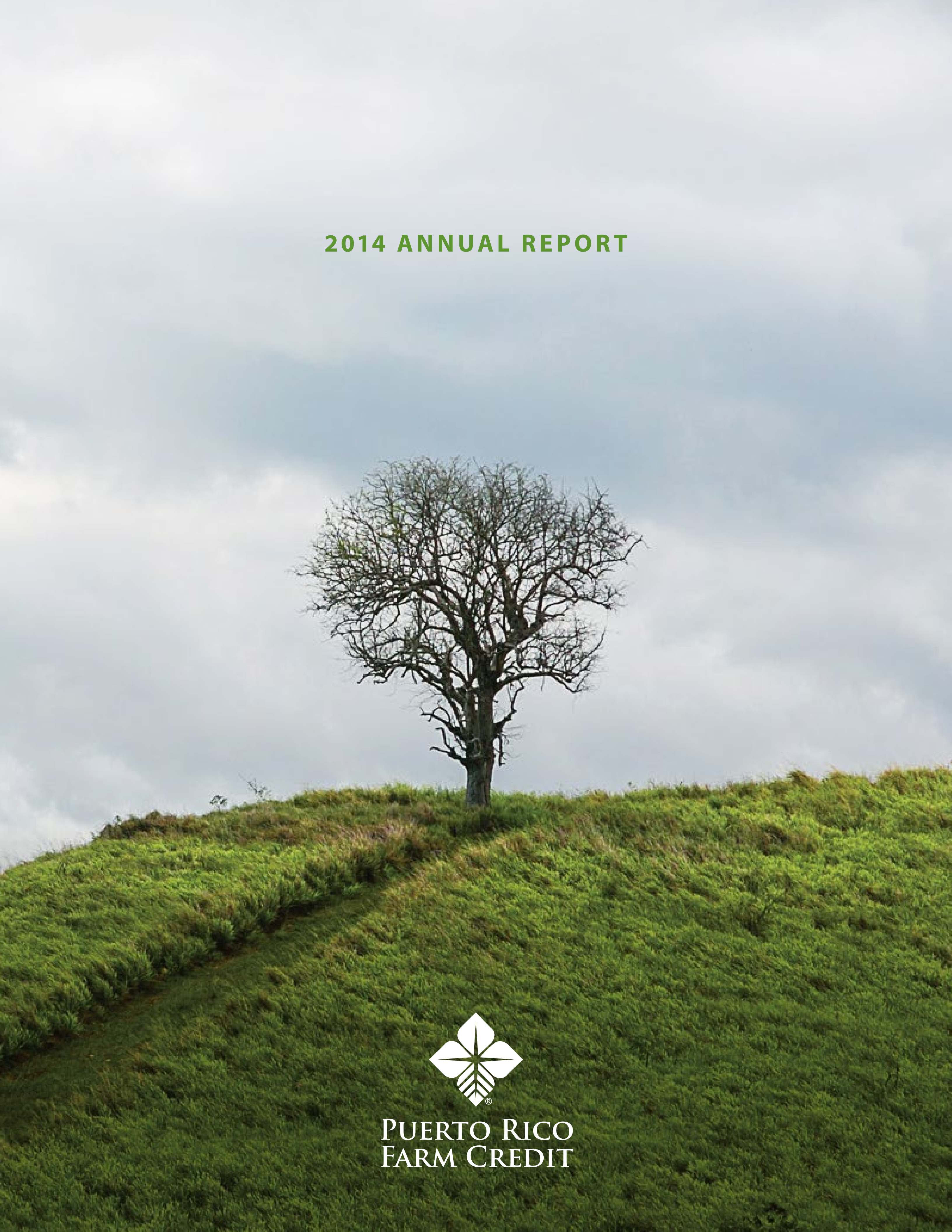
2014 ANNUAL REPORT



PUERTO RICO FARM CREDIT

PUERTO RICO FARM CREDIT, ACA

2014 ANNUAL REPORT

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Management

Ricardo L. Fernández .... President and Chief Executive Officer
Jorge A. Dulzaides .... Chief Lending Officer
Johana Quiñones .... Director of Finance, Risk and Internal Controls

Board of Directors

Pablo Rodríguez .... Chairman
Robert G. Miller .... Vice Chairman
Victor Ayala. .... Second Vice Chairman
Carlos A. Rodríguez .... Director
Héctor I. Cordero .... Director
Michael J. Serrallés .... Director
Antonio E. Marichal .... External Director and Financial Expert
Francisco Oramas .... External Director

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Message From the Chief Executive Officer

(dollars in thousands)

A tree on top of a mountain grows strong every year. It deepens its roots so that it can weather any storm nature sends its way. The unwavering resolve of our farmers is strong like the roots of a tree and it helps them weather any storm. These days that storm in Puerto Rico is as much natural as economic, yet, our farmers continue to work hard and most important, continue to thrive in these challenging conditions. The unwavering resolve of our farmers motivates our staff and keeps them working hard for you. Since 1922 Puerto Rico Farm Credit has been growing its roots, a strong capital base, which helps us weather these challenging times, while allowing us to continuously support you.

In 2014 we continued to take steps towards solidifying our capital position. Disciplined lending helped us grow the net accruing loan portfolio 6.6% as net accruing loans increased from $148,930 in 2013 to $158,695 in 2014. We assisted many farmers finance investments in projects that they had been working on for several years. The Association experienced credit losses related to the management of a few high risk loans. We used capital in the amount of $401 to account for these losses. It is important to stress that credit quality continues to stabilize in a delicate economic environment in the island and that these credit related losses are tied to a handful of loans. We have also been working on reducing expenses each of the last 4 years. In 2014 we had to make an extremely difficult decision to eliminate retiree's health care coverage benefits. This difficult decision will save the Association over $500 in the next 5 years and, led to a one-time increase in capital of $2,205. In summary, we were able to deepen our roots by growing our capital base.

I am glad to share with you that for the first time in the last 5 years, your Association will be able to pay you, our stockholder, a dividend of $800. This was the result of improved financial performance once again. In 2014 Net Income was $3,921 versus $2,687 in 2013 and $683 in 2012. This result includes a special dividend for $1,364 received from AgFirst Bank and a one-time reversal of an accrued liability for $2,205. Our core operations generated Net Income of $972 in 2014 versus $864 in 2013 and $4 in 2012. The Board of Directors and Management remain committed to paying a dividend each year and will evaluate this decision annually.

As I shared with you last year, our short-term focus remains to be able to declare and pay a dividend to you every year. Nevertheless, we are moving cautiously in order to support long-term sustainability and not to deal lightly with the issues at hand. We want to make sure we stand in the best position to face uncertainty in the island. We will continue with our efforts to promote innovation in agriculture and the development of new business models that lead to sustained increase in agricultural production. We believe in our strategies to achieve this goal and will continue to leverage new opportunities that help us achieve it.

As I think about the tree atop the mountain, I'm reminded how resilient it is, deepening its roots and adapting to survive. I trust our farmers will continue to adapt to the new ways of the world, to ensure agriculture in Puerto Rico prepares for the future. PRFC is doing the same to continue being a part of that future.

Sincerely,

Ricardo L. Fernández
Chief Executive Officer
Puerto Rico Farm Credit, ACA

March 11, 2015

Report of Management

The accompanying consolidated financial statements and related financial information appearing throughout this annual report have been prepared by the management of Puerto Rico 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 Puerto Rico 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.

Pablo A. Rodriguez
Chairman of Board of Directors

Ricardo L. Fernandez
Chief Executive Officer

Antonio Marichal
Member of Board of Directors
Chairman of the Audit Committee

Johana Quiñones
Director of Finance, Risk Management and Internal Control

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. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of 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.

Ricardo L. Fernández
Chief Executive Officer

Johana Quiñones
Director of Finance, Risk Management and Internal Control

March 11, 2015

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	2014	2013	December 31, 2012	2011	2010
Balance Sheet Data					
Cash	$ 292	$ 103	$ 214	$ 164	$ 928
Loans	166,454	161,841	169,389	175,382	188,406
Less: allowance for loan losses	(1,984)	(3,128)	(4,408)	(3,482)	(4,003)
Net loans	164,470	158,713	164,981	171,900	184,403
Notes receivable from other Farm Credit institutions	—	—	10,000	10,000	10,000
Investments in other Farm Credit institutions	1,624	1,876	1,960	2,706	3,162
Other property owned	1,484	2,481	3,498	2,489	2,443
Other assets	4,294	5,204	4,635	4,573	5,253
Total assets	$ 172,164	$ 168,377	$ 185,288	$ 191,832	$ 206,189
Notes payable to AgFirst Farm Credit Bank*	$ 118,626	$ 116,275	$ 135,882	$ 143,364	$ 156,743
Accrued interest payable and other liabilities with maturities of less than one year	1,641	3,007	2,947	2,655	3,097
Total liabilities	120,267	119,282	138,829	146,019	159,840
Capital stock and participation certificates	520	537	604	648	679
Unallocated retained earnings	51,377	48,256	45,569	44,886	45,878
Accumulated other comprehensive income (loss)	—	302	286	279	(208)
Total members' equity	51,897	49,095	46,459	45,813	46,349
Total liabilities and members' equity	$ 172,164	$ 168,377	$ 185,288	$ 191,832	$ 206,189
Statement of Operations Data					
Net interest income	$ 4,786	$ 4,497	$ 4,508	$ 4,146	$ 3,921
Provision for (reversal of allowance for) loan losses	401	(1,088)	736	2,329	9,390
Noninterest income (expense), net	(464)	(2,898)	(3,089)	(2,809)	(1,875)
Net income (loss)	$ 3,921	$ 2,687	$ 683	$ (992)	$ (7,344)
Key Financial Ratios					
Rate of return on average:					
Total assets	2.34%	1.50%	0.37%	(0.50)%	(3.22)%
Total members' equity	7.87%	5.67%	1.45%	(2.14)%	(13.13)%
Net interest income as a percentage of average earning assets	2.92%	2.58%	2.49%	2.15%	1.77%
Net (chargeoffs) recoveries to average loans	(0.944)%	(0.115)%	0.111%	(1.560)%	(3.838)%
Total members' equity to total assets	30.14%	29.16%	25.07%	23.88%	22.48%
Debt to members' equity (:1)	2.32	2.43	2.99	3.19	3.45
Allowance for loan losses to loans	1.19%	1.93%	2.60%	1.99%	2.12%
Permanent capital ratio	32.98%	29.41%	20.67%	18.61%	20.84%
Total surplus ratio	32.62%	29.05%	20.29%	18.22%	20.49%
Core surplus ratio	32.62%	29.05%	20.29%	18.22%	20.49%
Net Income Distribution					
Estimated patronage refunds:					
Cash	$ 800	$ —	$ —	$ —	$ —

** 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)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Puerto Rico 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 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 served (also referred to throughout this Annual Report as stockholders or shareholders). The territory served by the Association covers the entire island of Puerto Rico. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association may 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,*** 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 on the Association's website, ***www.puertoricofarmcredit.com***, or may be obtained upon request free of charge by calling 1-800-981-3323, or writing Nydia J. Acevedo, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936. 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 Report 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 website, 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 the expectations and predictions due to a number of risks and uncertainties, many of which are beyond the Association's control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States, Puerto Rico 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 the United States and Puerto Rico governments support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Significant accounting policies are critical to the understanding of the Association's results of operations and financial position because some accounting policies require the Board and management to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. These policies are 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* management's best estimate of the amount of probable losses existing in and 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, which generally considers relevant historical charge-off experience adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors. Management considers the allowance for loan losses to have been determined in accordance with generally accepted accounting principles appropriate to the periodic process utilized.

  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 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.

  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. A discount rate is used to determine the present value of the future benefit obligations.

PUERTO RICO ECONOMIC CONDITIONS

The Board of Directors and Senior Management are committed to fulfilling Farm Credit System's public mission. As such, the Board of Directors engaged for the third straight year a local economist to perform an economic and market analysis of agriculture in the island. A summary of the results is shown below, the plan put together in 2014 will continue into 2015. Both The Board of Directors and Senior Management will monitor current economic conditions in the island to ensure that any new growth initiatives are implemented in a sound manner.

The economic conditions that have prevailed during the last 9 years are expected to continue. Along with weak economic conditions, new taxes helped the economy contract 1.8% in fiscal 2014 and, is expected to contract 2.1% in fiscal 2015. Economic expansion seems unlikely with new excise taxes on crude oil and overall tax reform facing public scrutiny. New investment in the island is needed and the government is limited in what it can do to increase investment due to its weak finances. The government's ability to issue bonds was adversely impacted as its sovereign debt rating was downgraded to below investment grade or "Junk". The increased cost of borrowing will be felt in 2015 as the government attempts to refinance maturing bonds in the second semester of 2015 at significantly higher rates (9-12%). Besides being limited to invest in the economy, the government may face short-term liquidity problems if it is not able to refinance debt. This may lead to decreased government expenditure and further economic contraction.

The government will also need to lower energy costs to allow small and large businesses in the island to remain competitive or manufacturing companies may decide to invest elsewhere. PREPA, the government run power company, hired a Chief Restructuring Officer to devise a long-term strategic plan that can help improve efficiencies. Other challenges faced by the government include a possible reduction in federal fund transfers, prevailing high unemployment rate of 14% and, a personal savings rate of less that 2%. This may place additional pressure on long-term investment by individuals in the island.

