2014

ANNUAL REPORT

FARM CREDIT OF NESS CITY, FLCA

Five-Year Summary of Selected Financial Data

(Dollars in Thousands)

	December 31				
	2014	2013	2012	2011	2010
Statement of Condition Data					
Loans	**$ 321,073**	**$ 284,474**	$ 235,282	$ 211,299	$ 202,572
Less allowance for loan losses	**108**	**99**	109	122	168
Net loans	**320,965**	**284,375**	235,173	211,177	202,404
Investment in CoBank, ACB	**10,382**	**8,545**	7,296	1	NA
Investment in U.S. AgBank, FCB	**NA**	NA	NA	6,685	4,648
Other assets	**8,728**	**7,757**	8,945	7,042	6,030
Total assets	**$ 340,075**	**$ 300,677**	$ 251,414	$ 224,905	$ 213,082
Obligations with maturities of one year or less	**$ 1,101**	**$ 681**	$ 835	$ 1,615	$ 478
Obligations with maturities longer than one year	**275,352**	**240,920**	195,204	171,226	165,476
Total liabilities	**276,453**	**241,601**	196,039	172,841	165,954
Protected borrower stock	**9**	**10**	10	10	15
Capital stock	**739**	**729**	713	746	757
Unallocated retained earnings	**62,874**	**58,337**	54,652	51,308	46,356
Total shareholders' equity	**63,622**	**59,076**	55,375	52,064	47,128
Total liabilities and shareholders' equity	**$ 340,075**	**$ 300,677**	$ 251,414	$ 224,905	$ 213,082

	For the Year Ended December 31				
	2014	2013	2012	2011	2010
Statement of Income Data					
Net interest income	**$ 7,832**	$ 6,840	$ 5,922	$ 5,561	$ 4,991
Patronage distribution from Farm Credit institutions	**1,692**	1,462	1,182	1,869	104
Tax-free recapitalization distribution due to AgBank merger	**-**	-	-	1,314	-
Provision for loan losses/(Loan loss reversal)	**9**	(10)	(13)	(46)	(169)
Noninterest expense, net	**2,697**	2,478	1,873	2,032	1,669
Net income/Comprehensive income	**$ 6,818**	$ 5,834	$ 5,244	$ 6,758	$ 3,595
Key Financial Ratios					
For the Year					
Return on average assets	**2.14%**	2.16%	2.22%	3.12%	1.84%
Return on average shareholders' equity	**11.27%**	10.37%	9.89%	14.00%	7.87%
Net interest income as a percentage of average earning assets	**2.60%**	2.67%	2.66%	2.71%	2.69%
Net recoveries as a percentage of average net loans	**-**	-	-	-	<0.01%
At Year End					
Shareholders' equity as a percentage of total assets	**18.71%**	19.65%	22.03%	23.15%	22.12%
Debt as a ratio to shareholders' equity	**4.35:1**	4.09:1	3.54:1	3.32:1	3.52:1
Allowance for loan losses as a percentage of loans	**0.03%**	0.03%	0.05%	0.06%	0.08%
Permanent capital ratio	**16.40%**	17.74%	19.42%	20.59%	20.50%
Total surplus ratio	**16.18%**	17.48%	19.13%	20.24%	20.13%
Core surplus ratio	**16.18%**	17.48%	19.10%	20.24%	20.13%
Net Income Distribution					
Cash patronage distributions paid	**$ 2,272**	$ 2,149	$ 1,900	$ 1,806	$ 1,700
Cash patronage distributions declared	**$ 2,281**	$ 2,149	$ 1,900	$ 1,806	$ 1,700

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following discussion summarizes the financial position and results of operations of Farm Credit of Ness City, FLCA for the year ended December 31, 2014. Comparisons with prior years are included. We have emphasized material known trends, commitments, events, or uncertainties that have impacted, or are reasonably likely to impact our financial condition and results of operations. You should read these comments along with the accompanying financial statements, footnotes and other sections of this report. The accompanying financial statements were prepared under the oversight of our Audit Committee. The Management's Discussion and Analysis includes the following sections:

- Business Overview
- Economic Overview
- Loan Portfolio
- Credit Risk Management
- Results of Operations
- Liquidity
- Capital Resources
- Regulatory Matters
- Governance
- Forward-Looking Information
- Critical Accounting Policies and Estimates
- Customer Privacy

Our quarterly reports to shareholders are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. The reports may be obtained free of charge on our website, www.farmcreditnesscity.com, or upon request. We are located at 101 Eagle Drive, Ness City, Kansas 67560-1001 or may be contacted by calling (785) 798-2278 or (800) 950-3522.

