AgriBank

BOLDLY GO

2015 DISTRICT QUARTERLY REPORT
JUNE 30, 2015

AgriBank, FCB and affiliated Associations

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Management's Discussion and Analysis

AgriBank, FCB and affiliated Associations

The following discussion is a review of the combined financial position and results of operations of AgriBank, FCB (AgriBank) and affiliated Associations which are part of the Farm Credit System (the System). This information should be read in conjunction with the accompanying Combined Financial Statements, the Notes to the Combined Financial Statements and the 2014 Annual Report.

AgriBank and its affiliated Associations are collectively referred to as the District. The District serves customers in states across America's heartland. AgriBank provides funding to, and is primarily owned by, its affiliated Associations. Affiliated Associations are chartered to serve customers in substantially all of Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin and Wyoming. Affiliated Associations provide credit and financial services to farmers, ranchers, rural residents, agribusinesses and other eligible customers.

As of January 1, 2015 the Boards of Directors of Farm Credit Services of America (FCS of America) (an affiliated Association in the District) and Frontier Farm Credit (an association in the CoBank, ACB District) implemented a strategic alliance. As part of the new alliance, FCS of America and Frontier Farm Credit continue to exist as separate associations while integrating their day-to-day business operations, technology systems and leadership teams. Each association continues to have its own Board, with representatives participating in a Coordinating Committee to facilitate Board governance between the two organizations.

Under the alliance agreement, FCS of America and Frontier Farm Credit have agreed to share current year income and expenses based on the average total assets of each entity for the prior calendar year beginning in 2017. Due to the transition period required to fully implement the alliance, the agreement specifies that pre-tax net income generally will be shared on fixed percentages of 94.0 percent FCS of America and 6.0 percent Frontier Farm Credit for 2015 and 93.0 percent FCS of America 7.0 percent Frontier Farm Credit for 2016.

Frontier Farm Credit has approximately $2 billion in assets and serves multiple counties in eastern Kansas. FCS of America has approximately $23 billion in assets and serves the states of Iowa, Nebraska, South Dakota and Wyoming.

Forward-Looking Information

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in the District's 2014 Annual Report. AgriBank and affiliated Associations undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Financial Overview

Net income decreased $18.8 million, or 2.2 percent, to $855.0 million for the six months ended June 30, 2015, as compared to the same period of the prior year. The slight decrease was primarily driven by increases in non-interest expenses and provision for credit losses, as well as a decrease in non-interest income. These negative variances were partially offset by an increase in net interest income. Refer to the Results of Operations section for further discussion.

Loan portfolio credit quality remains strong and robust capital levels ensure AgriBank and affiliated Associations are well positioned to manage the potentially volatile agricultural market. Refer to the Loan Portfolio and Funding, Liquidity and Shareholders' Equity sections for further discussion.

Agricultural Conditions

The U.S. Department of Agriculture's Economic Research Service (USDA-ERS) projects U.S. aggregate net farm income (NFI) to decline from the forecasted $108.0 billion in 2014 to $73.6 billion in 2015. The overall decline in 2015 NFI is driven by the expected decline in crop prices and a retreat from the record livestock and dairy prices of 2014. Production cost increases are expected to moderate in 2015, partially due to lower energy costs, but are still projected to show a minimal 1.0 percent increase. Despite the significant expected decline in 2015 farm incomes, the U.S. farm economy entered 2015 in perhaps its strongest financial condition in over 50 years.

The margin outlook for most crop producers looks challenging for the next five years with most forecasters projecting corn and soybean prices to be at or near break-even levels. Producers may benefit from USDA commodity title programs under the Agricultural Act of 2014 which could be triggered by lower commodity prices. These programs, combined with disciplined risk management practices and the generally strong financial condition of borrowers comprising the District's crop portfolio, are expected to mitigate the initial impact of lower margins.

The outlook for pork has declined since early 2015 to neutral as of June 30, 2015. This change has been driven by the strength of the U.S. dollar dampening export demand coupled with an increasing pork supply as the industry has recovered from the reduced production of 2014 driven by the PED-virus. Most recently, margins are beginning to rebound as domestic demand is expected to increase throughout 2015 and into 2016. Many producers in this industry have strong financial profiles as a result of record profitability in 2014 and typically engage in disciplined risk management practices, which should minimize the impact of price declines over the next year.

While challenging to the individual operations directly impacted, the recent avian influenza outbreak appears to have abated in recent weeks, with minor impacts to overall supplies. Egg-laying chickens have been impacted more than commercial turkey flocks, while broilers were mostly unaffected.

Refer to the Agricultural Conditions section of Management's Discussion & Analysis of the District's 2014 Annual Report for further analysis of industry conditions.

Land Values

The AgriBank District routinely monitors agricultural land values. As part of this monitoring, the District conducts an annual Benchmark Survey, completed by licensed real estate appraisers, of a sample of benchmark farms selected to represent the lending footprint of the affiliated Associations throughout the District. The District will complete its annual survey as of June 30, 2015, which will be released during the third quarter of 2015.

Qualitative surveys of lending officers compiled by the Federal Reserve Banks of Chicago, Kansas City, and St. Louis as of the end of the first quarter 2015 indicated steady to slightly declining farmland values. The Federal Reserve Banks surveys cited year-over-year changes in the average value of non-irrigated farmland of -2.5 percent to +0.9 percent.

Declining land values are a potential lending risk following periods of sustained, rapid land value increases. Nominal and real (inflation-adjusted) agricultural land values increased in proportions greater than other asset classes such as stocks and urban residential and commercial land during the past decade. However, District agricultural land values escaped, for the most part, the valuation declines that other assets suffered during the Great Recession of 2008-2009. This is largely because the agricultural sector, particularly crop farming, remained profitable throughout the economic crisis period, and demand for agricultural land remained very strong. Current indications are that reduced net farm income is weakening demand to purchase farmland and affecting farmland values. The USDA-ERS projects farm real estate values will decline by 0.8 percent ($18.8 billion) in 2015. This modest decline is generally consistent with District expectations on farm real estate valuation and is not expected to have a significant impact on the credit quality of the loan portfolio.

Refer to the Credit Risk Management section of the 2014 Annual Report for discussion of District risk management practices related to collateral values, particularly land values.

Loan Portfolio

Components of Loans

(in millions)	**June 30, 2015**	December 31, 2014
Accrual loans:		
Real estate mortgage	**$51,116.9**	$49,783.2
Production and intermediate term	**22,761.6**	24,081.6
Agribusiness	**8,081.9**	7,679.8
Rural residential real estate	**2,727.4**	2,696.7
Other	**3,848.6**	3,775.7
Nonaccrual loans	**560.2**	481.4
Total loans	**$89,096.6**	$88,498.4

The Other category is primarily comprised of communication and energy related loans, certain assets originated under the Mission Related Investment authority and loans to AgriBank's other financing institutions (OFIs), as well as finance leases.

District loans totaled $89.1 billion at June 30, 2015, a $598.2 million, or 0.7 percent, increase from December 31, 2014. The increase in total loans was primarily driven by growth in most affiliated Associations' real estate mortgage portfolios. This increase was partially offset by a decrease in production and intermediate term loans driven by significant repayments on operating lines of credit in January from borrowers that draw on

their lines as part of tax planning strategies at the end of the year. These paydowns were partially offset by seasonal spring draws throughout the second quarter of 2015.

Credit quality across the District remains strong at June 30, 2015 with 96.2 percent of the portfolio in the acceptable category, compared to 97.0 percent at December 31, 2014. Adversely classified loans were 1.9 percent at June 30, 2015, compared to 1.7 percent at December 31, 2014. Substandard and doubtful loans, collectively called adverse loans, are loans AgriBank and affiliated Associations have identified as showing some credit weakness outside the credit standards. Due to continued low commodity prices and the current economic outlook, the District observed an increase in adverse credit quality, delinquencies and related allowance for loan losses, compared to the historical lows observed as of December 31, 2014.

Components of Risk Assets

(in millions)	**June 30, 2015**	December 31, 2014
Nonaccrual loans	**$560.2**	$481.4
Accruing restructured loans	**67.6**	75.4
Accruing loans 90 days or more past due	**24.0**	8.1
Total risk loans	**651.8**	564.9
Other property owned	**12.6**	22.3
Total risk assets	**$664.4**	$587.2
Risk loans as a % of total loans	**0.73%**	0.64%
Nonaccrual loans as a % of total loans	**0.63%**	0.54%
Delinquencies as a % of total loans	**0.50%**	0.42%

Note: Accruing loans include accrued interest receivable.

Risk assets have increased from December 31, 2014, but remain at acceptable levels. At June 30, 2015, 61.9 percent of nonaccrual loans were current as to principal and interest, compared to 67.6 percent at December 31, 2014. Nonaccrual loans have increased from historical lows, primarily due to low commodity prices and current economic conditions.

AgriBank and affiliated Associations maintain accounting policies requiring accruing loans past due 90 days to be transferred into nonaccrual status unless adequately secured and in the process of collection. Based on management's analysis, all loans 90 days or more past due and still accruing interest were eligible to remain in accruing status. The increase in accruing loans 90 days or more past due was due to seasonality of loan payments. Accruing loans 90 days or more past due are expected to decrease by year end of 2015.

Allowance Coverage Ratios

	June 30, 2015	December 31, 2014
Allowance as a % of:		
Loans	**0.29%**	0.28%
Nonaccrual loans	**45.72%**	51.53%
Total risk loans	**39.30%**	43.92%
Net charge-offs as a % of average loans	**0.03%**	0.02%
Adverse assets as a % of risk funds*	**9.28%**	8.28%

*Risk funds includes total capital and allowance for loan losses.

The allowance for loan losses is an estimate of losses on loans in the portfolio as of the financial statement date. AgriBank and affiliated Associations determine the appropriate level of allowance for loan losses based on the periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality and current economic and environmental conditions. The allowance for loan losses increased slightly from year end to $256.1 million as of June 30, 2015, primarily related to provisions for loan losses of $21.8 million primarily due to an increase in crop and grain industry reserves related to current commodity prices and economic conditions and slight deterioration in credit quality throughout the District. The provision for loan losses was partially offset by net charge-offs of $13.8 million. AgriBank and affiliated Associations' management believe the allowance for loan losses is reasonable in relation to the risk in the portfolios at June 30, 2015.