The local commercial banking industry continues to focus on improving credit quality; especially, in commercial loan portfolios. In 2015 three major banks and the FDIC will make decisions in the management of troubled loans protected by the shared loss agreements and may place additional pressure on the economy if foreclosures increase as a result. On February 2015, the FDIC closed another major bank. Loans at commercial banks have decreased more the 40% since 2008. It will be difficult for banks to assist in economic recovery as more prudent lending is being applied across the board. New regulations continue to require more controls over credit policies and procedures and local banks are focusing on complying with new requirements. The local banking industry is still under recovery and will continue facing the same challenges in 2015.

As the Federal Reserve tries to balance growth in the economy and inflation, interest rates are at historically low rates and forecasted to remain at this level through the end of 2015. A low rate environment will limit the association's ability to generate additional earnings from loanable funds and its ability to increase net interest margin in an increasingly competitive marketplace, where retaining strong borrowers is crucial for success.

The local dairy industry's production was stable in 2014 with production slightly below the previous year and this trend is expected to continue in 2015. The ACA continues to monitor events within the industry and their potential impact on the dairy portfolio. The association lends almost 30% of total loans to this industry and is implementing risk management practices to reduce overall risk.

Other agricultural sectors do not represent significant risk for the association. Management monitors all sectors and does not anticipate any adverse impact to the portfolio in 2015.

As mentioned before the Association will continue to search for opportunities to fulfill its public mission. The Board of Directors and management remain cautious of the ACA's ability to quickly grow the portfolio under the prevailing economic environment. Management will focus on targeted marketing to viable farmers in sectors demonstrating the ability to grow and remain competitive in a changing marketplace.

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 various product types.

The gross loan volume of the Association as of December 31, 2014 was $166,454, an increase of $4,613 or 2.85 percent as compared to $161,841 at December 31, 2013; and a decrease of $2,935 or 1.73 percent compared to $169,389 at December 31, 2012. Net loans outstanding (gross loans net of the allowance for loan losses) at December 31, 2014 were $164,470 as compared to $158,713 at December 31, 2013 and $164,981 at December 31, 2012. Net loans accounted for 95.53 percent of total assets on December 31, 2014 as compared to 94.26 percent of total assets on December 31, 2013 and 89.04 percent of total assets on December 31, 2012.

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

Loan Type	12/31/14	12/31/13	12/31/12
Real estate mortgage	54.42%	58.91%	60.46%
Production and intermediate term	20.28	14.98	24.99
Agribusiness:			
Loans to cooperatives	–	–	–
Processing and marketing	10.65	10.42	1.97
Farm related business	1.41	1.50	.55
Communication	3.40	3.42	.57
Energy	1.45	1.44	1.46
Rural residential real estate	8.39	9.33	10.00
Total	100.00%	100.00%	100.00%

While the Association makes loans and provides financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified. Commodity and industry categories are based upon the Standard Industrial Classification 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's loan portfolio (gross principal balance, net of sold loans) are shown below. The predominant commodities on the island were dairy, fruits and rural home which constituted 51.8 percent of the entire portfolio at December 31, 2014.

	Percent of Portfolio		
Commodity Group	2014	2013	2012
Dairy	29.8%	27.3%	31.6%
Participations (net)	25.2	25.5	21.6
Fruits / Plantains / Coffee	13.4	13.4	11.6
Rural Home	8.6	9.5	9.9
Livestock (Beef Cattle)	7.5	7.5	7.4
Field Crops (Vegetables)	6.8	8.3	8.3
Misc. Real Estate	2.7	2.8	3.6
Ornamentals/Nursery	2.7	2.6	2.9
Poultry	2.3	1.9	1.9
Horses	.6	.6	.6
Other	.4	.6	.6
Total	100.0%	100.0%	100.0%

Repayment ability is closely related to the commodities produced by the Association's borrowers, and increasingly, the off-farm income of borrowers. The Association's loan portfolio contains a concentration of island dairy producers. 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 chartered territory. Even though the concentration of participation loans has steadily decreased during the past several years, the agricultural enterprise mix of these loans is diversified, as well as the geographic risk. Management and the Board of Directors continue to believe a major factor protecting the balance sheet and income statement is diversification, spreading both geographic and industry concentration risks.

The increase in gross loan volume for the twelve months ended December 31, 2014 was mainly due to a $5,400 dairy loan closed during the last quarter of 2014, among other new volume, offset by the repayment amortization of the portfolio during the year. Additionally, the Association has sold part of its chartered territory loan portfolio to the Bank for several years. This action has resulted in reductions in the gross principal chartered territory loan's volume of $7,818, $7,846 and $12,354 at December 31, 2014, 2013 and 2012, respectively. The Association did not have any loans sold with recourse.

The Association has experienced changes in the composition of loan assets. The long-term real estate mortgage trend has been upward while the short and intermediate-term loan volume trend has been downward. This trend change was primarily the result of decreasing loan volume in the participation purchased portfolio, which carries shorter maturities related to commercial lending activities. At December 31, 2014, the Association had no one single borrower that comprised more than 4.12 percent of loan volume.

During the past several years, the Association has been engaged in the buying and selling of loan participations, both from within and outside of the System. This provides a means for the Association to spread geographic and credit concentration risks and realize non-patronage sourced interest and fee income, which strengthens the Association's capital position. The following table presents the balances concerning the Association's participations purchased and sold portfolios that include the principal balance, unamortized premium and the net nonaccrual balances at December 31:

Loan Participations	2014	2013	2012
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 33,579	$ 32,997	$ 30,636
Participations Purchased – Non-FCS Institutions	10,904	10,601	7,659
Total Participations Purchased	$ 44,483	$ 43,598	$ 38,295
Participations Sold	$ 7,818	$ 7,846	$ 12,354

As part of the non-FCS participation portfolio, the Association has purchased participation interests in loans that are guaranteed by the United States Department of Agriculture. These loans are held for the purposes of reducing geographic risk and managing surplus funds as allowable under FCA regulations. During 2014, the Association increased its total participation purchased portfolio mainly in the rural utilities commodity collateral group. At December 31, 2014, the balance of these loans (including unamortized premium) was $10,904 compared to $10,601 at December 31, 2013 and $7,659 at December 31, 2012.

The participations sold portfolio consists of dairy and fruit commodities of the chartered territory loans that are not related with the participations purchased portfolio.

MISSION RELATED INVESTMENTS

During 2005, the FCA initiated an investment program to stimulate economic growth and development in rural areas. The FCA outlined a program to allow System institutions to hold such investments, subject to approval by the FCA on a case-by-case basis. FCA approved the Rural America Bonds pilot under the Mission Related Investments umbrella, as described below.

In October 2005, the FCA authorized AgFirst and the associations of the AgFirst District to make investments in Rural America Bonds under a three-year pilot period. Rural America Bonds may include debt obligations issued by public and private enterprises, corporations, cooperatives, other financing institutions, or rural lenders where the proceeds would be used to support agriculture, agribusiness, rural housing, or economic development, infrastructure, or community development and revitalization projects in rural areas. Examples include investments that fund value-added food and fiber processors and marketers, agribusinesses, commercial enterprises that create and maintain employment opportunities in rural areas, community services, such as schools, hospitals, and government facilities, and other activities that sustain or revitalize rural communities and their economies. The objective of this pilot program is to help meet the growing and diverse financing needs of agricultural enterprises, agribusinesses, and rural communities by providing a flexible flow of money to rural areas through bond financing. These bonds may be classified as loans or investments on the Consolidated Balance Sheets depending on the nature of the investment. The Association had no outstanding investment in Rural America Bonds, included as loans on the Consolidated Balance Sheets as of December 31, 2014.

NOTES RECEIVABLE-OTHER FARM CREDIT INSTITUTIONS

In September 2008, the Association used capital reserves to purchase $10,000 total of 9.00 percent fixed rate unsecured subordinated notes issued by two other associations in the District, both notes due in 2018 with a prepayment option beginning in October 2013.

The notes receivable are subordinated to all other categories of creditors of the issuing associations, including any claims of the Bank and general creditors, but are senior to all classes of shareholders of the issuing associations. The notes receivable are not considered System debt, and thus are not guaranteed by the System and not insured by the Insurance Corporation. Since the notes receivable are only guaranteed by the two issuing associations, repayment could be negatively impacted by funding, credit, and/or counterparty risks encountered by the two issuing associations in their business operations.

On October 15, 2013, the notes receivable were redeemed in full by the issuing associations. For the twelve months ended December 31, 2013, the Association recognized $710 as interest income.

For more information related to notes receivable-other Farm Credit Institutions, see Note 4, *Notes Receivable from Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- *Character – borrower integrity and credit history*
- *Capacity – repayment capacity of the* borrower based on cash flows from operations or other sources of income
- *Collateral* – protection for the lender in the event of default and a potential secondary source of repayment
- *Capital* – ability of the operation to survive unanticipated risks
- *Conditions* – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. Under FCA regulations, appraisals are required for real estate mortgage loans of more than $250,000. The Association requires an appraisal for all real estate mortgage loans, no matter the size. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

Management reviews the credit quality of the loan portfolio on an ongoing basis as part of the Association's risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- *Acceptable* – Assets are expected to be fully collectible and represent the highest quality.
- *Other Assets Especially Mentioned (OAEM)* – Assets are currently collectible but exhibit some potential weakness.
- *Substandard* – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- *Doubtful* – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- *Loss* – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2014	2013	2012
Acceptable & OAEM	92.16%	89.61%	86.16%
Substandard	7.84	10.39	13.84
Doubtful	–	–	–
Loss	–	–	–
Total	100.00%	100.00%	100.00%

The higher adverse level of the substandard asset quality category during 2012 and 2011 was a direct result of the weaker economies, both in Puerto Rico and the US mainland. Credit quality deterioration for production agriculture was a result of reduced profitability largely driven by higher input costs (fuel, feed, and electricity). Additionally, loans tied to housing, either through construction or development, have seen demand plummet and profitability decline resulting in downgrades of the assigned credit risk rating. However, the acceptable and OAEM credit qualities are improving since 2011.

NONPERFORMING ASSETS

The Association's loan portfolio is divided into performing and nonperforming categories. A Special Assets Management Department is responsible for servicing loans classified as nonperforming assets. The nonperforming assets, including accrued interest as of December 31, 2014, are detailed below:

	12/31/14	12/31/13	12/31/12
	(dollars in thousands)		
Nonperforming Assets			
Nonaccrual loans	$ 7,759	$ 12,911	$ 13,924
Restructured loans	3,947	2,353	1,338
Accruing loans 90 days past due	–	–	–
Total nonperforming loans	$ 11,706	$ 15,264	$ 15,262
Other property owned	1,484	2,481	3,498
Total nonperforming assets	$ 13,190	$ 17,745	$ 18,760
Ratios			
Nonaccrual loans to total loans	4.66%	7.98%	8.22%
Nonperforming assets to total assets	7.66%	10.54%	10.12%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. Nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $5,152 or 39.90 percent in 2014. Of the $7,759 in nonaccrual loan volume at December 31, 2014, $1,682 or 21.67 percent, as compared to $1,612 or 12.49 percent at December 31, 2013, was considered current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status.

Loan restructuring is available to financially distressed borrowers. Trouble Debt Restructuring (TDR) 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. During 2014, four chartered territory loans and one participation loan were restructured totaling $1,592 and $434, respectively. As of December 31, 2014, all TDR loans are current and are paying as agreed at December 31, 2014.

Other property owned has been reduced by 40 percent since most of prior years properties were sold during 2014.

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 allowance for loan losses was $1,984 at December 31, 2014, as compared with $3,128 and $4,408 at December 31, 2013 and 2012, respectively.

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

Allowance for Loan Losses Activity:	2014	2013	2012
	(dollars in thousands)		
Balance at beginning of year	$ 3,128	$ 4,408	$ 3,482
Charge-offs:			
Real Estate Mortgages	(1,266)	(6)	(679)
Production and intermediate term	(288)	(9)	(46)
Agribusiness	–	(196)	(1)
Rural Residential Real Estate	(1)	–	–
Total charge-offs	$ (1,555)	$ (211)	$ (726)
Recoveries:			
Real Estate Mortgages	6	2	153
Production and Intermediate Term	3	1	762
Agribusiness	–	16	–
Rural Residential Real Estate	1	–	–
Total recoveries	$ 10	$ 19	$ 915
Net (charge-offs) recoveries	$ (1,545)	$ (192)	$ 189
Provision for (reversal of allowance for) loan losses	$ 401	$ (1,088)	$ 737
Balance at end of year	$ 1,984	$ 3,128	$ 4,408
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	(0.944)%	(0.115)%	0.111%

The net charge-offs and the provision of allowance for loan losses were primarily associated with the 4th quarter specific allowance revaluation and some loans transferred to other property owned.