BUSINESS OVERVIEW

Farm Credit System Structure and Mission

As of December 31, 2014, we are one of 77 associations in the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 90 years. The System mission is to provide sound and dependable credit to American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses through a member-owned cooperative system. This is done by making loans and providing financial services. Through its commitment and dedication to agriculture, the System continues to have the largest portfolio of agricultural loans of any lender in the United States. The Farm Credit Administration (FCA) is the System's independent safety and soundness federal regulator and was established to supervise, examine and regulate System institutions.

Our Structure and Focus

As a cooperative, we are owned by the members we serve. Our territory served extends across a diverse agricultural region of Gove, Hodgeman, Lane, Ness, Sheridan, and Trego counties in the state of Kansas. We make long-term real estate mortgage loans to farmers, ranchers, rural residents and agribusinesses and production and intermediate-term loans for agricultural production or operating purposes. Additionally, we provide other related services to our borrowers, such as credit life insurance, multi-peril crop and crop hail insurance and leasing and fee appraisal services. Our success begins with our extensive agricultural experience and knowledge of the market and is dependent on the level of satisfaction we provide to our borrowers.

As part of the System, we obtain the funding for our lending and operations from a Farm Credit Bank. Our funding bank, CoBank, ACB (CoBank), is a cooperative of which we are a member. CoBank, its related associations, and AgVantis, Inc. (AgVantis) are referred to as the District.

We, along with the borrower's investment in our Association, are materially affected by CoBank's financial condition and results of operations. The CoBank quarterly and annual reports are available free of charge by accessing CoBank's website, www.cobank.com, or may be obtained at no charge by contacting us at 101 Eagle Drive, Ness City, Kansas 67560-1001 or may be contacted by calling (785) 798-2278 or (800) 950-3522. Annual reports are available within 75 days after year end and quarterly reports are available within 40 days after the calendar quarter end.

We purchase technology and other operational services from AgVantis, which is a technology service corporation. Our Services Agreement with AgVantis expired on December 31, 2014. Upon expiration, a new services agreement was effective which expires on December 31, 2016. We are a shareholder in AgVantis, along with all other AgVantis customers. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

ECONOMIC OVERVIEW

For many years, agriculture experienced a sustained period of favorable economic conditions due to strong commodity prices, rising land values, and, to a lesser extent, government support and multi-peril insurance programs. Because of this overall prosperity and continued robust agricultural environment, our financial results have been positively impacted. Production agriculture, however, is a cyclical business that is heavily influenced by commodity prices. Currently, corn prices are significantly lower than they were at December 31, 2013 while wheat prices are comparable to a year ago. Cattle prices experienced some volatility in 2014, but cattle producers are currently experiencing strong profitability in nearly all types of market livestock. Although certain agricultural sectors have experienced significant stress, our credit quality measures have not been significantly impacted. After returning to strong profitability for most of the year due to lower grain prices, the ethanol industry experienced lower profits in late 2014 due to falling oil prices. All purchased participations in ethanol loans were of acceptable quality at year-end. Continued low oil prices should reduce fuel expenses, and to a lesser extent, fertilizer prices for producers in 2015. Drought conditions in 2014 improved compared to 2013 resulting in increases in average yields for all grains. The generally strong financial condition of our agricultural borrowers, both in terms of liquidity and overall owner equity, has lessened the effects of changes in commodity prices. Overall conditions were satisfactory in 2014, with continued long and short term interest rates remaining low by historical standards. Some borrowers who are reliant on off-farm income sources or income from oil royalties may have been more adversely impacted, but at year-end, past due loan payments are still very low by historical standards.