Funding, Liquidity and Shareholders' Equity

AgriBank is responsible for meeting the District's funding, liquidity and asset/liability management needs. Access to the unsecured debt capital markets remains the District's primary source of liquidity. The System continues to have reliable access to the debt capital markets to support its mission of providing credit to farmers, ranchers and other eligible borrowers. During the six months ended June 30, 2015, investor demand for System-wide debt securities has remained favorable.

AgriBank also maintains a secondary source of liquidity through a high quality investment portfolio and other short-term liquid assets. AgriBank manages liquidity for operating and debt repayment needs by forecasting, preparing and meeting seasonal demands. AgriBank maintains maturing investments and bank balances of at least $500 million on hand each day to meet cash management and loan disbursements needs in the normal course of business.

The composition of the liquidity investment portfolio is structured to meet both regulatory requirements and operational demands. Specifically it provides at least 15 days of liquidity coverage from cash, overnight investments and U.S. Treasury securities less than three years in maturity. Other short-term money market investments, as well as government and agency mortgage-backed securities, are positioned to cover regulatory requirements for 30- and 90-day intervals. Additionally, a supplemental liquidity buffer provides days coverage in excess of 90 days from certain money market instruments, asset-backed securities and non-agency mortgage-backed securities. At June 30, 2015 AgriBank held qualifying assets in excess of each incremental level to meet the liquidity coverage intervals.

AgriBank's liquidity policy and Farm Credit Administration (FCA) regulations require maintaining a minimum of 90 days of liquidity on a continuous basis. The days of liquidity measurement refers to the number of days that maturing debt is covered by liquid investments. As of June 30, 2015, AgriBank had sufficient liquidity to fund all debt maturing within 173 days.

AgriBank maintains a contingency funding plan that addresses actions AgriBank would consider in the event that there is not ready access to traditional funding sources. These potential actions include borrowing overnight via federal funds, using investment securities as collateral to borrow, using the proceeds from maturing investments and selling AgriBank's liquid investments.

Total shareholders' equity at June 30, 2015 was $18.7 billion, an $837.0 million increase from December 31, 2014. Shareholders' equity increased primarily due to net income for the period, partially offset by earnings reserved for patronage and dividend distributions.

At June 30, 2015, AgriBank and each affiliated Association exceeded the regulatory minimum capital ratios. Refer to Note 4 in the accompanying Combined Financial Statements for further discussion.

Results of Operations

District net income for the six months ended June 30, 2015 was $855.0 million, a 2.2 percent decrease, compared to $873.8 million for the same period in 2014. The return on average assets was 1.6 percent for the six months ended June 30, 2015, compared to 1.8 percent for the same period in 2014.

Changes in Significant Components of Net Income

(in millions) **For the six months ended June 30,**	**2015**	2014	Increase (Decrease) in Net Income
Net interest income (NII)	**$1,323.3**	$1,288.8	$34.5
Provision for credit losses	**27.0**	11.5	(15.5)
Non-interest income	**121.8**	144.4	(22.6)
Non-interest expense	**540.0**	518.7	(21.3)
Provision for income taxes	**23.1**	29.2	6.1
Net income	**$855.0**	$873.8	($18.8)

NII for the six months ended June 30, 2015 increased $34.5 million, or 2.7 percent, compared to the same period in 2014. NII was positively impacted primarily by an increase in loan and investment volume. These positive influences on NII were partially offset by an increase in interest expense, reflecting the impact of changing product mix and increased competitive pressure.

Changes in NII

(in millions) **For the six months ended June 30,**	**2015 vs 2014**		
Increase (decrease) due to:	**Volume**	**Rate**	**Total**
Interest income:			
Loans	**$101.9**	**$(33.4)**	**$68.5**
Investments	**8.4**	**3.1**	**11.5**
Total interest income	**110.3**	**(30.3)**	**80.0**
Interest expense:			
Systemwide debt securities and other	**(30.5)**	**(15.0)**	**(45.5)**
Net change in net interest income	**$79.8**	**$(45.3)**	**$34.5**

Information regarding the year-to-date average daily balances (ADBs) and annualized average rates earned and paid on the portfolio follows:

(in millions) **For the six months ended June 30,**	**2015**			2014		
	ADB	**Rate**	**NII**	ADB	Rate	NII
Interest earning assets:						
Accrual loans	**$86,779.6**	**3.96%**	**$1,716.5**	$81,490.4	4.03%	$1,642.8
Nonaccrual loans	**513.5**	**5.87%**	**15.1**	617.3	6.63%	20.5
Investment securities and federal funds	**17,538.9**	**0.82%**	**72.2**	15,543.7	0.78%	60.3
Other earning assets	**14.8**	**1.91%**	**0.1**	4.9	19.29%	0.5
Total earning assets	**104,846.8**	**3.44%**	**1,803.9**	97,656.3	3.53%	1,724.1
Interest bearing liabilities	**87,342.2**	**1.11%**	**480.6**	81,705.8	1.07%	435.3
Interest rate spread	**$17,504.6**	**2.33%**		$15,950.5	2.46%	
Impact of equity financing		**0.19%**			0.18%	
Net interest margin		**2.52%**			2.64%	
Net interest income			**$1,323.3**			$1,288.8

Net interest margin decreased 12 basis points over the same period last year driven by competitive pressures, changing product mix and an increase in debt costs. In general, operating loans, which are typically variable rate, have the highest spreads. Longer term fixed rate loans generally carry narrower spreads. As the product mix changes between operating and real estate or intermediate term loans and competition increases, the interest rate spreads earned may change accordingly.

The District's provision for credit losses for the six months ended June 30, 2015 was $27.0 million, compared to $11.5 million for the same period in 2014. The amounts reflect the change in the estimated losses in the loan portfolios during these periods. Refer to the Loan portfolio section for further discussion.

The decrease in non-interest income was primarily due to a decline in mineral income for the six months ended June 30, 2015 compared to the same period of 2014, driven by a decline in oil prices and mineral leasing activity in the latter part of 2014 and into the first half of 2015. This trend is expected to continue throughout 2015.

The increase in non-interest expense was primarily related to an increase in benefits expense driven by an increase in pension expense due to a decrease in the discount rate and revised actuarial assumptions used during 2015. In addition, Farm Credit System insurance expense increased reflecting the Farm Credit System Insurance Corporation premium rate of 13 basis points for the six months ended June 30, 2015, compared to 12 basis points for the same period in 2014.

Additional Regulatory Information

On May 8, 2014, the FCA Board approved a proposed rule to modify the regulatory capital requirements for System Banks and 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 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, and

- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

On June 15, 2015, the FCA Board voted to reopen the public comment period from June 26 through July 10, 2015. The initial comment period on the proposed rule, after extension, closed February 16, 2015.

On June 12, 2014, the FCA Board approved a proposed rule to revise the requirements governing the eligibility of investments for System Banks and Associations. 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, and
- To revise the investment regulation for System Associations to improve their investment management practices so they are more resilient to risk.

The public comment period ended on October 23, 2014.

Certification

The undersigned have reviewed the June 30, 2015 Quarterly Report of AgriBank, FCB and affiliated Associations, which has been prepared under the oversight of the AgriBank Audit Committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate and complete to the best of the District's knowledge and belief.

Douglas A. Felton
Chair of the Board
AgriBank, FCB
August 7, 2015

L. William York
Chief Executive Officer
AgriBank, FCB
August 7, 2015

Brian J. O'Keane
Executive Vice President, Banking and Finance and Chief Financial Officer
AgriBank, FCB
August 7, 2015

Combined Statements of Condition

AgriBank, FCB and affiliated Associations

(Dollars in thousands)
(unaudited)

	June 30, 2015	December 31, 2014
Assets		
Loans	**$89,096,627**	$88,498,435
Allowance for loan losses	**256,131**	248,081
Net loans	**88,840,496**	88,250,354
Investment securities - AgriBank, FCB	**14,488,137**	14,294,777
Investment securities - affiliated Associations	**1,638,312**	1,747,957
Cash	**315,717**	831,269
Federal funds	**1,173,789**	1,336,780
Accrued interest receivable	**885,344**	892,214
Premises and equipment, net	**461,061**	451,030
Deferred tax assets, net	**13,189**	14,393
Assets held for lease, net	**529,913**	559,272
Derivative assets	**12,608**	15,400
Other property owned	**12,571**	22,284
Debt issuance costs	**34,329**	31,832
Cash collateral pledged to counterparties	**21,554**	22,018
Other assets	**177,768**	150,938
Total assets	**$108,604,788**	$108,620,518
Liabilities		
Bonds and notes	**$88,042,858**	$88,583,553
Subordinated notes	**600,000**	600,000
Accrued interest payable	**223,025**	205,054
Derivative liabilities	**28,586**	44,562
Deferred tax liabilities, net	**142,976**	153,286
Accounts payable	**124,921**	182,334
Patronage and dividends payable	**55,820**	273,751
Post-employment liability	**472,400**	486,628
Cash collateral pledged by counterparties	**3,660**	7,280
Other liabilities	**224,456**	234,988
Total liabilities	**89,918,702**	90,771,436
Commitments and contingencies	**--**	--
Shareholders' equity		
Perpetual preferred stock	**350,000**	350,000
Capital stock and participation certificates	**267,170**	266,420
Allocated surplus	**399,399**	371,004
Unallocated surplus	**18,129,551**	17,368,747
Accumulated other comprehensive loss	**(506,090)**	(549,705)
Noncontrolling interest	**46,056**	42,616
Total shareholders' equity	**18,686,086**	17,849,082
Total liabilities and shareholders' equity	**$108,604,788**	108,620,518

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

Combined Statements of Comprehensive Income

AgriBank, FCB and affiliated Associations

(Dollars in thousands)
(Unaudited)