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

Allowance for Loan Losses by Type	2014	December 31, 2013	2012
		(dollars in thousands)	
Real estate mortgage	$ 235	$ 1,359	$ 1,336
Production and intermediate term	1,250	1,002	1,685
Agribusiness	177	565	1,241
Communication	26	12	16
Energy	17	2	3
Rural residential real estate	279	188	127
Total allowance	$ 1,984	$ 3,128	$ 4,408

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:	2014	December 31, 2013	2012
Total loans	1.19%	1.93%	2.60%
Nonperforming loans	15.04%	17.63%	23.50%
Nonaccrual loans	25.57%	24.23%	31.66%

RESULTS OF OPERATIONS

For the year ended December 31, 2014, the Association earned net income from operations which totaled $3,921, an increase of $1,234 as compared to $2,687 for the same period of 2013 and an increase of $3,238 as compared to $683 for the same period of 2012. Total interest income for the year ended December 31, 2014 was $6,710 for a decrease of $397 or 5.59 percent as compared to $7,107 for the same period of 2013. Total interest income decreased by $394 or 5.25 percent for the period ended December 31, 2013 compared to December 31, 2012.

Major components of the change in net income for the past two years are outlined in the following table:

Change in Net Income:	2014-2013	2013-2012
	(dollars in thousands)	
Net income (loss) (prior year)	$ 2,687	$ 683
Increase (decrease) in net income (loss) due to:		
Interest income	(397)	(394)
Interest expense	686	383
Net interest income	$ 289	$ (11)
Provision for loan losses	(1,489)	1,824
Noninterest income	(727)	587
Noninterest expense	3,161	(396)
Provision for income taxes	–	–
Total changes in income	$ 1,234	$ 2,004
Net income	$ 3,921	$ 2,687

Net Interest Income

Net interest income was $4,786, $4,497 and $4,508 in 2014, 2013 and 2012, respectively. Net interest income from loans was the principal source of earnings for the Association; and was impacted by volume, yields on assets and cost of debt. However, during 2014, the net interest income increased by $289 mainly due to a decrease in interest expense even though management continues with the initiatives to improve the spreads and management of the loan portfolio risk. This even though, net interest income was negatively impacted by the amortization of premium paid to acquire USDA guaranteed loans in the secondary market place. Premium amortization expense was $119, $88 and $71 in 2014, 2013 and 2012, respectively. Also, net interest income was enhanced by the notes receivable from other Farm Credit Institutions until October 2013. Net interest income from notes receivable was $249 until the notes were called on October 2013; and $263 on each 2012 and 2011.

The effects of changes in average volume and interest rates on net interest income are summarized in the following table:

Change in Net Interest Income:

	Volume*	Rate	Nonaccrual Income	Other	Total
			(dollars in thousands)		
12/31/14 – 12/31/13					
Interest income	$ (420)	$ (51)	$ 73	$ –	$ (398)
Interest expense	(281)	(406)	–	–	(687)
Income	$ (139)	$ 355	$ 73	$ –	$ 289
12/31/13 – 12/31/12					
Interest income	$ (256)	$ 50	$ (188)	$ –	$ (394)
Interest expense	(170)	(213)	–	–	(383)
Income	$ (86)	$ 263	$ (188)	$ –	$ (11)

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

Please refer to the Consolidated Five-Year Summary of Selected Financial Data in this Annual Report to review key financial ratios pertaining to earnings and net interest income.

For the twelve months of 2014, the Association recognized a provision of allowance for loan losses which totaled $401, compared to reversal of $1,088 and $737 for the twelve months of 2013 and 2012, respectively. During 2014, the specific reserves in the provision expense for loans classified as impaired decreased $1,092, for a total specific reserves of $40 as of December 31, 2014, as compared to $1,132 of specific reserves as of December 31, 2013.

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, 2014	2013	2012	Percentage Increase/(Decrease) 2014/2013	2013/2012
	(dollars in thousands)				
Loan fees	$ 108	$ 182	$ 108	(40.66)%	68.52%
Financially Related Services	12	19	10	(36.84)	90
Patronage refunds from other Farm Credit Institutions	2,283	2,896	1,480	(21.17)	95.68
Gains(losses) on sales P&E	(27)	(2)	(5)	1,250	(60.00)
Gains(losses) on other trans	7	2	–	250	–
Other-than-temporary Impairment losses on Inv.	(30)	(180)	–	(83.33)	–
Insurance Fund refund	–	–	679	–	(100.00)
Gains (losses) on other	82	245	303	(66.53)	19.14
Total noninterest income	$ 2,435	$ 3,162	$ 2,575	(22.99)%	22.80%

Regarding patronage refunds received from other Farm Credit Institutions, the Association received $919 in two patronage refunds from the Bank and $1,364 in special dividend distributions from the Bank for the year ended December 31, 2014. This compared to $1,046 in two patronage refunds from the Bank and $1,850 in a special dividend distribution from the

Bank for the year ended December 31, 2013 and $1,113 in patronage refunds and $367 special dividend distribution for 2012. Additionally, during 2012, the Association received one refund from the Farm Credit System Insurance Corporation (FCSIC) which totaled $679. It is not known whether the FCSIC will make any distributions in future years.

Noninterest Expense

Noninterest expense for each of the three years ended December 31, 2014 is shown in the following table:

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2014**	**2013**	**2012**	**2014/ 2013**	**2013/ 2012**
	(dollars in thousands)				
Salaries and employee benefits	$ 2,924	$ 3,084	$ 3,165	(5.19)%	(2.56)%
Termination of employee benefits	(2,205)	–	–	–	–
Occupancy and equipment	243	261	251	(6.90)	3.98
Insurance Fund premiums	125	129	79	(3.10)	63.29
(Gains)Losses on OPO, net	313	1,166	553	(73.16)	110.85
Other operating expenses	1,499	1,420	1,616	5.56	(12.13)
Total noninterest expense	$ 2,899	$ 6,060	$ 5,664	(57.79)%	6.99%

Salaries and employee benefits expense decreased in 2014 primarily due to a one time severance payments net of additional personnel recruited during 2014; and a decrease in the pension expense for AgFirst Farm Credit Retirement Plan. Also, a nonrecurrent credit of $2,205 to the noninterest expenses was recorded due to the termination of health insurance benefits to the retirees. Insurance fund premiums decreased slightly due to the decrease in the nonaccrual volume. Other operating expenses increased by $79 mainly due to an increase for the nonaccruals expenses due to a change in the accounting procedures.

Income Taxes

The Association recorded no provision for federal income tax for 2014, 2013, and 2012. For 2010, the Association incurred a patronage sourced net operating loss which was carried forward to 2012 through 2014, which fully offset patronage sourced taxable income. Therefore, since 2012 any eligible patronage sourced income was not distributed, until 2014, when $800,000 of eligible patronage source income was distributed to offset patronage source income. As a result, in prior years the Association incurred an immaterial amount of alternative minimum tax due to the alternative minimum tax net operating loss limitation. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004. Please refer to Note 2, *Income Taxes*, for more specific information.

Key Results of Operations Comparisons

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

Key Results of Operations Comparisons	**For the 12 Months Ended 12/31/14**	**For the 12 Months Ended 12/31/13**	**For the 12 Months Ended 12/31/12**
Return on Average Assets	2.34%	1.50%	.37%
Return on Average Members' Equity	7.87%	5.67%	1.45%
Net Interest Income as a Percentage of Average Earning Assets	2.92%	2.58%	2.49%
Net (Charge-offs) Recoveries to Average Loans	(0.944)%	(0.115)%	0.111%

The Association's financial goals are operating within safe and sound parameters while generating sufficient income to maintain a highly capitalized Association and to declare and pay an attractive patronage dividend to the members/borrowers of the Association. To accomplish this, the Association must achieve its objectives, which include attracting and retaining quality volume, which is competitively priced, while effectively managing risk within the balance sheet and income statement. For 2014, an $800 patronage dividend has been declared.

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. The Association's capital level effectively creates a borrowing margin between the amount of loans outstanding and the direct loans to the Bank. The margin is commonly referred to as "loanable funds."

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 Association's liquidity practice is to maintain cash balances in a local depository bank at a level that maximizes reduction of the direct note by increasing loanable funds. As borrower payments are received, they are immediately applied to the respective notes payable to the Bank. The Association's participation in investments and other secondary market programs provides additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in the Association experiencing a liquidity deficiency.

Total notes payable to the Bank at December 31, 2014 were $118,626 as compared to $116,275 at December 31, 2013 and $135,882 at December 31, 2012. The increase of $2,351 or 2.02 percent mainly corresponds to an increased in loan volume. The average volume of notes payable to the Bank was $114,691 and $128,513 for the years ended December 31, 2014 and 2013, 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.

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

The GFA defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants. The Association failed to meet its earnings covenant under the GFA at December 31, 2013. The default allowed the Bank, in conjunction with the FCA, to accelerate repayment of all indebtedness. The Bank approved a waiver of the default and allowed the Association to continue operating under a Special Credit Agreement (SCA). At December 31, 2014, the Association was in compliance with the earnings covenant under the SCA and the GFA. The current SCA addressing the GFA earnings covenant default was executed effective January 31, 2013 and expired on January 31, 2014. The Association continues to operate under the 2014 GFA.

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 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 and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to either the Prime Rate or the 90-day London Interbank Offered Rate (LIBOR). Fixed rate loans are priced based on the current cost of Farm Credit System debt of similar terms to maturity. The Association does not offer or include adjustable rate mortgages (ARMS) in its portfolio of loan products.

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 Sources" 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 loan growth and investment in new products and services, as they may become available.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan. There were no material changes to the capital plan for 2014 that affected the minimum stock purchase requirement or would have had an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2014 increased $2,802 or 5.71 percent to $51,897 from the total of $49,095. Also, at December 31, 2013 total members' equity increased 5.67 percent or $2,636 from the December 31, 2012 total of $46,459. The increase in the total members' equity was primarily due to the net income from operations. For 2014, the Association recorded a consolidated net income from operations of $3,921. The FLCA subsidiary showed net income of $1,569; and the ACA subsidiary reflected a net income of $2,352.

The remaining unamortized Accumulated Other Comprehensive Income of $292 associated with the retiree welfare benefits was recognized as a gain and reflected as a reduction to operating expense at December 31, 2014 due to termination of the benefits. Refer to Note 9, *Employee Benefit Plans*, of the Notes to the Consolidated Financial Statements for additional information.

Total capital stock and participation certificates were $520 on December 31, 2014, compared to $537 on December 31, 2013 and $604 on December 31, 2012. The Board of Directors continued its commitment to maintain the cooperative equity investment requirement at the regulatory minimum of 2.0 percent of the original loan or $1,000, whichever is less.

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 mean 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 standards for all three ratios.

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

	2014	2013	2012	Regulatory Minimum
Permanent Capital	32.98%	29.41%	20.67%	7.00%
Total Surplus	32.62%	29.05%	20.29%	7.00%
Core Surplus	32.62%	29.05%	20.29%	3.50%

The increase in the Association's permanent capital, total surplus and core surplus ratios since December 31, 2012 was primarily attributable to a decrease in calculated risk weighted assets each year The Association meet the FCA's regulatory minimum capital standards and capital adequacy requirements.

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.

See Note 7, *Members' Equity*, of the Notes to 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, if necessary, 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 the Association's FLCA subsidiary earned on a non-patronage basis, the remaining taxable earnings of the Association are eligible for allocation and distribution to eligible borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distribution. The Association has not declared estimated patronage distributions since 2010 until 2014 that they declared an estimated patronage distribution of $800 to be paid during the first quarter of 2015.

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

The US Department of Agriculture National Agricultural Statistic Service (NASS) conducted the 2012 census of agriculture. They analyzed the data and prepared the 2012 Census of Agriculture for Puerto Rico and its municipalities as of June 27, 2014. The census provides a comprehensive picture of Puerto Rico agriculture in 2012, including Young and Beginning farmer's data. The data indicates that within the Association's chartered territory there were 13,159 reported farmers of which, 507 or 3.85% were Young and 4,549 or 34.57percent were Beginning. The Puerto Rico census does not make available data identifying Small farmers. Overall, 2012 total farmers in Puerto Rico decrease by 1,617 (11%) from the 2007 Census. The percentage of Young and Beginning farmers remains similar to the 2007 census data, however, beginning farmers with 9 years or less operating farms reflected a reduction of 236 while Young farmers with 34 years or less reflects a reduction of 213.

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. The Association has established annual marketing goals to increase its market share of loans to YBS farmers because of the unique needs of these individuals and their importance to the future growth of the Association. 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.

The following table outlines the Association's YBS 2014 goal and actual number of loans and dollar amount (in thousands) in the loan portfolio as of December 31, 2014:

	Number of Loans		$ Amount of Loans	
	2014 Goal	**2014 Actual**	**2014 Goal**	**2014 Actual**
Young	5	13	$540	$8,684
Beginning	13	26	$1,350	$8,522
Small	13	25	$1,350	$3,369

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 following table outlines the Association YBS goal and the actual results for both number and dollar amount (in thousands) of new loans for the year ended December 31, 2014:

	Number of Loans		$ Amount of New Loans	
	2014 Goal	**2014 Actual**	**2014 Goal**	**2014 Actual**
Young	5	13	$540	$8,684
Beginning	13	26	$1,350	$8,522
Small	13	25	$1,350	$3,369

The following table outlines the Association YBS goal and the actual results as a percentage of number and dollar amount (in thousands) of new loans for the year ended December 31, 2014:

	Number of Loans		$ Amount of New Loans	
	2014 Goal	**2014 Actual**	**2014 Goal**	**2014 Actual**
Young	5%	10%	2%	13%
Beginning	12%	21%	5%	13%
Small	12%	20%	5%	35%

During 2014 the number of loans and volume to Young, Beginning and Small farmers exceeded the expectations for the year, mainly due PRFC's efforts to promote the YBS program and encourage a healthy transition to the younger family members that are becoming more involve in the operational and financial aspects of the farming operation.

