# the future
# is now

# 2014
ANNUAL REPORT

AMERICAN AGCREDIT
MONEY FOR AGRICULTURE

Pictured on cover: Andrew and Alexander Demler, Pine Hill Egg Ranch, Ramona, CA

# the future **is now**

## 2014 ANNUAL REPORT

AMERICAN AGCREDIT
MONEY FOR AGRICULTURE

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# To Our Shareholders

What a year 2014 turned out to be; it was a year of many changes. Weather, input costs, and variables in commodity pricing continued to create challenges for farmers and ranchers. If those challenges weren't enough, we added a new Farm Bill, modified crop insurance programs, and the future of land prices continue to remain uncertain.

Through it all, you handled these challenges with amazing resiliency. Effective change management is a skill we all need to add as a requirement to run a successful business.

Entering 2015, we are proud of the 99 years the Farm Credit System has supported our nation's agricultural producers. Much like agriculture in general, Farm Credit has a proud history of consistency, longevity, and employee loyalty. We are proud of our history, but we maintain focus to improve the future state of our organization.

We are humbled by the great responsibility to act as stewards of your capital in American AgCredit and to continue to support agriculture with a future state vision of a more efficient and effective operation. It is our responsibility, as an important part of agriculture's success, to transition American AgCredit to develop this future vision. We are delving deep into each process and management practice to ensure it is optimal for current customers as well as the future of agriculture.

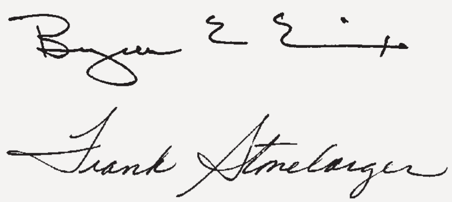
American AgCredit experienced another successful year and it is proud to continue to pay a healthy cash dividend to our customer-owners. Throughout 2014, we had solid loan growth and extremely low levels of distressed loans, which has strengthened an already stable portfolio. We ended 2014 with 5.2% loan volume growth, and net income of $98.9 million, $8.1 million above our business plan goals. While operating expenses continue to remain under budget, we remain diligent in our efforts to become more efficient every year.

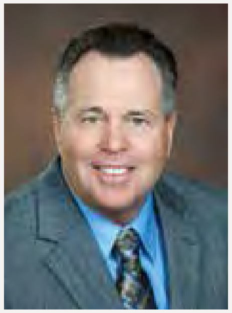
As we continue to evolve and change, so do many segments of agriculture. There has been downward pressure on grain prices due to an abundance of supply. Other markets have been mixed, ranging from recent downward pressure in the dairy market, to fairly strong prices and yields in the wine industry. Nuts have remained strong and stable, along with an extremely robust protein market, led by beef. While some early rains in the West have alleviated some drought pressure, there are still significant long-term drought threats, which lead to unpredictable outcomes in our territory.

On the horizon, there are significant changes at high levels of the U.S. political arena surrounding agriculture and related committees and subcommittees. Highly revolving political leadership illustrates our continued need to educate the newly elected officials about agriculture and the importance of Farm Credit. We need to maintain a strong voice in front of our legislators, who are increasingly coming from further outside of agriculture, in order to ensure a bright future for our industry.

We are honored to serve you, the stockholders of this Association. We work hard to bring you the top lenders and best products and processes in the industry because we recognize the importance of producing food and fiber for our nation. Your feedback says you like our efforts. The agricultural industry is the backbone of our society. In order to secure the legacy for the next generation of producers, it is necessary to acknowledge that everyone – farmers, ranchers, caretakers, bankers, and consumers – has a vital role. The future is now.

March 16, 2015





**Byron E. Enix**
Chief Executive Officer

**Frank Stonebarger**
Board Chairman

# Key Financial Data

| YEAR ENDED DECEMBER 31, ($ in thousands) | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| NET INCOME | $98,941 | $111,238 | $107,258 | $180,656 | $81,376 |
| PATRONAGE DECLARED | $39,013 | $36,970 | $44,998 | $34,762 | $26,191 |
| PATRONAGE AS % OF NET INCOME | 39.43% | 33.24% | 41.95% | 19.24% | 32.19% |
| LOAN VOLUME | $6,358,767 | $6,045,026 | $5,816,541 | $4,391,248 | $4,574,439 |
| RETURN ON AVERAGE ASSETS | 1.53% | 1.77% | 1.82% | 3.99% | 1.69% |
| MEMBERS' EQUITY AS % OF TOTAL ASSETS | 25.14% | 24.98% | 24.51% | 24.60% | 21.55% |

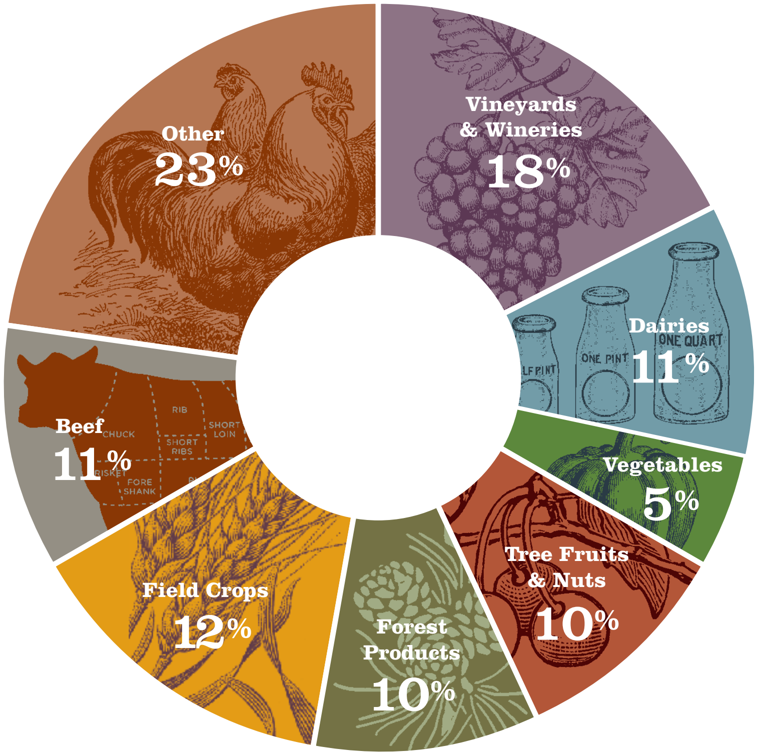
# Financial Highlights

Our strategic and long-term business planning takes a focused and measured approach to how and in what manner we develop as an Association. Our territory encompasses a broad geographical footprint consisting of six states, and offers capital markets services throughout the United States and internationally. This scope ensures that American AgCredit leverages risk appropriately – both in geography and in commodity mix.

**Geographical Loans** ($ in millions)

With distinct geographical regions, we manage our loan portfolio and related risks based on the specific characteristics of the agricultural market within each territory. Issues related to geography — such as weather, land pricing, or market commodity — may be offset by the overall strength within other regions, thereby reducing pressure on the overall portfolio.

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Capital Markets | $1,795.9 | $1,557.3 | $1,466.8 |
| Central California | 1,460.3 | 1,477.9 | 1407.8 |
| Northern California | 858.7 | 838.3 | 797.2 |
| Mountain Plains | 767.1 | 723.6 | 734.3 |
| Southern California | 644.8 | 611.1 | 583.5 |
| Heartland | 586.3 | 564.1 | 556.3 |
| Intermountain | 211.9 | 207.9 | 197.2 |
| Corporate Loans Admin | 33.8 | 64.8 | 73.4 |
| **TOTAL LOANS** | **$6,358.8** | **$6,045.0** | **$5,816.5** |




**Commodities Financed**

Through the diversification of our portfolio, we are able to reduce risks associated with a measurable downturn in any one commodity. By diversifying our commodity mix, we can ensure that any material stress on the entire portfolio is minimized.

# MONEY

## IN YOUR POCKET

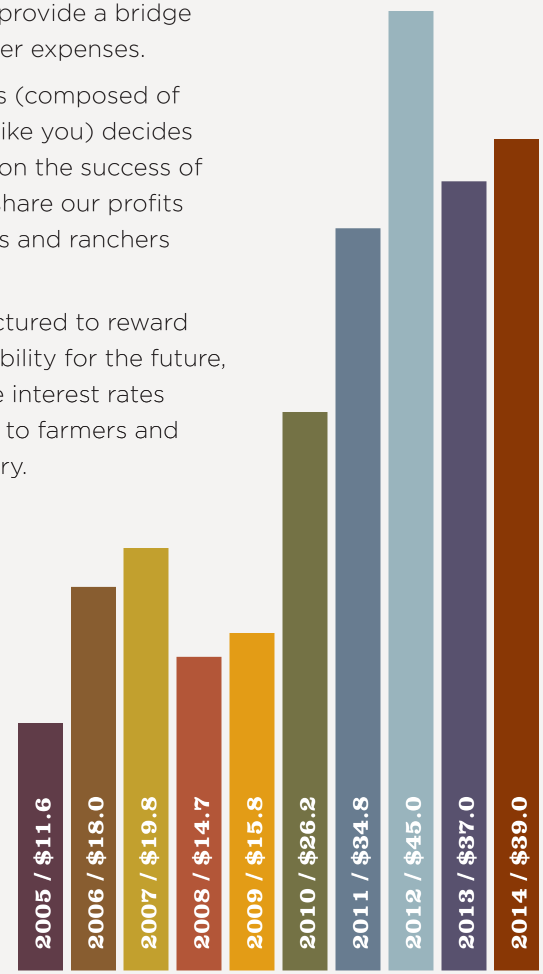
**American AgCredit members earned $39 million in cash patronage for 2014, for a total of more than $250 million since 2005.**

As a member-owned Association, American AgCredit pays cash patronage to its customers. Since 2005, we have paid back more than $250 million to our member-borrowers, effectively reducing the cost of borrowing.

This allows our customers to invest funds back into their business, pay down debt, provide a bridge operating cushion, or cover other expenses.

Annually, the Board of Directors (composed of member farmers and ranchers like you) decides how much to give back, based on the success of the year. As a cooperative, we share our profits with our members — the farmers and ranchers who use our services.

Our patronage program is structured to reward past success while ensuring stability for the future, allowing us to offer competitive interest rates and a constant supply of credit to farmers and ranchers throughout our territory.




Patronage paid (in millions)

# Building Bridges for Growth in the Future

As we head into 99 years of Farm Credit, we recognize that many farm families are transitioning their business to their adult children, while at the same time new and promising agricultural markets have emerged. These new customers and agribusiness models are the future of agriculture and represent the diversity of who we serve in the Farm Credit System.

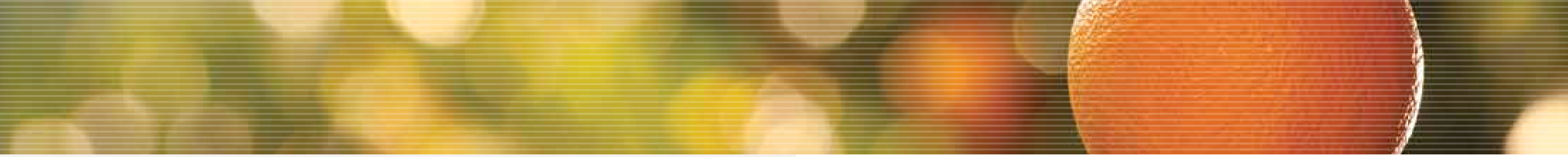
Over the past several years we have expanded our outreach to include not only the younger generations, but also those new businesses rising from the myriad of farmer's markets, community-supported agriculture, multi-generational conglomerates, and retail agriculture, among others.

These efforts include programs tailored for young, beginning, and small farmers, as well as up-and-coming commodities, niche markets, and diverse customers.

These outreach efforts involve sponsorships, partnerships, and educational opportunities throughout our lending territory. With investments tailored to effect change in and provide support for emerging markets, this also helps to identify potential opportunities for expanded efforts and to support agriculture as it transforms.

New producers may have difficulty finding adequate financing, and therefore our goals are to offer special benefits that help nurture young, beginning, small and niche/emerging farmers and ranchers, such as:

- Sponsorship programs
- Educational opportunities
- Less-restrictive underwriting standards
- Reduced or waived fees
- Educational benefits



## TERRITORY FACTS

According to the latest data from the 2012 Ag Census (released May 2014), the number of farms has increased 5% within the states where American AgCredit operates. At the same time, overall farm size acreage has slightly decreased, marking a trend toward more and smaller farms. This marks a changing farm structure. The number of mid-size farms has declined over time, while both large and small farm numbers have grown. This trend toward large and small farms signifies improvements in ag technology and increasing demand at the retail level for local, farm-fresh, and organic food.

Farm size throughout remains predominantly small, and represents an average of 90% of the surveyed farms in the Association's territory.

The most significant changes over the last five years include the following:

- Significant drop in beginning farmers in California (13%), Oklahoma (10%), Kansas (7%), and Colorado (13%);
- Slight increase in small farmers in Oklahoma (2%) and California (1%); and
- Stabilized marketplace for young farmers, with slight increases in Nevada (2%), Oklahoma (2%), Kansas (1%), New Mexico (2%), and California (1%).

In the territories in which American AgCredit does business, the highest percentage of minority farm operators are female (16.4%), followed by Hispanic (8.4%) and Asian farmers (3.6%).

The most significant growth in diverse farms include the following:

- Hispanic farmers in Colorado (9%) and New Mexico (14%);
- Female farmers in Kansas (6%) and New Mexico (9%); and
- Native American farmers in New Mexico (10%) and Oklahoma (5%).

## ALLIANCE OUTREACH

In California, Kansas, and Oklahoma, we collaborate with other Farm Credit institutions to partner on outreach and strengthen our message. Through these alliance partnerships, we support a myriad of organizations that focus on new markets in farming and ranching. We believe it is vital to support educational and professional avenues for new agriculturalists and to encourage involvement across the spectrum of the industry. Our outreach not only helps to grow and diversify agriculture, but also raises the awareness about Farm Credit and what we do for agriculture.

### California Alliance

#### Memberships

California Certified Organic Farmers

#### Donations

California Ag in the Classroom
California Ag Leadership Foundation
California Women for Agriculture
UC Davis – Small and Ethnic Farmer Program

#### Sponsorships

California 4-H Livestock Judging Team
California Bountiful Federation
California FFA State Judging Finals/BBQ
California Small Farmer Conference
California Women for Agriculture
Center for Land-Based Learning – California Farm Academy
Leopold Conservation Award
Sustainable Ag Expo
Women of the Vine
Young Farmer Leadership Conference

## Kansas and Oklahoma Alliance

### Donations

Kansas Junior Livestock Show Scholarship
Oklahoma Youth Expo

### Sponsorships

Annie's Project
Kansas 4-H and FFA Awards
Kansas Cattlewomen Silent Auction
Kansas Farm Bureau Young Farmers and Ranchers
Kansas Foundation for Ag in the Classroom
Oklahoma 4-H Foundation
Oklahoma AG Leadership Program
Oklahoma Women in Agriculture Conference
OSU Ag Economics Quiz Bowl Team
OSU Spring State FFA Interscholastic
OSU Livestock Judging Team
Women Managing the Farm
Kansas Soil Conservation – Soil Tunnel
Oklahoma Department of Agriculture – Ag in the Classroom
Oklahoma FFA
Oklahoma National Land & Range Judging Contest



## BUILDING DIVERSITY

From a strategic perspective, our efforts are intended to support the diversity of farm operations within our territories, and include hiring diverse credit staff, involvement in related trade or community groups, and outreach to related organizations that help to build relationships and form goodwill in diverse communities.

### Central California Diverse Market Outreach

American Farm Bureau Federation – Annual Meeting (Women)
Stanislaus California Women for Ag
San Joaquin County Women for Ag
Merced County Women for Ag
Stanislaus Farm Bureau YF&R Trap Shoot
Cowgirl Lunches
Children's Guardian Home

### Heartland Diverse Market Outreach

Women Managing the Farm Conference
Kansas Women in Ag Meetings
Kay/Noble County Women in Ag
KS Farm Bureau YF&R Leadership Conference
Medicine Lodge Indian Peace Treaty
Oklahoma State Young Farmers and Ranchers
Kansas Junior Livestock Show
County Fairs/4-H Livestock Purchases

**The Farm Credit System identifies diversity by factors such as:**

- Gender
- Generation
- Ethnicity
- Socioeconomics
- Education
- Religion
- Sexual Orientation
- Language
- Background/Experience
- Physical Ability
- Emerging Markets
- New Agricultural Business Ventures

**Intermountain Diverse Market Outreach**

- Ag in the Classroom
- Boys & Girls Club of Elko
- Elko County Cattlewomen
- Elko Festival of Trees/Citizens Against Domestic Violence
- International Association of Firefighters
- LAW – Let's All Work Together to Fight Drug Abuse
- Modoc/Siskiyou County Cattlewomen
- California Cattlewomen's Association (Lassen, Modoc, Plumas/Sierra, and Siskiyou Counties)
- Nevada Cattlewomen's Association (Churchill, Elko, Humboldt Counties)
- California Women in Timber
- Hispanic Rural Celebration Sponsorships
- Co-sponsor Rural Health Fairs

**Mountain Plains Diverse Market Outreach**

- Building Farmers in the West
- Colorado Agricultural Leadership Program
- Colorado Agri-Women
- Colorado Farm Show
- Colorado Fruit and Vegetable Growers Association
- Colorado Young Farmer Educational Association
- Community Agricultural Alliance
- Four States Agricultural Exposition
- Governer's Forum on Colorado Agriculture
- Western Colorado Food and Farm Forum
- Western Colorado Horticulture Society/Colorado Association for Viticulture and Enology Joint Conference

**Northern California Diverse Market Outreach**

- California Women for Agriculture (Lake County)
- Active 20–30 Club Red White and Boom
- Boys & Girls Clubs of Sonoma County
- Hanna Boys Center Ag Department
- Napa Sonoma Mexican-American Vintners Association (NSMAVA)
- Sonoma County 4-H
- Sonoma County Farm Bureau Young Farmer Rancher Fundraiser
- Sonoma County Farm Trails Gravenstein Apple Fair
- Santa Rosa Junior College
- Schools Plus Under the Lights
- Redwood Empire Food Bank

**Southern California Diverse Market Outreach**

- California Women in Agriculture
- Ontario Christian Boosters
- 4-H/FFA Livestock Auction
- Los Angeles Veterans' Garden
- New Roots – San Diego
- California Rare Fruit Growers (Fullerton)
- Fresh Produce and Floral Council
- Ag in the Classroom
- Food From the 'Hood, Inc. (FFTH)
- L.A. Green Grounds
- Korean-American Farmers Association (Torrance)
- California Meat Goat Association (Beaumont, Bakersfield, Hughson)

# Report of Management

The Association's consolidated financial statements are prepared by management, who are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. In the opinion of management, the accompanying consolidated financial statements fairly present the financial condition and results of operations of the Association, in conformity with generally accepted accounting principles in the United States of America. Other financial information included in this Annual Report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, the Association's internal auditors and review staff perform audits of the accounting records, review accounting systems and internal controls, and recommend improvements as needed. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent auditors. Their report is located on page 29. The Association is also examined by the Farm Credit Administration (FCA), regulator of the Farm Credit System.

The Association's Board of Directors, which is composed of directors who are not employees, has overall responsibility for the Association's system of internal control over financial reporting. The Board of Directors meets periodically with management, FCA, outside consulting firms, and the internal auditors and independent external auditors to review the manner in which each of these groups performs their responsibilities and to carry out the Board's oversight role with respect to auditing, internal controls, and financial reporting matters.These internal auditors, independent external auditors, and regulators also have access to the Board of Directors and its individual members at any time.

The undersigned certify that the 2014 Annual Report has been reviewed and prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

March 16, 2015

FRANK STONEBARGER
Board Chairman

BYRON E. ENIX
Chief Executive Officer

VERN ZANDER
Chief Financial Officer

# Audit Committee Report

The Audit Committee ("Committee") is composed of seven members of the Board of Directors. In 2014, eight Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's actions with respect to recommendations arising from those auditing activities.

In addition, the Committee approved the appointment of PricewaterhouseCoopers LLP (PwC) as the Association's independent auditors for 2014. The Committee's responsibilities are described more fully in the Association's Internal Control Policy and the Audit Committee Charter.

The fees paid for professional services rendered for the Association by its independent auditors, PwC, during 2014 were $265,265 for audit services and $17,450 for tax services.

Management is responsible for the Association's internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the Association's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and to issue a report thereon. The Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Committee reviewed and discussed the Association's Quarterly Reports and Audited Financial Statements for the year ended December 31, 2014 (the "Audited Financial Statements"), with management. The Committee also reviews with PwC the matters required to be discussed by the Statements on Auditing Standards. Both PwC and the Association's internal auditors directly provide reports on significant matters to the Committee.

The Committee discusses with PwC its independence from the Association. The Committee also reviewed the non-audit services provided by PwC and concluded these services were not incompatible with maintaining the independent auditors' independence. The Committee has discussed with management and PwC such other matters and received such assurances from them as the Committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Audited Consolidated Financial Statements in the Association's 2014 Annual Report and for filing with the FCA.

March 16, 2015

**THOMAS TEIXEIRA**
Audit Committee Chairman

2014 AUDIT COMMITTEE MEMBERS

Thomas Teixeira
Eric Allen
Peter Bulthuis
James Cooksey
Jerold Harris
Linda Ingo
Larry Solari

# Report on Internal
## CONTROL OVER FINANCIAL REPORTING

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's consolidated financial statements.

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2014. In making the assessment, management used the framework in Internal Control – Integrated Framework, 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 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.

