ArborOne, ACA

FIRST QUARTER 2015

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CERTIFICATION

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

Kathy S. Heustess
President and Chief Executive Officer

Tammy G. Smith
Chief Financial Officer and Treasurer

James M. Ward
Chairman of the Board

May 8, 2015

ArborOne, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

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

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

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

Kathy S. Heustess

Kathy S. Heustess
President and Chief Executive Officer

Tammy G. Smith

Tammy G. Smith
Chief Financial Officer

May 8, 2015

ArborOne, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of **ArborOne, ACA**, (the Association) for the period ended March 31, 2015. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2014 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including cash grains, cotton, tobacco, forestry, poultry, and farm services. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, somewhat impact the level of dependency on a given commodity. Approximately twenty-four percent of the portfolio has significant outside income to diversify dependence on agriculture, consisting of lifestyle loans and loans to less than full-time farmers with retirement income, salaried income and non-agricultural business income. Further, approximately eighteen percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of March 31, 2015, was $340,738, a decrease of $207 as compared to $340,945 at December 31, 2014. Net loans outstanding at March 31, 2015, were $335,473 as compared to $336,041 at December 31, 2014. The Association had investment securities classified as held-to-maturity in the amount of $29,590 at March 31, 2015 compared to $29,767 at December 31, 2014. Other investments held by the Association as of March 31, 2015 were $40, which remained the same from December 31, 2014. Net loans and investments accounted for 93 percent of total assets at March 31, 2015, as compared to 91 percent of total assets at December 31, 2014.

Net loans decreased by $568 during the reporting period. This decrease was primarily due to a decrease in originated loan volume of $6,254, a decrease in participations purchased loan volume of $4,152, and an increase in allowance for loan loss of $361. The decrease in originated loan volume is attributed to the seasonal paydown of operating loans as producers liquidate inventory which was partially offset by the growth in the real estate loan portfolio. The decrease in participation purchased loan volume was attributed to normal payments along with tightening lending policies. Additionally, three large participation purchased loans paid off in the first quarter of 2015. The increase in the allowance was due to downgrades on several core accounts during the quarter.

These decreases to net loans were partially offset by a decrease in participations sold loan volume of $9,515. The decrease in participations sold loan volume was mainly due to the reduction in the Association's sold participations to the Bank through the capitalized participation pools (CPP) program. This decrease in the CPP loan volume was mainly due to loan repayments and refinances in the normal course of business. As of March 31, 2015, the Association had $57,630 of such participations outstanding.

Investment securities held-to-maturity (HTM) consist of mission related investments (Rural America Bonds). At the beginning of 2014, the Association's investment securities portfolio consisted of Rural America Bonds classified as available-for-sale (AFS). Because there had been no significant sales of AFS securities for an extended period of time, and current management had a firm intent and ability to hold those securities to maturity, the Association judged that a HTM classification more closely reflected the way in which it expected to benefit from the cash flows from those assets. As a result, on October 1, 2014, the Association transferred $33,007 of its AFS investments to a HTM classification while two of its ineligible bonds totaling $77 were settled with properties acquired.

For a debt security transferred into the HTM category, the use of fair value may create a premium or discount that, under amortized cost accounting, shall be amortized thereafter as an adjustment of yield. The investments were transferred to HTM at fair value with unrealized gains and losses recognized in Other Comprehensive Income (OCI) as a net unrealized gain. These OCI amounts will be amortized or accreted to interest income ratably over the remaining life of each individual security in accordance with generally accepted accounting principles (GAAP). The amortization of an unrealized holding gain or loss reported in OCI will offset or mitigate the effect on interest income of the amortization of any premium or discount recorded on transfer to HTM for each security.

The HTM investment securities decreased by $177 when compared to December 31, 2014. This decrease was mainly due to normal payments in the amount of $162 and the amortization of the net unrealized gain from the transfer to HTM in the amount of $15.

As of March 31, 2015, the majority of the Association's HTM Rural America Bonds were guaranteed; therefore the risk of credit loss to the Association was reduced. However, as of March 31, 2015, one security was rated as substandard and three securities were rated as other assets especially mentioned (OAEM), which made these securities ineligible investments under Farm Credit Administration (FCA) regulation. FCA has been notified of these downgrades as required. At the beginning of 2014, credit impairments totaled $3,049 on three ineligible investments. An additional credit impairment of $114 was recognized during the third quarter of 2014 on one of the two ineligible investments that settled, bringing the total credit impairments on the two bonds to $406. Unrealized credit impairments on the remaining HTM investment portfolio as of December 31, 2014, totaled $2,757. No additional credit impairments were taken during the first quarter of 2015.