The Association supported Young, Beginning and Small farmers through outreach and financial support programs. Education is at the heart of the programs, and includes seminars, speaking opportunities and training sessions, which are conducted throughout the year. These educational opportunities may be both in-house, in the form of events held by the Association, and external, in which case, the Association is a speaker or provider of educational materials. The Association website includes a section of information and resources for YBS visitors to the site.

A second focus area of the program includes activities where the Association sponsors local events or events where the Association is an exhibitor and/or a participant (such as industry or trade shows). Financial support addresses the specific credit programs and partnerships that the Association has developed to help small farmers, young farmers, and farmers just starting out. It comprises programs such as those offered by the Farm Service Agency (FSA), which, includes guaranteed and direct loans to qualifying borrowers.

The following outreach programs were conducted in 2014 as part of the Association's efforts to achieve established goals:

- Sponsored and participated in the Business Plan Building Competition known as EnterPrize, in order to develop global entrepreneurs, including this year a category of best agricultural business plan;

- Utilization of AgScore (credit score lending for small loan borrowers);
- Experienced credit staff coordinated/participated in the development and implementation of business financial skills training for YBS farmers;
- Supported and/or sponsored programs and activities with the University of Puerto Rico; and
- Participated in various educational programs coordinated by the Department of Agriculture, Puerto Rico Farm Bureau and /or the Agronomist Association.

The Chief Lending Officer coordinates the Association's efforts, and oversees the YBS program. The Association includes YBS goals in the annual strategic business 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

Supervisory Agreement

On March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement supersedes FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporates certain requirements from these letters. The Supervisory Agreement requires the Board of Directors to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibits the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, high turnover in senior management, perceived weaknesses in board governance, and, reduced earnings and liquidity.

The Board of Directors and the Association have worked together to reach significant milestones. The regulator has provided the Board of Directors several interim progress reports on compliance with the SA and delivered a report of examination to the Board of Directors as of December 31, 2014. The Association has achieved full compliance in 14 out of 17 items and substantial compliance in 4 out of 17 items. Some of the results achieved in compliance with the agreement include the following:

- Hiring a board consultant and working with the consultant to assist the Board in fulfilling its fiduciary duties and improving board operations and governance.
- Updating its board committee charters, undergoing several training sessions and changing leadership to improve governance of the Association.
- Revising the director candidate nominating procedures to qualify new candidates, which led to stockholders electing two new directors to the Board in 2012.
- Hiring a new CEO beginning on February 1, 2011 to lead the Association after the retirement of the previous CEO on September 30, 2010.
- Building a cohesive senior management team.
- Overseeing the implementation of updated collateral risk management policies and procedures that are in line with best practices in the industry.
- Improving the methodology used to calculate the Allowance for Loan Losses of the Association.
- Hiring a specialized third party auditor that assessed the capital markets portfolio credit risk and helped, strengthened credit policies and procedures.
- Establishing a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the SA.
- Ensuring that FCA's recommendations are incorporated in the various action plans.
- Reviewing the Association's internal audit plan to focus on areas where perceived weaknesses were identified.
- Establishing a risk assessment process to assess risks and controls in the ACA.
- Establishing an asset quality improvement plan to monitor management efforts in managing high risk loans.
- Revising the business plan to establish strategic priorities and to comply with FCA regulations governing business planning.
- Establishing a human capital plan and succession plan to assist in the long-term success of the Association.
- Revising board policies on a quarterly basis to guide management in conducting day to day operations.
- Enhancing the participation's portfolio credit underwriting and administration controls.

All required measures have not been achieved or completed as of the date of this report and the Board of Directors continues to work with the management team in improving the areas identified in the Supervisory Agreement. Besides the ongoing corrective actions already mentioned, other actions to be taken target the following areas:

- Maintain oversight over internal controls.
- Continue executing strategies to grow the Association's loan portfolio with high quality loans to improve asset quality and, enhance earnings and liquidity.
- Continue improving the preparation and documentation of the income approach in appraisals.

The Board of Directors will continue engaging a board consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement. Both the Board of Directors and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

The Association remained under written supervisory agreement as of the date of this report.

Other Regulatory Matters

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.

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, patronage dividend policies or practices, 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.

Association hold an equity investment in two (2) LLC's, which are Ethanol Holding Company, LLC (formerly BFE Operating Company, LLC) and CBF Holding, LLC (formerly Clean Burn Fuels, LLC).

The Ethanol Holding Company, LLC is a Delaware Limited Liability Company, in which PRFC owns a 0.32900% equity. 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.

The CBF Holding, LLC is a North Carolina Limited Liability Company, in which PRFC owns 2.89855% equity. Subject to and upon the terms of the Operating Agreement, the stated purpose of the Company shall be to acquire, maintain, operate in an idle mode, market, and re-sell the Purchased Assets (an ethanol plant); and to engage in such activities as may be approved by the Majority Interest (collectively, the "Business"), in each case subject to any limitations of the Act or the Applicable Laws of any jurisdiction in which the Company transacts business. The Company shall be authorized to engage in any and all other activities related to the foregoing.

Description of Property

The following table sets forth certain information regarding the property of the reporting entity, which is located in San Juan, Puerto Rico:

Location	Description	Form of Ownership
213 Domenech Ave Hato Rey	Administrative/ San Juan Branch	Owned

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 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:

Senior Officer	Position
Ricardo L Fernández	*President & CEO* since February 2011. Member of Farm Credit System's Presidents Planning Committee (PPC) since 2012. Secretary of the District's PPC and member of the District's Sales & Marketing Committee. He has 18 years of experience in commercial banking, occupying various positions in strategic planning, finance and, small and middle-market commercial lending.
Jorge A. Dulzaides	*Chief Lending Officer* since July 2013. Has 29 years of experience in the Farm Credit System as credit analyst, lending officer, internal auditor and lending manager.
Johana Quiñones	*Director of Finance, Risk and Internal Controls* since September 2012. She has over 17 years of experience in commercial banking occupying positions as internal auditor, internal audit manager, loan reviewer and chief credit risk officer.
Victor Arroyo	*Vice President & CCO* since April 2011. Retired on June 2013. He had over 35 years of experience working in the financial services industry, both in Puerto Rico and Latin America. Manager of the loan participations and rural housing loan portfolios between 2007 and 2011.

The total amount of compensation earned by the CEO and the five most highly paid 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*		Perquisites/ Other**		Total (a)
Ricardo L. Fernández	2014	$ 183,007	$ 46,000	$ 15,000	$ 12,056	(d)	$ 13,740		$ 269,803
Ricardo L. Fernández	2013	$ 171,006	$ 36,000	$ 10,000	$ 3,488		$ 17,264	(b)	$ 237,758
Ricardo L. Fernández	2012	$ 160,000	$ 36,000	$ –	$ –		$ 10,000		$ 206,000
5	2014	$ 526,163	$ 23,464	$ –	$ 545,553	(d)	$ 43,595		$ 1,138,775
6	2013	$ 540,146	$ 10,225	$ –	$ (13,881)		$ 71,499	(c)	$ 607,989
5	2012	$ 466,284	$ 4,600	$ –	$ –		$ –		$ 470,884

* *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 Bank 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.*

** *Includes company contributions to 401 (k) plan (see Note 9, Employee Benefit Plans, to the Financial Statements), excess annual leave paid; and medical and dental insurance premium.*

(a) *Disclosure of information on the total compensation paid during 2014 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.*

(b) *On 2013, includes a one time payment of accrued excess annual leave of $4,569.*

(c) *On 2013, includes a payment of accrued annual leave of $9,610 upon the retirement of one senior officer. Also, includes $12,226 one time payments of accrued excess annual leaves for one senior officer and $7,478 for other individual.*

(d) *The changes in pension values in 2014, as reflected in the table above, resulted primarily from changes in the actuarial assumptions for mortality and discount rate. See further discussion in Note 9, Employee Benefit Plans, of the Financial Statements.*

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
CEO:					
Ricardo L. Fernández	2014	AgFirst Farm Credit Cash Balance Retirement Plan	3.92	$ 20,750	$ -
				$ 20,750	$ -
Senior Officers and Highly Compensated Employees:					
3 Officers, excluding the CEO	2014	AgFirst Farm Credit Retirement Plan	27.17	$ 2,296,198	$ -
2 Officers, excluding the CEO	2014	AgFirst Farm Credit Cash Balance Retirement Plan	2.96	$ 18,527	$ -
5 Total Officers				$ 2,314,725	$ -

* *Number of years credited service represents the average years of credited service for the group.*

The Association did not have a plan in place or provisions in any of the three years, which would allow for or facilitate the deferral of compensation, either salary or bonus.

The Board of Directors has not approved, as of the date of this report, payment of a performance bonus to Mr. Fernández for performance in 2014. It is estimated that based on certain performance metrics achieved in 2014, that Mr. Fernández will receive a bonus payment similar to previous years. That equates to a potential payment of $35,000 with a deferral of another $15,000.

In 2014, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved on April 2014 additional executive compensation based on certain performance measures achieved in 2013. The amount was $35,000 with $15,000 deferred until certain metrics are achieved. Additionally, $10,000 in deferred compensation from 2012 was paid. The Bonus category also includes the Christmas bonus required by law in Puerto Rico.

In 2013, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved on April 2013 additional executive compensation based on certain performance measures achieved in 2012. The amount was $35,000 with $10,000 deferred through 2014. Deferred compensation from 2011 for $10,000 was not paid. The Bonus category also includes a Christmas bonus required by law in Puerto Rico.

In 2012, Mr. Fernández' compensation includes a performance bonus and other bonuses detailed as follows. The Board approved on April 2012 a performance bonus based on certain performance measures achieved in 2011. Nevertheless, from this amount, $10,000 were deferred and through 2013. The Bonus category also includes a Christmas bonus required by law in Puerto Rico.

For the other senior officers, other bonus equates to the mandatory payment of a Christmas Bonus required by Commonwealth law in each year. Since 2009, given the Association's financial performance, no consideration has been given by the Board to the payment of executive variable compensation. However, on December 2014, an incentive performance bonus were paid to most employees. For 2013, there was no executive compensation plan adopted by the Board of Directors.

In 2011 the Board of Directors approved an incentive plan for the association employees and department managers. The objectives of the plan were to tie compensation directly to organizational performance, focusing attention on both short-term and long-term results. No payment was made to any employees under the incentive plan through 2012. As the performance management process is completed for 2013, certain employees may be paid performance bonuses under the existing plan.

Disclosure of information on the total compensation paid during 2014 to any senior officer, or to any other individual included in the total, is available to shareholders upon request.

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.

Retirement and Deferred Compensation Plans

The Bank's compensation programs include retirement and deferred compensation plans designed to provide income following an employee's retirement. Although retirement benefits are paid following an employee's retirement, the benefits are earned while employed. The objective of the Bank is to offer benefit plans that are market competitive and aligned with the Bank's strategic objectives. The plans are designed to enable the Bank to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that supports the Bank's mission and that allows the Bank to align the human capital needs with the Bank's overall strategic plan.

Employees participate in one of two qualified defined benefit retirement plans.

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees hired on or after January 1, 2003, but prior to November 4, 2014, participate in the AgFirst Farm Credit Cash Balance Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 with a minimum of 5 years of credited service or at age 55 with a minimum of 10 years of credited service. Upon retirement, payout is determined using a percent of eligible compensation formula, subject to the Internal Revenue Code limitation on compensation, and regular interest credits. For purposes of determining the payout, "compensation" is defined as regular salary (i.e., does not include incentive awards compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security. Benefit accruals in the plan were frozen as of December 31, 2014, at which time active participants were fully vested regardless of years of credited service. The plan will be terminated effective as of December 31, 2015, and benefits in the plan will be distributed to plan participants after the plan has been submitted to and reviewed by the Internal Revenue Service.

Employees participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan which has an employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to $0.50 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003 receive a maximum employer matching contribution equal to $1.00 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Beginning January 1, 2015, employees hired on or after January 1, 2003 also received an employer non elective contribution equal to 3 percent of employee compensation, subject to the Internal Revenue Code limitation on compensation.

Additional Compensation Information

On October 3, 2012, FCA adopted a regulation that requires all System institutions to hold advisory votes on the compensation for all senior officers and/or the CEO when the compensation of either the CEO or the senior officer group increases by 15 percent or more from the previous reporting period. In addition, the regulation requires associations to hold an advisory vote on CEO and/or senior officer compensation when 5 percent of the voting stockholders petition for the vote and to disclose the petition authority in the annual report to shareholders. The regulation became effective December 17, 2012, and the base year for determining whether there is a 15 percent or greater increase was 2013. No District Association held an advisory vote based on a stockholder petition in 2013.