March 16, 2015

BYRON E. ENIX
Chief Executive Officer

VERN ZANDER
Chief Financial Officer

# Five-Year Summary

## OF SELECTED FINANCIAL DATA

| **December 31,** (In thousands) | **2014** | **2013** | **2012(a)** | **2011** | **2010** |
|---|---|---|---|---|---|
| **BALANCE SHEET DATA** | | | | | |
| Loans | $6,358,767 | $6,045,026 | $5,816,541 | $4,391,248 | $4,574,439 |
| Less: allowance for loan losses | (11,021) | (10,752) | (15,900) | (12,302) | (18,227) |
| **Net loans** | **6,347,746** | **6,034,274** | **5,800,641** | **4,378,946** | **4,556,212** |
| Investment in and receivable from CoBank | 281,905 | 279,674 | 276,029 | 15,320 | 13,598 |
| Investment in and receivable from AgBank | – | – | – | 207,278 | 119,327 |
| Accrued interest receivable | 45,272 | 42,080 | 42,659 | 37,592 | 42,167 |
| Other property owned | 2,832 | 5,980 | 1,417 | 11,227 | 25,739 |
| Other assets | 110,343 | 103,949 | 91,648 | 68,360 | 69,202 |
| **Total assets** | **$6,788,098** | **$6,465,957** | **$6,212,394** | **$4,718,723** | **$4,826,245** |
| Obligations with maturities of one year or less | $5,081,538 | $4,851,012 | $4,689,710 | $3,557,815 | $3,786,356 |
| Obligations with maturities greater than one year | – | – | – | – | – |
| **Total liabilities** | **5,081,538** | **4,851,012** | **4,689,710** | **3,557,815** | **3,786,356** |
| Preferred stock | 172,533 | 141,580 | 120,535 | 104,966 | 125,957 |
| Capital stock and participation certificates | 7,396 | 7,422 | 7,502 | 6,147 | 6,371 |
| Unallocated retained earnings | 1,042,921 | 982,706 | 907,622 | 845,873 | 700,997 |
| Additional paid in capital | 490,564 | 490,564 | 490,564 | 206,948 | 206,226 |
| Accumulated other comprehensive (loss)/income | (6,854) | (7,327) | (3,539) | (3,026) | 338 |
| **Total members' equity** | **1,706,560** | **1,614,945** | **1,522,684** | **1,160,908** | **1,039,889** |
| **Total liabilities and members' equity** | **$6,788,098** | **$6,465,957** | **$6,212,394** | **$4,718,723** | **$4,826,245** |

**Note (a):** 2012 data includes the combined assets and liabilities of American AgCredit and Farm Credit Services of the Mountain Plains, which merged on January 1, 2012. See Note 2 to the consolidated financial statements for further discussion of the Mountain Plains merger.

| **Year Ended December 31,** | **2014** | **2013** | **2012(b)** | **2011** | **2010** |
|---|---|---|---|---|---|
| **STATEMENT OF INCOME DATA** | | | | | |
| Net interest income | $175,119 | $171,482 | $159,918 | $128,245 | $134,702 |
| Reversal of/(Provision for) loan losses | 1,465 | 6,949 | (2,615) | 5,523 | (11,000) |
| Distribution from Farm Credit institutions | 25,768 | 24,449 | 27,378 | 111,348 | 8,753 |
| Non-interest expense, net | (103,467) | (91,635) | (74,094) | (58,362) | (51,448) |
| Benefit/(Provision) from income taxes | 56 | (7) | (3,329) | (6,098) | 369 |
| **Net income** | **$98,941** | **$111,238** | **$107,258** | **$180,656** | **$81,376** |

**Note (b):** 2012 data includes the results of operations for American AgCredit and Farm Credit Services of the Mountain Plains, which merged on January 1, 2012. See Note 2 to the consolidated financial statements for further discussion of the Mountain Plains merger.

# Key Financial Ratios

| Year Ended December 31, | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Return on average assets | 1.53% | 1.77% | 1.82% | 3.99% | 1.69% |
| Return on average members' equity | 5.85% | 7.01% | 7.17% | 16.90% | 7.92% |
| Net interest income as a percentage of average earning assets | 2.89% | 2.91% | 2.90% | 2.98% | 2.95% |
| Net charge-offs /(recoveries) as a percentage of average loans | (0.03)% | (0.03)% | (0.02)% | 0.01% | 0.11% |
| **At Year-End** | | | | | |
| Members' common equity as a percentage of total assets | 22.60% | 22.79% | 22.57% | 22.38% | 18.94% |
| Members' total equity as a percentage of total assets | 25.14% | 24.98% | 24.51% | 24.60% | 21.55% |
| Debt as a ratio to members' equity | 2.98:1 | 3.00:1 | 3.08:1 | 3.06:1 | 3.64:1 |
| Allowance for loan losses as a percentage of loans | 0.17% | 0.18% | 0.27% | 0.28% | 0.40% |
| Permanent capital ratio | 21.12% | 21.01% | 21.12% | 21.57% | 19.38% |
| Total surplus ratio | 18.34% | 18.86% | 19.03% | 19.01% | 16.66% |
| Core surplus ratio | 17.66% | 18.09% | 18.19% | 17.84% | 15.88% |
| **Other Information** | | | | | |
| Cash patronage distributions declared (in thousands) | $39,013 | $36,970 | $44,998 | $34,762 | $26,191 |
| Loans serviced for others (in millions) | $3,912 | $3,865 | $4,104 | $3,909 | $4,043 |

# Management's Discussion & Analysis

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary explains the principal aspects of the financial condition and results of operations of American AgCredit, ACA and its subsidiaries American AgCredit, FLCA and American AgCredit, PCA (collectively "the Association") as of December 31, 2014, with comparisons to prior years. The commentary includes significant known trends, commitments, events, or uncertainties that are reasonably likely to impact our financial condition and results of operations. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board. This commentary should be read with the accompanying consolidated financial statements and the related notes appearing in this report. The Association's past financial results may not be indicative of future performance.

Our annual and quarterly reports to shareholders are available on our website, AgLoan.com, or can be obtained free of charge by calling our corporate headquarters at (707) 545-1200. Annual reports are mailed to all stockholders within 90 days after year-end and are available on our website within 75 days after year-end; quarterly reports are available on our website within 40 days after each calendar quarter-end.

Certain information included in this discussion constitutes forward-looking statements and information that is based on management's belief, as well as certain assumptions made by and with information currently available to management. When used in this discussion, the words "anticipate," "project," "expect," "believe," and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations and projections will prove to be correct. Such forward-looking statements are subject to certain risks, uncertainties, and assumptions. Should one or more of these risks materialize, or should such underlying assumptions prove to be incorrect, actual results may vary materially from those anticipated, projected, or expected. Among key factors that may have a direct bearing on operating results are fluctuations in the economy; the relative strengths and weaknesses in the agricultural credit sectors and in the real estate market; regional weather conditions and trends; the actions taken by the Federal Reserve for the purpose of managing the economy; the continued growth of the agricultural market consistent with recent historical experience; the continued influx of government payments to borrowers; and Farm Credit Administration (FCA) mandates and rulings.

### BUSINESS OVERVIEW

As of December 31, 2014, we are one of 77 associations in the Farm Credit System ("the System"), which was created by Congress in 1916 and has served agricultural producers for almost 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, producers or harvesters of aquatic products, and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The System is regulated by the FCA, which is an independent "safety and soundness" regulator.

The Association obtains funding from CoBank, ACB (CoBank). CoBank is a cooperative, headquartered just outside Denver, Colorado, of which the Association is a member. Prior to its merger with CoBank on January 1, 2012, U.S. AgBank, FCB (AgBank) was our funding bank. CoBank and its related associations are referred to as "the District."

The Association is materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are on CoBank's website, www.CoBank.com, or may be obtained at no charge by calling (800) 542-8072 or mailing to CoBank, 5500 S. Quebec St., Greenwood Village, CO 80111.

As a cooperative, the Association is owned by the members it serves. The territory served extends across a diverse agricultural region that includes parts of California, Kansas, Oklahoma, Colorado, and New Mexico, as well as the state of Nevada. The Association makes short- and intermediate-term loans for agricultural production or operating purposes and long-term real estate mortgage loans. To meet the diverse needs of its borrowers, the Association is structured along geographical and business industry lines that allow for specialized transactions that are unique to various types of customers. The Association's success is highly dependent upon the level of satisfaction it can provide to its borrowers. Business priorities are to serve the needs of all eligible customers, increase loan volume, improve operating efficiencies, build capital, increase profitability, and invest in the people and technological resources that will ensure future success.

### ECONOMIC OVERVIEW

For many years, agriculture has experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support and multi-peril insurance programs. These favorable conditions positively impacted our financial results. Production agriculture, however, remains a cyclical business that is heavily influenced by commodity prices, weather patterns, and global supply and demand. The agricultural sector generally performed well in 2014; however, a number of commodities showed signs of weakness in the second half of the year. Milk prices increased significantly for most of 2014, improving industry profitability. However, prices declined in fourth quarter and are expected to remain weak in 2015. The forest products industry has improved along with the housing market, and prices stabilized in 2014. Beef, wine, and tree fruits and nuts all had an excellent year and benefited from continued strong prices. Corn and wheat prices continued to decline, putting some stress in these markets. Drought conditions have eased in the Midwest, but remain a serious concern in the West. California benefited from some significant early December rainfall, but dry weather patterns have resumed. If conditions do not improve, California's agricultural producers will be negatively impacted. The negative impact from the drought conditions is somewhat lessened by geographic and commodity diversification and the generally strong financial condition of our agricultural borrowers.

During 2014, economic conditions in our territory generally followed those of the national economy. The economy continued to show steady improvement, albeit slowly. Property values stabilized with pockets of improvement, consumer demand strengthened, and unemployment continued to decline. However, the drought conditions being experienced in the West could negatively impact our borrowers and the Association. Should the current drought conditions persist, higher input and operating costs will likely result in higher prices for such basic staples as meat, milk, fruit, and vegetables, and will negatively impact the demand for agricultural products. Nevertheless, the Association has the strong capital base necessary to successfully manage through adversity and we are well positioned to work together with our borrowers through these potential adverse conditions.

## FINANCIAL OVERVIEW

**EARNINGS:** The Association produced after-tax net income of $98.9 million in 2014, compared to $111.2 million in 2013 and $107.3 million in 2012. The $12.3 million decrease in net income from 2013 was primarily due to a $10.2 million increase in non-interest expenses and $5.5 million reduction of loan loss provision, partially offset by a $3.6 million increase in net interest income.

The Association's 2013 earnings of $111.2 million compared favorably to 2012's earnings of $107.3 million. The increase in earnings from 2012 was primarily due to a $11.6 million increase in net interest income, a $9.6 million reduction of loan loss provision, and a $3.3 million reduction of income tax provision partially offset by a $15.2 million increase in non-interest expense.

The major components of change in net income over the past two years are summarized here and discussed in the following pages.

| (In thousands) | 2014 vs. 2013 | 2013 vs. 2012 |
|---|---|---|
| Net income, prior year | $111,238 | $107,258 |
| Increase/(Decrease) in interest income | 8,660 | (1,800) |
| (Increase)/Decrease in interest expense | (5,023) | 13,364 |
| Increase in net interest income | 3,637 | 11,564 |
| (Increase)/Decrease in provision/reversal for loan losses | (5,484) | 9,564 |
| Decrease in non-interest income | (328) | (5,256) |
| Increase in non-interest expense | (10,185) | (15,214) |
| Decrease in income tax benefit/provision | 63 | 3,322 |
| **Increase/(Decrease) in net income** | **(12,297)** | **3,980** |
| **Net income, current year** | **$98,941** | **$111,238** |

**NET INTEREST INCOME:** The chart below provides an analysis of the individual components of the change in net interest income for 2014 and 2013.

| (In thousands) | 2014 vs. 2013 | 2013 vs. 2012 |
|---|---|---|
| Net interest income, prior year | $171,482 | $159,918 |
| Increase/(Decrease) in net interest income due to changes in: | | |
| Net interest margin | (1,325) | 668 |
| Volume of average earning assets | 5,001 | 10,851 |
| Margin/Volume combination | (39) | 45 |
| **Increase in net interest income** | **3,637** | **11,564** |
| **Net interest income, current year** | **$175,119** | **$171,482** |

2014 net interest income was $175.1 million, compared to $171.5 million in 2013 and $159.9 million in 2012. The 2014 increase of $3.6 million represents a 2% increase over 2013 and was primarily due to accrual loan volume growth experienced during the year slightly offset by some mild interest rate margin compression. Average earning assets grew by $171 million during 2014, representing an annual growth rate of 2.9%.

Net interest income in 2013 increased 7.2% from $159.9 million in 2012 to $171.5 million. The increase was driven by strong accrual loan volume growth, a 10 basis point widening of interest rate margins, and a $1.4 million increase in nonaccrual income. Average earning assets increased in 2013 by $373 million, representing an annual growth rate of 6.9%.

| | 2014 | 2013 | 2014 Increase /(Decrease) |
|---|---|---|---|
| Average rate on earning assets | 4.30% | 4.28% | .02% |
| Average rate on interest-bearing liabilities | 1.82% | 1.75% | .07% |
| Average interest rate spread | 2.48% | 2.53% | (.05)% |

The Association administers its variable-rate loans based on its cost of funds. Although adjustments to borrower variable rates have generally followed changes in the Prime Rate, that rate has become increasingly less relevant as an indicator of credit demand. The Association's variable cost of funds is indexed to a blend of two rates – the Farm Credit Discount Note Rate and the London Interbank Offered Rate (LIBOR). Management closely monitors interest rate movements and will adjust variable rates to customers to preserve adequate net interest income to sustain the growth of the Association.

**PROVISION FOR LOAN LOSSES:** Management reviews the allowance quarterly and makes adjustments that reflect the changing risks in the loan portfolio. Generally speaking, increased loan volume requires additional allowance for loan losses. As discussed above, the Association experienced positive loan volume growth in 2014. However, loan portfolio credit quality improvement and $1.7 million of net recoveries resulted in a $1.5 million reversal in the provision for loan losses in 2014. In 2013, loan portfolio credit quality improved dramatically, resulting in a $6.9 million reversal in the provision for loan loss compared to a $2.6 million provision for loan loss in 2012.

**NON-INTEREST INCOME:** Non-interest income consists primarily of CoBank patronage, origination and servicing fees, insurance income, and other gains and losses. The Association recorded $25.4 million of CoBank patronage for 2014, compared to $24.4 million in 2013 and $27.4 million in 2012. The $1.0 million patronage increase in 2014 was due to increased borrowings on our CoBank direct note and an increase in loan participations sold to CoBank. Patronage declined $4.2 million from 2012 to 2013. Loan origination and servicing fees were $9.9 million in 2014, compared to $13.8 million in 2013 and $7.4 million in 2012. Fee income peaked in 2013 as the Association originated a number of large syndicated loan transactions. Insurance income, a component of miscellaneous income, totaled $6.4 million in 2014, an increase from the $4.8 million recognized in 2013 and $3.3 million in 2012.

During 2012, we received a distribution of $5.7 million from Farm Credit System Insurance Corporation (FCSIC), representing our allocated portion of the excess amount in the System's insurance fund above the 2% secure base amount. No such distribution was received in 2014 or 2013.

**NON-INTEREST EXPENSES:** Non-interest expenses consist of salaries and benefits, occupancy costs, insurance fund premiums, supervisory expenses, and other operating costs. Non-interest expenses were $125.7 million in 2014, compared to $115.5 million in 2013 and $100.3 million in 2012. The $10.2 million 2014 increase was impacted by a $3.6 million increase in salaries and benefits as a result of normal salary and benefit adjustments, a net increase in the number of employees, and payments under the Association's incentive plan. The Association continues to invest in its technology platform, resulting in a $3.9 million increase in technology expenses, a component of non-interest expenses. The $15.2 million increase in 2013 was also driven by salaries and benefits ($8.3 million), technology expense ($2.9 million), and Farm Credit System Insurance Corporation premiums ($2.3 million).

**PROVISION FOR INCOME TAXES:** The Association's effective tax rate is primarily affected by the mix of taxable and tax-exempt lending activities. The provision was relatively unchanged in 2014. The provision did decrease significantly in 2013 as the Association determined that it is highly unlikely that we would incur tax liabilities due to our patronage program and reversed deferred taxes.

**OTHER COMPREHENSIVE LOSS:** Accumulated other comprehensive loss (AOCL) arises from the recognition of an unfunded pension liability. AOCL is included in the Association's equity portion of the Consolidated Balance Sheet. The liability and the associated other comprehensive loss may fluctuate from year to year depending on the pension plan's performance and underlying actuarial assumptions and obligations. The actual loss or income to be realized as pension liabilities are paid will not be determinable until the liabilities expire. See Note 11 to the consolidated financial statements for further discussion.

**LIQUIDITY AND FUNDING:** Liquidity is necessary to meet our financial obligations, such as paying our note with CoBank, funding loans and other commitments, and funding operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow, maximize debt reduction, and liquidate nonearning assets. Our direct loan with CoBank, cash on hand, and borrower loan repayments provide adequate liquidity to fund our ongoing operations and other commitments. Even with the volatility in the financial markets, we anticipate liquidity levels will be adequate to meet our obligations. The Association also has the ability to sell qualified loans to the Federal Agricultural Mortgage Corporation's secondary market programs to generate additional liquidity as needed.

The Association's primary source of funds (excluding capital) and largest liability is its direct loan from CoBank, administered under a General Financing Agreement. The Association applies substantially all cash received to the direct loan and draws all cash disbursements from it. The Association's ability to incur debt from other sources is subject to statutory and regulatory restrictions.

CoBank's primary source of funds is the sale of securities to investors through the Federal Farm Credit Banks' Funding Corporation. The continued liquidity of the Association is therefore directly dependent upon the ability of the Farm Credit System to continue to sell debt securities at competitive rates. Historically, this access has provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets have experienced significant volatility, the Association anticipates continued access to the funding necessary to support its lending and business operations. CoBank is generally responsible for all District-wide funding decisions.

At December 31, the direct loan payable to CoBank consisted of the following:

| | Weighted Average Interest Rate | | | YTD Average Balance (In millions) | | |
|---|---|---|---|---|---|---|
| **Type** | **2014** | **2013** | **2012** | **2014** | **2013** | **2012** |
| Mortgage loan payable | 2.17% | 2.40% | 2.76% | $3,698.9 | $3,592.8 | $3,352.1 |
| Commercial loan payable | 0.92% | 0.93% | 1.03% | 949.0 | 957.8 | 908.8 |
| **Total** | | | | **$4,647.9** | **$4,550.6** | **$4,260.9** |

The Association's direct note with CoBank provides composite rates on separate commercial and mortgage segments of the note. These rates are adjusted monthly based on market conditions and the product mix of the loans funded. The commercial loan rate remained relatively unchanged in 2014 compared to 2013. The 2014 decrease in the mortgage rate reflects the impact of new loan volume being priced in the historically low interest rate environment. Additionally, existing loans were repriced during the year resulting in a reduction of mortgage rates.

The Association also obtains a measurable amount of funding from customer Funds Held accounts and Preferred H Stock. Funds Held accounts currently pay an interest rate that is comparable to the rate that is paid on the direct loan payable to CoBank. The accounts are uninsured and the rate is variable. The dividend rate on H Stock is variable and currently approximates the interest rate the Association pays on the direct loan. From a funding perspective, in combination, Funds Held and H Stock provide a cost-effective alternative to the direct loan from CoBank. Both are offered to customers of the Association as investment vehicles for excess operating funds. Restrictions apply to the purpose for which the Funds Held may be withdrawn and the maximum dollar amount a customer may maintain in Funds Held.

## LOAN PORTFOLIO

The Association's loan portfolio consists of accrual loans, nonaccrual loans on which the accrual of interest has been suspended, and other loans such as sales contracts arising from the sale of property acquired through foreclosure.

Loans were $6.36 billion as of December 31, 2014, compared to $6.05 billion and $5.82 billion for 2013 and 2012, respectively. The $314 million increase represents a 5.2% year-over-year growth rate and was due to organic growth. The following table shows the fluctuations in major categories of total loans from December 31, 2012, to December 31, 2014.

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| (In millions) | 2014 | Percent of Total | 2013 | Percent of Total | 2012 | Percent of Total |
| Real estate mortgage | $3,653.7 | 57% | $3,600.0 | 60% | $3,513.1 | 60% |
| Production and intermediate-term | 1,132.9 | 18% | 1,069.7 | 18% | 1,040.4 | 18% |
| Agribusiness | 1,368.4 | 21% | 1,167.0 | 18% | 1,062.2 | 18% |
| Communication | 70.6 | 1% | 71.3 | 1% | 68.6 | 1% |
| Energy | 104.4 | 2% | 104.8 | 2% | 89.8 | 2% |
| Other | 28.8 | 1% | 32.2 | 1% | 42.4 | 1% |
| **Total loans** | **$6,358.8** | **100%** | **$6,045.0** | **100%** | **$5,816.5** | **100%** |

Factors affecting the changes in loan categories are discussed below.

**REAL ESTATE LOANS:** Real estate volume was $3.65 billion at December 31, 2014, compared to $3.60 billion and $3.51 billion at year-end 2013 and 2012, respectively. 2014's growth of $53.7 million represents a 1.5% year-over-year growth rate. The increase is due to the economic environment and increased demand for real estate financing. Borrowers have been willing to expand their operations and real estate holdings by increasing their debt obligations. The increase in total mortgage volume was spread across most of the Association's financed commodities.

**PRODUCTION AND INTERMEDIATE-TERM LOANS:** Production loan volume increased $63.2 million in 2014 to $1.13 billion, compared to $1.07 billion and $1.04 billion at year-end 2013 and 2012, respectively. The $63.2 million increase represents a 5.9% annual growth rate. Similar to the real estate portfolio, the increase was primarily a result of improved economic conditions and borrowers' inclinations to increase leverage to expand operations. This portfolio grew by $29.2 million during 2013.

**AGRIBUSINESS LOANS:** These loans are made to benefit the throughput of agricultural goods to the marketplace. Such loans consist of long-term mortgages on the facilities and equipment of a processor as well as short and intermediate operating lines of credit. The agribusiness portfolio totaled $1.37 billion at year-end 2014, compared to $1.17 billion for 2013 and $1.06 billion for 2012. The $201.4 million of growth experienced in 2014 represents a 17.3% annual growth rate. The growth in this segment of the portfolio is directly related to the growth in the Association's Capital Markets lending group.

**COMMUNICATION AND ENERGY LOANS:** This portfolio contains loans primarily purchased through CoBank and consists of loans to energy cooperatives and communication companies servicing rural America.

**OTHER LOANS:** These loans consist of loans made for sales contracts and for homes located in rural areas.

Small loans (less than $250,000) accounted for 69.1% of the total number of loans but only 10.2% of loan volume at December 31, 2014. Credit risk on small loans, in many instances, is also reduced by non-farm income sources. Loans greater than $5 million account for 1.6% of the total number of loans but 30.5% of the total loan volume.

## COMMODITIES FINANCED

Major commodities financed by the Association are shown in the graph on page 6. Vineyards and wineries, the largest segment of the loan portfolio, experienced another solid year in 2014. Wine sales continued to increase in the premium sector (wines priced generally above $10) as sales rose by more than 1.7 million cases in 2014, buoyed by a string of quality vintages and increased consumer confidence. This segment of the wine industry continues to consolidate, as successful operators possess the capacity, brand accumulation, economies of scale, and marketing strength to compete effectively. Table wines (priced up to $7), a core segment to the domestic wine market, saw sales slip by 1.2 million cases in 2014. This segment of lower-priced wines declined due to increased competition from alternative alcohol offerings, significant pressure from bottled imports, and poor export channels caused by the strengthening dollar. The region's vineyard production experienced the third consecutive large and high-quality harvest. Most of the Association's vineyard portfolio is in the super and ultra premium segments of the wine market. Historically, these segments are generally more stable and more insulated from price fluctuations than other segments of the wine market.