	Three months		Six months	
For the periods ended June 30,	**2015**	2014	**2015**	2014
Interest income				
Loans	**$872,381**	$838,023	**$1,731,596**	$1,663,092
Investment securities and other earning assets	**34,829**	30,542	**72,304**	60,761
Total interest income	**907,210**	868,565	**1,803,900**	1,723,853
Interest expense	**243,639**	218,071	**480,579**	435,028
Net interest income	**663,571**	650,494	**1,323,321**	1,288,825
Provision for credit losses	**16,756**	17,500	**26,960**	11,531
Net interest income after provision for credit losses	**646,815**	632,994	**1,296,361**	1,277,294
Non-interest income				
Financially related services	**17,504**	21,775	**38,127**	41,841
Mineral income	**13,680**	26,549	**30,566**	46,917
Loan prepayment and fee income	**14,529**	14,638	**29,087**	29,378
Miscellaneous income and other gains, net	**6,213**	13,119	**24,002**	26,236
Total non-interest income	**51,926**	76,081	**121,782**	144,372
Non-interest expense				
Salaries and employee benefits	**163,958**	160,229	**331,537**	322,713
Other operating expenses	**63,667**	66,909	**135,929**	131,272
Occupancy expense	**10,787**	9,948	**21,575**	20,736
Farm Credit System insurance expense	**25,189**	22,022	**50,890**	43,833
Net impairment losses recognized in earnings	**--**	--	**73**	150
Total non-interest expense	**263,601**	259,108	**540,004**	518,704
Income before income taxes	**435,140**	449,967	**878,139**	902,962
Provision for income taxes	**9,808**	11,983	**23,162**	29,152
Net income	**$425,332**	$437,984	**$854,977**	$873,810
Other comprehensive income				
Investments available-for-sale:				
Not-other-than-temporarily-impaired investments	**$(10,888)**	$4,571	**$4,598**	$16,666
Other-than-temporarily-impaired investments	**(2,861)**	5,673	**(2,989)**	13,242
Derivatives and hedging activity	**43,704**	(16,482)	**20,988**	(38,013)
Employee benefit plans activity	**10,515**	6,778	**21,018**	13,555
Total other comprehensive income	**40,470**	540	**43,615**	5,450
Comprehensive income	**$465,802**	$438,524	**$898,592**	$879,260

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

Combined Statements of Changes in Shareholders' Equity

AgriBank, FCB and affiliated Associations

(Dollars in thousands)
(Unaudited)

	Perpetual Preferred Stock	Capital Stock and Participation Certificates	Allocated Surplus	Unallocated Surplus	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Balance at December 31, 2013	$350,000	$265,473	$339,360	$15,838,875	$(314,550)	$34,864	$16,514,022
Noncontrolling interest equity investment						3,836	$3,836
Net income				873,810			$873,810
Other comprehensive income					5,450		$5,450
Patronage				(48,426)			($48,426)
Surplus allocated under nonqualified patronage program			27,091	(27,091)			--
Redemption of surplus allocated under nonqualified patronage program			(268)				($268)
Perpetual preferred stock issuance costs				(48)			($48)
Perpetual preferred stock dividends				(11,969)			($11,969)
Capital stock/participation certificates issued		9,698					$9,698
Capital stock/participation certificates retired		(11,567)					($11,567)
Balance at June 30, 2014	$350,000	$263,604	$366,183	$16,625,151	$(309,100)	$38,700	$17,334,538
Balance at December 31, 2014	$350,000	$266,420	$371,004	$17,368,747	$(549,705)	$42,616	$17,849,082
Noncontrolling interest equity investment						**3,440**	**3,440**
Net income				**854,977**			**854,977**
Other comprehensive income					**43,615**		**43,615**
Patronage				**(53,490)**			**(53,490)**
Surplus allocated under nonqualified patronage program			**28,714**	**(28,714)**			**--**
Redemption of surplus allocated under nonqualified patronage program			**(319)**				**(319)**
Perpetual preferred stock dividends				**(11,969)**			**(11,969)**
Capital stock/participation certificates issued		**9,813**					**9,813**
Capital stock/participation certificates retired		**(9,063)**					**(9,063)**
Balance at June 30, 2015	**$350,000**	**$267,170**	**$399,399**	**$18,129,551**	**$(506,090)**	**$46,056**	**$18,686,086**

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

Combined Statements of Cash Flows

AgriBank, FCB and affiliated Associations

(Dollars in thousands)
(Unaudited)

For the six months ended June 30,	2015	2014
Cash flows from operating activities		
Net income	**$854,977**	$873,810
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation on premises and equipment	**19,875**	19,385
Gain on sales of premises and equipment	**(1,063)**	(634)
Depreciation on assets held for lease	**52,072**	49,776
Gain on disposal of assets held for lease	**(162)**	(523)
Provision for credit losses	**26,960**	11,531
Loss (gain) on other property owned, net	**1,128**	(6,702)
Gain on derivative activities	**(387)**	(372)
Net impairment losses recognized in earnings	**73**	150
Gain on sale of investment securities, net	**(1,445)**	--
Amortization of premiums and discounts, net on loans and investments	**16,948**	19,507
Changes in operating assets and liabilities:		
Decrease (increase) in accrued interest receivable	**3,617**	(553)
Increase in other assets	**(28,123)**	(21,366)
Increase in accrued interest payable	**17,971**	2,433
Decrease in other liabilities	**(76,552)**	(54,835)
Net cash provided by operating activities	**885,889**	891,607
Cash flows from investing activities		
Increase in loans, net	**(619,089)**	(334,800)
Proceeds from sales of other property owned	**14,376**	21,220
Decrease in other earning assets, net	**--**	74,048
Increase in investment securities, net	**(153,498)**	(1,305,005)
Proceeds from the sale of investment securities	**60,393**	--
Purchases of assets held for lease, net	**(22,551)**	(563)
Purchases of premises and equipment, net	**(28,843)**	(30,275)
Net cash used in investing activities	**(749,212)**	(1,575,375)
Cash flows from financing activities		
Consolidated bonds and notes issued	**93,948,370**	134,161,283
Consolidated bonds and notes retired	**(94,480,915)**	(133,447,024)
Decrease in cash collateral pledged by counterparties	**(3,620)**	(13,360)
Decrease (increase) in cash collateral pledged to counterparties	**464**	(8,731)
Patronage distribution paid	**(271,421)**	(240,973)
Redemption of surplus allocated under nonqualified patronage program	**(319)**	(268)
Capital stock/participation certificates issued (retired), net	**750**	(2,285)
Preferred stock dividends paid	**(11,969)**	(10,346)
Preferred stock issuance costs paid	**--**	(48)
Increase in noncontrolling interest	**3,440**	3,836
Net cash (used in) provided by financing activities	**(815,220)**	442,084
Net decrease in cash and federal funds	**(678,543)**	(241,684)
Cash and federal funds at beginning of period	**2,168,049**	2,074,280
Cash and federal funds at end of period	**$1,489,506**	$1,832,596
Supplemental schedule of non-cash activities		
Decrease in derivative assets	**$2,792**	$42,593
(Decrease) increase in derivative liabilities	**(16,017)**	15,966
Decrease in bonds from derivative activity	**(8,150)**	(20,918)
Increase (decrease) in shareholders' equity from cash flow derivatives	**20,988**	(38,013)
Increase in shareholders' equity from investment securities	**1,609**	29,908
Increase in shareholders' equity from employee benefits	**21,018**	13,555
Loans transferred to other property owned	**7,027**	13,729
Preferred stock dividends accrued but not paid	**4,297**	4,297
Cash distributions payable to members	**51,523**	46,401
Financed sales of other property owned	**(1,236)**	(1,829)
Stock patronage issued	**--**	416
Supplemental Information		
Interest paid	**$462,608**	$432,595
Taxes paid	**23,474**	33,650

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

Notes to Combined Financial Statements

AgriBank, FCB and affiliated Associations

NOTE 1

Organization and Significant Accounting Policies

AgriBank, FCB (AgriBank) and affiliated Associations (the District) comprise one of the four Districts of the Farm Credit System (the System), a nationwide system of cooperatively owned Banks and Associations, established by Congress and subject to the provisions of the Farm Credit Act of 1971, as amended. The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes. AgriBank and its affiliated Associations are collectively referred to as the District. At June 30, 2015, the District had 17 Agricultural Credit Association parent Associations, each of which has wholly owned Federal Land Credit Association and Production Credit Association subsidiaries. AgriBank serves as the intermediary between the financial markets and the retail lending activities of the District Associations.

A description of the organization and operation of the District, significant accounting policies followed, combined financial condition and results of operations as of and for the year ended December 31, 2014 are contained in the 2014 Annual Report. These unaudited second quarter 2015 Combined Financial Statements should be read in conjunction with the Annual Report. The results for the six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ended December 31, 2015.

The accompanying Combined Financial Statements include the accounts of AgriBank combined with its 17 affiliated Associations and certain related entities. All significant transactions and balances between AgriBank and affiliated Associations have been eliminated in combination. The accompanying Combined Financial Statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform to accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry.

Recently Issued or Adopted Accounting Pronouncements

In April 2015, the FASB issued, “Interest–Imputation of Interest.” The guidance requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying value of the debt liability. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as a deferred charge (asset). The guidance is effective for public entities for annual and interim periods beginning after December 15, 2015. Early adoption is allowed, including in any interim period. The adoption of this guidance will not have a material impact on the Combined Statements of Condition.

In February 2015, the FASB issued, “Consolidation-Amendments to the Consolidation Analysis.” The guidance modifies the assessment of Variable Interest Entity (VIE) characteristics as well as the assessment of related parties. The guidance is effective for public entities for annual periods beginning after December 15, 2015. The guidance is effective for nonpublic entities for annual reporting after December 15, 2016 and interim periods within annual periods beginning after December 15, 2017. Early adoption is allowed, including in any interim period. AgriBank and affiliated Associations are currently evaluating the impact on the Combined Statements of Condition, Comprehensive Income and Notes to Combined Financial Statements for this recent accounting pronouncement.

In August 2014, the FASB issued guidance, "Presentation of Financial Statements-Going Concern." The guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the Financial Statements are issued or within one year after the Financial Statements are available to be issued, when applicable. Substantial doubt to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for all entities for interim and annual periods ending after December 15, 2016, and early application is permitted. The adoption of this guidance will not have a material impact on the Notes to Combined Financial Statements.