During 2014, economic conditions in our region were generally favorable and balance sheets remained strong with continued rising agricultural land values being a major contributor. Land values increased at a slower rate in 2014 compared with 2013. Expectation for 2015 is that land values will be steady to slightly rising. Continued low interest rates for mortgage and farm operating loans continue to contribute to producer profitability. At year-end 2014, there are no known conditions that are expected to seriously affect the credit quality of the loan portfolio.

The Agricultural Act of 2014 (Farm Bill) was signed into law on February 7, 2014. This Farm Bill will govern an array of federal farm and food programs, including commodity price and support payments, farm credit, agricultural conservation, research, rural development, and foreign and domestic food programs for five years. The Farm Bill eliminates $23 billion in mandatory federal spending over a 10-year period, representing a reduction in the U.S. government farm policy support. The Farm Bill repeals direct payments and limits producers to risk management tools that offer protection when they suffer significant losses. The Farm Bill provides continued support for crop insurance programs, strengthens livestock disaster assistance and provides dairy producers with a voluntary margin protection program without imposing government-mandated supply controls.

LOAN PORTFOLIO

Total loans outstanding were $321.1 million at December 31, 2014, an increase of $36.6 million, or 12.9%, from loans at December 31, 2013 of $284.5 million, and an increase of $85.8 million, or 36.5%, from loans at December 31, 2012 of $235.3 million. The increase in loans was due to an active real estate market, strong customer demand, favorable economic conditions, moderate levels of unscheduled loan retirements, marketing efforts, and an attractive cash patronage program.

The types of loans outstanding at December 31 are reflected in the following table.

(dollars in thousands)	2014 Volume	2014 Percent	2013 Volume	2013 Percent	2012 Volume	2012 Percent
Real estate mortgage loans	$ 276,937	86.3%	$ 240,575	84.5%	$ 198,451	84.4%
Production and intermediate-term loans	19,019	5.9%	13,517	4.8%	15,534	6.6%
Agribusiness loans to:						
Processing and marketing	23,424	7.3%	28,824	10.1%	19,590	8.3%
Farm related business	278	0.1%	162	0.1%	74	–
Rural residential real estate loans	1,415	0.4%	1,396	0.5%	1,633	0.7%
Total	$ 321,073	100.0%	$ 284,474	100.0%	$ 235,282	100.0%

Real estate mortgage loans outstanding increased to $276.9 million, compared with $240.6 million at year-end 2013, primarily due to an active real estate market and favorable interest rates. Long-term mortgage loans are primarily used to purchase, refinance or improve real estate. These loans have maturities ranging from 5 to 40 years. Real estate mortgage loans are also made to rural homeowners. By federal regulation, a real estate mortgage loan must be secured by a first lien and may only be made in an amount up to 85% of the original appraised value of the property, or up to 97% of the appraised value, if the loan is guaranteed by certain state, federal, or other governmental agencies. Under our current underwriting standards, we loan less than the regulatory limit of 85% of the appraised value of the property.

The production and intermediate-term loans increased 40.7% to $19.0 million compared with 2013 loans of $13.5 million, due to loan participations purchased from other Farm Credit System lenders. All production and intermediate-term loans are purchased participations. Production loans are used to finance the ongoing operating needs of agricultural producers. Production loans generally match the borrower's normal production and marketing cycle, which is typically 12 months. Intermediate-term loans are generally used to finance depreciable capital assets of a farm or ranch. Intermediate-term loans are written for a specific term, 1 to 15 years, with most loans being less than 10 years.

Decreases were noted in agribusiness, where the majority of loan volume was due to loan participations. All process and marketing loans are the result of loan participations.

Portfolio Diversification

While we make loans and provide financially related services to qualified borrowers in agricultural and rural sectors and to certain related entities, our loan portfolio is diversified by loan participations purchased and sold, geographic locations served, commodities financed and loan size as illustrated in the following four tables.