The dairy industry constantly grapples with volatile price fluctuations. However, the industry saw improved margins in 2014 as dairy prices improved and feed costs declined. Milk prices improved due to stronger domestic demand and continued export growth. In addition to swings in milk price, dairy farmers have experienced significant changes in prices of feed and other production inputs. Feed is the single largest milk production cost input. Feed and water costs will likely become more challenging should the drought conditions continue in the West.

The Association's beef portfolio consists primarily of cow/calf operations and feedlots. Because the cattle/beef industry depends on feed grains and grain supplies, their prices can significantly impact beef production and profitability. Feed grain costs have improved and strong calf and feeder prices positively impacted the industry's profitability in 2014. As with the dairy industry, the beef industry is beginning to experience stress due to drought-induced water and feed issues in the West.

The vegetable industry continues to remain strong, with good market conditions throughout much of the year. Fresh vegetable markets are highly cyclical, with short-term price swings dependent upon supply and demand. Water resources will be the primary concern in 2015 should the current drought conditions continue.

Field crops consist primarily of wheat, alfalfa, soybean, corn, sorghum, and other grains. Crop producers have enjoyed an extended period of profitability due to historically high grain prices and generally favorable growing conditions. As a result, land values continue to remain relatively strong. However, land values are expected to soften as wheat and corn prices both fell significantly in 2014. Water availability and export demand are ongoing concerns for grain farmers.

The extended housing market slump during the economic downturn adversely affected borrowers in the forest products industry. However, housing starts continued to strengthen during 2014, home values have stabilized, and the industry has greatly improved. Lumber prices stabilized during 2014 and will be positively impacted as the housing market continues its recovery.

The classification "Tree fruits and nuts" largely consists of almond orchards in the Valley Region. California produces approximately 80% of the world's almonds. The 2014 almond crop was expected to yield a record 2.1 billion pounds, exceeding the 2011 record of 2.03 billion pounds. Prices remain strong and at near record-high levels. Record shipments continue for both domestic and export markets. The California drought remains a significant concern as almonds are a relatively thirsty crop and require irrigation during dry weather. While California benefited from some early December rainfall, dry conditions have returned. The industry will be negatively impacted should the drought continue through 2015.

## GEOGRAPHIC CONCENTRATIONS

The Association's territory covers 38 California counties from the Oregon border to the Mexican border, the entire state of Nevada, central Kansas, parts of northern Oklahoma, western Colorado, and northwest New Mexico. The geographical distribution of loan volume as of December 31, 2014, 2013, and 2012 is shown below. This table indicates from where the loan volume is serviced. The Association originates and services loans in areas outside of its chartered territory with the concurrence of the Farm Credit associations where those loans are physically located.

| **Geographic Distribution of Loans** (In millions) | **2014** | | **2013** | | **2012** | |
|---|---|---|---|---|---|---|
| | **Loan Volume** | **Percent of Total** | **Loan Volume** | **Percent of Total** | **Loan Volume** | **Percent of Total** |
| Capital Markets Region | $1,795.9 | 28% | $1,557.3 | 26% | $1,466.8 | 25% |
| Central California Region | 1,460.3 | 23% | 1,477.9 | 25% | 1,407.8 | 24% |
| Northern California Region | 858.7 | 14% | 838.3 | 14% | 797.2 | 14% |
| Mountain Plains Region | 767.1 | 12% | 723.6 | 12% | 734.3 | 13% |
| Southern California Region | 644.8 | 10% | 611.1 | 10% | 583.5 | 10% |
| Heartland Region | 586.3 | 9% | 564.1 | 9% | 556.3 | 10% |
| Intermountain Region | 211.9 | 3% | 207.9 | 3% | 197.2 | 3% |
| Corporate Loans | 33.8 | 1% | 64.8 | 1% | 73.4 | 1% |
| **Total** | **$6,358.8** | **100%** | **$6,045.0** | **100%** | **$5,816.5** | **100%** |

We are party to a Territorial Approval Agreement (Agreement) with other associations in the states of Oklahoma, Colorado, Kansas, and New Mexico. The Agreement eliminates territorial restrictions and allows associations that are a party to the Agreement to make loans in any other association's territory regardless of a borrower's place of residence, location of operations, location of loan security, or location of headquarters. This Agreement can be terminated upon the earlier to occur of the following:

1) the time when all but one association has withdrawn as a party to the Agreement; or

2) December 31, 2025; or

3) when requested by FCA.

The Association routinely sells portions of large loans to other financial institutions to manage portfolio risk. These institutions are geographically dispersed and come from within the Farm Credit System, the commercial banking industry, and life insurance companies. In addition, the Association has entered into participation agreements with these institutions in which the Association services the entire loan but owns only a small portion. Participating in or selling loans allows the Association to manage its lending limits and its internal capital requirements, as well as to diversify risk. Neither the principal nor any unused commitments related to the participated or sold portion of these loans are included on the Association's Consolidated Balance Sheet. Participation and other multi-lender activity at December 31 is summarized below.

| (In millions) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Loans sold to others | $2,378.6 | $2,297.9 | $2,502.0 |
| Retained interest in sold loans | $800.3 | $761.3 | $769.8 |
| Loans purchased from others | $861.8 | $760.2 | $779.2 |
| Syndications serviced for others | $1,516.6 | $1,566.8 | $1,568.4 |

To further manage portfolio credit risk, the Association participates in a Farmer Mac guarantee program. Under this program, the Association pays a guarantee fee to Farmer Mac to assume the balance of predesignated loans if they become delinquent. Management considers these fees to be intrinsic credit enhancement costs that affect the yield on the pool of guaranteed loans. The Association paid $102,994, $128,836, and $188,008 in guarantee fees during 2014, 2013, and 2012, respectively. These fees are included in interest expense. Farmer Mac guaranteed loans at December 31, 2014, 2013, and 2012, were $19.8 million, $23.2 million, and $30.2 million, respectively.

## CREDIT QUALITY

Management reviews the credit quality of the loan portfolio regularly 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.

In addition to the Uniform Classification System, the Association uses more detailed credit risk classifications to further subdivide credits according to projected probability of default and projected loss given default. Currently, there are 14 classifications under which probability of default may be assigned, and four categories for estimating loss given default for loans.

The Association utilizes a portfolio risk management process to evaluate and monitor the risk associated with major commodity groups, credit classifications, unsecured loans, and purchased loans. This process employs the use of shock analysis to determine the impact of significant credit deterioration in any one group on the portfolio as a whole. Credit classification trends are identified and monitored as an early warning sign of potential non-performing assets. The Association employs management personnel to perform the risk management process that the Board of Directors oversees. In addition, the Association conducts internal credit reviews to evaluate the effectiveness of the process.

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

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Acceptable and OAEM | 98.7% | 97.8% | 95.8% |
| Substandard | 1.3% | 2.2% | 4.2% |
| **Total** | **100.0%** | **100.0%** | **100.0%** |

The Association's credit quality continues to show steady improvement as the U.S. economic recovery gains strength. The Association's Acceptable and OAEM credit quality improved from 95.8% in 2012 to 97.8% in 2013 and to 98.7% at year-end 2014. Virtually all agricultural sectors we finance have seen credit quality improvements over the past three years. There were no loans classified as Doubtful or Loss for any of the three years presented. The credit quality of the Association's loan portfolio remains strong due to continued emphasis on sound underwriting standards. Agriculture remains a cyclical business that is heavily influenced by production, operating costs, and commodity prices. Each of these can be significantly affected by uncontrollable events. While credit quality is anticipated to remain sound in 2015, potential water issues associated with the continued drought in the West are a concern. Should the drought persist, it is likely that our borrowers and credit quality will be negatively impacted.

## CREDIT COMMITMENTS

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments include commitments to extend 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. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2014.

| (In thousands) | Less than 1 Year | 1–3 Years | 4–5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|
| Commitments to extend credit | $270,812 | $708,738 | $704,921 | $362,281 | $2,046,752 |
| Standby letters of credit | 53,244 | 2,675 | 6,474 | – | 62,393 |
| **Total commitments** | **$324,056** | **$711,413** | **$711,395** | **$362,281** | **$2,109,145** |

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 contractual amounts are not reflected on the Consolidated Balance Sheet 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 the Association applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

## HIGH-RISK ASSETS

FCA regulations specify three high-risk loan performance categories – nonaccrual, restructured, and loans 90 days past due still accruing interest. These are referred to as impaired loans. Loans outstanding, including accrued interest, for each loan performance category as of December 31 follows.

| (In thousands) | 2014 | 2013 | 2012 |
|---|---|---|---|
| Nonaccrual | $39,177 | $61,183 | $94,928 |
| Restructured | 8,961 | – | – |
| Accrual > 90 days past due | – | 405 | – |
| Total impaired loans | 48,138 | 61,588 | 94,928 |
| Other property owned | 2,832 | 5,980 | 1,417 |
| **Total high-risk assets** | **$50,970** | **$67,568** | **$96,345** |
| Nonaccrual loans/total loans | 0.62% | 1.01% | 1.63% |
| Nonaccrual loans current as to principal and interest | $34,167 | $36,141 | $52,190 |

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. Nonaccrual loan volume declined significantly in 2014 from $61.2 million at December 31, 2013, to $39.2 million at December 31, 2014. The $22 million reduction represents a year-over-year reduction of 36%. While the Association does not accrue interest on loans classified as nonaccrual, 87.2% of the nonaccrual loan volume at December 31, 2014, was current as to principal and interest compared to 59.1% at December 31, 2013, and 55.0% at year-end 2012. Nonaccrual loan volume measured as a percentage of total loans has improved each of the last three years from 1.63% at year-end 2012 to 0.62% as of the end of 2014.

High-risk asset volume could increase in the future as the Association is experiencing record-high credit quality. Given the cyclical nature of agriculture, management anticipates that factors such as product oversupply, water issues, regulatory demands, increasing interest rates, and public demand for commodities may adversely impact high-risk volume over time. While the continued U.S. economic recovery anticipated in 2015 should add to our credit quality stability, the global economy appears to be headed for recession, which would likely negatively impact the demand for U.S. agricultural products. In addition, should the current drought conditions persist in the West, water issues will likely have a negative impact on our borrowers and the credit quality of our loan portfolio. The Association maintains a Risk Management Department to proactively monitor and address portfolio risk.

## ALLOWANCE FOR LOAN LOSSES

The Association maintains an allowance for loan losses at a level consistent with the probable losses identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors.

The allowance for loan losses increased slightly from $10.8 million to $11.0 million in 2014. The slight increase was due to incremental loan growth and a qualitative adjustment due to the continuing drought conditions. Overall, charge-off activity remains low relative to the size of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 is shown in the following table.

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Allowance for loan losses as a percentage of: | | | |
| Loans | 0.17% | 0.18% | 0.27% |
| Impaired loans | 22.90% | 17.46% | 16.75% |

Further discussion of the allowance can be found in Note 3 to the consolidated financial statements.

## CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio (including letters of credit and unfunded loan commitments), and is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies, and procedures. Underwriting standards are developed and utilized to determine an applicant's operational, financial, and management resources available for repaying debt within the terms of the note or loan agreement. Underwriting standards include, among other things, an evaluation of the following:

CHARACTER: borrower integrity and credit history;

CAPACITY: repayment capacity of the borrower based on cash flows from operations or other sources of income;

COLLATERAL: to protect the lender in the event of default and also serve as a secondary source of loan repayment;

CAPITAL: ability of the operation to survive unanticipated risks; and

CONDITIONS: including use of the loan funds, terms, restrictions, etc.

Processes for information gathering, balance sheet and income statement verification, loan analysis, credit approvals, disbursements of proceeds, and subsequent loan servicing actions are established and followed. Underwriting standards vary by industry and are updated periodically to reflect market and industry conditions.

By regulation, the Association cannot have loan commitments to one borrower for more than 15% of permanent capital. Additionally, the Association has set lending limits to manage loan concentration. Lending limits are established for individual loan size, commodity, special lending programs, and geographic concentrations. The Association has established internal lending delegations to properly control the loan approval process. Delegations to staff are based on the Association's risk-bearing ability, loan size, complexity, type, and risk, as well as the expertise of the credit staff member. Larger and more complex loans are typically approved by a loan committee with the most experienced and knowledgeable credit staff serving as members.

One method for managing concentration is through the use of participation programs with other System and non-System institutions. Buying and selling loan volume, within and outside the System, can help reduce concentrations and manage growth and capital positions while allowing for a sharing of credit expertise. Concentrations and credit risk are also managed through the utilization of government guarantee programs and Farmer Mac guarantee programs. The Association has further diversified concentrations in agricultural production by developing rural residence, part-time farmer, and agribusiness portfolios. Rural resident and part-time farmers often derive a significant portion of earnings from nonagricultural sources, thus helping diversify repayment risk to sources other than agricultural production income.

The majority of Association lending is first-mortgage real estate lending. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured. Collateral evaluations are made within FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. Certain appraisals must be performed by individuals with a state certification or license.

The Association utilizes a Combined System Risk Model ("Model") in its loan and portfolio management processes. The Model is a two-dimensional risk rating system that estimates each loan's probability of default and loss given default. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. The Model estimates loan losses with levels of risk granularity, particularly related to acceptable loans. The Model's 14-point scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category, and one loss category. This Model also serves as the basis for future economic capital modeling.

## INTEREST RATE RISK

The interest rate risk inherent in the loan portfolio is substantially mitigated through the funding relationship with CoBank and allows for loans to be match-funded with CoBank. Borrowings from CoBank match the pricing, maturity, and option characteristics of the loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, the Association may still be exposed to interest rate risk from the impact of interest rate changes on earnings generated from our loanable funds.

To stabilize earnings from loans financed by equity, the Association has committed excess loanable funds with CoBank at a fixed rate for a specified term as part of CoBank's Fixed Term Investment Program. This program enables the Association to stabilize the earnings on its loans financed by equity without significantly increasing our overall interest rate risk position. The balance of the Fixed Term Investments totaled $759.5 million at December 31, 2014, with monthly investments maturing from January 31, 2015, through July 31, 2019. The average interest rate on this balance as of December 31, 2014, was 0.85%.

## FUNDS MANAGEMENT

Net interest income is affected by the spread between the rates the Association earns on its assets and the rates it pays on interest-bearing liabilities. The Association manages this spread by offering various loan products with differing interest rates, maturities, and re-pricing terms. Net interest income expressed as a percentage of average total earning assets is referred to as the net interest margin. For 2014, the net interest margin was 2.89%, down slightly from 2.91% in 2013. The small reduction was due to competitive market conditions. The chart on page 19 shows other factors that affected net interest income during the year.

Approximately 32% of the Association's loan portfolio is in variable-interest rate plans that provide for periodic interest rate adjustments based on management's discretion. Adjustable-rate loans were approximately 20% of the portfolio and consisted of loans tied to a specific market index such as LIBOR or the Prime Rate. The remaining 48% of the portfolio is in interest rate programs where the Association is able to lock in an interest rate spread for the term of the loan, thereby mitigating interest rate risk. These programs enhance the Association's ability to manage net interest income and avoid interest rate risk exposure during periods of interest rate volatility.

The Association has a differential pricing policy for fees and interest rates, which is based on loan size, servicing requirements, and credit risk of a loan. Management's objective is to maintain interest rates that are competitive with other lenders providing similar-type loans. The Association's competitiveness is evaluated by periodic surveys of other lending institutions in its lending territory.

## CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Members' equity at December 31, 2014, totaled $1,706.6 million, compared with $1,614.9 million at December 31, 2013, and $1,522.7 million at December 31, 2012. The $184 million increase in members' equity over the prior two years reflects $210 million of net income, a $52 million increase in H Stock, partially offset by $76 million of distributions back to our borrowers through our patronage dividend program. Our capital position is reflected in the following ratio comparisons.

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Total capital (in millions) | $1,706.6 | $1,614.9 | $1,522.7 |
| Debt to capital | 2.98:1 | 3.00:1 | 3.08:1 |
| Capital to net loans | 26.9% | 26.8% | 26.3% |
| Capital to total assets | 25.1% | 25.0% | 24.5% |
| Capital to total liabilities | 33.6% | 33.3% | 32.5% |

As a prudent business practice, the Association has established a capital adequacy plan that outlines objectives relating to maintaining a stable, secure capital base. Permanent capital, as defined by FCA regulations, is generated from two sources: retained earnings and at-risk stock. Retained earnings (including additional paid in capital) represented 89.9% and 91.2% of total capital at December 31, 2014 and 2013, respectively. For a description of classes of stock and regulatory capital requirements, as well as a description of the Association's Capital Adequacy Plan, please see Note 8 to the consolidated financial statements. The Board and management consider current capital ratios to be adequate in view of anticipated loan growth, operating performance, and identified risks.

Association bylaws require each borrower to invest in the capital stock of the Association. The Association may require additional capital contributions in accordance with federal regulations. Equities purchased by members and surplus accumulated from earnings provide the capital resources used in the Association's operation.

The Association utilizes a pool of Farmer Mac guaranteed loans to manage capital deployment. Because of the Farmer Mac guarantee, which provides for the sale of loans to Farmer Mac in the event these loans become delinquent, the loans receive a lesser risk weighting for capital ratio calculations than non-guaranteed loans. These guaranteed loans increased the permanent capital ratio by 0.09% in 2014. Because these loans are fully guaranteed, they are bifurcated from the analysis of the allowance for loan losses.

The Board of Directors has adopted an Obligating Resolution to distribute 2015 patronage-sourced earnings to patrons of the Association, contingent upon the Association achieving certain capital criteria.

## ACCUMULATED OTHER COMPREHENSIVE INCOME AND LOSSES (AOCI)

Accumulated other comprehensive (loss) totaled $(6.9) million at December 31, 2014, a decrease of $0.5 million compared with year-end 2013. Certain employees participate in a non-qualified Defined Benefit Pension Restoration Plan ("Plan"). The Association follows accounting guidance, which requires recognition of the Plan's underfunded status and unamortized actuarial gains and losses and prior service costs or credits as a liability with an offsetting adjustment to AOCI.

## BOARD OVERSIGHT

The Association is governed by a 21-member Board that oversees the management of our Association. Of these directors, 17 are elected by the stockholders and four are appointed by the elected directors. The Board of Directors represents the interests of our stockholders and meets regularly to perform the following functions, among others:

- Select, evaluate, and compensate the chief executive officer;
- Establish the strategic plan and approve annual operating plan and budget;
- Oversee the lending operations;
- Advise and counsel management on significant issues; and
- Oversee the financial reporting process, communications with stockholders, and legal and regulatory compliance.

## DIRECTOR INDEPENDENCE

All directors must exercise sound judgment in deciding matters in the Association's interest. All directors are independent from the perspective that no management or staff serves as Board members. However, as a financial service cooperative, the Association is required by the Farm Credit Act and FCA regulations to have elected directors that have a loan relationship with the Association.

The elected directors, as borrowers, have a vested interest in ensuring the Association remains strong and successful. However, the borrowing relationship could be viewed as having the potential to compromise the independence of an elected director. For this reason, the Board has established independence criteria to ensure that a loan relationship does not compromise the independence of the Board. Annually, in conjunction with the independence analysis and reporting on loans to directors, each director provides financial information and any other documentation and/or assertions needed for the Board to determine the independence of each Board member.

## AUDIT COMMITTEE

The Audit Committee is composed of seven members and is responsible for oversight of financial reporting and examinations. During 2014, eight meetings were held. The Audit Committee responsibilities include, but are not limited to, the following:

- Oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- Oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- Review and assessment of the impact of accounting and auditing developments on the consolidated financial statements; and
- Establishment and maintenance of procedures for the receipt, retention, and treatment of confidential and anonymous submission of concerns regarding accounting, internal accounting controls, and auditing matters.

## COMPENSATION COMMITTEE

The Compensation Committee is responsible for the oversight of employee and Director compensation. The Committee is composed of six members and meets regularly to review and evaluate all aspects of compensation, including benefits programs. Seven meetings were held in 2014.

## GOVERNANCE COMMITTEE

The Governance Committee ("Committee") is composed of seven members. Seven meetings were held in 2014. The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While not subject to the requirements of this law, the Association strives to implement steps to strengthen governance and financial reporting. The Association maintains strong governance and financial reporting through the following:

- A system for the receipt and treatment of whistleblower complaints;
- A code of ethics for the president/chief executive officer, chief financial officer, and chief credit officer;
- Open lines of communication between the independent auditors, management, and the Audit Committee;
- "Plain English" disclosures;
- Officer certification of accuracy and completeness of the consolidated financial statements; and
- Information disclosure through the Association's website.

## STRATEGIC INITIATIVES COMMITTEE

The Strategic Initiatives Committee (SIC) assists the Board of Directors with its responsibilities for the Association's mission, vision, and strategic direction. The committee is composed of five members consisting of three Board members and two members of senior management. Five meetings were held in 2014. The committee's responsibilities include, but are not limited to, the following:

- Collaborate with management on the development and periodic update of the Association's strategic statement;
- Discuss and present recommendations to the Board related to the Association's mission, vision and strategic initiatives, major programs, mergers, and services;
- Develop the Association's merger criteria and evaluate potential merger partners;
- Communicate effectively to build strategic consensus between Board and management;
- Oversee the establishment of the Association's risk appetite; and
- Open lines of communication between the independent auditors, management, and the Audit Committee.


## REGULATORY MATTERS

As of December 31, 2014, the Association had no enforcement actions in effect and FCA took no enforcement actions during the year.

On May 8, 2014, the Farm Credit Administration approved a proposed rule to modify the regulatory capital requirements for System Associations. The stated objectives of the proposed rule are as follows:

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

As currently drafted, the proposed rule would, among other things, eliminate the core surplus and total surplus requirements and introduce common equity Tier 1, Tier 2 and Total Capital (Tier 1 + Tier 2) risk-based capital ratio requirements. The proposal would add a minimum Tier 1 leverage ratio for all System institutions. In addition, the proposal would establish a capital conservation buffer, and modify and expand risk weightings. The revisions to the risk weightings of exposures would include alternatives to the use of credit ratings, as required by the Dodd-Frank Act. The proposed effective date is January 1, 2016.

The public comment period ended on February 16, 2015. While uncertainty exists as to the final form of the proposed rule, based on our preliminary assessment, we do not believe the new rule will impose any significant constraints on our business strategies or growth prospects.

## CUSTOMER PRIVACY

FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers, and employees. FCA regulations specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic information.

# Independent Auditor's Report

## To the Board of Directors of American AgCredit, ACA and Subsidiaries:

We have audited the accompanying consolidated financial statements of American AgCredit, 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 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.

