$ 786,950	\$ 787,030	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 636,993	\$ -	\$ -	\$ 632,735	\$ 632,735	
Other Financial Liabilities	\$ 636,993	\$ -	\$ -	\$ 632,735	\$ 632,735	

At or for the Year ended December 31, 2013						
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 259	\$ 259	\$ -	\$ -	\$ 259	
Recurring Assets	\$ 259	\$ 259	\$ -	\$ -	\$ 259	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 47,740	\$ -	\$ -	\$ 47,740	\$ 47,740	\$ (3,951)
Other property owned	7,345	-	-	8,150	8,150	(4,578)
Nonrecurring Assets	\$ 55,085	\$ -	\$ -	\$ 55,890	\$ 55,890	\$ (8,529)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 1,304	\$ 1,304	\$ -	\$ -	\$ 1,304	
Loans	780,335	-	-	782,802	782,802	
Other Financial Assets	\$ 781,639	\$ 1,304	\$ -	\$ 782,802	\$ 784,106	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 661,719	\$ -	\$ -	\$ 658,008	\$ 658,008	
Other Financial Liabilities	\$ 661,719	\$ -	\$ -	\$ 658,008	\$ 658,008	

Notes to the Consolidated Financial Statements—continued

December 31, 2012									
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings			
<b>Recurring Measurements</b>									
<b>Assets:</b>									
Assets held in Trust funds	\$ 246	\$ 246	\$ –	\$ –	\$ 246				
Recurring Assets	\$ 246	\$ 246	\$ –	\$ –	\$ 246				
<b>Liabilities:</b>									
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –				
<b>Nonrecurring Measurements</b>									
<b>Assets:</b>									
Impaired loans	\$ 61,611	\$ –	\$ –	\$ 61,611	\$ 61,611	\$ (8,238)			
Other property owned	10,672	–	–	11,656	11,656	(6,197)			
Nonrecurring Assets	\$ 72,283	\$ –	\$ –	\$ 73,267	\$ 73,267	\$ (14,435)			
<b>Other Financial Instruments</b>									
<b>Assets:</b>									
Cash	\$ 1,371	\$ 1,371	\$ –	\$ –	\$ 1,371				
Loans	851,717	–	–	858,323	858,323				
Other Financial Assets	\$ 853,088	\$ 1,371	\$ –	\$ 858,323	\$ 859,694				
<b>Liabilities:</b>									
Notes payable to AgFirst Farm Credit Bank	\$ 759,981	\$ –	\$ –	\$ 764,309	\$ 764,309				
Other Financial Liabilities	\$ 759,981	\$ –	\$ –	\$ 764,309	\$ 764,309				

**Note 9 — Employee Benefit Plans**

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

- a) Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.
- b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c) If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The Association’s participation in the multiemployer defined benefit plans for the annual periods ended December 31, are outlined in the table below. The “Percentage Funded to Projected Benefit Obligation” or “Percentage Funded to Accumulated Postretirement Benefit Obligation” represents the funded amount for the entire plan and the “Contributions” and “Percentage of Total Contributions” columns represent the Association’s respective amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions			Percentage of Total Contributions		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
AgFirst Farm Credit Retirement Plan	84.56%	89.47%	77.35%	\$3,015	\$4,254	\$3,895	7.94%	8.46%	8.55%
AgFirst Farm Credit Cash Balance Retirement Plan	100.07%	95.06%	86.01%	\$220	\$79	\$55	4.43%	4.49%	3.99%
Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions			Percentage of Total Contribution		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	\$636	\$500	\$478	8.23%	7.19%	7.69%

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

- 1. The Employee Identification Number (EIN) and three-digit Pension Plan Number
- 2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are

generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the Association are eligible to participate in either the FAP Plan or the CB Plan. These two Plans are noncontributory and include eligible Association and other District employees. For participants hired prior to January 1, 2003, benefits are provided under the FAP Plan and are based on eligible compensation and years of service. For participants hired on or after January 1, 2003, benefits are provided under the CB Plan and are determined using a percent of eligible compensation formula. The employer contribution into the CB Plan is based on a formula of 3.00-5.00 percent of eligible compensation (depending on years of service) and interest credits as allocated to an employee's theoretical account balance. The actuarially-determined costs of these plans are allocated to each participating entity, including the Association, by multiplying the plans' net pension expense by each institution's eligible service cost and accumulated benefit obligation as a percentage of the total eligible service cost and total accumulated benefit obligation for all plan participants. Plan expenses included in employee benefit costs were \$4,465 for 2014, \$4,284 for 2013, and \$4,343 for 2012. The cumulative excess of amounts funded by the Association over the cost allocated to the Association is reflected as prepaid retirement expense, a component of Other Assets in the Consolidated Balance Sheets.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. Certain Association charges related to this plan are an allocation of District charges based on the Association's proportional share of the plan liability. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were \$667 for 2014, \$642 for 2013, and \$535 for 2012. The cumulative excess of cost allocated to the Association over the amounts funded by the Association is reflected as postretirement benefits other than pensions, a component of other liabilities in the Association's Consolidated Balance Sheets.

The Association also participates in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes \$0.50 for each \$1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total

compensation. For employees hired on or after January 1, 2003, the Association contributes \$1.00 for each \$1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were \$344, \$309, and \$274 for the years ended December 31, 2014, 2013, and 2012, respectively.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2014, 2013, and 2012, \$(85), \$32 and \$(53) has been recognized as a net credit, net debit and net credit, respectively, to AOCI to reflect these elements.