Other investments consist of only a Rural Business Investment Company (RBIC) known as Meritus Ventures, L.P. (Meritus) in the amount of $40 as of March 31, 2015. In 2011, the Association made a final capital call for a total investment of $250 in Meritus. As a result of evaluations on this RBIC, the Association recognized credit impairment losses of $30 and $180 during the years of 2014 and 2013 respectively. No additional impairment was taken during the first quarter of 2015.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans increased from $4,893 at December 31, 2014, to $5,583 at March 31, 2015. This was mainly due to the transfer of several core agricultural loans to nonaccrual status. This increase was partially offset by the transfer of one core agricultural loan from nonaccrual status into Other Property Owned (OPO) as well as payments on several core nonaccrual loans.

As of March 31, 2015, the Association has seven properties classed as OPO totaling $3,242, a decrease of $565 as compared to $3,807 at December 31, 2014. The decrease was due to the sale of one large core account, and the partial sale of one participation account. This decrease was partially offset by one core loan transferring out of a nonaccrual loan status and into OPO. Association staff is working diligently to market the OPO properties.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on credit quality, credit history, current conditions, and expected future conditions. The allowance for loan losses at March 31, 2015, was $5,265, compared to $4,904 at December 31, 2014. The $5,265 allowance for loan losses consisted of $4,776 in general reserves and $489 in specific reserves for two core agricultural loans and one Rural America Bond. The charge-offs for the three months ended March 31, 2015 were $269 on one core agricultural loan. There were recoveries of $27 for the three months ended March 31, 2015 attributed to both core agricultural and participation loans. The allowance for loan losses for the period ending March 31, 2015 is considered by management to be adequate to cover any future possible losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2015

Net income for the three months ended March 31, 2015, totaled $812, a decrease of $1,576, as compared to $2,388 for the same period in 2014. This was mainly due to an increase in the provision of $742 and a decrease in the estimated CPP patronage in the amount of $781. This decrease of estimated CPP patronage is a result of the declining CPP loan volume and an additional allowance on CPP loans reducing the amount of patronage.

Interest income on accruing loans increased by $289 for the three months ended March 31, 2015 compared to $3,643 for the three months ended March 31, 2014, as a result of an increase in originated loan volume. Nonaccrual interest income decreased by $2 as compared to the same period in 2014. Interest income on investment securities was $422 compared to $604 for the same period in 2014. There was no interest income on other investments (SIIC) for the three months ended March 31, 2015, as compared to $40 for the same period in 2014. The decrease in investment interest income is primarily due to a decrease in the HTM investment securities from payments in the normal course of business as well as the payoff of SIIC volume.

Interest expense increased $99 for the three months ended March 31, 2015, as compared to the comparable period of 2014. The interest expense increase was primarily due to the increase in originated loan volume and an increase in association prepayment penalties as a result of paying off the note for the Association's administration building. The decrease was partially offset by a reduction in the HTM investment securities and the payoff of SIIC volume.

The Association recorded a provision for loan losses of $603 as compared to a reversal of allowance for loan losses of $139 for the comparable period of 2014. The increase was mainly due to increased loan volume and a result of additional downgrades to loan volume.

Noninterest income for the three months ended March 31, 2015, totaled $1,192 as compared to $2,127 for the same period of 2014, a decrease of $935. This decrease was mainly due to a decrease in loan fees of $54, a decrease in fees from financially related services of $38, a decrease in patronage refunds from other Farm Credit institutions of $697, a decrease in realized gains on sales of investment securities of $96, a decrease on gains on other transactions of $4, and a decrease in other noninterest income of $46.

Noninterest expense for the three months ended March 31, 2015, decreased $130 compared to the same period of 2014. This decrease was due to a decrease of occupancy and equipment of $12 and a decrease of losses on other property owned of $308, which resulted mainly from the recovery of a writedown on one large core account. This decrease in noninterest expense was partially offset by an increase in salaries and employee benefits of $80, an increase in insurance fund premiums of $15, and an increase in other operating expense of $95.