### AUDITOR'S 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 American AgCredit, ACA and its subsidiaries at December 31, 2014, 2013, and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

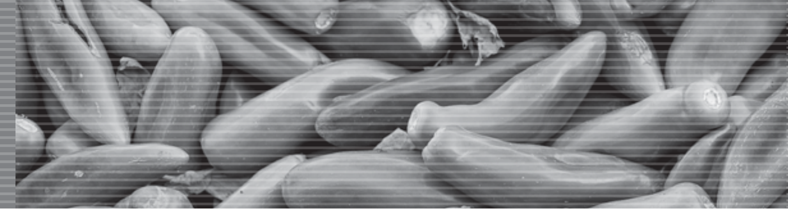
March 16, 2015

PricewaterhouseCoopers LLP

pwc

**PricewaterhouseCoopers LLP**
One Utah Center
201 South Main Street, Suite 900
Salt Lake City, Utah 84111

# Consolidated Balance Sheet



| December 31, (In thousands) | 2014 | 2013 | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Loans | $6,358,767 | $6,045,026 | $5,816,541 |
| Less: allowance for loan losses | (11,021) | (10,752) | (15,900) |
| **Net loans** | **6,347,746** | **6,034,274** | **5,800,641** |
| Cash | 5,435 | 7,975 | 14,123 |
| Accrued interest receivable | 45,272 | 42,080 | 42,659 |
| Investment in CoBank | 254,314 | 252,696 | 251,328 |
| Premises and equipment, net | 66,531 | 55,303 | 47,284 |
| Other property owned | 2,832 | 5,980 | 1,417 |
| Other assets | 65,968 | 67,649 | 54,942 |
| **Total assets** | **$6,788,098** | **$6,465,957** | **$6,212,394** |
| **LIABILITIES** | | | |
| Notes payable CoBank | $4,901,604 | $4,681,353 | $4,539,666 |
| Funds Held accounts | 59,099 | 42,095 | 31,581 |
| Accrued interest payable | 11,106 | 15,134 | 15,837 |
| Patronage/Dividends payable | 39,178 | 37,148 | 46,946 |
| Other liabilities | 70,551 | 75,282 | 55,680 |
| **Total liabilities** | **5,081,538** | **4,851,012** | **4,689,710** |
| *Commitments and contingencies (Note 14)* | | | |
| **MEMBERS' EQUITY** | | | |
| Preferred stock | 172,533 | 141,580 | 120,535 |
| Common capital stock and participation certificates | 7,396 | 7,422 | 7,502 |
| Additional paid in capital | 490,564 | 490,564 | 490,564 |
| Unallocated retained surplus | 1,042,921 | 982,706 | 907,622 |
| Accumulated other comprehensive (loss)/gain | (6,854) | (7,327) | (3,539) |
| **Total members' equity** | **1,706,560** | **1,614,945** | **1,522,684** |
| **Total liabilities and members' equity** | **$6,788,098** | **$6,465,957** | **$6,212,394** |

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

# Consolidated Statement
## OF COMPREHENSIVE INCOME

| **For the Year Ended December 31,** (In thousands) | **2014** | **2013** | **2012** |
|---|---|---|---|
| **INTEREST INCOME** | | | |
| Loans | $260,938 | $252,278 | $254,078 |
| **Total interest income** | **260,938** | **252,278** | **254,078** |
| **INTEREST EXPENSE** | | | |
| Notes payable CoBank | 85,523 | 80,349 | 93,357 |
| Funds Held and other interest | 296 | 447 | 803 |
| **Total interest expense** | **85,819** | **80,796** | **94,160** |
| **Net interest income** | **175,119** | **171,482** | **159,918** |
| Reversal of / (Provision for) loan losses | 1,465 | 6,949 | (2,615) |
| **Net interest income after provision for loan losses** | **176,584** | **178,431** | **157,303** |
| **NON-INTEREST INCOME** | | | |
| Loan origination fees and late charges | 6,278 | 10,247 | 8,711 |
| Servicing fees | 3,661 | 3,519 | 3,431 |
| Patronage distribution from Farm Credit institutions | 25,768 | 24,478 | 27,378 |
| Other gains, net | 166 | 23 | 108 |
| FCSIC premium rebate | – | – | 5,709 |
| Miscellaneous | 12,080 | 10,014 | 8,200 |
| **Total non-interest income** | **47,953** | **48,281** | **53,537** |

| **For the Year Ended December 31,** (In thousands) | **2014** | **2013** | **2012** |
|---|---|---|---|
| **NON-INTEREST EXPENSES** | | | |
| Salaries and employee benefits | 81,312 | 77,752 | 69,423 |
| Occupancy and equipment expense | 12,227 | 9,497 | 7,017 |
| Insurance fund premiums | 5,256 | 4,361 | 2,083 |
| Supervisory and examination expense | 2,641 | 2,561 | 2,747 |
| Losses on other property owned, net | 619 | 352 | 1,070 |
| Merger costs | – | 21 | 57 |
| Other operating expenses | 23,597 | 20,923 | 17,856 |
| **Total non-interest expenses** | **125,652** | **115,467** | **100,253** |
| Income before income taxes | 98,885 | 111,245 | 110,587 |
| (Provision) / Benefit for income taxes | 56 | (7) | (3,329) |
| **Net income** | **$98,941** | **$111,238** | **$107,258** |
| Comprehensive income | | | |
| Change in retirement obligation | 473 | (3,788) | (513) |
| **Total comprehensive income** | **$99,414** | **$107,450** | **$106,745** |

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

# Consolidated Statement

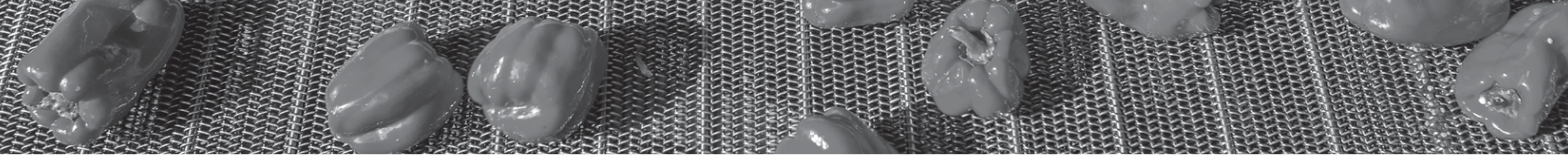
## OF CHANGES IN MEMBERS' EQUITY

| (In thousands) | Stock and Participation Certificates | Preferred Stock | Additional Paid in Capital | Unallocated Retained Surplus | Accumulated Other Comprehensive Income/(Loss) | Total Members' Equity |
|---|---|---|---|---|---|---|
| **BALANCE AT DECEMBER 31, 2011** | **$6,147** | **$104,966** | **$206,948** | **$845,873** | **$(3,026)** | **$1,160,908** |
| Comprehensive income | | | | 107,258 | (513) | 106,745 |
| Capital stock/participation certificates issued | 691 | | | | | 691 |
| Capital stock/participation certificates retired | (765) | | | | | (765) |
| Preferred stock issued | | 219,980 | | | | 219,980 |
| Preferred stock retired | | (204,761) | | | | (204,761) |
| Equity issued or re-characterized upon merger | 1,429 | | 283,616 | | | 285,045 |
| Preferred stock dividends paid | | 350 | | (511) | | (161) |
| Patronage distribution declared | | | | (44,998) | | (44,998) |
| **BALANCE AT DECEMBER 31, 2012** | **$7,502** | **$120,535** | **$490,564** | **$907,622** | **$(3,539)** | **$1,522,684** |
| Comprehensive income | | | | 111,238 | (3,788) | 107.450 |
| Capital stock/participation certificates issued | 650 | | | | | 650 |
| Capital stock/participation certificates retired | (730) | | | | | (730) |
| Preferred stock issued | | 284,269 | | | | 284,269 |
| Preferred stock retired | | (263,832) | | | | (263,832) |
| Preferred stock dividends paid | | 608 | | | | 608 |
| Preferred stock dividends accrued | | | | (624) | | (624) |
| Patronage distribution declared | | | | (36,970) | | (36,970) |
| Reversal of prior year patronage declared but not paid | | | | 1,440 | | 1,440 |
| **BALANCE AT DECEMBER 31, 2013** | **$7,422** | **$141,580** | **$490,564** | **$982,706** | **$(7,327)** | **$1,614,945** |
| Comprehensive income | | | | 98,941 | 473 | 99,414 |
| Capital stock/participation certificates issued | 605 | | | | | 605 |
| Capital stock/participation certificates retired | (631) | | | | | (631) |
| Preferred stock issued | | 357,177 | | | | 357,177 |
| Preferred stock retired | | (326,846) | | | | (326,846) |
| Preferred stock dividends paid | | 622 | | | | 622 |
| Preferred stock dividends accrued | | | | (611) | | (611) |
| Patronage distribution declared | | | | (39,013) | | (39,013) |
| Reversal of prior year patronage declared but not paid | | | | 898 | | 898 |
| **BALANCE AT DECEMBER 31, 2014** | **$7,396** | **$172,533** | **$490,564** | **$1,042,921** | **$(6,854)** | **$1,706,560** |

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

# Consolidated Statement of Cash Flows

| (In thousands) | 2014 | For the Year Ended December 31, 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | $98,941 | $111,238 | $107,258 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision/(Benefit) for loan losses | (1,465) | (6,949) | 2,615 |
| Depreciation | 6,060 | 5,042 | 3,817 |
| Amortization of fair market value of net assets acquired in merger | (179) | (1,958) | (3,761) |
| Other property owned carrying value adjustments | 712 | 124 | 1,383 |
| Other (gains), net | (166) | (23) | (108) |
| Gain on sale of other property owned, net | (227) | (14) | (313) |
| Stock patronage from CoBank | (1,619) | (1,368) | (1,713) |
| **Change in assets and liabilities** | | | |
| (increase)/Decrease in accrued interest receivable | (3,192) | 579 | 2,955 |
| Decrease in deferred tax asset | – | – | 3,221 |
| (Increase)/Decrease in other assets | 3,246 | (10,699) | (14,296) |
| Decrease in accrued interest payable | (4,028) | (703) | (1,978) |
| Increase/(Decrease) in other liabilities | (4,258) | 15,812 | 9,822 |
| **Net cash provided by operating activities** | **$93,825** | **$111,081** | **$108,902** |
| **Cash flows from investing activities:** | | | |
| (Increase) in loans, net | $(316,376) | $(247,875) | $(346,310) |
| Recovery of loans charged off | 1,752 | 4,157 | 3,690 |
| Acquisition of premises and equipment, net | (22,726) | (13,289) | (9,472) |
| Proceeds from sale of premises and equipment | 5,603 | 252 | 148 |
| Proceeds from sale of other property owned, net of expenses | 2,662 | 278 | 14,234 |
| Investment in AgDirect | (1,564) | (2,008) | (3,865) |
| **Net cash (used in) investing activities** | **$(330,649)** | **$(258,485)** | **$(341,575)** |



| INCREASE /(DECREASE) IN CASH<br>(In thousands) | For the Year Ended December 31,<br>2014 | 2013 | 2012 |
|---|---|---|---|
| **Cash flows from financing activities:** | | | |
| Net draws on note payable to CoBank | $223,047 | $155,729 | $266,302 |
| Increase /(Decrease) in Funds Held accounts | 17,004 | 10,514 | (4,798) |
| Cash distributions paid | (36,072) | (45,344) | (47,923) |
| Issuances of capital stock and participation certificates | 605 | 650 | 691 |
| Retirement of capital stock and participation certificates | (631) | (730) | (765) |
| Issuance of preferred stock | 357,177 | 284,269 | 219,980 |
| Retirement of preferred stock | (326,846) | (263,832) | (204,761) |
| **Net cash provided by financing activities** | **$234,284** | **$141,256** | **$228,726** |
| Net (decrease) in cash | $(2,540) | $(6,148) | $(3,947) |
| Cash at beginning of year | 7,975 | 14,123 | 18,070 |
| **Cash at end of year** | **$5,435** | **$7,975** | **$14,123** |

| SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS<br>(In thousands) | For the Year Ended December 31,<br>2014 | 2013 | 2012 |
|---|---|---|---|
| Patronage/Dividends currently payable | $39,178 | $37,148 | $46,946 |
| Stock patronage from CoBank | $1,619 | $1,368 | $1,713 |
| Loan charge-offs | $18 | $2,356 | $2,707 |
| Other property owned in settlement of loans | – | $4,950 | $4,312 |
| Financed sales of other property owned | – | – | $4,775 |
| Amortization of fair market value of net assets acquired in merger | $179 | $1,958 | $3,761 |
| Dividend accrual adjustment to prior year | $898 | $1,440 | – |
| Preferred stock dividends paid | $622 | $608 | $350 |
| Impact of merger transaction: | | | |
| Assets acquired | – | – | $1,157,701 |
| Liabilities assumed | – | – | $872,656 |
| Equity issued | – | – | $285,045 |
| **Supplemental information:** | | | |
| Cash paid for interest | $(92,643) | $(95,542) | $(98,620) |
| Cash received/(paid) for income taxes | $56 | $(7) | $(7) |

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

## NOTE 1 — ORGANIZATION AND OPERATIONS

A. ORGANIZATION: American AgCredit, ACA and subsidiaries, American AgCredit PCA and American AgCredit FLCA (collectively called "the Association"), is a member-owned cooperative that provides credit and credit-related services to and for the benefit of eligible borrowers/stockholders for qualified agricultural purposes in the state of Nevada and the following California counties: Alameda, Alpine, Amador, Calaveras, Contra Costa, Del Norte, El Dorado, Humboldt, Lake, Lassen, Marin, Mariposa, Mendocino, Merced, Modoc, Mono, Monterey, Napa, Plumas, Riverside, Sacramento, San Benito, San Bernardino, San Diego, San Francisco, San Joaquin, San Mateo, Santa Clara, Santa Cruz, Sierra, Siskiyou, Sonoma, Stanislaus, Tuolumne, and portions of Los Angeles, Fresno, and Trinity. In Kansas, the Association serves the counties of Barber, Barton, Butler, Chautauqua, Cloud, Comanche, Cowley, Edwards, Elk, Ellis, Ellsworth, Graham, Greenwood, Harper, Harvey, Jewell, Kingman, Kiowa, Lincoln, McPherson, Mitchell, Norton, Osborne, Ottawa, Pawnee, Phillips, Pratt, Reno, Republic, Rice, Rooks, Rush, Russell, Saline, Sedgwick, Smith, Stafford, Sumner, and Trego. In Oklahoma, the Association serves the counties of Kay, Noble, and Osage. In Colorado, the Association serves the counties of Adams, Arapahoe, Archuleta, Boulder, Clear Creek, Delta, Denver, Dolores, Douglas, Eagle, part of Elbert, Garfield, Gilpin, Grand, Gunnison, part of Hinsdale, Jackson, Jefferson, La Plata, Larimer, Mesa, Moffat, Montezuma, Montrose, Ouray, Pitkin, Rio Blanco, Routt, San Juan, San Miguel, part of Saquache, Summit, and Weld. The Association also serves the counties of San Juan and half of Rio Arriba that lies west of the Continental Divide in the state of New Mexico.

The Association is a lending institution of the Farm Credit System (the System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). At December 31, 2014, the System was composed of three Farm Credit Banks (FCBs), one Agricultural Credit Bank (ACB), and approximately 77 associations. Each FCB and the ACB serve Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that may originate and service long-term, short-term, and intermediate-term loans. PCAs (Production Credit Associations), FLCAs, and ACAs are collectively referred to as associations.

Effective January 1, 2012, U.S. AgBank, FCB (AgBank) merged with and into CoBank, FCB, a wholly owned subsidiary of CoBank, ACB (CoBank). As a result of the merger, CoBank became the funding bank of the Association beginning January 1, 2012. For purposes throughout this disclosure, "the Bank" refers to AgBank for periods prior to January 1, 2012, and to CoBank for periods subsequent to December 31, 2011.

CoBank, its related associations, and AgVantis, Inc. (AgVantis) are collectively referred to as "the District." CoBank provides the funding to associations within the District and is responsible for supervising certain activities of the District associations. AgVantis, which is owned by the entities it serves, provided technology and other operational services to certain associations and to CoBank. As of December 31, 2014, the CoBank District consisted of CoBank, 25 Agricultural Credit Associations, which each have two wholly owned subsidiaries (a FLCA and a PCA), one FLCA, and AgVantis.

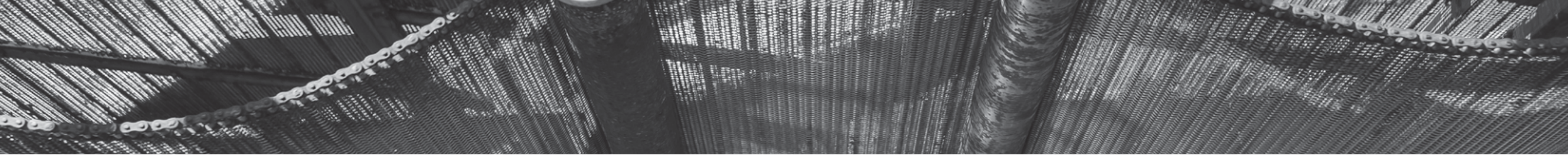
ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. Generally, the FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

American AgCredit participates in AgDirect, LLP (AgDirect), a trade credit financing program which includes originations and re-financing of agricultural equipment loans through independent equipment dealers. AgDirect is an entity created by Farm Credit Services of America (FCSA), which is responsible for the marketing, operating, and implementation of the program. FCSA serves as the master servicer for the program assets and provides periodic reporting to investor Associations. At December 31, 2014, the Association's investment in AgDirect, which was included in other assets in the Consolidated Balance Sheet, was $7.4 million, representing a 4% ownership in the partnership.

In the spring of 2014, the Association began construction of a new 120,000-square-foot office building located near the Charles M. Schultz – Sonoma County Airport in Santa Rosa, CA. The new facility will replace the Association's current Santa Rosa headquarters location and a second leased location, allowing all headquarters' employees to reside in a single office. The Santa Rosa, CA, lending office and a crop insurance office located in Petaluma, CA, will also move from their current locations and join the headquarters' staff. The Association is expected to occupy approximately 85,000 square feet of the new building. Other agriculture organizations have expressed interest in leasing space in the new building, fulfilling the Association's long-held vision to cast the Santa Rosa headquarters as a hub for agriculture. The new facility's estimated cost including land, building, furniture, and equipment is $68.4 million. The capital expenditure was approved as part of the Association's 2014 Business Plan. Construction is expected to be completed in November 2015.

Congress has delegated authority to the FCA to regulate the System banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund ("Insurance Fund"). By law, the Insurance Fund is required to be used to insure the timely payment of principal and interest on System-wide debt obligations ("Insured Debt"), ensure the retirement of protected borrower capital at par or stated value, and for other specified purposes. The Insurance Fund is also available for discretionary uses by the FCSIC in providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. 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 outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0% of the aggregate insured debt or such other percentage of the insured debt as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2.0% level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions. The Bank passes this premium expense and the return of excess funds as applicable through to the District associations based on their average adjusted note payable with the Bank.

B. OPERATIONS: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow from the Association, and financial services that can be offered by the Association. 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 also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

## NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Association conform to generally accepted accounting principles 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 amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these notes as applicable. Actual results may differ from these estimates.

The consolidated financial statements include the accounts of American AgCredit PCA and American AgCredit FLCA. All significant inter-company transactions have been eliminated in consolidation.

A. MERGER ACCOUNTING: Effective January 1, 2012, American AgCredit merged with Farm Credit Services of the Mountain Plains ("Mountain Plains"), a Farm Credit System association within the CoBank District. The primary reason to merge was based on a determination that the combined organization should be financially and operationally stronger than either association on a stand-alone basis. The merger was accounted for under the acquisition method of accounting.

As the accounting acquirer, American AgCredit accounted for the transaction by using American AgCredit's historical information and accounting policies and adding the identifiable assets and liabilities of Mountain Plains as of the acquisition date of January 1, 2012, at their respective fair values.

As cooperative organizations, Farm Credit associations operate for the mutual benefit of their borrowers and other customers and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the Associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of Mountain Plains stock that were converted in the merger and the shares of American AgCredit stock to which they were converted had identical rights and attributes. For this reason, the conversion of Mountain Plains stock pursuant to the merger occurred at a one-for-one exchange ratio (i.e., each Mountain Plains share was converted into one share of American AgCredit stock with an equal par value).

Management believes that because the stock in each association is fixed in value (although subject to impairment), the American AgCredit stock issued pursuant to the merger provided no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, American AgCredit undertook a process to identify and estimate the acquisition-date fair value of Mountain Plains' equity interests instead of the acquisition-date fair value of American AgCredit's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from Mountain Plains, were measured based on various estimates using assumptions that American AgCredit management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results.

The evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. As a result, management recorded no goodwill.

The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed from Mountain Plains as of January 1, 2012.

| (In thousands) | Fair Value | Book Value | Contractual Amounts Not Expected To Be Collected |
|---|---|---|---|
| **Assets** | | | |
| Loans receivable: | | | |
| Long-term mortgage | $660,349 | $638,147 | $2,108 |
| Production and intermediate-term | 183,144 | 184,786 | 3,852 |
| Loans to cooperatives | 38,553 | 38,862 | |
| Processing and marketing | 99,223 | 98,896 | |
| Farm-related businesses | 7,423 | 7,101 | |
| Communication loans | 40,745 | 40,919 | |
| Energy loans | 25,195 | 23,521 | |
| International loans | 21,677 | 21,370 | |
| Other | 9,016 | 8,675 | |
| **Total loans receivable** | **$1,085,325** | **$1,062,277** | **$5,960** |
| Investments in Farm Credit institutions | 39,389 | | |
| Property and equipment, net | 4,775 | 6,133 | |
| Other assets | 28,212 | | |
| **Total assets** | **$1,157,701** | | |
| **Liabilities** | | | |
| Notes payable | $827,080 | $798,243 | |
| Interest payable | 5,376 | | |
| Funds Held | 18,878 | | |
| Other liabilities | 21,322 | | |
| **Total liabilities** | **$872,656** | | |
| **Net assets acquired** | **$285,045** | | |

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of merger, but not for previous periods. The Consolidated Balance Sheet reflects the merged balances as of December 31, 2012, 2013, and 2014. The Consolidated Statement of Income reflects the results of the merged entity for the period of January 1 to December 31 for 2012, 2013, and 2014. For 2012 through 2014, the Consolidated Statement of Changes in Members' Equity reflects the changes in members' equity for American AgCredit as a merged entity. For 2012 through 2014, the Consolidated Statement of Cash Flows reflects the cash flows for American AgCredit as a merged entity. Information presented in the Notes to the Consolidated Financial Statements for 2012 through 2014 reflects the balances of the merged Association as of December 31, or in the case of transactional activity, of the merged Association for the period of January 1 to December 31.