On January 17, 2014, the President signed into law the Consolidated Appropriations Act, which includes language prohibiting the FCA from using any funds available to "implement or enforce" the regulation. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. Section 5404 of the law directs FCA, within 60 days of enactment of the law, to "review its rules to reflect the Congressional intent that a primary responsibility of boards of directors of Farm Credit System institutions, as elected representatives of their stockholders, is to oversee compensation practices." FCA has not yet taken any action with respect to their regulation in response to these actions.

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.

Directors

Directors and senior officers 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, laundry, registration fees, and other expenses associated with the travel on official business.

A copy of the policy is available to the Associations' stockholders upon request.

The aggregate amount of expense or reimbursement for travel, subsistence and other related expenses for all directors as a group was $94,005 for 2014, $92,305 for 2013 and $98,393 for 2012. It is the practice of the Association not to provide noncash compensation to directors. For 2014, there was no noncash compensation provided.

The Board of Directors reviews and determines adequate director compensation to attract qualified directors. The Board of Directors reviewed director honorarium in mid 2012 and approved modifications to director compensation. Effective July 1, 2012, all elected stockholder directors were compensated at a per diem rate of $400 for all official activities. Honorarium for all external directors was paid at a per diem rate of $600 and $1,000 for the financial expert.

Directors are also paid honorarium at the per diem rate for travel to and from conferences and meetings when the distance and schedule requires travel on any portion of the day prior to or following the scheduled activity. In addition, all directors were paid a quarterly a retainer fee as compensation for incidental services and review/preparation for meetings and assignments. The chairman's retainer fee is $1,000 per quarter and $750 per quarter for all the other directors, including external directors.

Additional information for each Director is provided below:

			Term of Office		Number of Days Served		Compensation		
Name of Director	Position	Committee Assignments	Election Year	Current Term Expiration	Board Meetings	Other Official Activities*	Compensation Regular Board Meetings & Retainer	Compensation for Other Activities	Total Compensation During 2014
Robert G. Miller	Chairman	Governance / Compensation	2010	2016	18	22	$10,450	$8,800	$19,250
Pablo Rodríguez	Vice Chairman	Risk Management	2011	2014	22	17	12,300	6,800	19,100
Victor Ayala	Second Vice Chairman	Audit / Risk Management	2004	2014	18	8	10,150	3,200	13,350
Carlos A. Rodríguez	Director	Audit / Risk Management	2011	2014	18	8	10,150	3,200	13,350
Héctor I. Cordero	Director	Governance / Compensation / Compliance	2012	2015	18	17	10,350	6,800	17,150
Michael J. Serrallés	Director	Audit / Compliance	2013	2016	14	24	8,750	9,200	17,950
Antonio E. Marichal	External Director and Financial Expert	Audit / Compliance	2006	2015	16	12	16,550	11,200	27,750
Francisco Oramas	External Director	Governance / Compensation	2010	2013	18	12	13,350	7,200	20,550
Total							$92,050	$56,400	$148,450

On January 2014, a total of $12,000 has been paid for a Board Meeting and other official activities served during December 2013, included in the table reported on 2013 Annual Report.

All directors shall make themselves available to serve on the loan committee, upon the scheduling of a meeting. Any two directors along with the President/CEO shall constitute a quorum for the loan committee. Committee meetings are normally scheduled and held the same day as monthly board of director's meetings. This scheduling method results in there being no separate and/or additional honorarium paid for the various committee meetings. The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years:

Mr. Pablo Rodríguez, Age 51. Chairman of the Board since April 2014. He is a farmer growing plantains and coffee. His farm is in San Sebastian. He is a member of the Colegio de Agrónomos de Puerto Rico. In 2014 he was elected Second Vice President of the local Farm Bureau Board. He has been a Board member since 2010 and was reelected in 2014 to a three-year term expiring in 2017.

Mr. Robert G. Miller, Age 60. Vice Chairman of the Board since April 2014. He is a producer of eggs, laying hens, and pullets who owns farms in the Sabana neighborhood in Orocovis and the Asomante neighborhood in Aibonito. Mr. Miller is President of Empresas Agrícolas de Puerto Rico, Inc. He is a member and Vice President of the Fund for the Promotion of the Egg Industry. He was reelected to a three-year term in 2013 and has been a member of the Board since 2010.

Mr. Victor M. Ayala, Age 67. Second Vice Chairman of the Board. He is a dairy farmer and cattle rancher with a farm in the neighborhood of Collores, in Humacao. He has a business interest in VEH, Inc, a hay operation. Mr. Ayala is a director in the dairy industry's Fondo para la Estabilización de Precios, who is an association member. He was reelected to the Board in 2014 for a three-year term and has been a member of the Board since 2004.

Mr. Carlos A. Rodríguez, Age 64. Is a cattle rancher in the neighborhood of Barahona in Morovis. Mr. Rodríguez was elected Vice President of the Puerto Rico Farm Bureau Board in 2014. He has been a PRFC director since 2002 and was reelected in 2014 to a three-year term expiring in 2017.

Mr. Héctor I. Cordero Toledo, Age 49. Is a dairy farmer, cattle rancher in Aguadilla and is also involved with fodder, which he produces in Hormigueros. He is President of the Puerto Rico Farm Bureau and delegate to the American Farm Bureau Federation. He is a member of the Puerto Rico Dairy Herd Improvement Association. He is also an advisor to the Puerto Rico Young Farmers & Ranchers. He was first elected to the Board in 2012 and his term expires in 2015.

Mr. Michael J. Serrallés, Age 42. Is a manager and director of Sucesión J. Serrallés, Inc. The corporation has 400 acres in the production, packing and exportation of mangos, 100 acres for growing coffee and oranges. They also have 40 acres for the production of ornamental plants and 100 acres for planting of coconut palms. The corporation also has farmland leased to seed research companies. He was first elected to the Board in 2013 and his term expires in 2016.

Mr. Antonio E. Marichal, Age 64. Is an attorney with an accounting background. He is one of two outside directors and serves as the financial expert. He is a retired partner of the firm Marichal & Hernández, LLP but continues to practice law as an associate. His list of clients includes several association members and directors for whom he may perform work as the need arises. He is a member of the Colegio de Abogados de Puerto Rico, the Asociación de Notarios, and the American Bar Association. Originally appointed by the Board in 2006, he was reelected in 2012 for a three-year term expiring in 2015.

Mr. Francisco Oramas, Age 50. Is an agronomist and business man. He is one of two outside directors. Mr. Oramas is the Vice President of Caribbean Produce, a company dedicated to the sales and distribution of fruits and vegetables in Puerto Rico. Caribbean Produce may purchase fruits and vegetables from association members as part of their daily business. Mr. Oramas also serves on the Board of Directors of Atenas Pineapple, a corporation dedicated to growing pineapples in Puerto Rico. He was under Secretary of the Puerto Rico Department of Agriculture from 2005 to 2007 and is currently a member of the Colegio de Agrónomos de Puerto Rico. Originally appointed by the Board in 2010, was reelected by the Board to a three-year term expiring 2016.

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.

Transactions Other Than Loans

There have been no transactions that occurred at any time during the year ended December 31, 2014, between the Association and senior officers or directors, their immediate family members or any organizations with which they are affiliated, which require reporting per FCA regulations. There were no transactions with any senior officer or director related to the purchase or retirement of preferred stock of the Association for the year ended December 31, 2014.

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 accountants on any matter of the generally accepted accounting principles or financial statement disclosures during this period.

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

	2014
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP	
Audit services	$ 58,791
Total	$ 58,791

Audit services fees were for the annual audit of the Consolidated Financial Statements.

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 1-787-753-5435, or writing Nydia J. Acevedo, Controller, Puerto Rico Farm Credit, ACA, PO Box 363649, San Juan, PR 00936 or accessing the web site, ***www.puertoricofarmcredit.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 Association.

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 may 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***. 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 Puerto Rico Farm Credit, ACA (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 reviewed, amended and approved by the Board of Directors in 2013. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

The Board of Directors of the Association entered into a Supervisory Agreement with FCA, which substantially collapsed two supervisory letters from 2009 and 2010 into the agreement, along with, certain additional findings and compliance matters. FCA required compliance in matters mostly related to board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality deterioration, allowance for loan losses and collateral risk management, and capital markets and participation activities. The Association has reached partial compliance with some of the requirements of the Supervisory Agreement and incremental progress in all. Please refer to the following sections of the Annual Report, as all these matters are fully discussed in the section of Regulatory Matters of the Management's Discussion & Analysis of Financial Condition & Results of Operations and Note 14, *Regulatory Enforcement Matters*, of the Notes to the Consolidated Financial Statements.

PricewaterhouseCoopers LLP (PwC), the Association's independent certified public accountants 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 the 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.

The members of the Committee are not professionally engaged in the practice of auditing or accounting. The members of the Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent certified public accountants. Accordingly, the Committee's considerations and discussions referred to above do not assure that the audit of the Association's financial statements has been carried out in accordance with auditing standards generally accepted in the United States of America or that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

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 Audit Committee:

Antonio E. Marichal, External Director
Chairman of the Audit Committee

Members of Audit Committee

Victor M. Ayala, Director
Carlos A. Rodríguez, Director
Michael J. Serrallés, Director

March 11, 2015

pwc

Report of Independent Certified Public Accountants

To the Board of Directors of
Puerto Rico Farm Credit, ACA:

We have audited the accompanying consolidated financial statements of Puerto Rico 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 Puerto Rico 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.

PricewaterhouseCoopers LLP

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

(dollars in thousands)	December 31, 2014	2013	2012
Assets			
Cash	$ 292	$ 103	$ 214
Loans	166,454	161,841	169,389
Allowance for loan losses	(1,984)	(3,128)	(4,408)
Net loans	164,470	158,713	164,981
Notes receivable from other Farm Credit institutions (Note 4)	—	—	10,000
Other investments	40	70	250
Accrued interest receivable	576	588	604
Investments in other Farm Credit institutions	1,624	1,876	1,960
Premises and equipment, net	984	915	840
Other property owned	1,484	2,481	3,498
Accounts receivable	2,348	2,868	2,000
Other assets	346	763	941
Total assets	$ 172,164	$ 168,377	$ 185,288
Liabilities			
Notes payable to AgFirst Farm Credit Bank	$ 118,626	$ 116,275	$ 135,882
Accrued interest payable	161	169	245
Patronage refunds payable	800	—	—
Accounts payable	358	360	306
Other liabilities	322	2,478	2,396
Total liabilities	120,267	119,282	138,829
Commitments and contingencies			
Members' Equity			
Capital stock and participation certificates	520	537	604
Unallocated retained earnings	51,377	48,256	45,569
Accumulated other comprehensive income	—	302	286
Total members' equity	51,897	49,095	46,459
Total liabilities and members' equity	$ 172,164	$ 168,377	$ 185,288

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

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2014	2013	2012
Interest Income			
Loans	$ 6,710	$ 6,397	$ 6,601
Notes receivable from other Farm Credit institutions (Note 4)	—	710	900
Total interest income	6,710	7,107	7,501
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	1,924	2,610	2,993
Net interest income	4,786	4,497	4,508
Provision for (reversal of allowance for) loan losses	401	(1,088)	736
Net interest income after provision for (reversal of allowance for) loan losses	4,385	5,585	3,772
Noninterest Income			
Loan fees	108	182	108
Fees for financially related services	12	19	10
Patronage refunds from other Farm Credit institutions	2,283	2,896	1,480
Gains (losses) on sales of premises and equipment, net	(27)	(2)	(5)
Gains (losses) on other transactions	7	2	—
Net other-than-temporary impairment losses on investments	(30)	(180)	—
Insurance Fund refunds	—	—	679
Other noninterest income	82	245	303
Total noninterest income	2,435	3,162	2,575
Noninterest Expense			
Salaries and employee benefits	2,924	3,084	3,165
Termination of employee benefit (Note 9)	(2,205)	—	—
Occupancy and equipment	243	261	251
Insurance Fund premiums	125	129	79
(Gains) losses on other property owned, net	313	1,166	553
Other operating expenses	1,499	1,420	1,616
Total noninterest expense	2,899	6,060	5,664
Income (loss) before income taxes	3,921	2,687	683
Provision for income taxes	—	—	—
Net income (loss)	$ 3,921	$ 2,687	$ 683

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

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2014	2013	2012
Net income	$ 3,921	$ 2,687	$ 683
Other comprehensive income net of tax			
Employee benefit adjustments (Note 9)	(302)	16	7
Comprehensive income	$ 3,619	$ 2,703	$ 690

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

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2011	$ 648	$ 44,886	$ 279	$ 45,813
Comprehensive income		683	7	690
Capital stock/participation certificates issued/(retired), net	(44)			(44)
Balance at December 31, 2012	$ 604	$ 45,569	$ 286	$ 46,459
Comprehensive income		2,687	16	2,703
Capital stock/participation certificates issued/(retired), net	(67)			(67)
Balance at December 31, 2013	$ 537	$ 48,256	$ 302	$ 49,095
Comprehensive income		3,921	(302)	3,619
Capital stock/participation certificates issued/(retired), net	(17)			(17)
Patronage distribution				
Cash		(800)		(800)
Balance at December 31, 2014	$ 520	$ 51,377	$ —	$ 51,897