The Association recorded a provision for income taxes in the amount of $1 for the three months ended March 31, 2015 as compared to a provision of $5 for the same period in 2014.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2015, was $302,538 as compared to $309,286 at December 31, 2014. The decrease during the period is primarily attributable to a decrease in loan volume, a decrease in participations purchased volume, and a decrease in the HTM investment securities. These decreases were partially offset by a decrease in participation sold volume.

CAPITAL RESOURCES

Total members' equity at March 31, 2015, increased to $79,554 from the December 31, 2014, total of $78,386. The increase is primarily attributable to an increase in retained earnings.

Total capital stock and participation certificates were $1,312 on March 31, 2015, compared to $1,307 on December 31, 2014. This increase is attributed to the increase of capital stock and participation certificates on loans in the normal course of business and was partially offset by the liquidation of the annual retirement of B stock.

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association has an unrealized loss of $253 as of March 31, 2015, as compared to an unrealized loss of $255 as of December 31, 2014 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association also has an unrealized net gain of $1,225 as of March 31, 2015 as compared to an unrealized net gain of $1,240 as of December 31, 2014 on the HTM investment securities. The resulting effect was a net loss of $13 to Accumulated Other Comprehensive Income for the three months ending March 31, 2015.

FCA regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2015, the Association's total surplus ratio and core surplus ratio were 21.48 percent and 19.73 percent, respectively, and the permanent capital ratio was 21.88 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

REGULATORY MATTERS

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

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

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

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

FINANCIAL REGULATORY REFORM

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-741-7332, writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, ***www.arborone.com***. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

ArborOne, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2015	December 31, 2014
	(unaudited)	*(audited)*
Assets		
Cash	**$ 2**	$ 2
Investment securities:		
Held to maturity (fair value of $30,956 and $30,313, respectively)	**29,590**	29,767
Loans	**340,738**	340,945
Allowance for loan losses	**(5,265)**	(4,904)
Net loans	**335,473**	336,041
Other investments	**40**	40
Accrued interest receivable	**4,531**	4,517
Investments in other Farm Credit institutions	**9,574**	10,247
Premises and equipment, net	**3,877**	3,933
Other property owned	**3,242**	3,807
Accounts receivable	**1,191**	9,796
Other assets	**2,998**	3,324
Total assets	**$ 390,518**	$ 401,474
Liabilities		
Notes payable to AgFirst Farm Credit Bank	**$ 302,538**	$ 309,286
Accrued interest payable	**634**	645
Patronage refunds payable	**521**	2,996
Accounts payable	**557**	312
Other liabilities	**6,714**	9,849
Total liabilities	**310,964**	323,088
Commitments and contingencies (Note 8)		
Members' Equity		
Protected borrower stock	**69**	78
Capital stock and participation certificates	**1,243**	1,229
Retained earnings		
Allocated	**52,660**	51,516
Unallocated	**24,610**	24,578
Accumulated other comprehensive income	**972**	985
Total members' equity	**79,554**	78,386
Total liabilities and members' equity	**$ 390,518**	$ 401,474

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

ArborOne, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2015	2014
Interest Income		
Loans	**$ 3,936**	$ 3,648
Investments	**422**	644
Total interest income	**4,358**	4,292
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	**1,943**	1,844
Net interest income	**2,415**	2,448
Provision for (reversal of allowance for) loan losses	**603**	(139)
Net interest income after provision for (reversal of allowance for) loan losses	**1,812**	2,587
Noninterest Income		
Loan fees	**450**	504
Fees for financially related services	**34**	72
Patronage refunds from other Farm Credit institutions	**696**	1,393
Gains (losses) on sales of investment securities	**—**	96
Gains (losses) on other transactions	**9**	13
Other noninterest income	**3**	49
Total noninterest income	**1,192**	2,127
Noninterest Expense		
Salaries and employee benefits	**1,619**	1,539
Occupancy and equipment	**108**	120
Insurance Fund premiums	**72**	57
(Gains) losses on other property owned, net	**(239)**	69
Other operating expenses	**631**	536
Total noninterest expense	**2,191**	2,321
Income before income taxes	**813**	2,393
Provision for income taxes	**1**	5
Net income	**$ 812**	$ 2,388