The capital position of the Association is measured by regulatory standards issued by the FCA. The impact of the merger on capital was a minimal decrease to the December 31, 2012, Permanent Capital Ratio by approximately 0.46%. The capital ratio is also affected by annual net earnings, patronage dividends, asset size, and other factors. There were no regulatory conditions affecting the use of capital as a result of the merger.

**B. RECENTLY ISSUED OR ADOPTED ACCOUNTING PRONOUNCEMENTS:** In May 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of our contracts would be excluded from the scope of this new guidance. The guidance becomes effective for the first interim reporting period within the annual reporting periods after December 15, 2016. The Association is in the process of reviewing contracts to determine the effect, if any, on the Association's financial condition or its results of operations.

**C. LOANS AND ALLOWANCE FOR LOAN LOSSES:** Long-term real estate mortgage loans generally have maturities ranging up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Loans acquired in a business combination are initially recognized at fair value based on current interest rates and taking into account the borrowers' credit quality; and therefore, no "carryover" of the allowance for loan losses is permitted. The difference between the book value and fair value of these loans at acquisition date is accreted into interest income during the estimated remaining life of the acquired loans. Those loans with evidence of credit quality deterioration at purchase price are required to follow the authoritative accounting guidance. This guidance addresses accounting for differences between contractual cash flows and cash flows expected to be collected from the initial investment in loans if those differences are attributable, at least in part, to credit quality. The initial fair values for these types of loans are determined by discounting both principal and interest cash flows expected to be collected using an observable discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Subsequent decreases to expected principal cash flows will result in a charge to the provision for loan losses and a corresponding increase to allowance for loan losses. Subsequent increases in expected principal cash flows will result in recovery of any previously recorded allowance for loan losses, to the extent applicable, and a reclassification from nonaccretable difference to accretable yield for any remaining increase. For variable-rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (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) and/or included in the recorded nonaccrual balance (if accrued in prior years). 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. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest.

When loans are in nonaccrual status, loan payments are generally applied against the recorded investment in the loan asset. Nonaccrual loans may, at times, be maintained on a cash basis. Generally, cash basis refers to the recognition of interest income from cash payments received on certain nonaccrual loans for which the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be transferred to accrual status when contractual 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 as “Doubtful” or “Loss.” Loans are charged off at the time they are determined to be uncollectible.

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. In cases where a borrower experiences financial difficulties and the Association makes certain monetary concessions to the borrower through modifications to the contractual term of the loan, the loan is classified as a restructured loan. If the borrowers’ ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

Loan origination fees and certain direct origination costs for mortgage loans and commercial loans with terms greater than one year are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment of the yield of the related loan.

The Association purchases loan and lease participations from other System and non-System entities to generate additional earnings and diversify risk related to existing commodities financed and the geographic area served. Additionally, the Association sells a portion of certain large loans to other System and non-System entities to reduce risk and comply with established lending limits. Loans are accounted for following the accounting requirements for sale treatment.

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 probability of default 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.

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 allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance is increased through provision for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, environmental conditions, loan portfolio composition, collateral value, portfolio quality, current production conditions, and prior loan loss experience. The allowance for loan losses encompasses various judgments, evaluations, and appraisals with respect to the loans and their underlying collateral that, by their nature, contain elements of uncertainty, imprecision, and variability. Changes in the agricultural economy and environment and their impact on borrower repayment capacity will cause various judgments, evaluations, and appraisals to change over time. Accordingly, actual circumstances could vary significantly from the Association’s expectations and predictions of those circumstances. Management considers the following macro-economic factors in determining and supporting the level of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties associated with farmland values, commodity prices, exports, government assistance programs, regional economic effects, and weather-related influences.

A specific allowance may be established for impaired loans under GAAP. Impairment of these loans is measured by the present value of expected future cash flows discounted at the loan’s effective interest rate or, as a practical expedient, by the loan’s observable market price, or fair value of the collateral, if the loan is collateral dependent.

**D. CASH:** Cash, as included in the consolidated financial statements, represents cash on hand and on deposit at financial institutions. At times, cash deposits may be in excess of federally insured limits.

**E. INVESTMENT IN COBANK:** The Association's required investment in CoBank is in the form of Class A Common Stock. The minimum required investment is 4.0% of the prior year's average direct loan volume. The investment in CoBank is composed of patronage-based stock and purchased stock.

Prior to the merger on January 1, 2012, the Association's investment in AgBank was in the form of Class A Common Stock. The minimum required investment in AgBank was 5.0% of average direct loan volume, net of excess investment. The required investment was adjusted on a quarterly basis to reflect changes in direct loan volume, net of excess investment. The required investment was comprised of AgBank surplus attributed to the Association, patronage-based stock, and purchased stock. On the date of the merger, AgBank stock was converted to CoBank stock.

**F. OTHER PROPERTY OWNED:** Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition. 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. On at least an annual basis, 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 and expenses from operations and carrying value adjustments are included in net gains/(losses) on other property owned in the Consolidated Statement of Comprehensive Income.

**G. PREMISES AND EQUIPMENT:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation and amortization computed principally by the straight-line method over the estimated useful lives of the assets. Useful lives for buildings are 39 years and range from four to seven years for furniture, equipment, and automobiles. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are expensed, and improvements above certain thresholds are capitalized.

**H. OTHER ASSETS AND OTHER LIABILITIES:** Other assets are composed primarily of patronage from CoBank, investment in the nonqualified deferred compensation plan, and the investment in AgDirect. Significant components of other liabilities primarily include accounts payable and employee benefits.

**I. FUNDS HELD ACCOUNTS:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such Funds Held is restricted, the Funds Held are netted against the borrower's related loan balance. Unrestricted Funds Held are included in liabilities. Restricted Funds Held are primarily associated with mortgage loans, while unrestricted are primarily related to production and intermediate-term loans and insurance proceeds on mortgage loans. Funds Held are not insured. Interest is generally paid by the Association on Funds Held accounts.

**J. EMPLOYEE BENEFIT PLANS:** Substantially all employees of the Association participate in either the Ninth Farm Credit District Pension Plan ("Pension Plan") or the Eleventh District Defined Benefit Retirement Plan ("Defined Benefit Plan") and/or the Farm Credit Foundations Defined Contribution/401(k) Plan ("Defined Contribution Plan"). The Pension Plan and Defined Benefit Plan are noncontributory defined benefit plans. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Defined Benefit Plan was closed to employees hired after December 31, 1997. The Pension Plan was closed to employees beginning January 1, 2007.

The Defined Contribution Plan has two components. Employees who do not participate in the Defined Benefit Plans may receive benefits through the Employer Contribution portion of the Defined Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employees hired on or after January 1, 1998, are eligible to participate only in the Defined Contribution Plan. All defined contribution costs are expensed in the same period that participants earn employer contributions.

The Association also participates in the Ninth and Eleventh District Nonqualified Defined Benefit Pension Restoration Plans. These plans provide retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the plans are offset by the benefits payable from the Pension Plan and the Defined Benefit Plan.

Certain eligible employees may also participate in a nonqualified deferred compensation plan, which was included in other assets in the Consolidated Balance Sheet, where they are able to defer a portion of their compensation. The Association matches a certain percentage of employee contributions to the plan.

The Association also provides certain health and life insurance benefits to eligible current and retired employees through the Farm Credit Foundation Retiree Medical and Retiree Life Plans. Substantially all employees may become eligible for those benefits if they reach normal retirement age while working for the Association. The anticipated costs of these benefits are accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

**K. INCOME TAXES:** As previously described, the ACA holding company conducts its business activities through two wholly owned subsidiaries. Long-term mortgage lending activities are operated through a wholly owned FLCA subsidiary, which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through a wholly owned PCA subsidiary. The ACA, which is the holding company, and the PCA subsidiary are subject to income taxes. The Association accounts for income taxes under the liability method. Accordingly, deferred taxes are recognized for estimated taxes ultimately payable or recoverable based on federal, state, or local laws. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock, or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts reflected in the financial statements and tax bases of assets and liabilities. In addition, a valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50% probability), based on management's estimate, that the deferred tax assets will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings.

At December 31, 2014, deferred income taxes have not been provided on approximately $78.7 million of patronage refunds received from the Bank before January 1, 1993, the adoption date of accounting guidance on income taxes. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. Management's intent is to permanently invest these undistributed earnings in CoBank, thereby indefinitely postponing their conversion to cash.

The Association has not provided deferred income taxes on amounts allocated to the Association that relate to the Bank's post-1992 earnings to the extent that such earnings will be passed through to Association borrowers through qualified patronage allocations. Additionally, deferred income taxes have not been provided on the Bank's post-1992 unallocated earnings. CoBank currently has no plans to distribute unallocated CoBank earnings and does not contemplate circumstances that, if distributions were made, would result in taxes being paid at the Association level.

On December 31, 2011, AgBank, in anticipation of its January 1, 2012, merger with CoBank, recapitalized and distributed stock to its Association members. Deferred taxes have not been recorded by the Association on that distribution as management's intent, if that stock is ever converted to cash, is to pass through any related earnings to Association borrowers through qualified patronage allocations.

For state tax purposes, the Association can exclude from taxable income all patronage-sourced income. Therefore, the provision for state income taxes is made only on non-patronage-sourced taxable earnings.

L. PATRONAGE DISTRIBUTION FROM COBANK: Patronage distributions from CoBank are accrued by the Association in the year earned.

M. OTHER COMPREHENSIVE INCOME/LOSS: Other comprehensive income/loss refers to revenue, expenses, gains, and losses that under generally accepted accounting principles are recorded as an element of members' equity and comprehensive income but are excluded from net income. The Association records other comprehensive income/loss associated with the liability under the Pension Restoration Plan.

N. FAIR VALUE MEASUREMENT: Accounting guidance defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

**Level 1:** Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets include assets held in trust funds that relate to the Association's deferred compensation plan and supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

**Level 2:** Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current, or principal market information is not released publicly; (c) inputs other than quoted prices that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates; and (d) inputs derived principally from or corroborated by observable market data by correlation or other means.

**Level 3:** Unobservable inputs are those that are supported by little or no market activity and that are significant to the determination of the fair value of the assets or liabilities. These unobservable inputs reflect the reporting entity's own assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets include loans, other property owned, and note payable to CoBank.

The fair value disclosures are presented in Note 15.

O. OFF-BALANCE-SHEET CREDIT EXPOSURES: 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. Commercial letters of credit are conditional 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. The credit risk associated with commitments to extend credit and commercial 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.

## NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

Components of loans in the Consolidated Balance Sheet are as follows:

| | December 31, 2014 | 2013 | 2012 |
|---|---|---|---|
| Real estate mortgage | $3,653,692 | $3,599,831 | $3,513,135 |
| Production and intermediate-term | 1,132,885 | 1,069,715 | 1,040,382 |
| Agribusiness | 1,368,408 | 1,166,976 | 1,062,221 |
| Communication | 70,565 | 71,361 | 68,554 |
| Energy | 104,420 | 104,830 | 89,814 |
| Other | 28,797 | 32,313 | 42,435 |
| **Total** | **$6,358,767** | **$6,045,026** | **$5,816,541** |

In conjunction with the mergers as more fully explained in Note 2, the unamortized premium remaining at December 31, 2014, 2013, and 2012, was $12.6 million, $15.2 million, and $27.3 million, respectively.

The Association, in the normal course of business, purchases and sells participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. All loans sold to others are sold without recourse. The table below presents information regarding participations purchased and sold as of December 31, 2014.

| | Other Farm Credit Institutions | | Non–Farm Credit Institutions | | Total | |
|---|---|---|---|---|---|---|
| | PARTICIPATIONS PURCHASED | PARTICIPATIONS SOLD | PARTICIPATIONS PURCHASED | PARTICIPATIONS SOLD | PARTICIPATIONS PURCHASED | PARTICIPATIONS SOLD |
| Real estate mortgage | $60,974 | $553,537 | $30,717 | – | $91,691 | $553,537 |
| Production and intermediate-term | 185,399 | 732,465 | 7,459 | 15,000 | 192,858 | 747,465 |
| Agribusiness | 403,386 | 1,055,598 | 7,094 | – | 410,480 | 1,055,598 |
| Communication | 70,565 | – | – | – | 70,565 | – |
| Energy | 62,177 | 7,018 | – | – | 62,177 | 7,018 |
| Other | 33,982 | 15,000 | – | – | 33,982 | 15,000 |
| **Total** | **$816,483** | **$2,363,618** | **$45,270** | **$15,000** | **$861,753** | **$2,378,618** |

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for loan losses.

| | December 31, 2014 | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| **Commodity** | **Amount** | **%** | **Amount** | **%** | **Amount** | **%** |
| Vineyards and wineries | $1,136,999 | 18% | $1,121,613 | 19% | $975,432 | 17% |
| Field crops | 759,763 | 12% | 820,293 | 14% | 806,432 | 14% |
| Dairies | 690,933 | 11% | 723,799 | 12% | 750,558 | 13% |
| Beef | 685,833 | 11% | 670,121 | 11% | 671,700 | 12% |
| Forest products | 658,226 | 10% | 623,440 | 10% | 589,798 | 10% |
| Tree fruits and nuts | 646,601 | 10% | 619,509 | 10% | 592,273 | 10% |
| Vegetables | 338,787 | 5% | 324,162 | 5% | 308,057 | 5% |
| Other | 1,441,625 | 23% | 1,142,089 | 19% | 1,122,291 | 19% |
| **Total** | **$6,358,767** | **100%** | **$6,045,026** | **100%** | **$5,816,541** | **100%** |

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 secured by first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% 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.

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

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

The determination of the allowance for loan losses is based on estimates that are susceptible to changes in the economic environment and market conditions, and is based on the Association's past loss experience, known and inherent risks in the portfolio, the estimated value of the underlying collateral, and current economic conditions. Management believes that as of December 31, 2014, the allowance for loan losses is adequate based on information currently available.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

| December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Real estate mortgage** | | | |
| Acceptable | 95.47% | 93.60% | 91.74% |
| OAEM | 2.57 | 3.26 | 3.13 |
| Substandard/Doubtful | 1.96 | 3.14 | 5.13 |
| | 100.00% | 100.00% | 100.00% |
| **Production and intermediate-term** | | | |
| Acceptable | 99.28% | 94.17% | 89.45% |
| OAEM | 0.35 | 4.75 | 7.02 |
| Substandard/Doubtful | 0.37 | 1.08 | 3.53 |
| | 100.00% | 100.00% | 100.00% |
| **Agribusiness** | | | |
| Acceptable | 97.12% | 95.39% | 92.75% |
| OAEM | 2.57 | 4.04 | 4.49 |
| Substandard/Doubtful | 0.31 | 0.57 | 2.76 |
| | 100.00% | 100.00% | 100.00% |
| **Communication** | | | |
| Acceptable | 100.00% | 100.00% | 100.00% |
| OAEM | – | – | – |
| Substandard/Doubtful | – | – | – |
| | 100.00% | 100.00% | 100.00% |
| **Energy** | | | |
| Acceptable | 95.30% | 100.00% | 100.00% |
| OAEM | 4.70 | – | – |
| Substandard/Doubtful | – | – | – |
| | 100.00% | 100.00% | 100.00% |
| **Other** | | | |
| Acceptable | 99.35% | 99.60% | 99.84% |
| OAEM | 0.45 | 0.18 | 0.16 |
| Substandard/Doubtful | 0.20 | 0.22 | – |
| | 100.00% | 100.00% | 100.00% |
| **Total loans** | | | |
| Acceptable | 96.57% | 94.27% | 91.80% |
| OAEM | 2.17 | 3.56 | 3.96 |
| Substandard/Doubtful | 1.26 | 2.17 | 4.24 |
| | 100.00% | 100.00% | 100.00% |

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms. The following table presents information relating to impaired loans (including accrued interest).

| December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Nonaccrual:** | | | |
| Current as to principal and interest | $34,167 | $36,141 | $52,190 |
| Past due | 5,010 | 25,042 | 42,738 |
| Total nonaccrual loans | 39,177 | 61,183 | 94,928 |
| **Accrual:** | | | |
| Accrual > 90 days past due | – | 405 | – |
| Accruing restructured loans | 8,961 | – | – |
| Total impaired accrual loans | 8,961 | 405 | – |
| **Total impaired loans** | **$48,138** | **$61,588** | **$94,928** |

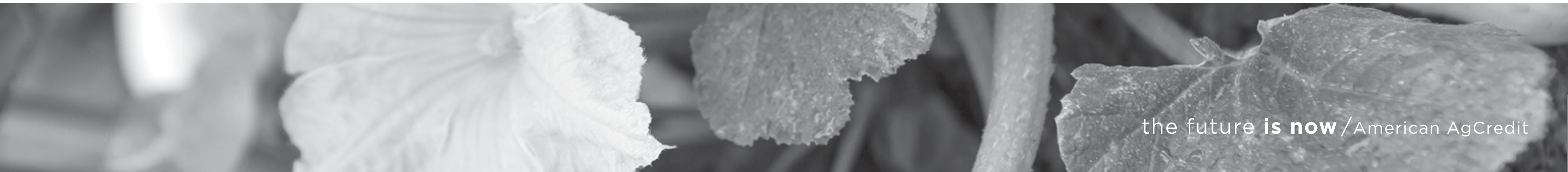
Commitments to lend additional funds to debtors whose loans were classified as impaired at December 31, 2013, and December 31, 2012, totaled $0 and $1.5 million, respectively. There were no commitments to debtors whose loans were impaired at December 31, 2014.

High-risk assets consist of impaired loans and other property owned. The following table presents these in a more detailed manner than the previous table. These non-performing assets (including accrued interest) are as follows:

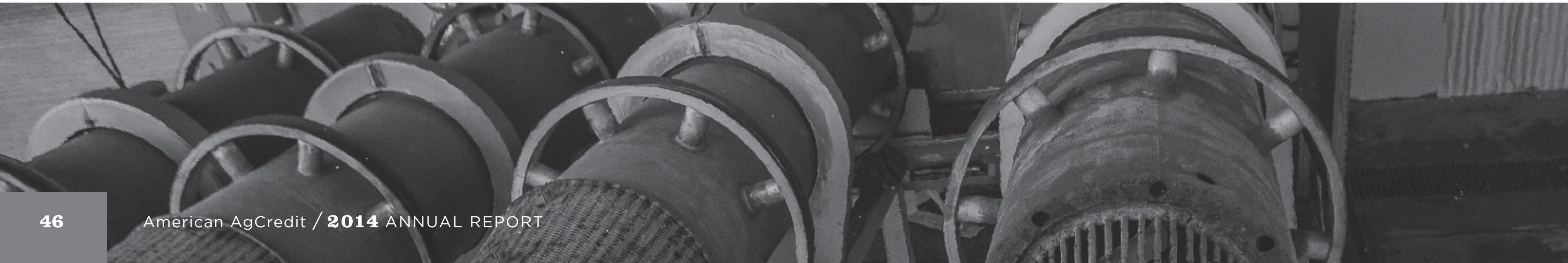
| December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Nonaccrual loans:** | | | |
| Real estate mortgage | $36,564 | $52,948 | $87,061 |
| Production and intermediate-term | 2,554 | 6,815 | 5,960 |
| Agribusiness | – | 1,350 | 1,907 |
| Other | 59 | 70 | – |
| Total nonaccrual loans | **39,177** | **61,183** | **94,928** |
| **Accruing restructured loans:** | | | |
| Real estate mortgage | 8,961 | – | – |
| Total accruing restructured loans | 8,961 | – | – |
| **Accruing loans 90 days or more past due:** | | | |
| Production and intermediate-term | – | 405 | – |
| Total accruing loans 90 days or more past due | – | 405 | – |
| Total impaired loans | **48,138** | **61,588** | **94,928** |
| Other property owned | 2,832 | 5,980 | 1,417 |
| **Total high risk assets** | **$50,970** | **$67,568** | **$96,345** |

Additional impaired loan information follows:

| | AT DECEMBER 31, 2014 | | | FOR THE YEAR ENDED DECEMBER 31, 2014 | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized |
| **Impaired loans with a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $810 | $879 | $87 | $532 | – |
| Production and intermediate-term | 258 | 274 | 69 | 173 | – |
| Agribusiness | – | – | – | – | – |
| **Total** | **$1,068** | **$1,153** | **$156** | **$705** | **–** |
| **Impaired loans with no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $44,715 | $53,992 | – | $47,870 | $1,576 |
| Production and intermediate-term | 2,296 | 3,153 | – | 3,018 | 223 |
| Agribusiness | – | 28 | – | 682 | 213 |
| Other | 59 | 62 | – | 59 | – |
| **Total** | **$47,070** | **$57,235** | **–** | **$51,629** | **$2,012** |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $45,525 | $54,871 | $87 | $48,402 | $1,576 |
| Production and intermediate-term | 2,554 | 3,427 | 69 | 3,191 | 223 |
| Agribusiness | – | 28 | – | 682 | 213 |
| Other | 59 | 62 | – | 59 | – |
| **Total** | **$48,138** | **$58,388** | **$156** | **$ 52,334** | **$2,012** |



| | AT DECEMBER 31, 2013 | | | FOR THE YEAR ENDED DECEMBER 31, 2013 | |
|---|---|---|---|---|---|
| | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Impaired Loans** | **Interest Income Recognized** |
| **Impaired loans with a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $7,269 | $9,883 | $53 | $10,175 | – |
| Production and intermediate-term | 687 | 1,026 | 123 | 1,450 | – |
| Agribusiness | – | – | – | 360 | – |
| **Total** | **$7,956** | **$10,909** | **$176** | **$11,985** | **–** |
| **Impaired loans with no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $45,679 | $51,219 | – | $75,653 | $6,056 |
| Production and intermediate-term | 6,533 | 6,858 | – | 8,522 | 1,424 |
| Agribusiness | 1,350 | 2,683 | – | 1,278 | 134 |
| Other | 70 | 70 | – | 23 | – |
| **Total** | **$53,632** | **$60,830** | **–** | **$85,476** | **$7,614** |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $52,948 | $61,102 | $53 | $85,828 | $6,056 |
| Production and intermediate-term | 7,220 | 7,884 | 123 | 9,972 | 1,424 |
| Agribusiness | 1,350 | 2,683 | – | 1,638 | 134 |
| Other | 70 | 70 | – | 23 | – |
| **Total** | **$61,588** | **$71,739** | **$176** | **$97,461** | **$7,614** |



| | AT DECEMBER 31, 2012 | | | FOR THE YEAR ENDED DECEMBER 31, 2012 | |
|---|---|---|---|---|---|
| | **Recorded Investment** | **Unpaid Principal Balance** | **Related Allowance** | **Average Impaired Loans** | **Interest Income Recognized** |
| **Impaired loans with a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $12,384 | $13,300 | $2,195 | $12,763 | – |
| Production and intermediate-term | 3,674 | 9,562 | 983 | 5,042 | $(31) |
| Agribusiness | – | – | – | 1,073 | – |
| **Total** | **$16,058** | **$22,862** | **$3,178** | **$18,878** | **$(31)** |
| **Impaired loans with no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $74,677 | $85,983 | – | $74,327 | $1,722 |
| Production and intermediate-term | 2,286 | 4,990 | – | 3,410 | 237 |
| Agribusiness | 1,907 | 3,459 | – | 2,072 | 659 |
| **Total** | **$78,870** | **$94,432** | **–** | **$79,809** | **$2,618** |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $87,061 | $99,283 | $2,195 | $87,090 | $1,722 |
| Production and intermediate-term | 5,960 | 14,552 | 983 | 8,452 | 206 |
| Agribusiness | 1,907 | 3,459 | – | 3,145 | 659 |
| **Total** | **$94,928** | **$117,294** | **$3,178** | **$98,687** | **$2,587** |