In May 2014, the 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 contracts within the District would be excluded from the scope of this new guidance. The guidance is effective for public entities for the first interim reporting period within the annual reporting periods after December 15, 2016. In July 2015 the FASB approved a one year deferral of the effective date. AgriBank and affiliated Associations are in the process of reviewing contracts to determine the effect, if any, on the Combined Statements of Condition or Comprehensive Income.

NOTE 2

Loans and Allowance for Loan Losses

Loans by Type

(in thousands)	**June 30, 2015**		December 31, 2014	
	Amount	**%**	Amount	%
Real estate mortgage	**$51,406,307**	**57.7%**	$50,054,095	56.5%
Production and intermediate term	**22,937,432**	**25.7%**	24,216,975	27.4%
Agribusiness	**8,120,486**	**9.1%**	7,690,099	8.7%
Rural residential real estate	**2,767,950**	**3.1%**	2,736,614	3.1%
Other	**3,864,452**	**4.4%**	3,800,652	4.3%
Total loans	**$89,096,627**	**100.0%**	$88,498,435	100.0%

The Other category is primarily comprised of communication and energy related loans, certain assets originated under the Mission Related Investment authority and loans to AgriBank's other financing institutions, as well as finance leases.

Participations

AgriBank and affiliated Associations 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 or General Financing Agreement limitations.

Participations Purchased and Sold

(in thousands)	**Other Farm Credit Institutions**		**Non-Farm Credit Institutions**		**Total**	
As of June 30, 2015	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**	**Participations Purchased**	**Participations Sold**
Real estate mortgage	**$1,100,234**	**$237,825**	**$2,472,099**	**$47,089**	**$3,572,333**	**$284,914**
Production and intermediate term	**994,120**	**620,481**	**3,795,229**	**85,308**	**4,789,349**	**705,789**
Agribusiness	**4,028,791**	**799,721**	**529,737**	**136,796**	**4,558,528**	**936,517**
Rural residential real estate	**90**	**--**	**15,439**	**388**	**15,529**	**388**
Other	**2,034,080**	**113,464**	**12,752**	**--**	**2,046,832**	**113,464**
Total loans	**$8,157,315**	**$1,771,491**	**$6,825,256**	**$269,581**	**$14,982,571**	**$2,041,072**

(in thousands)	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
As of December 31, 2014	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$1,034,180	$222,036	$2,437,723	$45,764	$3,471,903	$267,800
Production and intermediate term	1,043,975	640,299	3,956,102	58,637	5,000,077	698,936
Agribusiness	3,834,567	791,740	557,687	110,601	4,392,254	902,341
Rural residential real estate	98	--	17,549	401	17,647	401
Other	2,027,528	110,502	12,624	--	2,040,152	110,502
Total loans	$7,940,348	$1,764,577	$6,981,685	$215,403	$14,922,033	$1,979,980

Information in the preceding chart excludes certain assets entered into under the Mission Related Investment and leasing authorities.

Portfolio Performance

One credit quality indicator utilized in the District is the FCA Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are non-criticized assets representing the highest quality. They are expected to be fully collectible. This category is further differentiated into various probabilities of default,
- Other Assets Especially Mentioned (Special Mention) – are currently collectible, but exhibit some potential weakness. These assets involve increased credit risk, but not to the point of justifying a substandard classification,
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan,
- Doubtful – assets exhibit similar weaknesses as 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.

Credit Quality of Loans

(in thousands) **As of June 30, 2015**	**Acceptable**		**Special mention**		**Substandard/Doubtful**		**Total**	
Real estate mortgage	**$50,172,497**	**96.6%**	**$921,178**	**1.8%**	**$855,248**	**1.6%**	**$51,948,923**	**100.0%**
Production and intermediate term	**21,964,494**	**94.7%**	**594,240**	**2.6%**	**634,423**	**2.7%**	**23,193,157**	**100.0%**
Agribusiness	**7,949,160**	**97.6%**	**58,738**	**0.7%**	**141,842**	**1.7%**	**8,149,740**	**100.0%**
Rural residential real estate	**2,664,325**	**95.7%**	**31,458**	**1.1%**	**88,603**	**3.2%**	**2,784,386**	**100.0%**
Other	**3,782,492**	**97.7%**	**63,147**	**1.6%**	**26,083**	**0.7%**	**3,871,722**	**100.0%**
Total loans	**$86,532,968**	**96.2%**	**$1,668,761**	**1.9%**	**$1,746,199**	**1.9%**	**$89,947,928**	**100.0%**

(in thousands) As of December 31, 2014	Acceptable		Special mention		Substandard/Doubtful		Total	
Real estate mortgage	$49,155,626	97.2%	$674,065	1.3%	$750,424	1.5%	$50,580,115	100.0%
Production and intermediate term	23,649,740	96.5%	394,643	1.6%	457,835	1.9%	24,502,218	100.0%
Agribusiness	7,508,437	97.2%	53,364	0.7%	158,406	2.1%	7,720,207	100.0%
Rural residential real estate	2,640,688	96.0%	28,249	1.0%	83,113	3.0%	2,752,050	100.0%
Other	3,733,780	98.1%	47,046	1.2%	26,531	0.7%	3,807,357	100.0%
Total loans	$86,688,271	97.0%	$1,197,367	1.3%	$1,476,309	1.7%	$89,361,947	100.0%

Note: Accruing loans include accrued interest receivable.

AgriBank and affiliated Associations had no loans categorized as loss at June 30, 2015 or December 31, 2014.

Aging Analysis of Loans

(in thousands) **As of June 30, 2015**	**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**	**Accruing loans 90 days or more past due**
Real estate mortgage	**$146,909**	**$66,425**	**$213,334**	**$51,735,589**	**$51,948,923**	**$1,945**
Production and intermediate term	**104,629**	**80,811**	**185,440**	**23,007,717**	**23,193,157**	**13,535**
Agribusiness	**1,345**	**5,215**	**6,560**	**8,143,180**	**8,149,740**	**149**
Rural residential real estate	**19,732**	**9,696**	**29,428**	**2,754,958**	**2,784,386**	**--**
Other	**3,808**	**8,941**	**12,749**	**3,858,973**	**3,871,722**	**8,359**
Total loans	**$276,423**	**$171,088**	**$447,511**	**$89,500,417**	**$89,947,928**	**$23,988**

(in thousands) As of 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	Accruing loans 90 days or more past due
Real estate mortgage	$161,438	$59,718	$221,156	$50,358,959	$50,580,115	$873
Production and intermediate term	63,570	28,413	91,983	24,410,235	24,502,218	697
Agribusiness	8,587	3,413	12,000	7,708,207	7,720,207	--
Rural residential real estate	21,901	8,769	30,670	2,721,380	2,752,050	--
Other	9,527	7,235	16,762	3,790,595	3,807,357	6,512
Total loans	$265,023	$107,548	$372,571	$88,989,376	$89,361,947	$8,082

Note: Accruing loans include accrued interest receivable.

The increase in delinquencies, primarily in the production and intermediate term sector, is due to continued low commodity prices and the current economic outlook compared to historically high performance observed as of December 31, 2014.

Based on management's analysis, all loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

Risk Assets

Risk loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms.

Risk Loan Information

(in thousands)	**June 30, 2015**	December 31, 2014
Nonaccrual loans:		
Current as to principal and interest	**$346,746**	$325,218
Past due	**213,461**	156,191
Total nonaccrual loans	**560,207**	481,409
Accruing restructured loans	**67,585**	75,398
Accruing loans 90 days or more past due	**23,988**	8,082
Total risk loans	**$651,780**	$564,889
Volume with specific reserves	**$127,526**	$125,181
Volume without specific reserves	**524,254**	439,708
Total risk loans	**$651,780**	$564,889
Specific reserves	**$48,570**	$49,506

For the six months ended June 30,	**2015**	2014
Income on accrual risk loans	**$2,150**	$1,607
Income on nonaccrual loans	**15,066**	20,462
Total income on risk loans	**$17,216**	$22,069
Average risk loans	**$599,771**	$685,291

Note: Accruing loans include accrued interest receivable.

Risk Assets by Loan Type

(in thousands)	June 30, 2015	December 31, 2014
Nonaccrual loans:		
Real estate mortgage	**$289,427**	$270,884
Production and intermediate term	**175,788**	135,364
Agribusiness	**38,545**	10,278
Rural residential real estate	**40,596**	39,915
Other	**15,851**	24,968
Total nonaccrual loans	**$560,207**	$481,409
Accruing restructured loans:		
Real estate mortgage	**$50,370**	$62,281
Production and intermediate term	**16,039**	11,697
Agribusiness	**359**	477
Rural residential real estate	**817**	943
Total accruing restructured loans	**$67,585**	$75,398
Accruing loans 90 days or more past due:		
Real estate mortgage	**$1,945**	$873
Production and intermediate term	**13,535**	697
Agribusiness	**149**	--
Other	**8,359**	6,512
Total accruing loans 90 days or more past due	**$23,988**	$8,082
Total risk loans	**$651,780**	$564,889
Other property owned	**$12,571**	$22,284
Total risk assets	**$664,351**	$587,173

Note: Accruing loans include accrued interest receivable.

All risk loans are considered to be impaired loans.