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

ArborOne, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2015	2014
Net income	**$ 812**	$ 2,388
Other comprehensive income net of tax		
Unrealized gains (losses) on investments:		
Other-than-temporarily impaired	**2**	87
Not other-than-temporarily impaired	**(17)**	1,252
Employee benefit plans adjustments	**2**	1
Other comprehensive income (Note 5)	**(13)**	1,340
Comprehensive income	**$ 799**	$ 3,728

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

ArborOne, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2013	$ 91	$ 1,238	$ 49,893	$ 22,574	$ (1,001)	$ 72,795
Comprehensive income				2,388	1,340	3,728
Protected borrower stock issued/(retired), net	(13)					(13)
Capital stock/participation certificates issued/(retired), net		(26)				(26)
Patronage distribution adjustment			7	(11)		(4)
Balance at March 31, 2014	$ 78	$ 1,212	$ 49,900	$ 24,951	$ 339	$ 76,480
Balance at December 31, 2014	**$ 78**	**$ 1,229**	**$ 51,516**	**$ 24,578**	**$ 985**	**$ 78,386**
Comprehensive income				**812**	**(13)**	**799**
Protected borrower stock issued/(retired), net	**(9)**					**(9)**
Capital stock/participation certificates issued/(retired), net		**14**				**14**
Patronage distribution adjustment			**1,144**	**(780)**		**364**
Balance at March 31, 2015	**$ 69**	**$ 1,243**	**$ 52,660**	**$ 24,610**	**$ 972**	**$ 79,554**

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

ArborOne, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

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

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

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

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

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

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

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

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

No recently adopted accounting guidance issued by the Financial Accounting Standards Board (FASB) had a significant effect on the current period reporting. See the most recent Annual Report for a detailed description of each of the standards below:

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

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

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

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	March 31, 2015	December 31, 2014
Real estate mortgage	$ 157,982	$ 148,884
Production and intermediate-term	163,591	171,001
Loans to cooperatives	456	455
Processing and marketing	11,922	12,180
Farm-related business	2,485	4,066
Energy and water/waste disposal	755	753
Rural residential real estate	3,402	3,456
Lease receivables	145	150
Total Loans	$ 340,738	$ 340,945

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

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

March 31, 2015	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 3,953	$ 49,071	$ 3,270	$ –	$ –	$ –	$ 7,223	$ 49,071
Production and intermediate-term	21,442	18,340	550	–	–	–	21,992	18,340
Processing and marketing	11,713	58	209	–	–	–	11,922	58
Farm-related business	1,590	92	–	–	–	–	1,590	92
Rural residential real estate	–	–	–	–	2,102	–	2,102	–
Total	$ 38,698	$ 67,561	$ 4,029	$ –	$ 2,102	$ –	$ 44,829	$ 67,561

December 31, 2014	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 5,626	$ 54,450	$ 3,270	$ –	$ –	$ –	$ 8,896	$ 54,450
Production and intermediate-term	23,459	21,713	600	–	–	–	24,059	21,713
Loans to cooperatives	–	–	–	–	–	–	–	–
Processing and marketing	11,950	58	250	–	–	–	12,200	58
Farm-related business	1,602	93	–	–	–	–	1,602	93
Rural residential real estate	–	–	–	–	2,214	–	2,214	–
Total	$ 42,637	$ 76,314	$ 4,120	$ –	$ 2,214	$ –	$ 48,971	$ 76,314

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

March 31, 2015	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 13,387	$ 30,831	$ 113,764	$ 157,982
Production and intermediate-term	62,446	60,149	40,996	163,591
Loans to cooperatives	–	–	456	456
Processing and marketing	297	7,495	4,130	11,922
Farm-related business	400	1,874	211	2,485
Energy and water/waste disposal	755	–	–	755
Rural residential real estate	5	243	3,154	3,402
Lease receivables	–	145	–	145
Total Loans	$ 77,290	$ 100,737	$ 162,711	$ 340,738
Percentage	22.68%	29.57%	47.75%	100.00%

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

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

	March 31, 2015	December 31, 2014
Real estate mortgage:		
Acceptable	93.54%	93.33%
OAEM	2.35	3.33
Substandard/doubtful/loss	4.11	3.34
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	94.00%	92.72%
OAEM	3.09	2.85
Substandard/doubtful/loss	2.91	4.43
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	86.86%	86.83%
OAEM	–	–
Substandard/doubtful/loss	13.14	13.17
	100.00%	100.00%