*Note: The recorded investment in the loan 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 loan receivable.*

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. The following table presents interest income recognized on impaired loans.

| For the Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| Interest income recognized on: | | | |
| Nonaccrual loans | $1,774 | $7,570 | $2,587 |
| Accruing restructured loans | 238 | – | – |
| Accrual loans 90 days or more past due | – | 44 | – |
| **Interest income recognized on impaired loans** | **$2,012** | **$7,614** | **$2,587** |

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans follows.

| For the Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| Interest income that would have been recognized under the original loan terms | $4,793 | $12,726 | $8,427 |
| Less: interest income recognized | (2,012) | (7,570) | (2,587) |
| **Foregone interest income** | **$2,781** | **$5,156** | **$5,840** |

The following tables provide an age analysis of past due loans (including accrued interest).

| December 31, 2014 | 30–89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans |
|---|---|---|---|---|---|
| Real estate mortgage | $14,089 | $3,168 | $17,257 | $3,669,747 | $3,687,004 |
| Production and intermediate-term | 367 | 706 | 1,073 | 1,137,998 | 1,139,071 |
| Agribusiness | 208 | – | 208 | 1,373,750 | 1,373,958 |
| Communication | – | – | – | 70,603 | 70,603 |
| Energy | – | – | – | 104,554 | 104,554 |
| Other | – | – | – | 28,849 | 28,849 |
| **Total** | **$14,664** | **$3,874** | **$18,538** | **$6,385,501** | **$6,404,039** |

| December 31, 2013 | 30–89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans |
|---|---|---|---|---|---|
| Real estate mortgage | $7,057 | $14,911 | $21,968 | $3,607,929 | $3,629,897 |
| Production and intermediate-term | 1,844 | 6,570 | 8,414 | 1,067,413 | 1,075,827 |
| Agribusiness | 759 | – | 759 | 1,171,838 | 1,172,597 |
| Communication | – | – | – | 71,389 | 71,389 |
| Energy | – | – | – | 104,897 | 104,897 |
| Other | 32 | – | 32 | 32,467 | 32,499 |
| **Total** | **$9,692** | **$21,481** | **$31,173** | **$6,055,933** | **$6,087,106** |

| December 31, 2012 | 30–89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans |
|---|---|---|---|---|---|
| Real estate mortgage | $20,422 | $38,402 | $58,824 | $3,485,951 | $3,544,775 |
| Production and intermediate-term | 1,191 | 1,265 | 2,456 | 1,043,891 | 1,046,347 |
| Agribusiness | 331 | – | 331 | 1,066,789 | 1,067,120 |
| Communication | – | – | – | 68,578 | 68,578 |
| Energy | – | – | – | 89,858 | 89,858 |
| Other | – | – | – | 42,522 | 42,522 |
| **Total** | **$21,944** | **$39,667** | **$61,611** | **$5,797,589** | **$5,859,200** |

A restructuring of debt constitutes a troubled debt restructuring if the creditor for economic reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

The following table presents additional information regarding troubled debt restructurings (TDR), whether accrual or nonaccrual, that occurred during the year.

| Year Ended December 31, 2014 | Pre-modification Outstanding Recorded Investment* | Post-modification Outstanding Recorded Investment* |
|---|---|---|
| Troubled debt restructurings: | | |
| Real estate mortgage | $473 | $473 |
| **Total** | **$473** | **$473** |

| Year Ended December 31, 2013 | Pre-modification Outstanding Recorded Investment* | Post-modification Outstanding Recorded Investment* |
|---|---|---|
| Troubled debt restructurings: | | |
| Real estate mortgage | $12,549 | $15,076 |
| Production and intermediate-term | 1,018 | 1,018 |
| **Total** | **$13,567** | **$16,094** |

**The Association had no new TDRs in 2012.**

**Pre-modification represents the recorded investment in the loan receivable just prior to restructuring and post-modification represents the recorded investment in the loan receivable immediately following the restructuring. The recorded investment is the face amount of the loan receivable 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 loan receivable.*

The following table presents troubled debt restructure (TDR) balances by type of concession that occurred during 2014.

| | Interest Rate Reduction | Re-amortization |
|---|---|---|
| Real estate mortgage | $473 | – |
| **Total** | **$473** | – |

In the allowance for loan loss analysis, troubled debt restructured loans are individually evaluated and a specific allowance is established based on the likelihood the current events will result in an anticipated loss on the individual loans.

The table below provides information on outstanding principal balance of loans restructured in troubled debt restructurings (TDRs) at period end. These loans are included as impaired loans in the impaired loan table.

During 2014, 2013, and 2012, the Association had no new troubled debt restructurings for which there was a payment default during these reporting periods.

There were no additional commitments to lend to borrowers whose loans have been modified in TDRs at December 31, 2012, 2013, and 2014.

| | LOANS MODIFIED AS TDRs | | | TDRs IN NONACCRUAL STATUS | | |
|---|---|---|---|---|---|---|
| | December 31, 2014 | December 31, 2013 | December 31, 2012 | December 31, 2014 | December 31, 2013 | December 31, 2012 |
| Real estate mortgage | $13,351 | $15,891 | $2,045 | $4,390 | $15,891 | $2,045 |
| Production and intermediate-term | 347 | 341 | – | 347 | 341 | – |
| Agribusiness | – | 592 | 841 | – | 592 | 841 |
| **Total** | **$13,698** | **$16,824** | **$2,886** | **$4,737** | **$16,824** | **$2,886** |

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

| | Allowance for Loan Losses | | Recorded Investments in Loans Outstanding | |
|---|---|---|---|---|
| **Ending Balance at December 31, 2014** | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Collectively Evaluated for Impairment |
| Real estate mortgage | $87 | $2,587 | $45,525 | $3,641,479 |
| Production and intermediate-term | 69 | 2,995 | 2,555 | 1,136,516 |
| Agribusiness | – | 4,398 | – | 1,373,958 |
| Communication | – | 246 | – | 70,603 |
| Energy | – | 572 | – | 104,554 |
| Other | – | 67 | 58 | 28,791 |
| **Total** | **$156** | **$10,865** | **$48,138** | **$6,355,901** |

| | Allowance for Loan Losses | | Recorded Investments in Loans Outstanding | |
|---|---|---|---|---|
| **Ending Balance at December 31, 2013** | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Collectively Evaluated for Impairment |
| Real estate mortgage | $53 | $3,875 | $52,948 | $3,576,949 |
| Production and intermediate-term | 123 | 2,994 | 7,219 | 1,068,608 |
| Agribusiness | – | 3,180 | 1,351 | 1,171,246 |
| Communication | – | 139 | – | 71,389 |
| Energy | – | 353 | – | 104,897 |
| Other | – | 35 | 70 | 32,429 |
| **Total** | **$176** | **$10,576** | **$61,588** | **$6,025,518** |

| | Allowance for Loan Losses | | Recorded Investments in Loans Outstanding | |
|---|---|---|---|---|
| **Ending Balance at December 31, 2012** | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Individually Evaluated for Impairment | Collectively Evaluated for Impairment |
| Real estate mortgage | $2,195 | $3,402 | $87,061 | $3,457,714 |
| Production and intermediate-term | 983 | 4,984 | 5,961 | 1,040,386 |
| Agribusiness | – | 3,738 | 1,907 | 1,065,213 |
| Communication | – | 234 | – | 68,578 |
| Energy | – | 337 | – | 89,858 |
| Other | – | 27 | – | 42,522 |
| **Total** | **$3,178** | **$12,722** | **$94,929** | **$5,764,271** |

| | Balance at December 31, 2013 | Charge-offs | Recoveries | Provision for Loan Losses/(Loan Loss Reversals) | Balance at December 31, 2014 |
|---|---|---|---|---|---|
| Real estate mortgage | $3,928 | $(8) | $861 | $(2,107) | $2,674 |
| Production and intermediate-term | 3,117 | (10) | 2 | (45) | 3,064 |
| Agribusiness | 3,180 | – | 889 | 329 | 4,398 |
| Communication | 139 | – | – | 107 | 246 |
| Energy | 353 | – | – | 219 | 572 |
| Other | 35 | – | – | 32 | 67 |
| **Total** | **$10,752** | **$(18)** | **$1,752** | **$(1,465)** | **$11,021** |

| | Balance at December 31, 2012 | Charge-offs | Recoveries | Provision for Loan Losses/(Loan Loss Reversals) | Balance at December 31, 2013 |
|---|---|---|---|---|---|
| Real estate mortgage | $5,597 | $(1,624) | $172 | $(217) | $3,928 |
| Production and intermediate-term | 5,967 | (649) | 3,967 | (6,168) | 3,117 |
| Agribusiness | 3,738 | (83) | 18 | (493) | 3,180 |
| Communication | 234 | – | – | (95) | 139 |
| Energy | 337 | – | – | 16 | 353 |
| Other | 27 | – | – | 8 | 35 |
| **Total** | **$15,900** | **$(2,356)** | **$4,157** | **$(6,949)** | **$10,752** |

| | Balance at December 31, 2011 | Charge-offs | Recoveries | Provision for Loan Losses/(Loan Loss Reversals) | Balance at December 31, 2012 |
|---|---|---|---|---|---|
| Real estate mortgage | $5,752 | $(969) | $3,601 | $(2,787) | $5,597 |
| Production and intermediate-term | 2,813 | (1,727) | 89 | 4,792 | 5,967 |
| Agribusiness | 3,683 | (11) | – | 66 | 3,738 |
| Communication | – | – | – | 234 | 234 |
| Energy | 48 | – | – | 289 | 337 |
| Other | 6 | – | – | 21 | 27 |
| **Total** | **$12,302** | **$(2,707)** | **$3,690** | **$2,615** | **$15,900** |

To mitigate the risk of loan losses, the Association may enter into Long-Term Standby Commitment to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event a delinquency of four months occurs, subject to certain conditions. The balance of the loans under the Long-Term Standby Commitment to Purchase agreements was $19.8 million, $23.2 million, and $30.2 million at December 31, 2014, 2013, and 2012, respectively. Fees paid to Farmer Mac for such commitments totaled $103, $129, and $188 for the years ended December 31, 2014, 2013, and 2012, respectively. These amounts are classified as interest expense. Farmer Mac has not purchased any loans under this agreement.

## NOTE 4 — INVESTMENT IN COBANK

At December 31, 2014, the Association's investment in CoBank is in the form of Class A Common Stock with a par value of $100 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.0% of the Association's prior year average direct loan balance. The 2014 requirement for capitalizing its patronage-based participation loans sold to CoBank is 8.0% of the Association's prior 10-year average balance of such participations sold to CoBank. Under the current CoBank capital plan applicable to such participations sold, patronage from CoBank related to these participations sold is paid 75% cash and 25% Class A Common Stock. The capital plan is evaluated annually by CoBank's board and management and is subject to change.

CoBank may require the holders of its equities to subscribe for such additional capital as may be needed to meet its capital requirements or its joint and several liability under the Act and regulations. In making such a capital call, CoBank shall take into account the financial condition of each such holder and such other considerations, as it deems appropriate.

The Association owned approximately 9.25% of the outstanding common stock of CoBank at December 31, 2014.

## NOTE 5 — PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

| | December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Buildings and improvements | $37,482 | $41,158 | $36,749 |
| Furniture and equipment | 24,017 | 19,961 | 18,662 |
| Land | 12,936 | 12,117 | 4,447 |
| Construction in progress | 15,892 | 3,426 | 5,165 |
| Vehicles | 2,448 | 2,061 | 1,623 |
| Premises and equipment at cost | 92,775 | 78,723 | 66,646 |
| Less: accumulated depreciation | (26,244) | (23,420) | (19,362) |
| **Premises and equipment, net** | **$66,531** | **$55,303** | **$47,284** |

The Association is obligated under various non-cancelable operating leases of certain vehicles and equipment. At December 31, 2014, future minimum lease payments for all non-cancelable leases are as follows:

| 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter | Total |
|---|---|---|---|---|---|---|
| $1,655 | $996 | $366 | $224 | $178 | $1,530 | $4,949 |

## NOTE 6 — OTHER PROPERTY OWNED

Gains and losses on other property owned, as reflected on the Consolidated Statement of Income, consisted of the following:

| | December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| **Gains** | | | |
| Gains on sale | $295 | $14 | $770 |
| Carrying value adjustments | – | – | – |
| Total gains | 295 | 14 | 770 |
| **Losses** | | | |
| Loss on sale | 68 | – | 457 |
| Carrying value adjustments | 712 | 124 | 1,277 |
| Operating expense, net | 134 | 242 | 106 |
| Total losses | 914 | 366 | 1,840 |
| **Losses on other property owned, net** | **$619** | **$352** | **$1,070** |

## NOTE 7 — NOTES PAYABLE

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets to CoBank and is governed by a General Financing Agreement (GFA), which provides a borrowing base controlled line of credit. The GFA is subject to renewal periodically in accordance with normal business practice and requires the Association to comply with certain covenants. The GFA matures on May 31, 2018. Management expects renewal of the GFA at that time. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 1.91% at December 31, 2014, compared with 2.09% at December 31, 2013, and 2.39% at December 31, 2012.

In conjunction with the mergers as more fully explained in Note 2, the Association carries the liabilities assumed from the merger transactions at their fair value as of the acquisition date of the mergers. The primary liability assumed was the note payable to CoBank. The difference between the book value and fair value of the CoBank note at acquisition date is amortized into interest expense during the estimated remaining life of the acquired loans, which are funded by the note payable. The unamortized premiums remaining at December 31, 2014, 2013, and 2012, were $14.0 million, $16.8 million, and $30.8 million, respectively.

The Association has the opportunity to commit loanable funds with CoBank in the Fixed Term Investments Program at a fixed rate for a specified time frame. Participants in the program receive a fixed-rate credit on the committed funds balance that is classified as a reduction of interest expense. These committed loanable funds, which are netted against the note payable to CoBank, as of December 31 follow:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Committed funds | $759,500 | $21,000 | $28,500 |
| Average rates | 0.85% | 2.24% | 1.93% |

Under the Farm Credit Act, the Association is obligated to borrow from CoBank, unless CoBank gives approval to borrow elsewhere.

## NOTE 8 — MEMBERS' EQUITY

A description of the Association's capitalization requirements, capital protection mechanisms, regulatory capitalization requirements and restrictions, and equities is 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 capital stock (for agricultural loans) or participation certificates (for rural home and farm-related business loans) in the Association as a condition of borrowing. In accordance with the Association's capitalization bylaws, the required investment is currently the lesser of $1,000 or 2% of the total borrower's commitment.

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 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. At the discretion of the Board of Directors, retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

B. ADDITIONAL PAID IN CAPITAL: The additional paid in capital represents the excess value received over the par value of capital stock and participation certificates issued, and arose from the issuance of American AgCredit capital stock and participation certificates in connection with the Association's acquisition of Farm Credit of the Heartland and Farm Credit Services of the Mountain Plains (as described in Note 2).

C. REGULATORY CAPITALIZATION REQUIREMENTS AND RESTRICTIONS: FCA's capital adequacy regulations require the Association to maintain permanent capital of at least 7.0% of average risk-adjusted assets. Failure to meet the 7.0% capital requirement can initiate certain mandatory and possibly additional discretionary actions by the 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 the prescribed capital standard is met. FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of risk-adjusted assets of 7.0% and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.5%. The Association's permanent capital, total surplus, and core surplus ratios at December 31, 2014, were 21.1%, 18.3%, and 17.7%, respectively.

The Association maintains a Capital Adequacy Plan ("Plan") to identify key risk components of the Association's operations and to estimate capital levels to compensate for those risks. The Plan establishes minimal levels for permanent, total, and core capital (as defined by FCA regulations) and sets optimal targets for those ratios. The target for the permanent capital ratio is greater than 15.0%. The target for total surplus ratio is greater than 13.0%. The target for the core surplus ratio is greater than 11.0%. The Association's capital ratios at December 31, 2014, have all exceeded these targets.

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

D. DESCRIPTION OF EQUITIES:

**Class A Common Stock:** (Nonvoting, at-risk, 1,542 shares outstanding, $5 par value.) Class A Common Stock may be issued as a patronage distribution or in exchange for a like number of shares of Class C Common Stock when said holder has fully retired his loan or loans with the Association and has not had a borrowing relationship with the Association for two years. Class A Common Stock may be converted to Class C Common Stock if the holder becomes a borrower eligible to own Class C Common Stock, and to Class F Participation Certificates if the holder becomes a borrower eligible to own Class F Participation Certificates.

**Class C Common Stock:** (Voting, at-risk, 1,445,634 shares outstanding, $5 par value.) Each owner of Class C Common Stock is entitled to a single vote. Other classes of borrower equities do not provide voting rights to their owners. Voting stock may not be transferred to another person unless such person is eligible to hold voting stock.

**Class D Common Stock:** (Nonvoting, at-risk, no shares outstanding, $1,000 par value.) Issued to CoBank or to any person through direct sale. Retirement is at the sole discretion of the Board of Directors.

**Class F Participation Certificates:** (Nonvoting, at-risk, 32,150 shares outstanding, $5 par value.) Class F Participation Certificates may be issued or transferred to rural residents, persons furnishing farm-related services, or to other persons eligible to borrow for the purpose of qualifying for services offered by the Association who are not eligible to hold Class C Common Stock.

**Class H Preferred Stock:** Class H Preferred Stock may be issued to, and may be acquired by, members and equity holders who, at the time of such issuance or acquisition, hold any class of common stock or participation certificates. Class H Preferred Stock is transferable only to another holder of Class H Preferred Stock, and then only after the transferor provides written notice to the Association in a form prescribed by the Association's Board. The holders of the H Stock are limited to voting on matters that would affect any preference accorded to the H Stock and any amendments that would authorize a new class of preferred stock. Each holder of the H Stock is entitled to receive dividends in an amount equal to a specified percentage ("Dividend Rate") as declared by the Board of Directors. The Dividend Rate is a per annum rate that may change monthly at the discretion of the Board, but is limited to 8.0% per annum. Dividends accrue daily and will accumulate until declared and paid in the form of additional shares of H Stock. The H Stock is redeemable at par plus cumulative unpaid dividends. At December 31, 2014, the Dividend Rate was 0.35%.

H Stock is considered "at risk" as redemption of the H Stock is at the discretion of the Board and such redemption is not assured due to future financial operational or regulatory limitations on the Association. In the event of liquidation or dissolution of the Association and after satisfaction of all liabilities, each share of H Stock is entitled to a first liquidation preference of any assets remaining, pro rata, to the extent of par value plus any accrued but unpaid dividends. At December 31, 2014, there were 172,533,443 shares of the H Stock outstanding at a par value of $1.00 per share.

The Association has the authority to issue other classes of stock, no shares of which are outstanding. The voting rights, duties, and liabilities of such classes of stock are similar to those discussed above.

Losses that result in impairment of capital stock and participation certificates will be allocated to the common classes of equity described above on a pro rata basis and then to preferred stock. Upon liquidation of the Association, any assets remaining after the settlement of all liabilities will be distributed first to redeem the par value of equities, beginning with preferred stock. After the retirement of stock, any remaining assets will be distributed to holders of allocated surplus as evidenced by nonqualified written notices of allocation. Any assets remaining after such distribution will be shared pro rata on a patronage basis by all common stock and certificate holders of record immediately before the liquidation distribution.

**E. PATRONAGE DISTRIBUTIONS:** The Association's bylaws provide for the payment of patronage distributions. All patronage distributions to a borrower shall be on such proportionate patronage basis as may be approved by the Association's Board of Directors, consistent with the requirement of Subchapter T of the Internal Revenue Code.

The Association's Board of Directors adopted a resolution establishing the distribution of 2014 patronage-sourced net earnings. The resolution established the cash patronage in the amount of 0.75% of the Association's borrowers' average daily loan balances. This calculation resulted in cash patronage of $39.0 million, which will be distributed to qualified patrons in 2015. This amount was recognized as a liability on the Association's Consolidated Balance Sheet at December 31, 2014.

In December 2014, the Association's Board of Directors adopted an Obligating Resolution to distribute 2015 patronage-sourced earnings to patrons of the Association, contingent upon the Association maintaining certain capital criteria.

Cash patronage of $36.1 million and $45.3 million were paid on the Association's patronage-sourced earnings for 2013 and 2012, respectively. These amounts were recognized as a liability on the Association's balance sheet at December 31 in the year they were declared and paid in the first quarter of the following year. Cash patronage represented 0.75% and 1.0% of the Association's borrowers' average daily loan balances for 2013 and 2012, respectively.

As part of the Mountain Plains' merger, the Association assumed a $13 million liability for patronage due to qualified patrons. The payment of the patronage is included in total patronage paid in 2012.

**F. UNALLOCATED RETAINED EARNINGS:** Net income can be distributed annually in the form of cash or allocated retained earnings; it may also be retained as unallocated retained earnings. Thus, unallocated retained earnings include patronage-sourced net income that is retained each year. The Board of Directors must approve any use of unallocated retained earnings.

**G. ACCUMULATED COMPREHENSIVE INCOME/(LOSSES):** The Association reports accumulated comprehensive income/(loss) in its Consolidated Statement of Changes in Members' Equity. As more fully described in Note 11, other comprehensive income/(loss) results from the recognition of the Pension Restoration Plan's net unamortized gains and losses and prior service costs or credits of $0.47 million, $(3.8) million, and $(0.51) million in 2014, 2013, and 2012, respectively. There were no other items affecting comprehensive income or loss.

## NOTE 9 — PATRONAGE DISTRIBUTIONS FROM SYSTEM INSTITUTIONS

Patronage income recognized from Farm Credit institutions to the Association follows:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| CoBank | $25,377 | $24,449 | $27,378 |
| AgDirect, LLP | 375 | – | – |
| Foundations | 16 | 29 | – |
| **Total** | **$25,768** | **$24,478** | **$27,378** |

Patronage distributed from CoBank is received in cash and stock. The amount in 2014 was accrued and is included in other assets on the Consolidated Balance Sheet and will be paid by CoBank in March 2015. The amount earned and accrued in 2013 was paid by CoBank in March 2014.