Additional Impaired Loan Information by Loan Type

(in thousands)	As of June 30, 2015			For the six months ended June 30, 2015	
	Recorded Investment*	Unpaid Principal Balance**	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$45,709	$55,049	$9,785	$46,170	$ --
Production and intermediate term	75,316	80,917	36,605	67,035	--
Agribusiness	--	--	--	866	--
Rural residential real estate	5,309	6,806	1,562	5,586	--
Other	1,192	1,192	618	4,561	--
Total	$127,526	$143,964	$48,570	$124,218	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$296,033	$394,022	$ --	$288,490	$9,312
Production and intermediate term	130,045	189,860	--	114,682	5,870
Agribusiness	39,054	45,560	--	10,693	827
Rural residential real estate	36,103	47,444	--	36,344	959
Other	23,019	26,408	--	25,344	248
Total	$524,254	$703,294	$ --	$475,553	$17,216
Total impaired loans:					
Real estate mortgage	$341,742	$449,071	$9,785	$334,660	$9,312
Production and intermediate term	205,361	270,777	36,605	181,717	5,870
Agribusiness	39,054	45,560	--	11,559	827
Rural residential real estate	41,412	54,250	1,562	41,930	959
Other	24,211	27,600	618	29,905	248
Total	$651,780	$847,258	$48,570	$599,771	$17,216

(in thousands)	As of December 31, 2014			For the six months ended June 30, 2014	
	Recorded Investment*	Unpaid Principal Balance**	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$50,695	$57,607	$15,975	$54,290	$ --
Production and intermediate term	56,979	62,698	25,919	68,209	--
Agribusiness	912	985	163	12,963	--
Rural residential real estate	6,547	8,026	1,924	6,706	--
Other	10,048	10,693	5,525	20,412	--
Total	$125,181	$140,009	$49,506	$162,580	$ --
Impaired loans with no related allowance for loan losses:					
Real estate mortgage	$283,343	$383,077	$ --	$359,089	$11,884
Production and intermediate term	90,779	150,002	--	110,630	7,814
Agribusiness	9,843	17,192	--	12,517	1,272
Rural residential real estate	34,311	45,753	--	35,845	1,028
Other	21,432	23,336	--	4,630	71
Total	$439,708	$619,360	$ --	$522,711	$22,069
Total impaired loans:					
Real estate mortgage	$334,038	$440,684	$15,975	$413,379	$11,884
Production and intermediate term	147,758	212,700	25,919	178,839	$7,814
Agribusiness	10,755	18,177	163	25,480	$1,272
Rural residential real estate	40,858	53,779	1,924	42,551	$1,028
Other	31,480	34,029	5,525	25,042	$71
Total	$564,889	$759,369	$49,506	$685,291	$22,069

*The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges and acquisition costs and may also reflect a previous direct write-down of the investment. The recorded investment may be less than the unpaid principal balance as payments on non-cash basis nonaccrual loans reduce the recorded investment.

**Unpaid principal balance represents the contractual principal balance of the loan.

AgriBank and affiliated Associations did not have any material commitments to lend additional money to borrowers whose loans were at risk as of June 30, 2015.

Troubled Debt Restructurings

Included within loans are troubled debt restructurings (TDRs). These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. All risk loans, including TDRs, are analyzed within District allowance for loan losses.

Troubled Debt Restructuring Activity

(in thousands) **For the six months ended June 30, 2015**	**Pre-modification Outstanding Recorded Investment***	**Post-modification Outstanding Recorded Investment***
Troubled debt restructurings:		
Real estate mortgage	**$6,443**	**$6,513**
Production and intermediate term	**8,057**	**7,633**
Agribusiness	**26,888**	**26,888**
Rural residential real estate	**687**	**578**
Total loans	**$42,075**	**$41,612**

(in thousands) For the six months ended June 30, 2014	Pre-modification Outstanding Recorded Investment*	Post-modification Outstanding Recorded Investment*
Troubled debt restructurings:		
Real estate mortgage	$7,745	$7,637
Production and intermediate term	2,867	2,662
Rural residential real estate	658	622
Total loans	$11,270	$10,921

*Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment of the loan is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

The increase in TDRs from December 31, 2014 was primarily due to one Agribusiness credit that has encountered challenges related to current economic conditions.

The primary types of modification typically include extension of maturity, deferral of principal, forgiveness of interest or interest rate reduction below market.

Troubled Debt Restructurings that Subsequently Defaulted within the Previous 12 Months

(in thousands)	Recorded Investment	
For the six months ended June 30,	**2015**	2014
Troubled debt restructurings that subsequently defaulted:		
Real estate mortgage	**$179**	$1,204
Production and intermediate term	**339**	194
Rural residential real estate	**303**	131
Total	**$821**	$1,529

TDRs Outstanding

(in thousands)	**June 30, 2015**	December 31, 2014
Accrual Status		
Real estate mortgage	**$50,370**	$62,281
Production and intermediate term	**16,039**	11,697
Agribusiness	**359**	477
Rural residential real estate	**817**	943
Total TDRs in accrual status	**$67,585**	$75,398
Nonaccrual Status		
Real estate mortgage	**$43,589**	$42,961
Production and intermediate term	**20,843**	20,726
Agribusiness	**35,871**	9,776
Rural residential real estate	**2,632**	2,562
Other	**14,184**	14,623
Total TDRs in nonaccrual status	**$117,119**	$90,648
Total TDRs	**$184,704**	$166,046

Additional commitments to lend to borrowers whose loans have been modified in a TDR totaled $6.8 million at June 30, 2015.

Allowance for Loan Losses

Changes in Allowance for Loan Losses

(in thousands) **For the six months ended June 30,**	**2015**	2014
Balance at beginning of year	**$248,081**	$236,312
Provision for loan losses	**21,832**	10,921
Charge-offs	**(19,756)**	(18,051)
Recoveries	**5,974**	5,643
Balance at end of period	**$256,131**	$234,825

During the six months ended June 30, 2015, the allowance for loan losses increased to $256.1 million, reflecting $21.8 million of provision for loan losses (not including provision for credit losses of $5.2 million for unfunded commitments), substantially offset by net charge-offs of $13.8 million. Increased adverse credit quality, continued low commodity prices and the current economic outlook observed resulted in additional provisions compared to the historical lows as of December 31, 2014.

Changes in Allowance for Loan Losses and Year End Recorded Investments by Loan Type

(in thousands)	Real estate mortgage	Production and intermediate term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance at December 31, 2014	**$89,637**	**$101,742**	**$30,455**	**$9,674**	**$16,573**	**$248,081**
Provision for (reversal of) loan losses	**10,701**	**16,945**	**(4,666)**	**923**	**(2,071)**	**21,832**
Charge-offs	**(6,234)**	**(9,454)**	**(160)**	**(1,531)**	**(2,377)**	**(19,756)**
Recoveries	**1,471**	**2,585**	**1,111**	**307**	**500**	**5,974**
Balance at June 30, 2015	**$95,575**	**$111,818**	**$26,740**	**$9,373**	**$12,625**	**$256,131**
At June 30, 2015:						
Ending balance: individually evaluated for impairment	**$9,785**	**$36,605**	**$ --**	**$1,562**	**$618**	**$48,570**
Ending balance: collectively evaluated for impairment	**$85,790**	**$75,213**	**$26,740**	**$7,811**	**$12,007**	**$207,561**
Recorded investments in loans outstanding:						
Ending balance at June 30, 2015	**$51,948,923**	**$23,193,157**	**$8,149,740**	**$2,784,386**	**$3,871,722**	**$89,947,928**
Ending balance for loans individually evaluated for impairment	**$341,742**	**$205,361**	**$39,054**	**$41,412**	**$24,211**	**$651,780**
Ending balance for loans collectively evaluated for impairment	**$51,607,181**	**$22,987,796**	**$8,110,686**	**$2,742,974**	**$3,847,511**	**$89,296,148**

(in thousands)	Real estate mortgage	Production and intermediate term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance at December 31, 2013	$86,313	$87,153	$37,250	$8,864	$16,732	$236,312
Provision for (reversal of) loan losses	2,625	17,278	(7,039)	1,902	(3,845)	10,921
Charge-offs	(11,170)	(5,141)	(30)	(1,444)	(266)	(18,051)
Recoveries	1,856	2,905	512	390	(20)	5,643
Balance at June 30, 2014	$79,624	$102,195	$30,693	$9,712	$12,601	$234,825
At December 31, 2014:						
Ending balance: individually evaluated for impairment	$14,073	$32,872	$100	$1,620	$2,513	$51,178
Ending balance: collectively evaluated for impairment	$65,551	$69,323	$30,593	$8,092	$10,088	$183,647
Recorded investments in loans outstanding:						
Ending balance at December 31, 2014	$50,580,115	$24,502,218	$7,720,207	$2,752,050	$3,807,357	$89,361,947
Ending balance for loans individually evaluated for impairment	$334,038	$147,758	$10,755	$40,858	$31,480	$564,889
Ending balance for loans collectively evaluated for impairment	$50,246,077	$24,354,460	$7,709,452	$2,711,192	$3,775,877	$88,797,058

NOTE 3

Investment Securities

AgriBank Investment Securities

All AgriBank investment securities are classified as available-for-sale (AFS).

AgriBank AFS Investment Securities

(in thousands) As of June 30, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	**$5,681,576**	**$29,732**	**$18,328**	**$5,692,980**	**1.0%**
Commercial paper and other	**4,961,312**	**546**	**40**	**4,961,818**	**0.3%**
U.S. Treasury securities	**2,839,603**	**3,806**	**571**	**2,842,838**	**1.1%**
Asset-backed securities	**884,157**	**6,651**	**520**	**890,288**	**0.6%**
U.S. Agencies	**100,001**	**212**	**--**	**100,213**	**4.4%**
Total	**$14,466,649**	**$40,947**	**$19,459**	**$14,488,137**	**0.8%**

(in thousands) As of December 31, 2014	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Mortgage-backed securities	$5,403,078	$30,632	$19,173	$5,414,537	1.0%
Commercial paper and other	5,345,722	326	228	5,345,820	0.3%
U.S. Treasury securities	2,564,962	1,054	1,139	2,564,877	1.2%
Asset-backed securities	861,166	7,763	1,640	867,289	0.5%
U.S. Agencies	100,053	2,201	--	102,254	4.4%
Total	$14,274,981	$41,976	$22,180	$14,294,777	0.8%

Commercial paper and other is primarily corporate commercial paper, certificates of deposit and term federal funds.