	March 31, 2015	December 31, 2014
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	0.16%	–%
OAEM	–	–
Substandard/doubtful/loss	99.84	100.00
	100.00%	100.00%
Rural residential real estate:		
Acceptable	98.51%	97.63%
OAEM	–	–
Substandard/doubtful/loss	1.49	2.37
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	93.43%	92.72%
OAEM	2.58	2.88
Substandard/doubtful/loss	3.99	4.40
	100.00%	100.00%

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

	March 31, 2015					
	30 Through 89 Days Past Due	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment 90 Days or More Past Due and Accruing Interest**
Real estate mortgage	$ 1,897	$ 1,027	$ 2,924	$ 156,876	$ 159,800	$ –
Production and intermediate-term	924	1,648	2,572	163,172	165,744	–
Loans to cooperatives	–	–	–	464	464	–
Processing and marketing	–	–	–	11,943	11,943	–
Farm-related business	–	–	–	2,495	2,495	–
Energy and water/waste disposal	–	–	–	760	760	–
Rural residential real estate	–	–	–	3,436	3,436	–
Lease receivables	–	–	–	146	146	–
Total	$ 2,821	$ 2,675	$ 5,496	$ 339,292	$ 344,788	$ –

	December 31, 2014					
	30 Through 89 Days Past Due	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment 90 Days or More Past Due and Accruing Interest**
Real estate mortgage	$ 1,500	$ 1,273	$ 2,773	$ 147,838	$ 150,611	$ –
Production and intermediate-term	592	2,371	2,963	170,431	173,394	–
Loans to cooperatives	–	–	–	457	457	–
Processing and marketing	–	–	–	12,201	12,201	–
Farm-related business	–	–	–	4,085	4,085	–
Energy and water/waste disposal	779	–	779	–	779	–
Rural residential real estate	83	–	83	3,407	3,490	–
Lease receivables	–	–	–	151	151	–
Total	$ 2,954	$ 3,644	$ 6,598	$ 338,570	$ 345,168	$ –

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

	March 31, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	$ 3,461	$ 1,972
Production and intermediate-term	2,071	2,838
Rural residential real estate	51	83
Total	$ 5,583	$ 4,893
Accruing restructured loans:		
Real estate mortgage	$ 5,641	$ 5,598
Production and intermediate-term	983	1,040
Lease receivables	146	151
Total	$ 6,770	$ 6,789
Accruing loans 90 days or more past due:		
Total	$ –	$ –
Total nonperforming loans	$ 12,353	$ 11,682
Other property owned	3,242	3,807
Total nonperforming assets	$ 15,595	$ 15,489
Nonaccrual loans as a percentage of total loans	1.64%	1.44%
Nonperforming assets as a percentage of total loans and other property owned	4.53%	4.49%
Nonperforming assets as a percentage of capital	19.60%	19.76%

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

	March 31, 2015	December 31, 2014
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,245	$ 1,064
Past due	4,338	3,829
Total	5,583	4,893
Impaired accrual loans:		
Restructured	6,770	6,789
90 days or more past due	–	–
Total	6,770	6,789
Total impaired loans	$ 12,353	$ 11,682

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

	March 31, 2015			Quarter Ended March 31, 2015	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 3,598	$ 3,509	$ 266	$ 3,530	$ 30
Production and intermediate-term	300	315	117	294	3
Lease receivables	146	145	106	143	1
Total	$ 4,044	$ 3,969	$ 489	$ 3,967	$ 34
With no related allowance for credit losses:					
Real estate mortgage	$ 5,504	$ 5,803	$ –	$ 5,397	$ 47
Production and intermediate-term	2,754	3,510	–	2,702	23
Rural residential real estate	51	112	–	50	–
Total	$ 8,309	$ 9,425	$ –	$ 8,149	$ 70
Total:					
Real estate mortgage	$ 9,102	$ 9,312	$ 266	$ 8,927	$ 77
Production and intermediate-term	3,054	3,825	117	2,996	26
Rural residential real estate	51	112	–	50	–
Lease receivables	146	145	106	143	1
Total	$ 12,353	$ 13,394	$ 489	$ 12,116	$ 104