## NOTE 10 — INCOME TAXES

The benefit for income taxes follows:

| Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| Current tax provision | $(56) | $7 | $7 |
| Deferred tax provision | – | – | 3,322 |
| **Total provision/(benefit) for income taxes** | **$(56)** | **$7** | **$3,329** |

The following table quantifies the differences between the provision/(benefit) for income taxes and the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income of the Association.

| Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| Federal tax at statutory rate | $33,621 | $37,823 | $37,633 |
| State tax, net | 3 | 4 | 3 |
| Tax-exempt FLCA income | (32,282) | (34,053) | (35,809) |
| Patronage dividends paid | (1,205) | (2,922) | – |
| Write-off NOL | – | – | 371 |
| Change in deferred tax valuation allowance | (141) | (859) | 1,116 |
| Other | (52) | 14 | 15 |
| **Provision/(Benefit) for income taxes** | **$(56)** | **$7** | **$3,329** |

Deferred tax assets and liabilities result from the following:

| Year Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Gross deferred tax asset:** | | | |
| Allowance for loan losses | $1,562 | $1,486 | $2,055 |
| Deferred loan fees | 738 | 899 | 771 |
| Nonaccrual loan interest | 218 | 221 | 613 |
| Gross deferred tax asset | 2,518 | 2,606 | 3,439 |
| **Gross deferred tax liabilities:** | | | |
| Mineral depletion | (77) | (75) | (74) |
| Accrued CoBank patronage | (2,325) | (2,274) | (2,249) |
| Net deferred tax asset before valuation allowance | 116 | 257 | 1,116 |
| Deferred tax asset valuation allowance | (116) | (257) | (1,116) |
| **Net deferred tax asset** | **$0** | **$0** | **$0** |

The calculation of deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. The valuation allowance shown in the table for 2014 above reflects the uncertainty of these estimates and assumptions. In 2012, the Association determined the value of its deferred tax assets was unlikely to be used to reduce future taxable income. Accordingly, a valuation allowance was established to offset net deferred tax assets. The Association will continue to evaluate the likely realization of these deferred tax assets and adjust the valuation allowance accordingly.

The Association had no uncertain tax positions to be recognized as of December 31, 2014, 2013, and 2012.

The Association recognizes interest and penalties related to unrecognized tax benefits as an adjustment to income tax expense. There were no interest or penalties recognized in 2014, 2013, or 2012. The Association did not have any positions for which it is reasonably possible that the total amounts of unrecognized tax positions will significantly increase or decrease within the next 12 months. The Association accounts for income taxes in accordance with ASC 740, which provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's tax returns to determine whether the tax positions are more likely than not of being sustained upon examination by the applicable tax authority, based on the technical merits of the tax position, and then measuring the tax benefit that is more likely than not to be realized. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current reporting period. The tax years that remain open for federal and major state income tax jurisdictions are 2010 and forward.

## NOTE 11 — EMPLOYEE BENEFIT PLANS

Certain employees participate in the Ninth and Eleventh Retirement Plans, multi-employer defined benefit retirement plans. The Department of Labor has determined the plans to be governmental plans; therefore, the plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plans are not subject to ERISA, the plans' benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plans' termination is contingent on the sufficiency of the plans' net assets to provide benefits at that time. The plans are noncontributory and cover eligible employees. The assets, liabilities, and costs of the plans are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if the Association chooses to stop participating in the plan, it may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of these plans.

The defined benefit pension plans reflect an unfunded liability totaling $89.8 million for the Ninth Plan and $85.2 million for the Eleventh Plan at December 31, 2014. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels.

The projected benefit obligation and fair value of the multi-employer plan assets at December 31 follows:

| (In millions) | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Projected benefit obligation** | | | |
| Ninth Plan | $242.1 | $203.2 | $210.1 |
| Eleventh Plan | $247.2 | $207.8 | $219.4 |
| **Fair value of plan assets** | | | |
| Ninth Plan | $152.3 | $144.7 | $116.2 |
| Eleventh Plan | $162.0 | $157.0 | $141.0 |

The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding.

Costs and contributions for the multi-employer plans at December 31 follows:

| (In millions) | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Total plan expenses for all participating employers** | | | |
| Ninth Plan | $12.9 | $15.8 | $25.4 |
| Eleventh Plan | $2.5 | $3.3 | $8.8 |
| **The Association's allocated share of plan expenses included in salaries and benefits** | | | |
| Ninth Plan | $2.6 | $3.6 | $3.0 |
| Eleventh Plan | $0.8 | $1.1 | $1.1 |
| **Total plan contributions for all participating employers** | | | |
| Ninth Plan | $11.1 | $14.5 | $12.8 |
| Eleventh Plan | $5.1 | $4.0 | $5.7 |
| **The Association's allocated share of plan contributions** | | | |
| Ninth Plan | $2.5 | $3.3 | $3.0 |
| Eleventh Plan | $1.5 | $1.3 | $1.9 |

While the plans are governmental plans and are not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plans with sufficient assets to meet the benefits to be paid to participants. The amount of the total employer contributions expected to be paid into the pension plans during 2015 is $19.7 million. The Association's allocated share of these pension contributions is expected to be $2.3 million. The amount ultimately to be contributed and the amount ultimately recognized as expense, as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to eligible current and retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits (primarily health care benefits) included in salaries and employee benefits were $168 for 2014, $178 for 2013, and $146 for 2012. These expenses are equal to the Association's cash contributions for each year.

The Association participates in two nonqualified defined benefit Pension Restoration Plans that are unfunded. The plan provides retirement benefits above the Internal Revenue Code compensation limit to certain highly compensated eligible employees. Benefits payable under the Pension Restoration Plans are offset by the benefits payable from the Pension Plans. Pension Restoration Plan expenses included in salaries and employee benefits were $3.1 million for 2014, $1.5 million for 2013, and $1.8 million for 2012.

The funded status and the amounts recognized in other liabilities in the Consolidated Balance Sheet for the Association's Pension Restoration Plans follow:

| | Nonqualified Pension Restoration Benefits | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| **Change in benefit obligation:** | | | |
| Benefit obligation at beginning of the period | $17,546 | $13,359 | $10,222 |
| Benefit obligation acquired in merger | – | – | 1,202 |
| Service cost | 706 | 465 | 634 |
| Interest cost | 853 | 544 | 578 |
| Net actuarial loss/(gain) | 1,088 | 4,255 | 1,063 |
| Benefits paid | (1,030) | (1,077) | (340) |
| **Benefit obligation at December 31** | **$19,163** | **$17,546** | **$13,359** |
| **Amounts recognized in other liabilities in the Consolidated Balance Sheet consist of:** | | | |
| Accrued benefit liability | $19,163 | $17,546 | $13,359 |
| Net amount recognized | $19,163 | $17,546 | $13,359 |

The following table represents the amounts included in accumulated other comprehensive income/loss for the Pension Restoration Plans:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Net actuarial loss/(gain) | $6,853 | $7,325 | $3,537 |
| Prior service costs | 1 | 2 | 2 |
| **Total amount recognized in AOCI/loss** | **$6,854** | **$7,327** | **$3,539** |

An estimated net actuarial loss of $1.2 million for the Pension Restoration Plans will be amortized into income during 2015.

The projected and accumulated benefit obligation for the Pension Restoration Plans at December 31 was as follows:

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Projected benefit obligation | $19,163 | $17,546 | $13,359 |
| Accumulated benefit obligation | $16,491 | $14,939 | $11,894 |

The net periodic pension expense for the defined benefit Pension Restoration Plans included in salaries and benefits in the Consolidated Statement of Income is composed of the following at December 31.

| | Pension Benefits | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| **Components of net periodic benefit cost** | | | |
| Service cost | $706 | $465 | $634 |
| Interest cost | 853 | 544 | 578 |
| Net amortization and deferral | 1,560 | 468 | 549 |
| **Net periodic cost** | **$3,119** | **$1,477** | **$1,761** |

Changes in benefit obligation recognized in accumulated other comprehensive income are included in the following table.

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Current year net actuarial (gain)/loss | $1,088 | $4,256 | $1,062 |
| Amortization of prior service cost/(credit) | (1) | – | (1) |
| Amortization of net actuarial (gain)/loss | (1,560) | (468) | (853) |
| Settlement expense | – | – | 305 |
| **Total recognized in other comprehensive loss/(income)** | **$(473)** | **$3,788** | **$513** |

Weighted average assumptions used to determine benefit obligation at December 31 follows:

| | Nonqualified Pension Restoration Benefits | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Discount rate – Eleventh Plan | 4.10% | 4.85% | 4.05% |
| Discount rate – Ninth Plan | 4.10% | 4.90% | 4.15% |
| Rate of compensation increase – Eleventh Plan | 4.50% | 4.50% | 4.50% |
| Rate of compensation increase – Ninth Plan | 5.00% | 5.00% | 5.00% |

The Association estimates it will contribute $2.4 million to the Pension Restoration Plans in 2015.

### ESTIMATED FUTURE BENEFIT PAYMENTS

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

| 2015 | 2016 | 2017 | 2018 | 2019 | 2020–2024 |
|---|---|---|---|---|---|
| $2,436 | $2,437 | $2,490 | $2,806 | $1,832 | $8,412 |

The Association participates in the Farm Credit Foundations Ninth and Eleventh District Defined Contribution/401(k) Plans. Under these Plans, the Association matches a certain percentage of employee contributions. The Plans have two components. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plans. In these plans, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Under both plans, employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions. Employer contributions to the Ninth and Eleventh Contribution Plans included in salaries and employee benefits were $4.3 million in 2014, $3.5 million for 2013, and $3.8 million for 2012.

## NOTE 12 — RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Association enters into loan transactions with directors or employees of the Association, their immediate families, and other organizations with which such directors or employees of the Association may be associated (related party borrowers). These loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

The Association has a policy that loans to directors and senior officers must be maintained at an Acceptable or Other Assets Especially Mentioned (OAEM) credit classification. If the loan falls below the OAEM credit classification, corrective action must be taken and the loan brought back to either Acceptable or OAEM within a year. If not, the director or senior officer must resign from the Board or employment.

Loan information to related parties for the years ended December 31 is shown below.

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| New loans | $97,074 | $195,303 | $127,030 |
| Repayments | 98,301 | 153,883 | 127,252 |
| Loans no longer related parties | 1,365 | 10,317 | 90 |
| Loans acquired in merger | – | – | 13,282 |
| **Ending balance** | **$71,645** | **$74,237** | **$43,134** |

In the opinion of management, none of these loans outstanding at December 31, 2014, involved more than a normal risk of collectibility.

The Association also has business relationships with certain other System entities. The Association paid $314 in 2014, $297 in 2013, and $269 in 2012 to Foundations for human resource services. The Association paid $2.7 million in 2014, $2.4 million in 2013, and $2.4 million in 2012 to AgVantis for technology services.

## NOTE 13 — REGULATORY ENFORCEMENT MATTERS

There are no regulatory enforcement actions in effect for the Association.

## NOTE 14 — COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities.

The Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated 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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2014, $2.05 billion of commitments to extend credit were outstanding.

Since many of these commitments and letters of credit 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 Sheet until funded or drawn upon. The credit risk associated with issuing commitments 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.

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, $62.4 million of standby letters of credit were outstanding with a nominal fair value. Outstanding standby letters of credit have expiration dates ranging from 2015 to 2019. The maximum potential amount of future payments the Association is required to make under the guarantees is $62.4 million.

With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

## NOTE 15 — FAIR VALUE MEASUREMENTS

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 for additional information.

Quoted market prices are generally not available for certain financial instruments, as described 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.

Assets measured at fair value on a non-recurring basis at December 31 for each of the fair value hierarchy values are summarized below.

| | Hierarchy Level 3 | Total Fair Value | Total Gain/(Loss) |
|---|---|---|---|
| **2014** | | | |
| Loans | $924 | $924 | $(33) |
| Other property owned | $3,078 | $3,078 | – |
| **2013** | | | |
| Loans | $9,777 | $9,777 | $352 |
| Other property owned | $6,477 | $6,477 | $(124) |
| **2012** | | | |
| Loans | $17,029 | $17,029 | $(2,875) |
| Other property owned | $1,824 | $1,824 | $(353) |

Assets measured at fair value on a recurring basis at December 31 for each of the fair value hierarchy values are summarized below.

| Assets Held in Nonqualified Benefits Trusts | Hierarchy Level 1 | Total Fair Value |
|---|---|---|
| 2014 | $16,142 | $16,142 |
| 2013 | $12,527 | $12,527 |
| 2012 | $10,949 | $10,949 |

During the three years presented, the Association recorded no transfers in or out of Levels 1, 2, or 3. The Association has no liabilities measured at fair value on a recurring basis for the periods presented.

The estimated fair values of the Association's financial instruments measured at carrying amount on the consolidated statement of condition at December 31 are shown at right on page 61.

**VALUATION TECHNIQUES:** As more fully discussed in Note 2, accounting guidance 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. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement.

**A. Loans:** Fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the District's current loan origination rates as well as management estimates of credit risk. Management has no basis to determine whether the estimated fair values presented would be indicative of the assumptions and adjustments that a purchaser of the Association's loans would seek in an actual sale.

For purposes of determining the fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair value of loans in a nonaccrual status is estimated as described above, with appropriately higher interest rates, which reflect the uncertainty of continued cash flows. For noncurrent nonaccrual loans, it is assumed that collection will result only from the disposition of the underlying collateral. Fair value of these loans is estimated to equal the aggregate net realizable value of the underlying collateral, discounted at an interest rate, which appropriately reflects the uncertainty of the expected future cash flows over the average disposal period. Where the net realizable value of the collateral exceeds the legal obligation for a particular loan, the legal obligation is generally used in place of the net realizable value.

For certain loans evaluated for impairment under accounting impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. 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. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and the net loan is reported at its fair value.

**B. Investment in CoBank:** Estimating the fair value of the Association's investment in CoBank is not practicable because the stock is not traded. As described in Note 4, the investment is a requirement of borrowing from CoBank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheet. The Association owned approximately 9.25% of the issued stock of CoBank as of December 31, 2014. As of that date, CoBank's assets totaled $107.4 billion and shareholders' equity totaled $7.4 billion. CoBank's net income was $904.3 million during 2014.

| | 2014 | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Financial assets:** | | | | | | |
| Loans, net of allowance | $6,347,746 | $6,505,499 | $6,034,274 | $6,071,741 | $5,800,642 | $5,935,823 |
| Mission-related investment, held to maturity | $709 | $769 | $824 | $863 | $932 | $1,042 |
| Investment in CoBank | $254,314 | $254,314 | $252,696 | $252,696 | $251,328 | $251,328 |
| Assets held in nonqualified benefits trusts | $16,142 | $16,142 | $12,527 | $12,527 | $10,949 | $10,949 |
| **Financial liabilities:** | | | | | | |
| Notes payable | $4,901,604 | $4,948,055 | $4,681,353 | $4,691,292 | $4,539,666 | $4,686,387 |
| Funds Held accounts | $59,099 | $59,099 | $42,095 | $42,095 | $31,581 | $31,581 |
| Commitments to extend credit and standby letters of credit | – | $3,508 | – | $3,439 | – | $3,238 |

*Estimated fair values of the Association's financial instruments measured at carrying amount on the consolidated statement of condition at December 31.*

**C. Assets Held in Nonqualified Benefits Trusts:** Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Assets held in nonqualified benefits trusts are included in other assets in the Consolidated Balance Sheet.

**D. Notes Payable:** The 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 note 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 plus accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

**E. Funds Held Accounts:** The carrying value is a reasonable estimate of fair value as these funds are held in cash.

**F. Commitments to Extend Credit and Standby Letters of Credit:** The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations.

**G. Other Property Owned:** Other property owned is generally classified as Level 3. The process for measuring the fair value of other property owned involves the use of appraisals or other market-based information. As a result, these fair value measurements fall within Level 3 of the hierarchy. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

## NOTE 16 — SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 16, 2015, which is the date the financial statements were issued, and no material subsequent events were identified.

# Other Regulatory Disclosure Information

(UNAUDITED)

### FINANCIAL STATEMENTS

The Association will post the Annual Report and Quarterly Reports to Shareholders on the Association's website (AgLoan.com) approximately four to six weeks after the end of each calendar quarter for the Quarterly Report and 75 days after year-end for the Annual Report. Hard copies of these reports may be obtained free of charge by contacting American AgCredit, P.O. Box 1120, Santa Rosa, CA 95402, or by telephone (800) 800-4865.

### LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

There are no matters that came to the attention of the Board of Directors or management regarding the involvement of current directors or senior officers in specified legal proceedings that are required to be disclosed. There are no enforcement actions against the Association.

### RELATIONSHIP WITH INDEPENDENT EXTERNAL AUDITORS

There has been no change in independent external auditors and no material disagreements on any matters of accounting principles or financial statement disclosures during the period.

### YOUNG, BEGINNING, AND SMALL FARMER AND RANCHER PROGRAM

American AgCredit offers Young, Beginning, and Small (YBS) farmers and ranchers opportunities to invest in, build, and support their agribusiness. Through specific, tailored programs designed to meet the credit and related needs of YBS customers and potential customers in our chartered territory, we provide various layers of support throughout this market.

Per FCA regulations, qualified YBS programs are made up of the following categories:

**Young:** A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger.

**Beginning:** A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience.

**Small:** A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products.

### OUR YBS MISSION

Provide credit and related services tailored to the specific needs of the YBS market via:

- Support of AgYouth Programs: Interest-free loans to young people for 4-H and FFA projects.
- Host Young Farmer/Rancher Executive Institute: Legacy and business continuity planning for generations of farmers and ranchers. Training is provided free of charge for customers in good standing.
- Support of youth programs in the community: Outreach and sponsorship of ag-related educational activities, such as ag training, exhibits, and other outreach.
- Promote YBS program webpage, brochure, and ad slicks: Awareness of programs to support new businesses and encourage young people to get involved in agriculture.
- Provide scholarships to students interested in working in or studying agriculture: Significant funding provided to college students studying or planning to work in agriculture.
- Offer paid internships: Professional training and paid work experience provided to young professionals interested in learning about agriculture and ag financing.

To facilitate credit offerings to this specialized customer base, we support financing programs and use government-guaranteed loan programs. We are actively involved in developing and sponsoring educational opportunities, leadership training, business financial training, and insurance services for YBS farmers and ranchers.

### DEMOGRAPHICS

To ensure these groups are adequately serviced, demographic research known as Ag Census is completed by the U.S. Department of Agriculture every five years, and those demographics are compared to our borrower base. Part of adequately servicing these segments is understanding how farming is changing within the Association's lending territory.

The latest data available is from the 2012 Ag Census, which was released in May 2014. Compared to the 2007 Ag Census, the 2012 research showed the number of farms overall has decreased. The continuing shift in farm demographics in the Young farmer category has stabilized in the last five years to about 10% within our total territory. Beginning farm operators comprise 28% of the market in our territory, while the Small farm operator makes up 87% of the farms in the market. The most significant changes over the last five years include the following:

- Significant drop in beginning farmers in California (13%), Oklahoma (10%), Kansas (7%) and Colorado (13%)
- Slight increase in small farmers in Oklahoma and California
- Stabilized marketplace for young farmers – with slight increases in Nevada, Oklahoma, Kansas, New Mexico, and California

### EXCEPTION PROGRAM (X-PROGRAM)

The Association's YBS Exception Program (YBS X-Program) is aimed at those who do not meet all underwriting criteria, and exhibit higher than normal risk factors within the YBS categories. In 2014, the program was expanded to provide for financing to emerging/niche markets, such as unique commodities or new diverse market entrants. With the goal to finance diverse commodities, customers and businesses, elements of the program include the following:

- Less-restrictive underwriting standards
- Reduced or waived fees
- Educational benefits

The program launches with a $30 million budget, allocating $5 million annually to each region to address their unique market needs.

The following table outlines the percentage of Young and Beginning loans in the loan portfolio (by number) as of December 31, 2014, compared to the total number of loans in the portfolio.

| **Category** (Dollars in thousands) | **Number of Loans** | **Percent of Total Loans** | **Volume Outstanding** | **Percent of Total Volume** |
|---|---|---|---|---|
| Total loans and commitments outstanding at year-end | 13,139 | 100.00% | $8,467,911 | 100.00% |
| Young farmers and ranchers | 1,489 | 11.33% | $410,281 | 4.85% |
| Beginning farmers and ranchers | 2,457 | 18.70% | $836,541 | 9.88% |

The following table provides a breakdown of small farmer and rancher loans by size as of December 31, 2014.

| **Number/Volume Outstanding** (Dollars in thousands) | **$0 – $50.0** | **$50.1 – $100.0** | **$100.1 – $250.0** | **$250.1 and Greater** |
|---|---|---|---|---|
| Total number of loans and commitments outstanding at year-end | 3,330 | 2,004 | 2,989 | 4,816 |
| Total number of loans to Small farmers and ranchers | 1,625 | 1,204 | 1,413 | 780 |
| Percent of loans to Small farmers and ranchers | 48.80% | 60.08% | 47.27% | 16.20% |
| Total loan volume outstanding at year-end | $66,419 | $151,204 | $499,885 | $7,750,403 |
| Total loan volume to Small farmers and ranchers | $43,303 | $89,883 | $222,819 | $469,256 |
| Percent of loan volume to Small farmers and ranchers | 65.20% | 59.44% | 44.57% | 6.05% |

### FUNDING OUTREACH

Through alliance partnerships with other Farm Credit institutions, we sponsor a multitude of events and activities aimed at not only promoting Farm Credit and the services offered by the System as a whole, but also to inform and educate Young, Beginning, and Small farmers. We believe that by supporting the full spectrum of agricultural efforts, all agriculture benefits. Some of our more significant contributions and outreach go toward university education and research. They include the following:

**Agribusiness Chair at Cal Poly San Luis Obispo:** This funding is intended to develop farmer/agribusiness-related seminars that will be available to our customers. The program also funds a professorship and three new advanced finance and appraisal classes. More than $400,000 has been donated to date since 2008, and is re-committed annually.

**Multicultural Scholars in Agriculture at Fresno State University:** In late 2012, American AgCredit partnered with Farm Credit West, Fresno Madera Farm Credit, and CoBank to contribute $75,000 to Fresno State University. This contribution will be used to establish an endowment to support Multicultural Scholars in Agriculture. Future contributions to this endowment fund may be made by each of the participating organizations. This is a five-year commitment, 2013–2017.

**Wheat Innovation Center:** $150,000 has been donated to develop the Kansas Wheat Innovation Center at Kansas State University through the Kansas Farm Credit Alliance. This donation rolls out over five years, 2013–2017.