Contractual Maturities of AgriBank AFS Investment Securities

(in thousands)	Year of Maturity				
As of June 30, 2015	One Year or Less	One to Five Years	Five to Ten Years	More Than Ten Years	Total
Mortgage-backed securities	**$ --**	**$26,791**	**$35,033**	**$5,631,156**	**$5,692,980**
Commercial paper and other	**4,961,818**	**--**	**--**	**--**	**4,961,818**
U.S. Treasury securities	**1,428,067**	**1,414,771**	**--**	**--**	**2,842,838**
Asset-backed securities	**--**	**874,076**	**--**	**16,212**	**890,288**
U.S. Agencies	**100,213**	**--**	**--**	**--**	**100,213**
Total	**$6,490,098**	**$2,315,638**	**$35,033**	**$5,647,368**	**$14,488,137**
Weighted average yield	**0.6%**	**0.8%**	**0.8%**	**1.0%**	**0.8%**

The expected average life is 0.6 years for asset-backed securities (ABS) and 3.5 years for mortgage-backed securities (MBS) at June 30, 2015. Expected maturities differ from contractual maturities because borrowers may have the right to prepay obligations.

Additional AgriBank AFS Investment Security Information

(in thousands) **For the six months ended June 30,**	**2015**	2014
Proceeds from sales	**$29,669**	$ --
Realized gross gains on sales	**2,560**	--
Realized gross losses on sales	**1,236**	--
Impairment losses	**73**	150

The proceeds from sales in 2015 were related to the sale of home-equity ABS and non-agency MBS investments.

A summary of the AgriBank investment securities in an unrealized loss position presented by the length of time that the securities have been in a continuous unrealized loss position follows:

(in thousands)	**Less than 12 months**		**More than 12 months**	
As of June 30, 2015	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Mortgage-backed securities	**$1,675,141**	**$7,411**	**$583,621**	**$10,917**
Commercial paper and other	**685,439**	**40**	**--**	**--**
U.S. Treasury securities	**223,892**	**571**	**--**	**--**
Asset-backed securities	**597,857**	**212**	**105,257**	**308**
Total	**$3,182,329**	**$8,234**	**$688,878**	**$11,225**

(in thousands)	Less than 12 months		More than 12 months	
As of December 31, 2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$1,667,257	$7,405	$711,946	$11,768
Commercial paper and other	1,240,551	228	--	--
U.S. Treasury securities	1,062,841	1,139	--	--
Asset-backed securities	805,207	618	24,114	1,022
Total	$4,775,856	$9,390	$736,060	$12,790

AgriBank evaluates its investment securities for other-than-temporary impairment (OTTI) on a quarterly basis. AgriBank determined that securities with a fair value of $56.9 million at June 30, 2015 were in an other-than-temporary loss position compared to securities with a fair value of $68.2 million at December 31, 2014. As a result of the evaluations, AgriBank has recognized $73 thousand in net impairment losses during the six months ended June 30, 2015, reflecting a gross impairment charge of $128 thousand, net of $55 thousand related to the non-credit component which was recognized in other comprehensive income. AgriBank has determined no other securities were in an OTTI loss position at June 30, 2015.

Of the securities sold during the six months ended June 30, 2015, $9.7 million were OTTI AFS securities, which resulted in gains of $2.6 million.

The following represents the activity related to the credit-loss component for AgriBank AFS investment securities that have been written down for OTTI that has been recognized in earnings:

(in thousands) **For the six months ended June 30,**	**2015**	2014
Credit-loss component, beginning of period	**$42,062**	$127,947
Additions:		
Initial credit impairment	**73**	--
Subsequent credit impairments	**--**	150
Reductions:		
For gain on securities sold	**(2,560)**	--
For impairment previously recognized on securities sold	**(2,968)**	--
For increases in expected cash flows	**(4,104)**	(852)
Credit-loss component, end of period	**$32,503**	$127,245

Affiliated Associations Investment Securities

During the six months ended June 30, 2015, an affiliated Association sold all AFS securities with a total fair value of $30.7 million, resulting in a net gain of $121 thousand. No securities sold were in an other-than-temporary impaired position. As of June 30, 2015 no affiliated Associations held any AFS securities. As of December 31, 2014 the affiliated Association held AFS securities with a fair value of $21.0 million. No securities were sold during the six months ended June, 30 2014.

All other investments held by affiliated Associations are classified as held-to-maturity (HTM).

HTM Investment Securities

(in thousands) **As of June 30, 2015**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**	**Weighted Average Yield**
Government guaranteed instruments	**$1,357,609**	**$14,637**	**$27,812**	**$1,344,434**	**2.4%**
Farmer Mac mortgage-backed securities	**266,198**	**2,250**	**1,606**	**266,842**	**4.3%**
ARC bonds	**7,232**	**--**	**4**	**7,228**	**1.7%**
Total	**$1,631,039**	**$16,887**	**$29,422**	**$1,618,504**	**2.7%**

(in thousands) **As of December 31, 2014**	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Weighted Average Yield
Government guaranteed instruments	$1,425,175	$15,407	$25,255	$1,415,327	2.3%
Farmer Mac mortgage-backed securities	287,842	2,400	1,186	289,056	4.4%
ARC bonds	7,219	--	--	7,219	1.7%
Total	$1,720,236	$17,807	$26,441	$1,711,602	2.6%

The investments were evaluated for OTTI. No securities were other-than-temporarily impaired as of June 30, 2015 or December 31, 2014.

Other Investments

One affiliated Association holds non-controlling investments in venture capital equity funds of $7.3 million and $6.7 million at June 30, 2015 and December 31, 2014, respectively. These investments represent the stake in

venture capital equity funds focused on the needs of rural start-up companies. The remaining commitment to the funds at June 30, 2015 was $2.5 million over the next nine years.

AgriBank and certain affiliated Associations are among the forming limited partners for a $154.5 million Rural Business Investment Company (RBIC) established on October 3, 2014. The RBIC increased due to a capital call to fund new investments during the second quarter of 2015. As of June 30, 2015 and December 31, 2014, $5.5 million and $3.4 million, respectively, was invested by the entities in the District and is included in "Other Assets" on the Combined Statements of Condition.

These other investments were evaluated for impairment. No impairments were recognized on these investments during the six months ended June 30, 2015 or 2014.

NOTE 4

Capital

FCA's capital adequacy regulations require AgriBank and each affiliated Association to maintain permanent capital of at least 7.0 percent of risk-adjusted assets, a total surplus to risk-adjusted assets ratio of at least 7.0 percent and a core surplus to risk-adjusted assets ratio of at least 3.5 percent. At June 30, 2015, AgriBank exceeded these requirements with a 21.3 percent permanent capital ratio, 18.5 percent total surplus ratio and 12.2 percent core surplus ratio. All affiliated Associations exceeded the regulatory minimums at June 30, 2015.

Typically FCA regulations require AgriBank to maintain a net collateral ratio of at least 103.0 percent. However, AgriBank is required to maintain a higher minimum of 104.0 percent during the period in which it has subordinated notes outstanding. At June 30, 2015, AgriBank's net collateral ratio was 106.0 percent.

Protected participation certificates of $285 thousand and $292 thousand are included in Capital Stock and Participation Certificates on the Statements of Changes in Shareholders' Equity as of June 30, 2015 and December 31, 2014, respectively.

NOTE 5

Employee Benefit Plans

AgriBank and affiliated Associations participate in District-wide employee benefit plans.

Components of Net Periodic Benefit Cost

(in thousands)	2015		2014	
For the six months ended June 30,	**Pension Benefits**	**Other Benefits**	Pension Benefits	Other Benefits
Net periodic benefit cost				
Service cost	**$15,043**	**$279**	$13,226	$245
Interest cost	**25,297**	**696**	25,113	717
Expected return on plan assets	**(27,810)**	**--**	(27,691)	--
Amortization of prior service cost	**(632)**	**(230)**	(634)	(360)
Actuarial loss (gain)	**21,890**	**(10)**	14,725	(176)
Net periodic benefit cost	**$33,788**	**$735**	$24,739	$426

Certain employees in the AgriBank District participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. Due to a change in actuarial assumptions approved by the AgriBank District Coordinating Committee in May 2015, the amount of the total District employer contributions expected to be paid into the pension plan during 2015 increased from $57.9 million to $62.7 million. The assumption changes were updated to more closely align with recent historical actuals and included modifying the annual salary rate increases, retirement rates, unused sick leave and optional forms of benefit payments elected. Certain employees also participate in the Pension Restoration Plan, which is unfunded and the contributions are equal to the benefits paid to retirees covered by the plan. The expected contributions during 2015 to the Pension Restoration Plan have not changed from $2.0 million. Refer to Note 10 in the 2014 Annual Report for a more complete description of the Employee Benefit Plans.

For the six months ended June 30, 2015, District employers have contributed $25.2 million to fund Pension Benefits. District employers anticipate contributing an additional $39.5 million to fund Pension Benefits in 2015. District employers typically fund 40 percent of their annual contributions to the pension plan in June and the remaining 60 percent in December.

For the six months ended June 30, 2015, District employers have contributed $711 thousand for Other Benefits. District employers anticipate contributing an additional $1.0 million for Other Benefits in 2015.

NOTE 6

Commitments and Contingencies

In the normal course of business, AgriBank and affiliated Associations have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the Combined Financial Statements. AgriBank and affiliated Associations do not anticipate any material losses because of the contingencies or commitments. AgriBank and affiliated Associations may, from time to time, be named as defendants in certain lawsuits or legal actions in the normal course of business. At the date of these

Combined Financial Statements, management teams were not aware of any material actions. However, AgriBank and affiliated Association management cannot ensure that such actions or other contingencies will not arise in the future.

While primarily liable for its portion of System-wide bonds and notes, AgriBank is jointly and severally liable for the System-wide bonds and notes of the other System Banks. The total bonds and notes of the System at June 30, 2015 was $225.3 billion.

NOTE 7

Fair Value Measurements

AgriBank and affiliated Associations use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Assets and liabilities measured at fair value on a recurring and non-recurring basis consist of federal funds, investments available-for-sale, derivative assets and liabilities, impaired loans, collateral assets and liabilities, unfunded loan commitments, standby letters of credit and other property owned. The fair value is also calculated and disclosed for other financial instruments that are not measured at fair value on the Combined Statements of Condition. These assets and liabilities consist of cash, investments held-to-maturity, non-impaired loans, other earning assets, bonds and notes, subordinated notes and commitments to extend credit and letters of credit. Refer to Note 14 in the District's 2014 Annual Report for descriptions of the valuation methodologies used for asset and liabilities recorded at fair value on a recurring or nonrecurring basis and for estimating fair value for financial instruments not recorded at fair value.