Impaired loans:	December 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2014 Average Impaired Loans	Interest Income Recognized on Impaired Loans
With a related allowance for credit losses:					
Real estate mortgage	$ 4,143	$ 4,103	$ 381	$ 3,703	$ 179
Production and intermediate-term	1,440	1,445	244	1,287	62
Lease receivables	151	150	113	135	6
Total	$ 5,734	$ 5,698	$ 738	$ 5,125	$ 247
With no related allowance for credit losses:					
Real estate mortgage	$ 3,427	$ 3,708	$ –	$ 3,062	$ 148
Production and intermediate-term	2,438	3,204	–	2,179	105
Rural residential real estate	83	142	–	74	4
Total	$ 5,948	$ 7,054	$ –	$ 5,315	$ 257
Total:					
Real estate mortgage	$ 7,570	$ 7,811	$ 381	$ 6,765	$ 327
Production and intermediate-term	3,878	4,649	244	3,466	167
Rural residential real estate	83	142	–	74	4
Lease receivables	151	150	113	135	6
Total	$ 11,682	$ 12,752	$ 738	$ 10,440	$ 504

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at each reporting period.

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Total
Activity related to the allowance for credit losses:							
Balance at December 31, 2014	$ 1,084	$ 2,590	$ 809	$ 301	$ 7	$ 113	$ 4,904
Charge-offs	–	(269)	–	–	–	–	(269)
Recoveries	17	10	–	–	–	–	27
Provision for loan losses	298	370	(49)	(9)	–	(7)	603
Balance at March 31, 2015	$ 1,399	$ 2,701	$ 760	$ 292	$ 7	$ 106	$ 5,265
Balance at December 31, 2013	$ 1,162	$ 2,622	$ 286	$ 302	$ 3	$ 114	$ 4,489
Charge-offs	(67)	–	–	–	–	–	(67)
Recoveries	2	2	–	–	–	–	4
Provision for loan losses	(140)	(131)	141	(9)	–	–	(139)
Balance at March 31, 2014	$ 957	$ 2,493	$ 427	$ 293	$ 3	$ 114	$ 4,287
Allowance on loans evaluated for impairment:							
Individually	$ 266	$ 117	$ –	$ –	$ –	$ 106	$ 489
Collectively	1,133	2,584	760	292	7	–	4,776
Balance at March 31, 2015	$ 1,399	$ 2,701	$ 760	$ 292	$ 7	$ 106	$ 5,265
Individually	$ 381	$ 244	$ –	$ –	$ –	$ 113	$ 738
Collectively	703	2,346	809	301	7	–	4,166
Balance at December 31, 2014	$ 1,084	$ 2,590	$ 809	$ 301	$ 7	$ 113	$ 4,904
Recorded investment in loans evaluated for impairment:							
Individually	$ 9,102	$ 3,054	$ –	$ –	$ 51	$ 146	$ 12,353
Collectively	150,698	162,690	14,902	760	3,385	–	332,435
Balance at March 31, 2015	$ 159,800	$ 165,744	$ 14,902	$ 760	$ 3,436	$ 146	$ 344,788
Individually	$ 7,570	$ 3,878	$ –	$ –	$ 83	$ 151	$ 11,682
Collectively	143,041	169,516	16,743	779	3,407	–	333,486
Balance at December 31, 2014	$ 150,611	$ 173,394	$ 16,743	$ 779	$ 3,490	$ 151	$ 345,168

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no TDRs for period ended March 31, 2015.

	Three Months Ended March 31, 2014				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Production and intermediate-term	$ 885	$ 17	$ –	$ 902	
Total	$ 885	$ 17	$ –	$ 902	
Post-modification:					
Production and intermediate-term	$ 885	$ 17	$ –	$ 902	$ –
Total	$ 885	$ 17	$ –	$ 902	$ –

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

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2015	**December 31, 2014**	**March 31, 2015**	**December 31, 2014**
Real estate mortgage	$ 5,973	$ 5,937	$ 332	$ 339
Production and intermediate-term	1,711	1,768	728	728
Lease receivables	146	151	–	–
Total Loans	$ 7,830	$ 7,856	$ 1,060	$ 1,067
Additional commitments to lend	$ –	$ –		

The following table presents information as of period end:

	March 31, 2015
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ –

Note 3 — Investments

Investment Securities

The Association's investments consist primarily of Rural America Bonds (RABs), which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a RAB ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. As of March 31, 2015, the Association held four ineligible RABs which totaled $1,384.