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

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2014	2013	2012
Cash flows from operating activities:			
Net income	$ 3,921	$ 2,687	$ 683
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	118	113	116
Amortization (accretion) of net deferred loan costs (fees)	243	253	179
Provision for (reversal of allowance for) loan losses	401	(1,088)	736
(Gains) losses on other property owned	194	1,105	533
Net impairment losses on investments	30	180	—
(Gains) losses on sales of premises and equipment, net	27	2	5
(Gains) losses on other transactions	(7)	(2)	—
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	12	16	(36)
(Increase) decrease in accounts receivable	520	(868)	(357)
(Increase) decrease in other assets	417	178	255
Increase (decrease) in accrued interest payable	(8)	(76)	(29)
Increase (decrease) in accounts payable	(2)	54	86
Increase (decrease) in other liabilities	(2,451)	100	241
Total adjustments	(506)	(33)	1,729
Net cash provided by (used in) operating activities	3,415	2,654	2,412
Cash flows from investing activities:			
Net (increase) decrease in loans	(7,254)	6,556	2,526
(Increase) decrease in notes receivable from other Farm Credit institutions	—	10,000	—
(Increase) decrease in investment in other Farm Credit institutions	252	84	746
Purchases of premises and equipment	(214)	(190)	(45)
Proceeds from sales of other property owned	1,656	459	1,937
Net cash provided by (used in) investing activities	(5,560)	16,909	5,164
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	2,351	(19,607)	(7,482)
Capital stock and participation certificates issued/(retired), net	(17)	(67)	(44)
Net cash provided by (used in) financing activities	2,334	(19,674)	(7,526)
Net increase (decrease) in cash	189	(111)	50
Cash, beginning of period	103	214	164
Cash, end of period	$ 292	$ 103	$ 214
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	$ 65	$ —	$ —
Receipt of property in settlement of loans	919	547	3,479
Estimated cash dividends or patronage distributions declared or payable	800	—	—
Employee benefit adjustments (Note 9)	302	(16)	(7)
Supplemental information:			
Interest paid	$ 1,932	$ 2,686	$ 3,022
Taxes (refunded) paid, net	54	34	34

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:** Puerto Rico Farm Credit, ACA (Association) is a stockholder-owned cooperative that provides credit and credit-related services to qualified borrowers within the Commonwealth of Puerto Rico. The Association is also authorized by its charter from the Farm Credit Administration to provide the same credit and credit-related services for qualified purposes within the territory of the U.S. Virgin Islands.

The Association is a lending institution in the Farm Credit System (the 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.

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
The Association holds minority equity interests in a Rural Business Investment Company (RBIC). This investment is accounted for under the cost method and is carried at the lower of cost or fair value.

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 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.

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
In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. 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. Other Postretirement Benefits plans are unfunded with expenses paid as incurred.

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. However, for Puerto Rico tax purposes, the Association has had a ruling from the Puerto Rico Treasury Department since June 1993 determining that the Association and its subsidiaries will be treated as a domestic cooperative association. Thus, the Association enjoys the exemptions provided by Article 23 of the General Cooperative Association Act of Puerto Rico of 2004, Act No. 239 of September 1, 2004.

The Association operates 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.

The Association has adopted a "pro-rata" method to tax effect only the portion of the Association's temporary differences expected to have a future tax consequence to the Association. The Association intends to have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends. This operating scenario results in zero federal taxable income. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank 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.

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.

Please see further discussion in Note 8.

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 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).

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	$ 90,578	$ 95,341	$ 102,418
Production and intermediate-term	33,752	24,240	42,328
Processing and marketing	17,722	16,875	3,334
Farm-related business	2,350	2,422	928
Communication	5,658	5,534	970
Energy and water/waste disposal	2,420	2,327	2,479
Rural residential real estate	13,974	15,102	16,932
Total Loans	$ 166,454	$ 161,841	$ 169,389

A substantial portion of the Association's chartered territory 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	$ 1,048	$ 5,672	$ –	$ –	$ 1,380	$ –	$ 2,428	$ 5,672
Production and intermediate-term	7,194	2,146	–	–	5,977	–	13,171	2,146
Processing and marketing	17,153	–	–	–	481	–	17,634	–
Farm-related business	–	–	–	–	2,132	–	2,132	–
Communication	5,668	–	–	–	–	–	5,668	–
Energy and water/waste disposal	2,428	–	–	–	–	–	2,428	–
Total	$ 33,491	$ 7,818	$ –	$ –	$ 9,970	$ –	$ 43,461	$ 7,818

	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	$ 1,107	$ 5,969	$ –	$ –	$ 1,446	$ –	$ 2,553	$ 5,969
Production and intermediate-term	7,694	1,877	–	–	5,514	–	13,208	1,877
Processing and marketing	16,200	–	–	–	556	–	16,756	–
Farm-related business	–	–	–	–	2,193	–	2,193	–
Communication	5,550	–	–	–	–	–	5,550	–
Energy and water/waste disposal	2,330	–	–	–	–	–	2,330	–
Total	$ 32,881	$ 7,846	$ –	$ –	$ 9,709	$ –	$ 42,590	$ 7,846

	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	$ –	$ 11,523	$ –	$ –	$ 972	$ –	$ 972	$ 11,523
Production and intermediate-term	24,577	831	–	–	4,536	–	29,113	831
Processing and marketing	2,606	–	–	–	670	–	3,276	–
Farm-related business	–	–	–	–	882	–	882	–
Communication	975	–	–	–	–	–	975	–
Energy and water/waste disposal	2,479	–	–	–	–	–	2,479	–
Total	$ 30,637	$ 12,354	$ –	$ –	$ 7,060	$ –	$ 37,697	$ 12,354

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 the last period end:

	December 31, 2014			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 16,338	$ 46,872	$ 27,368	$ 90,578
Production and intermediate-term	4,325	17,093	12,334	33,752
Processing and marketing	1,697	9,390	6,635	17,722
Farm-related business	–	234	2,116	2,350
Communication	–	5,658	–	5,658
Energy and water/waste disposal	–	2,420	–	2,420
Rural residential real estate	295	155	13,524	13,974
Total Loans	$ 22,655	$ 81,822	$ 61,977	$ 166,454
Percentage	13.61%	49.16%	37.23%	100.00%

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,		
	2014	2013	2012
Real estate mortgage:			
Acceptable	89.60%	86.86%	86.59%
OAEM	0.60	1.08	0.76
Substandard/doubtful/loss	9.80	12.06	12.65
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	89.28%	75.06%	79.11%
OAEM	–	5.36	1.75
Substandard/doubtful/loss	10.72	19.58	19.14
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	100.00%	100.00%	44.56%
OAEM	–	–	14.13
Substandard/doubtful/loss	–	–	41.31
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31,		
	2014	2013	2012
Communication:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Energy and water/waste disposal:			
Acceptable	17.58%	100.00%	100.00%
OAEM	82.42	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	95.30%	94.96%	92.30%
OAEM	0.77	1.29	1.73
Substandard/doubtful/loss	3.93	3.75	5.97
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	90.57%	88.05%	84.81%
OAEM	1.59	1.56	1.35
Substandard/doubtful/loss	7.84	10.39	13.84
	100.00%	100.00%	100.00%

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

December 31, 2014

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,444	$ 4,577	$ 6,021	$ 84,848	$ 90,869	$ –
Production and intermediate-term	–	1,343	1,343	32,576	33,919	–
Processing and marketing	–	–	–	17,793	17,793	–
Farm-related business	–	–	–	2,361	2,361	–
Communication	–	–	–	5,660	5,660	–
Energy and water/waste disposal	–	–	–	2,421	2,421	–
Rural residential real estate	346	37	383	13,624	14,007	–
Total	$ 1,790	$ 5,957	$ 7,747	$ 159,283	$ 167,030	$ –

December 31, 2013

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 2,569	$ 7,780	$ 10,349	$ 85,290	$ 95,639	$ –
Production and intermediate-term	181	1,620	1,801	22,608	24,409	–
Processing and marketing	–	–	–	16,945	16,945	–
Farm-related business	–	–	–	2,434	2,434	–
Communication	–	–	–	5,535	5,535	–
Energy and water/waste disposal	–	–	–	2,327	2,327	–
Rural residential real estate	296	102	398	14,742	15,140	–
Total	$ 3,046	$ 9,502	$ 12,548	$ 149,881	$ 162,429	$ –

December 31, 2012

	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 5,984	$ 5,658	$ 11,642	$ 91,092	$ 102,734	$ –
Production and intermediate-term	–	1,786	1,786	40,666	42,452	–
Processing and marketing	–	–	–	3,360	3,360	–
Farm-related business	–	–	–	934	934	–
Communication	–	–	–	971	971	–
Energy and water/waste disposal	–	–	–	2,491	2,491	–
Rural residential real estate	671	223	894	16,082	16,976	–
Total	$ 6,655	$ 7,667	$ 14,322	$ 155,596	$ 169,918	$ –

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:

	December 31, 2014	2013	2012
Nonaccrual loans:			
Real estate mortgage	$ 6,064	$ 10,741	$ 9,714
Production and intermediate-term	1,527	1,886	2,949
Processing and marketing	–	–	560
Rural residential real estate	168	284	701
Total	$ 7,759	$ 12,911	$ 13,924
Accruing restructured loans:			
Real estate mortgage	$ 2,392	$ 1,161	$ –
Production and intermediate-term	1,555	1,192	1,338
Total	$ 3,947	$ 2,353	$ 1,338
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 11,706	$ 15,264	$ 15,262
Other property owned	1,484	2,481	3,498
Total nonperforming assets	$ 13,190	$ 17,745	$ 18,760
Nonaccrual loans as a percentage of total loans	4.66%	7.98%	8.22%
Nonperforming assets as a percentage of total loans and other property owned	7.85%	10.80%	10.85%
Nonperforming assets as a percentage of total members' equity	25.42%	36.14%	40.38%

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

	December 31, 2014	2013	2012
Impaired nonaccrual loans:			
Current as to principal and interest	$ 1,682	$ 1,612	$ 2,611
Past due	6,077	11,299	11,313
Total	$ 7,759	$ 12,911	$ 13,924
Impaired accrual loans:			
Restructured	$ 3,947	$ 2,353	$ 1,338
90 days or more past due	–	–	–
Total	$ 3,947	$ 2,353	$ 1,338
Total impaired loans	$ 11,706	$ 15,264	$ 15,262

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

	December 31, 2014			Year Ended December 31, 2014	
Impaired loans:	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 651	$ 622	$ 31	$ 797	$ 20
Production and intermediate-term	185	189	9	227	6
Rural residential real estate	–	–	–	–	–
Total	$ 836	$ 811	$ 40	$ 1,024	$ 26
With no related allowance for credit losses:					
Real estate mortgage	$ 7,805	$ 11,780	$ –	$ 9,569	$ 243
Production and intermediate-term	2,897	6,365	–	3,551	90
Rural residential real estate	168	222	–	206	5
Total	$ 10,870	$ 18,367	$ –	$ 13,326	$ 338
Total impaired loans:					
Real estate mortgage	$ 8,456	$ 12,402	$ 31	$ 10,366	$ 263
Production and intermediate-term	3,082	6,554	9	3,778	96
Rural residential real estate	168	222	–	206	5
Total	$ 11,706	$ 19,178	$ 40	$ 14,350	$ 364

Impaired loans:	December 31, 2013 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2013 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 2,634	$ 2,947	$ 719	$ 2,739	$ 36
Production and intermediate-term	1,148	4,304	413	1,194	15
Rural residential real estate	–	–	–	–	–
Total	$ 3,782	$ 7,251	$ 1,132	$ 3,933	$ 51
With no related allowance for credit losses:					
Real estate mortgage	$ 9,268	$ 12,155	$ –	$ 9,637	$ 125
Production and intermediate-term	1,930	1,977	–	2,006	27
Rural residential real estate	284	343	–	296	4
Total	$ 11,482	$ 14,475	$ –	$ 11,939	$ 156
Total impaired loans:					
Real estate mortgage	$ 11,902	$ 15,102	$ 719	$ 12,376	$ 161
Production and intermediate-term	3,078	6,281	413	3,200	42
Rural residential real estate	284	343	–	296	4
Total	$ 15,264	$ 21,726	$ 1,132	$ 15,872	$ 207

Impaired loans:	December 31, 2012 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2012 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 2,199	$ 2,300	$ 529	$ 2,692	$ 44
Production and intermediate-term	3,653	6,961	1,226	4,473	72
Processing and marketing	550	560	280	673	11
Rural residential real estate	378	408	38	462	8
Total	$ 6,780	$ 10,229	$ 2,073	$ 8,300	$ 135
With no related allowance for credit losses:					
Real estate mortgage	$ 7,515	$ 9,886	$ –	$ 9,201	$ 150
Production and intermediate-term	634	665	–	776	13
Processing and marketing	10	–	–	13	–
Rural residential real estate	323	400	–	396	6
Total	$ 8,482	$ 10,951	$ –	$ 10,386	$ 169
Total impaired loans:					
Real estate mortgage	$ 9,714	$ 12,186	$ 529	$ 11,893	$ 194
Production and intermediate-term	4,287	7,626	1,226	5,249	85
Processing and marketing	560	560	280	686	11
Rural residential real estate	701	808	38	858	14
Total	$ 15,262	$ 21,180	$ 2,073	$ 18,686	$ 304

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2014.