A fair value hierarchy is used for disclosure of fair value measurements to maximize the use of observable inputs. The valuation 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 valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Refer to Note 2 within the District's 2014 Annual Report for a more complete description of these input levels.

Recurring Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(in thousands)	Fair Value Measurement Using			Total Fair
As of June 30, 2015	**Level 1**	**Level 2**	**Level 3**	**Value**
Assets:				
Federal funds	**$ --**	**$1,173,789**	**$ --**	**$1,173,789**
AgriBank investments available-for-sale:				
Mortgage-backed securities	**--**	**5,595,038**	**97,942**	**5,692,980**
Commercial paper and other	**--**	**4,961,818**	**--**	**4,961,818**
U.S. Treasury securities	**--**	**2,842,838**	**--**	**2,842,838**
Asset-backed securities	**--**	**874,076**	**16,212**	**890,288**
U.S. Agency securities	**--**	**100,213**	**--**	**100,213**
Total investments available-for-sale	**--**	**14,373,983**	**114,154**	**14,488,137**
Cash collateral pledged to counterparties	**21,554**	**--**	**--**	**21,554**
Derivative assets	**18**	**12,590**	**--**	**12,608**
Total assets	**$21,572**	**$15,560,362**	**$114,154**	**$15,696,088**
Liabilities:				
Cash collateral pledged by counterparties	**$3,660**	**$ --**	**$ --**	**$3,660**
Derivative liabilities	**19**	**28,567**	**--**	**28,586**
Total liabilities	**$3,679**	**$28,567**	**$ --**	**$32,246**

(in thousands)	Fair Value Measurement Using			Total Fair
As of December 31, 2014	Level 1	Level 2	Level 3	Value
Assets:				
Federal funds	$ --	$1,336,780	$ --	$1,336,780
AgriBank investments available-for-sale:				
Mortgage-backed securities	--	5,289,647	124,890	5,414,537
Commercial paper and other	--	5,345,820	--	5,345,820
U.S. Treasury securities	--	2,564,877	--	2,564,877
Asset-backed securities	--	833,573	33,716	867,289
U.S. Agency securities	--	102,254	--	102,254
Affiliated Association investments available-for-sale:				
Mortgage-backed securities	--	20,997	--	20,997
Total investments available-for-sale	--	14,157,168	158,606	14,315,774
Cash collateral pledged to counterparties	22,018	--	--	22,018
Derivative assets	--	15,400	--	15,400
Total assets	$22,018	$15,509,348	$158,606	$15,689,972
Liabilities:				
Cash collateral pledged by counterparties	$7,280	$ --	$ --	$7,280
Derivative liabilities	--	44,562	--	44,562
Total liabilities	$7,280	$44,562	$ --	$51,842

Fair Value Measurement Activity of Level 3 Instruments

(in thousands)	Investments Available-for-Sale			
	Mortgage-backed Securities	Asset-backed Securities	Total	Standby Letters of Credit
Balance at December 31, 2014	**$124,890**	**$33,716**	**$158,606**	**$ --**
Total gains (losses) realized/unrealized:				
Included in earnings	**1,146**	**105**	**1,251**	**--**
Included in other comprehensive income	**(1,384)**	**(402)**	**(1,786)**	**--**
Sales	**(16,729)**	**(12,940)**	**(29,669)**	**--**
Settlements	**(9,981)**	**(4,267)**	**(14,248)**	**--**
Balance at June 30, 2015	**$97,942**	**$16,212**	**$114,154**	**$ --**
Balance at December 31, 2013	$208,801	$107,954	$316,755	$(2,951)
Total gains (losses) realized/unrealized:				
Included in earnings	18	(168)	(150)	530
Included in other comprehensive income	7,222	7,898	15,120	--
Settlements	(15,192)	(14,942)	(30,134)	--
Balance at June 30, 2014	$200,849	$100,742	$301,591	$(2,421)

There were no assets or liabilities transferred between levels during the six months ended June 30, 2015 or 2014.

Non-Recurring Measurements

Assets Measured at Fair Value on a Non-recurring Basis

(in thousands)	As of June 30, 2015				For the six months ended June 30, 2015
	Fair Value Measurement Using			Total Fair Value	Total Losses
	Level 1	Level 2	Level 3		
Impaired Loans	**$ --**	**$39,302**	**$52,806**	**$92,108**	**$(18,820)**
Other property owned	**--**	**--**	**13,074**	**13,074**	**(1,128)**

(in thousands)	As of December 31, 2014				For the six months ended June 30, 2014
	Fair Value Measurement Using			Total Fair Value	Total (Losses) Gains
	Level 1	Level 2	Level 3		
Impaired Loans	$ --	$33,501	$52,925	$86,426	$(20,568)
Other property owned	--	--	23,175	23,175	6,702

Other Financial Instrument Measurements

Financial Instruments Not Measured at Fair Value on the Combined Statements of Condition

(in thousands) As of June 30, 2015	Total Carrying Amount	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	**$315,717**	**$315,717**	**$ --**	**$ --**	**$315,717**
Investments held-to-maturity	**1,638,312**	**--**	**475,393**	**1,150,385**	**1,625,778**
Net non-impaired loans	**88,761,540**	**--**	**--**	**89,141,983**	**89,141,983**
Total assets	**$90,715,569**	**$315,717**	**$475,393**	**$90,292,368**	**$91,083,478**
Liabilities:					
Bonds and notes	**$88,042,858**	**$ --**	**$ --**	**$87,985,863**	**$87,985,863**
Subordinated notes	**600,000**	**--**	**--**	**732,817**	**732,817**
Unfunded loan commitments	**16,517**	**--**	**--**	**16,517**	**16,517**
Total liabilities	**$88,659,375**	**$ --**	**$ --**	**$88,735,197**	**$88,735,197**
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit		**$ --**	**$ --**	**$(23,070)**	**$(23,070)**

(in thousands) As of December 31, 2014	Total Carrying Amount	Fair Value Measurement Using Level 1	Level 2	Level 3	Total Fair Value
Assets:					
Cash	$831,269	$831,269	$ --	$ --	$831,269
Investments held-to-maturity	1,726,960	--	508,098	1,230,841	1,738,939
Net non-impaired loans	88,174,679	--	--	88,631,042	88,631,042
Total assets	$90,732,908	$831,269	$508,098	$89,861,883	$91,201,250
Liabilities:					
Bonds and notes	$88,583,553	$ --	$ --	$88,459,535	$88,459,535
Subordinated notes	600,000	--	--	736,073	736,073
Unfunded loan commitments	11,390	--	--	11,390	11,390
Total liabilities	$89,194,943	$ --	$ --	$89,206,998	$89,206,998
Unrecognized financial instruments:					
Commitments to extend credit and letters of credit		$ --	$ --	$(23,789)	$(23,789)

NOTE 8

Derivative and Hedging Activity

Use of Derivatives

AgriBank maintains an overall interest rate risk management strategy that incorporates the use of derivative products to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. AgriBank's goals are to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets and liabilities so that movements in interest rates do not adversely affect net interest margin. As a result of interest rate fluctuations, hedged fixed-rate liabilities will appreciate or depreciate

in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. Another result of interest rate fluctuations is that the interest income and interest expense of hedged floating-rate liabilities will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these hedged assets and liabilities. AgriBank considers the use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

AgriBank enters into derivative transactions, particularly interest rate swaps, to lower funding costs, diversify sources of funding, alter interest rate exposures arising from mismatches between assets and liabilities or better manage liquidity. AgriBank may also enter into derivatives with affiliated Associations as a service to enable them to transfer, modify or reduce their exposure to retail interest rate risk. Interest rate swaps allow AgriBank to raise long-term borrowings at fixed rates and swap them into floating rates that are lower than those available to AgriBank if floating rate borrowings were made directly. Under interest rate swap arrangements, AgriBank agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index. AgriBank also offers interest rate swaps as part of a loan product to qualified borrowers of affiliated Associations. These swaps allow qualified borrowers to manage their interest rate risk and lock in a fixed interest rate similar to a fixed rate loan. AgriBank manages the interest rate risk from customer swaps with the execution of offsetting interest rate swap transactions. AgriBank may purchase interest rate options, such as caps, in order to offset the impact of rising interest rates on AgriBank's floating-rate debt and floors, in order to offset the impact of falling interest rates on related floating-rate assets. Interest rate swaps with retail borrowers including pay-fixed and receive-fixed swaps are also used to create product offerings to qualified borrowers of affiliated Associations.

AgriBank Derivative Instruments Activity (in notional amounts)

(in millions)	Receive-Fixed Swaps	Pay-Fixed and Amortizing Pay-Fixed Swaps	Floating-for-Floating and Amortizing Floating-for-Floating	Other Derivatives	Total
Balance at December 31, 2014	**$1,550**	**$1,235**	**$1,150**	**$40**	**$3,975**
Additions	**500**	**115**	**--**	**615**	**1,230**
Maturities/amortization	**(250)**	**(100)**	**(100)**	**--**	**(450)**
Forward Starting Becoming Effective	**--**	**20**	**600**	**(620)**	**--**
Balance at June 30, 2015	**$1,800**	**$1,270**	**$1,650**	**$35**	**$4,755**
Balance at December 31, 2013	$2,150	$1,216	$1,350	$ --	$4,716
Maturities/amortization	(350)	(41)	--	--	(391)
Balance at June 30, 2014	$1,800	$1,175	$1,350	$ --	$4,325

Other derivatives consisted of forward starting swaps and customer derivative products.

By using derivative products, AgriBank exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, AgriBank's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes AgriBank, thus creating credit risk. When the fair value of the derivative contract is negative, AgriBank owes the counterparty and, therefore, AgriBank does not assume credit risk to that counterparty.

To minimize the risk of credit losses, for non-customer bilateral derivatives, AgriBank deals only with counterparties that have an investment-grade or better credit rating from a rating agency, and AgriBank monitors the credit standing and levels of exposure to individual counterparties. At June 30, 2015 AgriBank does not anticipate nonperformance by any of these counterparties. AgriBank typically enters into master agreements that contain netting provisions. These provisions allow AgriBank to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. All derivative contracts are supported by bilateral collateral agreements with counterparties requiring AgriBank or the counterparty to post collateral in the event certain dollar thresholds of exposure of one party to the other are reached. These thresholds vary depending on the counterparty's current credit rating.