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

	March 31, 2015				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
RABs (a)	$ 29,590	$ 1,400	$ (34)	$ 30,956	6.03%

	December 31, 2014				
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Yield**
RABs (b)	$ 29,767	$ 547	$ (1)	$ 30,313	6.03%

(a) Gross unrealized losses included non-credit related other-than-temporary impairment recognized in AOCI of $106.
(b) Gross unrealized losses included non-credit related other-than-temporary impairment recognized in AOCI of $107.

On October 1, 2014, the Association transferred its available-for-sale investments to a held-to-maturity classification. The following table summarizes the transaction:

AFS Investments Reclassified to HTM	Amortized Cost	Fair Value	Unrealized Gains/(Losses) Recognized in OCI
RABs	$31,818	$33,007	$1,189

Because there have been no significant sales of available-for-sale securities for an extended period of time, and current management has the firm intent and ability to hold those securities to maturity, the Association judged that a held-to-maturity classification more closely reflects the way in which it expects to benefit from the cash flows from those assets.

For a debt security transferred into the held-to-maturity category, the use of fair value may create a premium or discount that, under amortized cost accounting, shall be amortized or accreted thereafter as an adjustment of yield. The investments were transferred to held-to-maturity at fair value with an unrealized net gain (premiums and discounts) recognized in Other Comprehensive Income (OCI) in the amount of $1,189. These OCI amounts will be amortized or accreted to interest income ratably over the remaining life of each individual security in accordance with generally accepted accounting principles (GAAP). The amortization of an unrealized holding gain or loss reported in OCI will offset or mitigate the effect on interest income of the amortization of any premium or discount recorded on transfer to held-to-maturity for each security.

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

	March 31, 2015		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	911	920	5.00
After five years through ten years	–	–	–
After ten years	28,679	30,036	6.06
Total	$ 29,590	$ 30,956	6.03%

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

The disposal of one callable investment security occurred during March of 2014 in the amount of $4,886 resulting in a realized gain of $96. There were no such disposals or issuances of these investment securities during the three months ended March of 2015.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	March 31, 2015			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 714	$ (34)	$ –	$ –

	December 31, 2014			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
RABs	$ 389	$ (1)	$ –	$ –

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

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

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

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

The Association owns one Rural America Bond that is considered other-than-temporarily impaired. Based on the results of all analyses, the Association has recognized no credit-related other-than-temporary impairment in the Statements of Income for the quarters ended March 31, 2015 or 2014. Since the Association does not intend to sell this other-than-temporarily impaired debt security and is not more likely than not to be required to sell before recovery, the total other-than temporary impairment is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

For all other impaired investments, the Association has not recognized any credit losses as the impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings.

	For the Three Months Ended March 31, 2015	2014
Amount related to credit loss-beginning balance	$ 2,757	$ 3,049
Additions for initial credit impairments	–	–
Additions for subsequent credit impairments	–	–
Reductions for increases in expected cash flows	–	–
Reductions for securities sold, settled, or matured	–	–
Amount related to credit loss-ending balance	2,757	3,049
Life to date incurred credit losses	–	–
Remaining unrealized credit losses	$ 2,757	$ 3,049

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (AgFirst or the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owns 3.58 percent of the issued stock of the Bank as of March 31, 2015 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.9 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $83 million for the first three months of 2015. In addition, the Association has an investment of $619 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

	Changes in Accumulated Other Comprehensive Income by Component *(a)* For the Three Months Ended March 31, 2015	2014
Unrealized gains (losses) on Investments		
Balance at beginning of period	$ 1,240	$ (832)
Other comprehensive income before reclassifications	–	1,435
Amounts reclassified from AOCI	(15)	(96)
Net current period other comprehensive income	(15)	1,339
Balance at end of period	$ 1,225	$ 507
Employee Benefit Plans:		
Balance at beginning of period	$ (255)	$ (169)
Other comprehensive income before reclassifications	–	–
Amounts reclassified from AOCI	2	1
Net current period other comprehensive income	2	1
Balance at end of period	$ (253)	$ (168)
Accumulated Other Comprehensive Income		
Balance at beginning of period	$ 985	$ (1,001)
Other comprehensive income before reclassifications	–	1,435
Amounts reclassified from AOCI	(13)	(95)
Net current period other comprehensive income	(13)	1,340
Balance at end of period	$ 972	$ 339