The supplemental retirement plan is unfunded and had a projected benefit obligation of \$605 and a net under-funded status of \$605 at December 31, 2014. Net periodic pension cost was \$27, \$27, and \$28 for 2014, 2013, and 2012, respectively. Assumptions used to determine the projected benefit obligation as of December 31, 2014 included a discount rate of 4.20 percent.

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

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

1. The Plan was closed to new participants effective as of December 31, 2014. Based on the Plan's eligibility provisions, this change affected employees hired on or after November 4, 2014.
2. No further employer contributions will be credited to participants in the Plan effective as of January 1, 2015.
3. All participants who were not already fully vested in the Plan became fully vested as of December 31, 2014.
4. The Plan will be terminated effective as of December 31, 2015.

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

Curtailment accounting, as prescribed in ASC 715 "Compensation – Retirement Benefits", was initiated upon execution of the plan amendments and did not have a material

## Notes to the Consolidated Financial Statements—continued

impact on the Bank's financial condition or results of operations.

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

**Note 10 — Related Party Transactions**

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortized schedule and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total loans to such persons at December 31, 2014 amounted to \$12,266, including \$327 classified as nonaccrual. During 2014, \$5,407 of new loans were made and repayments totaled \$6,161. In the opinion of management, none of these loans outstanding at December 31, 2014 to senior officers or directors as defined in FCA regulations involved more than a normal risk of collectability.

**Note 11 — Commitments and Contingencies**

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

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

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

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not

necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2014, \$77,559 of commitments to extend credit and no commercial letters of credit were outstanding.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2014, standby letters of credit outstanding totaled \$3,080 with expiration dates ranging from January 6, 2015 to June 18, 2019. The maximum potential amount of future payments that may be required under these guarantees was \$3,080.

**Note 12 — Income Taxes**

The provision (benefit) for income taxes follows:

	Year Ended December 31,		
	2014	2013	2012
Current:			
Federal	\$ 22	\$ 6	\$ 5
State	4	3	3
	<u>\$ 26</u>	<u>\$ 9</u>	<u>\$ 8</u>
Deferred:			
Federal	—	—	—
State	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Total provision (benefit) for income taxes	<u>\$ 26</u>	<u>\$ 9</u>	<u>\$ 8</u>

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2014	2013	2012
Federal tax at statutory rate	\$ 7,825	\$ 6,722	\$ 4,056
State tax, net	2	5	2
Effect of non-taxable FLCA subsidiary	(2,026)	(3,481)	(3,071)
Patronage distributions	(4,714)	(3,132)	(1,401)
Change in valuation allowance	(1,194)	54	477
Other	133	(159)	(55)
Provision (benefit) for income taxes	<u>\$ 26</u>	<u>\$ 9</u>	<u>\$ 8</u>

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2014	2013	2012
Deferred income tax assets:			
Allowance for loan losses	\$ 1,615	\$ 2,928	\$ 2,955
Loan origination fees	-	44	92
Other property owned writedown	202	510	759
Annual leave	405	388	420
Nonaccrual loan interest	1,645	1,647	1,313
Pensions and other postretirement benefits	3,240	3,226	3,093
Depreciation	88	125	84
Gross deferred tax assets	<u>7,195</u>	<u>8,868</u>	<u>8,716</u>
Less: valuation allowance	<u>(4,381)</u>	<u>(5,576)</u>	<u>(5,522)</u>
Gross deferred tax assets, net of valuation allowance	<u>2,814</u>	<u>3,292</u>	<u>3,194</u>
Deferred income tax liabilities:			
Pensions and other postretirement benefits	(2,814)	(3,292)	(3,194)
Depreciation	-	-	-
Gross deferred tax liability	<u>(2,814)</u>	<u>(3,292)</u>	<u>(3,194)</u>
Net deferred tax asset (liability)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2014, deferred income taxes have not been provided by the Association on approximately \$5.9 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of \$4,381, \$5,576 and \$5,522 as of December 31, 2014, 2013 and 2012, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2014 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The tax years that remain open for federal and major state income tax jurisdictions are 2010 and forward.

### Note 13 — Additional Financial Information

#### Quarterly Financial Information (Unaudited)

	2014				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,481	\$ 7,542	\$ 7,728	\$ 7,865	\$ 30,616
Provision for (reversal of allowance for) loan losses	(477)	1,102	(561)	(167)	(103)
Noninterest income (expense), net	(3,566)	(3,212)	(3,792)	2,182	(8,388)
Net income (loss)	<u>\$ 4,392</u>	<u>\$ 3,228</u>	<u>\$ 4,497</u>	<u>\$ 10,214</u>	<u>\$ 22,331</u>

	2013				
	First	Second	Third	Fourth	Total
Net interest income	\$ 7,739	\$ 7,830	\$ 8,402	\$ 7,481	\$ 31,452
Provision for (reversal of allowance for) loan losses	299	411	125	3,538	4,373
Noninterest income (expense), net	(3,241)	(3,900)	(1,991)	1,250	(7,882)
Net income (loss)	<u>\$ 4,199</u>	<u>\$ 3,519</u>	<u>\$ 6,286</u>	<u>\$ 5,193</u>	<u>\$ 19,197</u>

	2012				
	First	Second	Third	Fourth	Total
Net interest income	\$ 8,512	\$ 8,636	\$ 8,768	\$ 8,489	\$ 34,405
Provision for (reversal of allowance for) loan losses	3,514	2,716	979	1,120	8,329
Noninterest income (expense), net	(3,547)	(5,020)	(4,074)	(1,515)	(14,156)
Net income (loss)	<u>\$ 1,451</u>	<u>\$ 900</u>	<u>\$ 3,715</u>	<u>\$ 5,854</u>	<u>\$ 11,920</u>

### Note 14 — Subsequent Events

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

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