AgriBank may also clear derivative transactions through a futures commission merchant (FCM) with a clearinghouse or a central counterparty (CCP). When the swap is cleared by the two parties, the single bilateral swap is divided into two separate swaps with the CCP becoming the counterparty to both of the initial parties to the swap. CCPs have several layers of protection against default including margin, member capital contributions and FCM guarantees of their customers' transactions with the CCP. FCMs also pre-qualify the counterparties to all swaps that are sent to the CCP from a credit perspective, setting limits for each counterparty and collecting initial and variation margin daily from each counterparty for changes in the value of cleared derivatives. The margin collected from both parties to the swap protects against credit risk in the event a counterparty defaults. The initial and variation margin requirements are set by and held for the benefit of the CCP. Additional initial margin may be required and held by the FCM, due to its guarantees of its customers' trades with the CCP. At June 30, 2015, initial margin pledged to counterparties was $11.7 million and variation margin pledged to counterparties was $9.0 million, compared to initial margin pledged to counterparties of $8.0 million and variation margin pledged to counterparties of $14.0 million as of December 31, 2014.

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

One affiliated Association is party to derivative financial instruments called to-be-announced (TBAs) securities to manage exposure to interest rate risk and changes in the fair value of forward loans held for sale and the interest rate lock commitments that are determined prior to funding. TBAs are measured in terms of notional amounts. The notional amount is not exchanged and is used as a basis on which interest payments are determined. The margin pledged to the counterparty under a bilateral agreement was $900 thousand as of June 30, 2015 and $650 thousand as of December 31, 2014.

Accounting for Derivatives

Fair-Value Hedges: For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. AgriBank includes the gain or loss on the derivative in the same line item ("Interest expense") as the offsetting gain or loss on the related hedged item. Gains and losses on derivatives representing hedge components excluded from the assessment of effectiveness are recorded in current period earnings in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Cash Flow Hedges: For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive (loss) income, until earnings are affected by the variability of the cash flows of the hedged transaction. Gains and losses on the derivatives representing hedge components excluded from the assessment of effectiveness are recorded in current period earnings in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Derivatives not Designated as Hedges: For derivatives not designated as a hedging instrument, the related change in fair value is recorded in current period earnings in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Financial Statement Impact of Derivatives

The following tables present the gross fair value, offsetting and net exposure amounts of derivative assets and derivative liabilities. The fair value of derivative contracts are presented as "Derivative assets" and "Derivative liabilities" on the Combined Statements of Condition, and are presented net for counterparties with master netting agreements.

(in thousands)	**June 30, 2015**		December 31, 2014	
	Fair Value Assets	**Fair Value Liabilities**	Fair Value Assets	Fair Value Liabilities
Derivatives designated as hedging instruments:				
Receive-fixed swaps	**$27,696**	**$124**	$35,460	$77
Pay-fixed and amortizing pay-fixed swaps	**7,650**	**47,363**	4,102	63,787
Floating-for-floating and amortizing floating-for-floating swaps	**--**	**4,088**	--	5,114
Total derivatives designated as hedging instruments	**35,346**	**51,575**	39,562	68,978
Derivatives not designated as hedging instruments:				
Pay-fixed and amortizing pay-fixed swaps	**72**	**55**	--	93
Other derivative products	**242**	**19**	265	--
Total derivatives not designated as hedging instruments	**314**	**74**	265	93
Credit valuation adjustments	**11**	**--**	82	--
Total gross amounts of derivatives	**$35,671**	**$51,649**	$39,909	$69,071
Gross amounts offset in Combined Statements of Condition	**(23,063)**	**(23,063)**	(24,509)	(24,509)
Net amounts in Combined Statements of Condition	**$12,608**	**$28,586**	$15,400	$44,562

(in thousands)	**June 30, 2015**	December 31, 2014
Derivative assets, net	**$12,608**	$15,400
Derivative liabilities, net	**(28,586)**	(44,562)
Accrued interest on derivatives, net	**1,942**	285
Gross amounts not offset in Combined Statements of Condition:		
Cash collateral pledged by counterparties	**(3,660)**	(7,280)
Cash collateral pledged to counterparties	**21,554**	22,018
Net exposure amounts	**$3,858**	$(14,139)

The fair value of derivatives includes credit valuation adjustments (CVA). The CVA reflects credit risk of each derivative counterparty to which AgriBank has exposure, net of any collateral posted by the counterparty, and an adjustment for AgriBank's credit worthiness where the counterparty has exposure to AgriBank. The change in the CVA for the period is included in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

Fair-Value Hedges: AgriBank recorded $411 thousand of gains for the six months ended June 30, 2015, compared to $137 thousand for the same period in 2014 related to swaps which are designated as fair value hedging instruments on the Combined Statements of Comprehensive Income. The gains and losses on the derivative instruments are recognized in "Interest expense" on the Combined Statements of Comprehensive Income.

Cash Flow Hedges: The following table presents the amount of other comprehensive income (OCI) recognized on derivatives, the amount reclassified from accumulated other comprehensive income (AOCI) into earnings on effective cash flow hedges and amount excluded from effectiveness testing. These net losses reclassified into earnings are expected to reduce net interest income related to the respective hedged items.

(in thousands) **For the six months ended June 30, 2015** **Cash Flow Hedging Relationships**	**Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)**	**Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)**	**Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing**
Pay-fixed and amortizing pay-fixed swaps	**$19,897**	**$(27)**	**$2**
Floating-for-floating and amortizing floating-for-floating swaps	**1,064**	**--**	**--**
Other derivative products	**(36)**	**(36)**	**--**
Total	**$20,925**	**$(63)**	**$2**

(in thousands) For the six months ended June 30, 2014 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) and Amount Excluded from Effectiveness Testing
Pay-fixed and amortizing pay-fixed swaps	$(38,469)	$244	$3
Floating-for-floating and amortizing floating-for-floating swaps	552	--	--
Other derivative products	--	(148)	--
Total	$(37,917)	$96	$3

Derivatives not Designated as Hedges: For the six months ended June 30, 2015, AgriBank and one affiliated Association recorded $90 thousand of net gains related to swaps and TBAs, which are not designated as hedging instruments on the Combined Statements of Comprehensive Income. This was compared to $273 thousand of net gains for the same period in 2014. The gains and losses on the derivative instruments are recognized in "Miscellaneous income and other gains, net" on the Combined Statements of Comprehensive Income.

NOTE 9

Accumulated Other Comprehensive Income

Changes in Components of Accumulated Other Comprehensive Income

(in thousands)	Not-other-than-temporarily-impaired Investments	Other-than-temporarily-impaired Investments	Derivatives and Hedging Activity	Employee Benefit Plans Activity	Total
Balance at December 31, 2013	$(1,245)	$10,252	$463	$(324,020)	$(314,550)
Other comprehensive income (loss) before reclassifications	16,666	13,092	(37,917)	--	(8,159)
Amounts reclassified from accumulated other comprehensive income	-	150	(96)	13,555	13,609
Net other comprehensive income (loss)	16,666	13,242	(38,013)	13,555	5,450
Balance at June 30, 2014	$15,421	$23,494	$(37,550)	$(310,465)	$(309,100)
Balance at December 31, 2014	$4,687	$15,191	$(64,861)	$(504,722)	$(549,705)
Other comprehensive income (loss) before reclassifications	**3,410**	**(429)**	**20,925**	**--**	**23,906**
Amounts reclassified from accumulated other comprehensive income	**1,188**	**(2,560)**	**63**	**21,018**	**19,709**
Net other comprehensive income (loss)	**4,598**	**(2,989)**	**20,988**	**21,018**	**43,615**
Balance at June 30, 2015	**$9,285**	**$12,202**	**$(43,873)**	**$(483,704)**	**$(506,090)**

Reclassifications Out of Accumulated Other Comprehensive Income

(in thousands) Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Combined Statements of Comprehensive Income
For the six months ended June 30,	**2015**	2014	
Not-other-than-temporarily-impaired investments:			
Impairment losses	**$73**	$ --	Net impairment losses recognized in earnings
Realized loss on sale of investment securities, net	**1,115**	--	Miscellaneous income and other gains, net
	1,188	--	
Other-than-temporarily-impaired investments:			
Impairment losses	**--**	150	Net impairment losses recognized in earnings
Realized gain on sale of investment securities	**(2,560)**	--	Miscellaneous income and other gains, net
	(2,560)	150	
Derivatives and hedging activity:			
Interest rate contracts	**63**	(96)	Interest expense
Employee benefit plans activity:			
Prior service cost	**(862)**	(994)	Salaries and employee benefits
Actuarial loss	**21,880**	14,549	Salaries and employee benefits
	21,018	13,555	
Total reclassifications	**$19,709**	**$13,609**	

NOTE 10

AgriBank Only Financial Data

Statements of Condition

(in thousands)	**June 30, 2015**	December 31, 2014
Net loans	**$77,531,358**	$77,533,635
Other assets	**16,429,694**	16,891,759
Total assets	**$93,961,052**	$94,425,394
Total liabilities	**$88,919,135**	89,509,349
Total shareholders' equity	**5,041,917**	4,916,045
Total liabilities and shareholders' equity	**$93,961,052**	$94,425,394

Statements of Income

(in thousands)	**For the six months ended June 30,**	
	2015	2014
Interest income	**731,374**	$688,846
Interest expense	**476,115**	430,564
Net interest income	**255,259**	258,282
Provision for loan losses	**3,000**	2,500
Other income, net	**(10,558)**	10,768
Net income	**$241,701**	266,550
Patronage	**$139,252**	$158,172
Preferred stock dividends	**8,594**	8,594

Substantially all patronage is paid to affiliated Associations and is eliminated in combination.

NOTE 11

Subsequent Events

Subsequent events have been evaluated through August 7, 2015, which is the date the Combined Financial Statements were available to be issued. There have been no material subsequent events that would require recognition in the Quarterly Combined Financial Statements or disclosure in the Notes to those Combined Financial Statements.

AgriBank

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