**Colorado State University Center for Agricultural Education:** American AgCredit coordinated with CoBank, Farm Credit of Southern Colorado, and Premier Farm Credit to donate $1.025 million for construction of a modern Center for Agricultural Education at Colorado State University that will train new generations of agricultural teachers and leaders. This $100,000 commitment rolls out over five years, 2013–2017.

**UC Davis Small and Ethnic Farm Market Tour Project:** American AgCredit teamed with CoBank, Farm Credit West, Fresno Madera Farm Credit and Farm Credit Services of Colusa-Glenn to contribute $70,005 to the UC Davis Small and Ethnic Farm Market Tour Project. The project is run by the UC Sustainable Agriculture Research and Education Program (SAREP) and introduces small farmers to conventional distributors interested in offering a line of locally grown food. Contributions started in 2013 and the program is reviewed annually for future contributions.

### YBS PROGRAM SAFETY AND SOUNDNESS

American AgCredit offers diverse and accessible financing options for qualified farmers and ranchers within the territories covered by American AgCredit. The YBS Program provides alternate financing and guarantee options for farmers and ranchers who are just getting started, as well as small or part-time operations. To better serve YBS customers, special lending qualifications and requirements allow young, beginning, and small farmers and ranchers access to financing, leasing, and other services for which they might not otherwise qualify.

Procedures have been established to streamline the delivery of small loans utilizing credit scoring through the new XPRESS Progam. Loans will continue to be made on a sound basis, with proper emphasis on the fundamentals of sound credit. Loans made under this program meet all our requirements for eligibility and scope of financing, interest rates, and length of term. Co-makers and guarantors (financially responsible family members or other individuals) and secondary collateral are utilized when available and appropriate to minimize risk. Excessively ambitious growth plans are restricted and loans are closely monitored on a regular basis.

### BORROWER PRIVACY

As a member-owner of this institution, your privacy and the security of your personal information are vital to our continued ability to serve your ongoing credit needs. FCA regulations require that borrower information be held in confidence by Farm Credit institutions, their directors, officers, and employees. FCA regulations specifically restrict Farm Credit institution directors and employees from disclosing information not normally contained in published reports or press releases about the institution or its borrowers or members. These regulations also provide Farm Credit institutions clear guidelines for protecting their borrowers' non-public information.

# Board of Directors

It is the Association's policy to reimburse Directors and senior officers for mileage, as well as documented business expenses while serving in an official capacity. A copy of the Association's reimbursement policies is available to shareholders upon request. There were five regularly scheduled Board meetings in 2014. Committee meetings are called as needed to address Association business.

The following identifies all Board members who served during the year and describes the business activities and principal occupation for the past five years, as well as current committee assignments, for those directors serving on the Board during the year.

**Frank Stonebarger, Chairman**
**Term Expires: 2015**
**Committee(s): Executive**

Mr. Stonebarger has been involved in Farm Credit since 1977 and began farming in 1973. He produces walnuts, cherries, and apples, and provides custom farming services. He attended five Board meetings, 10 committee meetings, and two other meetings for which he was compensated $56,750.

**Charles Talbott, Vice-Chairman**
**Term Expires: 2015**
**Committee(s): Executive & Strategic Initiatives**

Mr. Talbott resides in Palisade, Colorado. His business experience is in tree fruit and wine grape production, packing, processing, and marketing. He attended five Board meetings and 15 committee meetings for which he was compensated $48,025.

**Eric Allen, Appointed Director**
**Term Expired: December 31, 2014**
**Committee(s): Audit**

Mr. Allen served on the Board of Directors until his resignation in December 2014. He attended five Board meetings and eight committee meetings for which he was compensated $40,000.

**James Boyd, Director**
**Term Expires: 2017**
**Committee(s): Governance**

Mr. Boyd owns/operates a grain, alfalfa, mint, and cattle operation in Tulelake, California. Prior to serving on the American AgCredit Board, he served on the Intermountain FLCA board for 12 years. He attended four Board meetings and seven committee meetings for which he was compensated $40,000.

**Peter Bulthuis, Director**
**Term Expires: 2016**
**Committee(s): Audit & Governance**

Mr. Bulthuis was elected to his first term on the AgCredit Financial board of directors in 1999. He produces wine grapes, cherries, and almonds. He also owns a farm chemical and supply business. He has been farming since 1970 and became a member of Farm Credit in 1975. He is a member of California Almond Growers, Wine Grape Growers, and California Association of Pest Control Advisors. He also is a member of the NISEI Farmers League and SJFB Foundation for Agriculture Education. He attended five Board meetings and seven committee meetings for which he was compensated $40,000.

**Dennis Cakebread, Director**
**Term Expires: 2015**
**Committee(s): Compensation**

Mr. Cakebread is a co-owner, Vice-Chairmen of the Board, and is the Senior Vice President responsible for sales and marketing for Cakebread Cellars in the Napa Valley, California. He has been active in industry associations and issues for many years. He attended five Board meetings and four committee meetings for which he was compensated $34,000.

**John Caldwell, Director**
**Term Expires: 2015**
**Committee(s): Governance & Executive**

Mr. Caldwell resides in Longmont, Colorado. His business experience is in cattle feeding and brokerage, grain merchandising, and farming. He attended five Board meetings and 17 committee meetings for which he was compensated $45,000.

**Foy Chapin, Director**
**Term Expired: December 31, 2014**
**Committee(s): Governance**

Mr. Chapin served on the Board of Directors until his resignation in December 2014. He attended four Board meetings and six committee meetings for which he was compensated $36,000.

**James Cooksey, Director**
**Term Expires: 2018**
**Committee(s): Audit**

Mr. Cooksey resides in Roggen, Colorado. His business experience is in farming and ranching. He attended five Board meetings and seven committee meetings for which he was compensated $38,000.

**Randall Doll, Director**
**Term Expires: 2019**
**Committee(s): Compensation**

Mr. Doll joined the Board of Directors in July 2014. He is a farmer and rancher in Butler County, Kansas, overseeing production of alfalfa, bluestem prairie hay, brome, milo, and wheat. He also has extended family ranch and farming operations located in Barton, Finney, and Gray counties in Kansas. He attended three Board meetings and three committee meetings for which he was compensated $18,000.

**John Engelland, Director**
**Term Expired: 2014**
**Committee(s): Compensation & Strategic Initiatives**

Mr. Engelland served on the Board of Directors until his term expired in June 2014. He attended two Board meetings and eight committee meetings for which he was compensated $20,000.

**George Fontes, Director**
**Term Expires: 2018**
**Committee(s): Governance**

Mr. Fontes is a fourth-generation farmer in the Salinas Valley, California. His family operation has included beef cattle, grain hay production, and vegetable farming. Currently, he owns and operates Fontes Farms LLC, providing farm management, equipment rental, and repair services. He was president and co-owner of Comgro Incorporated, growing lettuce, broccoli, mix lettuce, and spinach. He also serves on the board of Farm Credit Foundations headquartered in St. Paul, Minnesota. He attended five Board meetings and seven committee meetings for which he was compensated $40,000.

**Jerold Harris, Appointed Director**
**Term Expires: 2019**
**Committee(s): Audit & Strategic Initiatives**

Mr. Harris is retired. He was formerly employed as the President and CEO of U.S. AgBank in Wichita, Kansas. He attended four Board meetings and 13 committee meetings for which he was compensated $41,275.

**Linda Ingo, Director**
**Term Expires: 2018**
**Committee(s): Governance & Audit**

Ms. Ingo resides on the family ranch near Ridgway, Colorado. Working together with family, they raise hay and Red Angus cattle, host big-game hunters, and manage their water, wildlife, and timber resources. She attended five Board meetings and eight committee meetings for which she was compensated $40,000.

**Kirvin Knox, PhD, Appointed Director**
**Term Expires: 2015**
**Committee(s): Compensation & Executive**

Dr. Knox resides in Fort Collins, Colorado. His business experience is in energy, production agriculture, academic administration, and agriculture research. He attended five Board meetings and 16 committee meetings for which he was compensated $45,000.

**Alan List, Director**
**Term Expires: 2018**
**Committee(s): Governance & Strategic Initiatives**

Mr. List served as a board member and chairman of both Intermountain Farm Credit and AgCredit Financial prior to their merger into American AgCredit. He is the owner and operator of a hay, grain, and seed business in Lovelock, Nevada, and serves as a director of List Cattle Co., Lovelock Hay Market Inc., and Nevada Agricultural Self Insurance Group. He has been a director of American AgCredit since 2005. He attended five Board meetings and eight committee meetings for which he was compensated $38,775.

**Greg Ringler, Director**
**Term Expires: 2018**
**Committee(s): Compensation**

Mr. Ringler runs a diversified operation consisting of wheat, milo, beans, alfalfa, and beef cattle in Kansas. He attended five Board meetings and seven committee meetings for which he was compensated $40,000.

**David Santos, Director**
**Term Expires: 2017**
**Committee(s): Governance**

Mr. Santos is an apricot and cherry farmer in Stanislaus County, California. He is a partner of Lucich & Santos Farms and Blossom Hill Packing Company, a packing and marketing company. He is also a member of the Apricot Producers Board. He attended five Board meetings and six committee meetings for which he was compensated $38,000.

**Joe Schoonover, Director**
**Term Expires: 2017**
**Committee(s): Compensation**

Mr. Schoonover owns and manages farmland in Pratt County, Kansas, raising corn, soybeans, wheat, and alfalfa. He is currently American AgCredit's representative to the CoBank District Farm Credit Council, giving him the opportunity to work with state and national legislators on issues affecting the Farm Credit System and the farmers and ranchers that we serve. He attended five Board meetings, seven committee meetings, and two other meetings for which he was compensated $43,150.

**Larry Solari, Appointed Director**
**Term Expires: 2017**
**Committee(s): Audit**

Mr. Solari is a Certified Public Accountant and partner in Croce & Company Accountancy Corporation located in Stockton, California. He was appointed as an outside director of the Association Board of Directors in January 1994. He also serves on the San Joaquin County Assessment Appeals Board. He attended five Board meetings and eight committee meetings for which he was compensated $40,000.

**Thomas Teixeira, Director**
**Term Expires: 2018**
**Committee(s): Audit & Executive**

Mr. Teixeira is partner/owner of Teixeira and Sons and grows 6,000 acres of alfalfa, almonds, cantaloupes, corn, cotton, fresh market tomatoes, processing tomatoes, and wheat. Teixeira and Sons also operate a tomato transplant greenhouse facility and are part owners in Pacific Ginning LLC, Eagle Valley Ginning LLC, and 360 Agri LLC. Pacific Ginning and Valley Ginning are cotton ginning operations and 360 is a custom cotton harvesting company. He attended five Board meetings and 18 committee meetings for which he was compensated $47,500.

**Dennis Williams, Director**
**Term Expires: 2016**
**Committee(s): Compensation**

Mr. Williams farms and ranches in Noble County, Oklahoma. His diversified family operation consists of wheat and corn as cash crops integrated with a stocker cattle and cow-calf program. He attended five Board meetings and seven committee meetings for which he was compensated $40,000.

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For 2014, Directors were compensated for their services based on annual retainers as follows:

| | |
|---|---|
| Chairman | $55,000 |
| Vice Chairman | $47,500 |
| Audit Committee Chairman | $47,500 |
| Compensation Committee Chairman | $45,000 |
| Governance Committee Chairman | $45,000 |
| Regular Member | $40,000 |

Retainer amounts are adjusted for meeting absences or attendance at meetings in excess of scheduled Board meetings. The total compensation paid Directors for 2014, as described above, amounted to $877,900. The aggregate amount of compensation and reimbursements for travel, subsistence, and other related expenses for all Directors were $1,377,000 for 2014, $1,315,000 for 2013, and $1,247,000 for 2012.

# Senior Officers

**Byron E. Enix, Chief Executive Officer**
Mr. Enix was promoted to Chief Executive Officer on January 1, 2014. He previously served as Chief Operating Officer and Senior Vice President – Credit Heartland Region since 2012 and 2010, respectively. Prior to the Farm Credit Services of the Mountain Plains merger and since 2006, he served as Chief Financial Officer – Mountain Plains. He has 31 years of Farm Credit System experience in credit, operations, and finance fields.

**Greg Somerhalder, Chief Operating Officer**
Mr. Somerhalder was promoted to Chief Operating Officer on March 1, 2014. He previously served as Chief Corporate Strategist since 2013. He has over 32 years experience with Farm Credit in many areas of banking, including lending, credit, risk, and strategy. He serves on the board of three charity organizations: St. George Christian Orthodox Endowment, The Treehouse, and Laham Family Foundation.

**Katherine Wheelock, Chief Credit Officer**
Ms. Wheelock has served as Chief Credit Officer since 2013. She previously served as Chief Risk Officer and Senior Vice President – Risk Management since 2012 and 2005, respectively. She has over 32 years of banking experience, including capital markets, commercial banking, and loan syndications.

**Alan Feit, Chief Banking Officer**
Mr. Feit was promoted to Chief Banking Officer on March 1, 2014. He previously served as Senior Vice President – Credit since 2012. He has over 34 years experience with Farm Credit in the functional areas of lending, credit, sales, and management. He serves on the board of Network Beyond, a humanitarian-based charitable organization with projects in Kenya, Uganda, and Peru.

**Vern Zander, Chief Financial Officer**
Mr. Zander has served as Chief Financial Officer since 2012. He previously served as Vice President – Relationship Manager in the Association's Capital Markets Group. He is a Certified Public Accountant and has been with American AgCredit for the last 12 years, with a total of 27 years of Farm Credit service.

**Roger Bastow, Chief Administrative Officer**
Mr. Bastow has served as Chief Administrative Officer since 2009. He previously served as Senior Vice President – Finance and Operations from 1999 to 2009 at Farm Credit of the Heartland. He is a Certified Public Accountant and has served in human resources, operations, and finance roles over the past 23 years in the Farm Credit System and is a member of the Farm Credit Foundations Trust Committee.

**Jerry Rose, Chief Risk Officer**
Mr. Rose has served as Chief Risk Officer since 2013 and previously served as Senior Vice President – Risk Management since 2012. He has held risk and financial management roles for the past 26 years in the Farm Credit System.

**Floyd Ridenhour, Chief Specialty Officer**
Mr. Ridenhour has served as Chief Specialty Officer since 2014. He previously served as Chief Administrative Officer since 1993 and has 35 years of Farm Credit experience. He is Treasurer of the Sonoma County 4-H Foundation, Vice President of the Larkfield Owner's Association in Santa Rosa, and President of the Harvest Plaza Owner's Association in Turlock.

## REGIONAL AND SENIOR VICE PRESIDENTS

**David Armstrong**
RVP Intermountain

**Mike Banks**
SVP Credit Management

**Patricia Curtian**
SVP Controller

**Chase Hafner**
SVP Information Technology

**Terry Lindley**
SVP Chief Marketing Officer

**Sean O'Day**
SVP Credit, Managing Director Capital Markets

**Greg Reno**
RVP Heartland

**Bill Rodda**
RVP Northern California

**Deb Seedorf**
SVP Chief Process Officer

**Rachel Stevenson**
SVP General Counsel

**Gary Van Schuyver**
RVP Central California

**Gregg Warren**
RVP Southern California

## SENIOR OFFICERS' COMPENSATION

The Compensation Committee of the Board of Directors follows a comprehensive compensation philosophy where the objective is to:

- Provide market-based compensation through base salary, and annual and long-term incentive components that will allow the Association to attract, motivate, and retain superior executive talent;
- Place a portion of total compensation for the executive at risk and contingent upon the Association remaining financially sound and meeting established performance goals; and
- Ensure that long-term financial stability of the Association is emphasized over short-term results and decisions.

Compensation is designed to:

- Reward successful fiscal year results through an annual Incentive Compensation Plan (ICP);
- Foster long-term financial stability through Leadership Retention and Transition (LRT) and Long-Term Incentive Plan (LTIP) incentives; and
- Significantly contribute to the retention of the President/Chief Executive Officer (CEO) and other Senior Officers.

The Compensation Committee annually reviews market information related to the level and mix of salaries, benefits, and incentive plans for the CEO and other Senior Officers. The Association maintains the ICP for Senior Officers and employees that rewards performance based on objective criteria. Such criteria include achievement of personal goals, the attainment of earnings, and other corporate goals. The ICP is administered at the discretion of the Board of Directors Compensation Committee and may be discontinued at any time. The ICP was expanded in 2014 to measure the organization's ability to successfully complete implementation of major projects. There are no predetermined payment schedules.

Select Senior Officers may also participate in a supplemental incentive compensation plan. A supplemental incentive plan includes specialized earnings goals. A supplemental incentive compensation plan is administered at the discretion of the Board of Directors Compensation Committee and may be discontinued at any time. Supplemental incentive compensation plans were revised in 2014 to enhance the linkage of performance pay to risk associated with the income the incentives were based on. There are no predetermined payment schedules.

LRT and LTIP incentives provide targeted long-term awards for Senior Officers based on position and responsibilities.

For select Senior Officers, a long-term award (LRT) was established and communicated at the beginning of the plan term. The payout of these awards are six or more years later and is conditioned upon satisfactory performance of the Senior Officer and the Association. Senior Officers that voluntarily terminate employment or do not maintain satisfactory performance, forfeit these long-term awards. Extension of new awards under the LRT plan was discontinued in 2011.

Starting in 2014, certain executives began participation in an LTIP, which defers payment of a portion of the incentive earned under the ICP or supplemental incentive compensation plans for three years, to ensure the long-term performance objectives of the Association are met.

Certain Senior Officers participate in the Ninth Farm Credit District Pension Plan or the Eleventh Farm Credit District Employee's Retirement Plan ("Pension Plans"). These plans have been closed to new participants for many years.

Due to the cooperative business structure of the Association, compensation for Senior Officers does not contain stock-based compensation components.

Compensation earned by the CEO and aggregate compensation of other Senior Officers and highly compensated employees for the year ended December 31, 2014, amounted to $15.2 million. Two events in 2014 led to significant non-recurring charges: changes in several key leadership roles and changes in the actuarial assumptions in the Pension Plans.

Disclosure of fiscal year 2014, 2013, and 2012 compensation for the CEO and Senior Officers as defined by regulation, or to any other employee whose compensation is among the five highest amounts paid by the Association, is included in the Annual Meeting Information Statement sent to shareholders and is available to the public at the Association's offices upon request.

The Association's policies on loans to and transactions with its Senior Officers and Directors are incorporated herein by reference from Note 12 to the consolidated financial statements entitled "Related Party Transactions" included in the Annual Report to Shareholders. No loans to Senior Officers, Directors, their immediate families, and affiliated organizations at December 31, 2014, involved more than a normal risk of collectibility.

# Office Locations

## ADMINISTRATIVE OFFICE

200 Concourse Boulevard • Santa Rosa, CA 95403
(800) 800-4865 • AgLoan.com

### CALIFORNIA

**Alturas**
403 E. Highway 395
Alturas, CA 96101
(530) 233-4304

**Eureka**
5560 S. Broadway Street
Eureka, CA 95503
(707) 445-8871

**Fresno – Insurance**
401 W. Fallbrook Avenue
Ste. 112
Fresno, CA 93711
(559) 447-9036

**Merced**
711 W. 19th Street
Merced, CA 95340
(209) 384-1050

**Oakdale**
700 N. Yosemite Avenue
Oakdale, CA 95361
(209) 847-0353

**Ontario**
1910 S. Archibald Avenue
Ste. U-101
Ontario, CA 91761
(909) 947-2371

**Palm Desert**
74-199 El Paseo Drive, Ste. 101
Palm Desert, CA 92260
(760) 340-5671

**Petaluma**
1345 Redwood Way
Petaluma, CA 94954
(707) 793-9023

**Petaluma – Insurance**
204 G Street, Ste. 201
Petaluma, CA 94952
(707) 766-8498

**Roseville**
2140 Professional Drive, Ste .110
Roseville, CA 95661
(916) 784-1060

**St. Helena**
1101 Vintage Avenue
St. Helena, CA 94574
(707) 963-9437

**Salinas**
924 E. Blanco Road
Salinas, CA 93901
(831) 424-1756

**Santa Rosa**
4845 Old Redwood Highway
Santa Rosa, CA 95403
(707) 545-7100

**Stockton**
2345 E. Earhart Avenue
Stockton, CA 95206
(209) 944-7478

**Temecula**
42429 Winchester Road
Temecula, CA 92590
(951) 296-0175

**Tulelake**
448 Main Street
Tulelake, CA 96134
(530) 667-4236

**Turlock**
3201 W. Monte Vista Avenue
Turlock, CA 95380
(209) 667-5101

**Ukiah**
455 E. Gobbi Street
Ukiah, CA 95482
(707) 462-6531

**Yreka**
809 Fourth Street
Yreka, CA 96097
(530) 842-1304

### COLORADO

**Durango**
850 2nd Avenue
Durango, CO 81301
(800) 678-6828

**Grand Junction**
2452 F Road, Suite 101
Grand Junction, CO 81505
(800) 962-2482

**Greeley**
4505 29th Street
Greeley, CO 80634
(800) 799-6545

**Greeley – Insurance**
1218 8th Avenue
Greeley, CO 80631
(970) 506-3471

**Montrose**
1540 E. Niagara Road
Montrose, CO 81401
(800) 654-8272

### KANSAS

**Concordia**
904 Broadway Street
Concordia, KS 66901
(785) 243-4689

**El Dorado**
2740 W. Central Avenue
El Dorado, KS 67042
(316) 321-2707

**Great Bend**
5634 10th Street
Great Bend, KS 67530
(620) 792-2211

**Hutchinson**
1902 E. 23rd Street
Hutchinson, KS 67502
(620) 663-3305

**Kingman**
435 N. Main Street
Kingman, KS 67068
(620) 532-5102

**Larned**
324 Main Street, Suite B
Larned, KS 67550
(620) 285-2193

**Pratt**
706 S. Main Street
Pratt, KS 67124
(620) 672-7406

**Salina**
925 W. Magnolia Road
Salina, KS 67401
(785) 825-4641

**Stockton**
419 Main Street
Stockton, KS 67669
(316) 721-1100

**Wichita**
7940 W. Kellogg Drive
Wichita, KS 67209
(316) 721-1100

### NEVADA

**Elko**
978 Commercial Street
Elko, NV 89801
(775) 738-8496

**Fallon**
1440 W. Williams Avenue
Fallon, NV 89406
(775) 423-3136

**Reno**
255 W. Peckham Lane
Reno, NV 89509
(775) 825-7282

### OKLAHOMA

**Ponca City**
1909 E. Lake Road
Ponca City, OK 74602
(580) 765-5690

**Weatherford**
1501 Lera Drive, Ste. 4
Weatherford, OK 73096
(580) 772-3443

### OREGON

**Lake Oswego**
5000 Meadows Road, Ste. 365
Lake Oswego, OR 97035
(503) 639-7563

All owned office buildings and land are pledged to CoBank as collateral for the note payable.

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