The following table summarizes interest income on nonaccrual loans that would have been recognized under the original terms of the loans:

	Year Ended December 31, 2014	2013	2012
Interest income which would have been recognized under the original loan terms	$ 1,126	$ 1,151	$ 2,445
Less: interest income recognized	(364)	(192)	(1,674)
Foregone interest income	$ 762	$ 959	$ 771

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	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2013	$ 1,359	$ 1,002	$ 565	$ 12	$ 2	$ 188	$ 3,128
Charge-offs	(1,266)	(288)	–	–	–	(1)	(1,555)
Recoveries	6	3	–	–	–	1	10
Provision for loan losses	136	533	(388)	14	15	91	401
Balance at December 31, 2014	$ 235	$ 1,250	$ 177	$ 26	$ 17	$ 279	$ 1,984
Balance at December 31, 2012	$ 1,336	$ 1,685	$ 1,241	$ 16	$ 3	$ 127	$ 4,408
Charge-offs	(7)	(9)	(195)	–	–	–	(211)
Recoveries	2	1	16	–	–	–	19
Provision for loan losses	(116)	(531)	(497)	(4)	(1)	61	(1,088)
Loan type reclassification	144	(144)	–	–	–	–	–
Balance at December 31, 2013	$ 1,359	$ 1,002	$ 565	$ 12	$ 2	$ 188	$ 3,128
Balance at December 31, 2011	$ 1,359	$ 657	$ 1,273	$ 7	$ 2	$ 184	$ 3,482
Charge-offs	(679)	(46)	(1)	–	–	–	(726)
Recoveries	153	763	–	–	–	–	916
Provision for loan losses	503	311	(31)	9	1	(57)	736
Balance at December 31, 2012	$ 1,336	$ 1,685	$ 1,241	$ 16	$ 3	$ 127	$ 4,408
Allowance on loans evaluated for impairment:							
Individually	$ 31	$ 9	$ –	$ –	$ –	$ –	$ 40
Collectively	204	1,241	177	26	17	279	1,944
Balance at December 31, 2014	$ 235	$ 1,250	$ 177	$ 26	$ 17	$ 279	$ 1,984
Individually	$ 719	$ 413	$ –	$ –	$ –	$ –	$ 1,132
Collectively	640	589	565	12	2	188	1,996
Balance at December 31, 2013	$ 1,359	$ 1,002	$ 565	$ 12	$ 2	$ 188	$ 3,128
Individually	$ 529	$ 1,226	$ 280	$ –	$ –	$ 38	$ 2,073
Collectively	807	$ 459	$ 961	$ 16	$ 3	$ 89	$ 2,335
Balance at December 31, 2012	$ 1,336	$ 1,685	$ 1,241	$ 16	$ 3	$ 127	$ 4,408
Recorded investment in loans evaluated for impairment:							
Individually	$ 8,041	$ 3,082	$ –	$ –	$ –	$ –	$ 11,123
Collectively	82,828	30,837	20,154	5,660	2,421	14,007	155,907
Balance at December 31, 2014	$ 90,869	$ 33,919	$ 20,154	$ 5,660	$ 2,421	$ 14,007	$ 167,030
Individually	$ 13,022	$ 1,883	$ –	$ –	$ –	$ 218	$ 15,123
Collectively	82,617	22,526	19,379	5,535	2,327	14,922	147,306
Balance at December 31, 2013	$ 95,639	$ 24,409	$ 19,379	$ 5,535	$ 2,327	$ 15,140	$ 162,429
Individually	$ 9,251	$ 4,221	$ 560	$ –	$ –	$ 491	$ 14,523
Collectively	93,483	$ 38,231	$ 3,734	$ 971	$ 2,491	$ 16,485	$ 155,395
Balance at December 31, 2012	$ 102,734	$ 42,452	$ 4,294	$ 971	$ 2,491	$ 16,976	$ 169,918

* *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.

	Year Ended December 31, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ 115	$ –	$ –	$ 115	
Production and intermediate-term	–	650	–	650	
Total	$ 115	$ 650	$ –	$ 765	
Post-modification:					
Real estate mortgage	$ 116	$ –	$ –	$ 116	$ –
Production and intermediate-term	–	647	–	647	–
Total	$ 116	$ 647	$ –	$ 763	$ –

	Year Ended December 31, 2013				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ 1,519	$ –	$ 1,519	
Production and intermediate-term	–	86	–	86	
Total	$ –	$ 1,605	$ –	$ 1,605	
Post-modification:					
Real estate mortgage	$ –	$ 1,516	$ –	$ 1,516	$ –
Production and intermediate-term	–	97	–	97	–
Total	$ –	$ 1,613	$ –	$ 1,613	$ –

	Year Ended December 31, 2012				
Outstanding Recorded Investment	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification:					
Real estate mortgage	$ –	$ –	$ 35	$ 35	
Production and intermediate-term	–	–	1,330	1,330	
Processing and marketing	–	560	–	560	
Total	$ –	$ 560	$ 1,365	$ 1,925	
Post-modification:					
Real estate mortgage	$ –	$ –	$ 19	$ 19	$ –
Production and intermediate-term	–	–	1,330	1,330	–
Processing and marketing	–	560	–	560	–
Total	$ –	$ 560	$ 1,349	$ 1,909	$ –

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

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

	Year Ended December 31,		
Defaulted troubled debt restructurings	2014	2013	2012
Real estate mortgage	$ –	$ 1,158	$ –
Production and intermediate-term	–	–	1,338
Processing and marketing	–	–	560
Total	$ –	$ 1,158	$ 1,898

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

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2014	2013	2012	2014	2013	2012
Real estate mortgage	$ 6,050	$ 6,677	$ 4,779	$ 3,658	$ 5,516	$ 4,779
Production and intermediate-term	1,740	1,277	2,529	185	85	1,191
Processing and marketing	–	–	560	–	–	560
Total Loans	$ 7,790	$ 7,954	$ 7,868	$ 3,843	$ 5,601	$ 6,530
Additional commitments to lend	$ –	$ –	$ –			

Note 4 — Investments

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.

At December 31, 2014, the Association's investment in the Bank was composed of purchased Class C stock and totaled $1,624. At December 31, 2013 and 2012, the Association's investment in the Bank was also composed of purchased Class C stock and totaled $1,876 and $1,960, respectively. In 2014, 2013, and 2012, the Association received refunds of excess stock totaling $252, $84, and $746, respectively, as part of the Bank's annual capital equalization program.

The Association owns 0.65 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 no investment related to other Farm Credit institutions.

Subordinated Notes Receivable from Other Farm Credit Institutions

In September 2008, the Association used capital reserves to purchase $10,000 total of 9.00 percent fixed rate unsecured subordinated notes issued by two other associations in the District, both notes due in 2018 with a prepayment option beginning in October 2013. On October 15, 2013, the notes receivable were redeemed in full by the issuing associations.

Other Investments

In 2006, the Association agreed to become one of several investors in a USDA approved Rural Business Investment Company (RBIC). This investment was made under the USDA's Rural Business Investment Program, which is authorized by the Farm Security and Rural Investment Act (FSRIA). It permits USDA to license RBICs and provide guarantees and grants to promote rural economic development and job opportunities and meet equity capital investment needs of small rural enterprises. FSRIA authorizes FCS institutions to establish and invest in RBICs, provided that such investments are not greater than 5 percent of the capital and surplus of the FCS institution.

Over the years, the Association purchased total equity investments in the RBIC of $250. There are no outstanding commitments to make additional equity purchases beyond this amount.

During 2014 and 2013, analyses indicated that decreases in value of the investment had occurred that were other than temporary, due to a series of losses and other factors. As a result, for the years ended December 31, 2104 and 2013, the Association recognized other-than-temporary impairment of $30 and $180, respectively, which is included in Impairment Losses on Investments in the Statements of Income.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31, 2014	2013	2012
Land and improvements	$ 98	$ 106	$ 106
Buildings and improvements	1,578	1,557	1,430
Furniture and equipment	990	1,058	1,077
	$ 2,666	$ 2,721	$ 2,613
Less: accumulated depreciation	1,682	1,806	1,773
Total	$ 984	$ 915	$ 840

Other Property Owned

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

	December 31, 2014	2013	2012
(Gains) losses on sale, net	$ (165)	$ 4	$ 242
Carrying value unrealized (gains) losses	360	1,101	291
Operating (income) expense, net	118	61	20
(Gains) losses on other property owned, net	$ 313	$ 1,166	$ 553

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. There were no deferred gains at December 31, 2014, 2013, and 2012.

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 1.45 percent for LIBOR-based loans and 1.59 percent for Prime-based loans, and the weighted average remaining maturities were 4.3 years and 6.7 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 3.11 percent, and the weighted average remaining maturity was 9.9 years at December 31, 2014. The weighted-average interest rate on all interest-bearing notes payable was 1.76 percent and the weighted-average remaining maturity was 6.5 years at December 31, 2014. Variable rate and fixed rate notes payable represent approximately 89.10 percent and 10.90 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, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **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 Class C 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 $1,000, 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 have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. At December 31, 2014, the Association had no loans designated for sale, nor were any loans previously sold into the Secondary Market.

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 is at par ($5 per share). Repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates. Retirements of equity investments are subject to approval by the Board, at its sole discretion. Subject to any limitations of the Farm Credit Act, when the debt of a borrower/stockholder is in default, the Association may order retirement of stock or participation certificates owned by the borrower and apply the proceeds to the indebtedness.

B. **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	32.98%	29.41%	20.67%	7.00%
Total surplus ratio	32.62%	29.05%	20.29%	7.00%
Core surplus ratio	32.62%	29.05%	20.29%	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.

C. **Description of Equities:** The Association is authorized to issue or have outstanding Class D Preferred Stock, Classes A and C Common Stock, Class 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 classes of 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:

		Shares Outstanding	
Class	Protected	Number	Aggregate Par Value
C Common/Voting	No	63,982	$ 320
C Participation Certificates/Nonvoting	No	40,013	200
Total Capital Stock and Participation Certificates		103,995	$ 520

Common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amount, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account. The minimum amount is determined annually by the Board. At the end of any fiscal year, if the retained earnings account 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.

Equity Dividends

Equity dividends may be declared and paid on stock and participation certificates as determined by the Board's resolution. All equity dividends shall be paid on a per share basis. Dividends on common stock and participation certificates shall be noncumulative without preference between classes.

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

Patronage Dividends

The Board, by adoption of a resolution, may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net earnings for the fiscal year. By adoption of resolutions in December, the Board may obligate the Association to distribute to eligible borrowers on a patronage basis all or any portion of available net taxable earnings. Patronage distributions declared are authorized to be paid 100 percent in cash, based on the proportion of each eligible borrower's net interest margin as compared to the total net interest margin earned by all eligible borrowers. The Board of Directors reserves the right to change the basis for the payment of patronage dividends.

If the Association meets its capital adequacy standards after accruing the patronage distribution, the dividend distribution may be paid in cash, authorized stock of the Association, allocations of earnings retained in an allocated member's equity account, or any one or more of such forms of distribution. There was no patronage dividend accrued since 2010.

Transfer

Each owner or joint owners of Class C Common Stock is entitled to a single vote, regardless of the number of shares owned, while Class A Common Stock, Class D Preferred Stock and Class C Participation Certificates provide no voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock. Common stock and participation certificates may be transferred to any person eligible to hold such class of equity under the bylaws. Class D Preferred Stock may be transferred in the manner set forth in the resolution authorizing its issuance.

Impairment

Under the capitalization bylaw of the Association, all stock and participation certificates are considered to be issued "at risk" and are not protected under the Farm Credit Act. Any net losses recorded by the Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's capital stock, such losses would be applied pro rata to each share and/or unit outstanding in the class, in the following order:

1. Classes A and C Common Stock and Class C Participation Certificates
2. Class D Preferred Stock

Liquidation

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

1. Class D Preferred Stock
2. Classes A and C Common Stock and Participation Certificates

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

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

For the years ended December 31,

	2014	**2013**	**2012**
Employee Benefit Plans:			
Balance at beginning of period	$ 302	$ 286	$ 279
Other comprehensive income before reclassifications	1,913	(36)	(58)
Amounts reclassified from AOCI	(2,215)	52	65
Net current period change in OCI	(302)	16	7
Balance at end of period	$ –	$ 302	$ 286

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

	2014	**2013**	**2012**	**Income Statement Line Item**
Defined Benefit Pension Plans:				
Periodic pension costs	$ 2,215	$ (52)	$ (65)	See Note 9.
Amounts reclassified	$ 2,215	$ (52)	$ (65)	

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

Level 2
The Association had no Level 2 assets or liabilities.

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 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.