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

(dollars in thousands)	For the Three Months Ended March 31, 2015	2014	Income Statement Line Item
Investment Securities:			
Sales gains & losses	$ –	$ 96	Gains (losses) on investments, net
Holding gains & losses	15	–	Interest income on investments
Net amounts reclassified	15	96	
Defined Benefit Pension Plans:			
Periodic pension costs	(2)	(1)	See Note 7.
Net amounts reclassified	(2)	(1)	
Total reclassifications for period	$ 13	$ 95	

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

Note 6 — Fair Value Measurement

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

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

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

The classifications within the fair value hierarchy are as follows:

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

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

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

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1, Level 2, or Level 3 during the periods presented. Due to the transfer of the investment securities from available-for-sale to held-to-maturity on October 1, 2014, there were no assets measured at fair value on a recurring basis for the three months ended March of 2015.

	RABs	
	For the Three Months Ended March 31,	
	2015	2014
Balance at beginning of period	$ –	$ 41,286
Total gains or (losses) realized/unrealized:		
Included in earnings	–	96
Included in other comprehensive income (loss)	–	1,339
Purchases	–	–
Sales	–	(4,886)
Issuances	–	–
Settlements	–	(142)
Transfers in and/or out of level 3	–	–
Balance at end of period	$ –	$ 37,693

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

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

INVESTMENT SECURITIES

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

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

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

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 15,401	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Other Investments-RBIC	$ 40	Third party evaluation	Income, expense, capital	Not applicable

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

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

At or For the Three Months Ended March 31, 2015

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 555	$ 555	$ –	$ –	$ 555	
Recurring Assets	$ 555	$ 555	$ –	$ –	$ 555	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 11,864	$ –	$ –	$ 11,864	$ 11,864	$ 7
Other property owned	3,242	–	–	3,537	3,537	286
Other investments	40	–	–	40	40	–
Nonrecurring Assets	$ 15,146	$ –	$ –	$ 15,441	$ 15,441	$ 293
Other Financial Instruments						
Assets:						
Cash	$ 2	$ 2	$ –	$ –	$ 2	
Investment securities, held-to-maturity	29,590	–	–	30,956	30,956	
Loans	323,609	–	–	323,315	323,315	
Other Financial Assets	$ 353,201	$ 2	$ –	$ 354,271	$ 354,273	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 302,538	$ –	$ –	$ 302,805	$ 302,805	
Other Financial Liabilities	$ 302,538	$ –	$ –	$ 302,805	$ 302,805	

	At or For the Year Ended December 31, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 532	$ 532	$ –	$ –	$ 532	
Recurring Assets	$ 532	$ 532	$ –	$ –	$ 532	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 10,944	$ –	$ –	$ 10,944	$ 10,944	$ (2)
Other property owned	3,807	–	–	4,149	4,149	(1,591)
Other investments	40	–	–	40	40	(30)
Nonrecurring Assets	$ 14,791	$ –	$ –	$ 15,133	$ 15,133	$ (1,623)
Other Financial Instruments						
Assets:						
Cash	$ 2	$ 2	$ –	$ –	$ 2	
Investment securities, held-to-maturity	29,767	–	–	30,313	30,313	
Loans	325,097	–	–	323,977	323,977	
Other Financial Assets	$ 354,866	$ 2	$ –	$ 354,290	$ 354,292	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 309,286	$ –	$ –	$ 307,802	$ 307,802	
Other Financial Liabilities	$ 309,286	$ –	$ –	$ 307,802	$ 307,802	

Note 7 — Employee Benefit Plans

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

	For the Three Months Ended March 31,	
	2015	2014
Pension	$ 343	$ 359
401(k)	59	33
Other postretirement benefits	80	47
Total	$ 482	$ 439

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

	Actual YTD Through 3/31/15	Projected Contributions For Remainder of 2015	Projected Total Contributions 2015
Pension	$ 13	$ 1,408	$ 1,421
Other postretirement benefits	49	145	194
Total	$ 62	$ 1,553	$ 1,615

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

The Association evaluated subsequent events and determined there were none requiring disclosure through May 8, 2015, which was the date the financial statements were issued.