For other investments, there are no observable market values for the Association's RBIC investments. Management must estimate the fair value based on an assessment of the operating performance of the company and available capital to operate the venture. This analysis requires significant judgment and actual sales values could differ materially from those estimated.

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	$ 13,243	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*
Other investments-RBIC	$ 40	Third party evaluation	Income, expense, capital	Not applicable

** 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 receivable from other Farm Credit institutions	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
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
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 11,666	$ –	$ –	$ 11,666	$ 11,666	$ (452)
Other property owned	1,484	–	–	1,577	1,577	(194)
Other investments	40	–	–	40	40	(30)
Nonrecurring Assets	$ 13,190	$ –	$ –	$ 13,283	$ 13,283	$ (676)
Other Financial Instruments						
Assets:						
Cash	$ 292	$ 292	$ –	$ –	$ 292	
Loans	152,804	–	–	152,005	152,005	
Other Financial Assets	$ 153,096	$ 292	$ –	$ 152,005	$ 152,297	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 118,626	$ –	$ –	$ 118,454	$ 118,454	
Other Financial Liabilities	$ 118,626	$ –	$ –	$ 118,454	$ 118,454	

	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
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 14,132	$ –	$ –	$ 14,132	$ 14,132	$ 749
Other property owned	2,481	–	–	2,619	2,619	(1,105)
Other investments	70	–	–	70	70	(180)
Nonrecurring Assets	$ 16,683	$ –	$ –	$ 16,821	$ 16,821	$ (536)
Other Financial Instruments						
Assets:						
Cash	$ 103	$ 103	$ –	$ –	$ 103	
Loans	144,581	–	–	143,494	143,494	
Other Financial Assets	$ 144,684	$ 103	$ –	$ 143,494	$ 143,597	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 116,275	$ –	$ –	$ 116,000	$ 116,000	
Other Financial Liabilities	$ 116,275	$ –	$ –	$ 116,000	$ 116,000	

	December 31, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 13,189	$ –	$ –	$ 13,189	$ 13,189	$ (785)
Other property owned	3,498	–	–	3,672	3,672	(533)
Nonrecurring Assets	$ 16,687	$ –	$ –	$ 16,861	$ 16,861	$ (1,318)
Other Financial Instruments						
Assets:						
Cash	$ 214	$ 214	$ –	$ –	$ 214	
Loans	151,792	–	–	150,685	150,685	
Notes receivable from other Farm Credit institutions	10,000	–	–	10,330	10,330	
Other Financial Assets	$ 162,006	$ 214	$ –	$ 161,015	$ 161,229	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 135,882	$ –	$ –	$ 136,384	$ 136,384	
Other Financial Liabilities	$ 135,882	$ –	$ –	$ 136,384	$ 136,384	

Note 9 — Employee Benefit Plans

The Association participates in three 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 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" 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%	$566	$793	$744	1.49%	1.58%	1.63%
AgFirst Farm Credit Cash Balance Retirement Plan	100.07%	95.06%	86.01%	$36	$11	$6	0.73%	0.62%	0.44%

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 $1,062 for 2014, $995 for 2013, and $1,051 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.

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 Hacienda. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $72, $73, and $57 for the years ended December 31, 2014, 2013, and 2012, respectively.

FASB guidance requires the determination of the fair value of 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, $(302), $16 and $7 have been recognized as a net debit, net credit, and net credits to AOCI to reflect these elements.

The Association also provided certain medical and dental benefits for eligible retired employees through a single employer defined benefit other postretirement benefits (OPEB), the Puerto Rico Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental benefits which was terminated effective December 31, 2014. This was unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $110 for 2014, $155 for 2013, and $181 for 2012. Upon termination of the OPEB benefits, a gain of $2,205 was recognized and reflected as a reduction to operating expenses at December 31, 2014.

The funding status and the amounts recognized in the Consolidated Balance Sheets of the Association for other postretirement benefit plans follows:

	Other Postretirement Benefits		
	2014	2013	2012
Change in benefit obligation			
Benefit obligation at beginning of year	$ 1,937	$ 1,915	$ 1,861
Service cost	26	24	25
Interest cost	95	79	91
Participants' contributions	9	21	26
Amendments	–	–	–
Actuarial loss (gain)	–	36	58
Liability (gain)/loss due to curtailment and settlement	(1,913)	–	–
Settlement payments to participants	(74)	–	–
Benefits paid	(80)	(138)	(146)
Benefit obligation at end of year	$ –	$ 1,937	$ 1,915
Change in assets			
Fair value of assets, beginning of year	$ –	$ –	$ –
Employer contributions	145	117	120
Participants' contributions	9	21	26
Benefits paid	(80)	(138)	(146)
Settlement payments to participants	(74)		
Fair value of assets, end of year	$ –	$ –	$ –
Funded Status	$ –	$ (1,937)	$ (1,915)
Amounts recognized in the balance sheet consist of:			
Other postretirement benefit assets	$ –	–	–
Other postretirement benefit liabilities (included in other liabilities)	–	(1,937)	(1,915)
Net amount recognized	$ –	(1,937)	(1,915)

The following represent the amounts included in accumulated other comprehensive income (pre-tax) at December 31:

	Other Postretirement Benefits		
	2014	2013	2012
Net actuarial loss (gain)	$ –	$ (302)	$ (351)
Prior service costs (credit)	–	–	42
Net transition obligation (asset)	–	–	23
Total amount recognized in AOCI	$ –	$ (302)	$ (286)

Components of net periodic benefit cost and other amounts for all other postretirement benefits recognized in the Association's other comprehensive income as of December 31 are as follows:

	Other Postretirement Benefits		
	2014	2013	2012
Service cost	$ 26	$ 24	$ 25
Interest cost	95	79	91
Amortization of prior service cost	–	42	50
Amortization of transition obligation (asset)	–	23	34
Amortization of net actuarial (gain)loss	(10)	(13)	(19)
Settlement/curtailment expense/(income)	(2,205)	–	–
Net periodic (income)/benefit cost	$ (2,094)	$ 155	$ 181
Other changes in plan assets and projected benefit obligation recognized in OCI			
Net actuarial loss (gain)	$ –	$ 36	$ 58
Amortization of prior service cost	–	(42)	(50)
Amortization of transition obligation (asset)	–	(23)	(34)
Amortization of net actuarial loss (gain)	10	13	19
Liability (gain)/(loss) due to curtailment and settlement	(1,913)	–	–
Recognition of gain/(loss due to curtailment and settlement	2,205	–	–
Total recognized in OCI	$ 302	$ (16)	$ (7)
Total recognized in expense and OCI	$ (1,792)	$ 139	$ 174

Weighted average assumptions used to determine benefit obligations at December 31, 2014, 2013, and 2012 are as follows:

	Other Postretirement Benefits		
	2014	2013	2012
Discount rate	–	5.05%	4.25%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Other Postretirement Benefits		
	2014	2013	2012
Discount rate	5.05%	4.25%	5.05%

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 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, amortization 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 $17,112. During 2014, $2,175 of new loans and advances were made and repayments totaled $2,297. In the opinion of management, none of these loans outstanding at December 31, 2014 involved more than the 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, $21,640 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 $320 with expiration dates ranging from January 3, 2015 to November 21, 2016. The maximum potential amount of future payments that may be required under these guarantees was $320.

Note 12 — Income Taxes

The Association recorded no provision for federal income tax for 2014, 2013, and 2012. For 2010, the Association incurred a patronage sourced net operating loss which was carried forward to 2011 through 2013 which fully offset patronage sourced taxable income. Therefore, since 2012 any eligible patronage sourced income was not distributed, until 2014, when $800,000 of eligible patronage source income was distributed since the net operating loss has almost all been fully utilized. As a result, the Association incurred an immaterial amount of alternative minimum tax due to the alternative minimum tax net operating loss limitation. The Association is exempt from Puerto Rico income tax under Article 23 of the General Cooperative Act of 2004.

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	$ 1,372	$ 940	$ 232
Patronage distributions	(280)	–	–
Tax-exempt FLCA earnings (losses)	(549)	(313)	(206)
Other	(543)	(627)	(26)
Provision (benefit) for income taxes	$ –	$ –	$ –

As discussed in Note 2, *Income Taxes*, the Board and management intend that the ACA will have only patronage sourced income that will be distributed in its entirety on a cooperative basis as tax deductible patronage dividends, resulting in zero federal income tax. Thus, the Association has applied a zero effective tax rate to its cumulative temporary differences and has no net deferred tax assets, other than $81 of deferred tax assets related to alternative minimum tax credit carryovers that have unlimited carryover period.

There were no potential 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 remains open for Federal and Puerto Rico income tax jurisdictions are 2011 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

2014	First	Second	Third	Fourth	Total
Net interest income	$ 1,135	$ 1,261	$ 1,183	$ 1,207	$ 4,786
Provision for (reversal of allowance for) loan losses	7	313	(231)	312	401
Noninterest income (expense), net	(922)	(992)	(906)	2,356	(464)
Net income (loss)	$ 206	$ (44)	$ 508	$ 3,251	$ 3,921

2013	First	Second	Third	Fourth	Total
Net interest income	$ 1,076	$ 1,191	$ 1,136	$ 1,071	$ 4,474
Provision for (reversal of allowance for) loan losses	99	(108)	(243)	(836)	(1,088)
Noninterest income (expense), net	(865)	(1,111)	(779)	(120)	(2,875)
Net income (loss)	$ 112	$ 188	$ 600	$ 1,787	$ 2,687

2012	First	Second	Third	Fourth	Total
Net interest income	$ 1,024	$ 1,145	$ 1,250	$ 1,089	$ 4,508
Provision for (reversal of allowance for) loan losses	1	(353)	296	792	736
Noninterest income (expense), net	(838)	(44)	(1,268)	(939)	(3,089)
Net income (loss)	$ 185	$ 1,454	$ (314)	$ (642)	$ 683

Note 14 — Regulatory Enforcement Matters

On March 17, 2011 the Farm Credit Administration (FCA) entered into a written Supervisory Agreement (SA) with the Board of Directors of the Association. This agreement supersedes FCA Supervisory Letters dated July 23, 2009, March 2, 2010, and December 10, 2010 and incorporates certain requirements from these letters. The Supervisory Agreement requires the Board of Directors to take certain corrective and precautionary measures with respect to some Association practices, including board governance and operation, director fiduciary duties, nominating committee procedures, board policies, board business planning, Association earnings and liquidity, senior management and human capital development, internal audit and review, asset quality, allowance for loan losses and collateral risk management, and capital markets and participation activities. In addition, the SA prohibits the Association from distributing patronage-sourced income without FCA consent.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, high turnover in senior management, perceived weaknesses in board governance, and, reduced earnings and liquidity.
The Board of Directors and the Association have worked together to reach significant milestones. The regulator has provided the Board of Directors several interim progress reports on compliance with the SA and delivered a report of examination to the Board of Directors as of December 31, 2014. The Association has achieved full compliance in 14 out of 17 items and substantial compliance in 4 out of 17 items. Some of the results achieved in compliance with the agreement include the following:

- Hiring a board consultant and working with the consultant to assist the Board in fulfilling its fiduciary duties and improving board operations and governance.
- Updating its board committee charters, undergoing several training sessions and changing leadership to improve governance of the Association.
- Revising the director candidate nominating procedures to qualify new candidates, which led to stockholders electing two new directors to the Board in 2012.
- Hiring a new CEO beginning on February 1, 2011 to lead the Association after the retirement of the previous CEO on September 30, 2010.
- Building a cohesive senior management team.
- Overseeing the implementation of updated collateral risk management policies and procedures that are in line with best practices in the industry.
- Improving the methodology used to calculate the Allowance for Loan Losses of the Association.
- Hiring a specialized third party auditor that assessed the capital markets portfolio credit risk and helped, strengthened credit policies and procedures.
- Establishing a Compliance Committee to monitor management's progress in implementing the corrective actions of items identified in the SA.
- Ensuring that FCA's recommendations are incorporated in the various action plans.
- Reviewing the Association's internal audit plan to focus on areas where perceived weaknesses were identified.
- Establishing a risk assessment process to assess risks and controls in the ACA.
- Establishing an asset quality improvement plan to monitor management efforts in managing high risk loans.
- Revising the business plan to establish strategic priorities and to comply with FCA regulations governing business planning.
- Establishing a human capital plan and succession plan to assist in the long-term success of the Association.
- Revising board policies on a quarterly basis to guide management in conducting day to day operations.
- Enhancing the participation's portfolio credit underwriting and administration controls.

All required measures have not been achieved or completed as of the date of this report and the Board of Directors continues to work with the management team in improving the areas identified in the Supervisory Agreement. Besides the ongoing corrective actions already mentioned, other actions to be taken target the following areas.

- Maintain oversight over internal controls.
- Continue executing strategies to grow the Association's loan portfolio with high quality loans to improve asset quality and, enhance earnings and liquidity.
- Continue improving the preparation and documentation of the income approach in appraisals.

The Board of Directors will continue engaging a board consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement. Both the Board of Directors and Senior Management are committed to continuing the administration of the Association in a sound manner, compliant with all FCA Regulations.

The Association remained under written supervisory agreement as of the date of this report.

Note 15 — 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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