We purchase loan participations and lease participations from other System entities to generate additional earnings and diversify risk related to existing commodities financed and our geographic area served. In addition, we sell a portion of certain large loans to other System entities to reduce risk and comply with lending limits we have established.

Our volume of participations purchased and sold as of December 31 follows.

(dollars in thousands)	2014	2013	2012
Lease participations with FCLSC*	$ 3,727	$ 4,198	$ 5,059
Participations purchased from other entities	41,833	39,480	32,780
Total participations purchased	$ 45,560	$ 43,678	$ 37,839
Participations sold	$ 52,283	$ 44,285	$ 42,425

* Farm Credit Leasing Services Corporation

We have no loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests that are held in lieu of retaining a subordinated participation interest in the loans sold. Participations purchased and sold both increased overall from 2013. Participations purchased increased 4.3% as a result of System partners complying with lending limits, partially offset by a decline in lease purchase participations from FCLSC. Participations sold increased 18.1% as a result of our compliance with lending limits we have established.

The geographic distribution of loans by county at December 31 follows. As previously mentioned we purchase loan participations outside our territory, which are included in Other in the following table.

	2014	2013	2012
Gove	12.23%	12.04%	14.33%
Hodgeman	9.41%	8.75%	9.54%
Lane	11.26%	11.23%	13.74%
Ness	7.87%	8.02%	9.35%
Sheridan	14.40%	14.51%	15.24%
Trego	3.99%	4.40%	3.81%
Other (Ranging from 0.00% to 3.50% by county)	40.84%	41.05%	33.99%
Total	100.00%	100.00%	100.00%

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

1) the time when all but one association has withdrawn as a party to the Agreement; or
2) December 31, 2025, or
3) when requested by FCA.

We are a party to continuing agreements with American AgCredit, ACA (AAC), High Plains Farm Credit, ACA (HPFC), and FCLSC to purchase loan and lease participations. These agreements are for the purpose of creating geographic and portfolio diversification, as well as to utilize our capital position to facilitate additional income. Per our agreement with HPFC to market production and intermediate-term loans as agents for HPFC, we purchase a 90% participation interest in these loans while HPFC retains 10% plus a portion of the total loan spread. This agreement is governed by a Continuing Participation Agreement and a Memorandum of Understanding. Per our agreement with AAC, we also act as an agent and receive a fee. We are no longer originating new loans under the agreement with AAC. Participations purchased from other System and non-System lenders (none currently with non-System lenders) are transactional in nature and not governed by continuing participation agreements.

We are also a party to a Continuing Participation Agreement with CoBank under which we both buy and sell participation interests in loans for portfolio diversification and to manage customer lending limits as established by the Board of Directors and by FCA regulation.

The following table shows the primary agricultural commodities produced by our borrowers based on the Standard Industrial Classification System (SIC) published by the federal government. This system is used to assign commodity or industry categories based on the primary business of the customer. A primary business category is assigned when the commodity or industry accounts for 50% or more of the total value of sales for a business; however, a large percentage of agricultural operations typically includes more than one commodity**.**

	December 31		
SIC Category	2014	2013	2012
Wheat	29.08%	26.53%	30.79%
Corn	25.45%	24.47%	20.15%
Cattle (six classes including feedlots)	21.20%	19.92%	24.44%
Other (0.00% to 4.04% by SIC)	24.27%	29.08%	24.62%
Total	100.00%	100.00%	100.00%

Our loan portfolio contains a concentration of wheat, corn, and cattle producers. Repayment ability of our borrowers is closely related to the production and profitability of the commodities they raise. If a loan fails to perform, restructuring and/or other servicing alternatives are influenced by the underlying value of the collateral which is impacted by industry economics. Our future performance would be negatively impacted by adverse agricultural conditions. The degree of the adverse impact would be correlated to the commodities negatively affected and the magnitude and duration of the adverse agricultural conditions to our borrowers. However, two of the three largest concentrations, wheat and corn, are government program commodities which have in past years received some degree of price support or production incentives. Both are covered by Federal Crop Insurance Programs which enhances a producer's ability to manage risk. Also, the concentration in cattle is in six categories ranging from 0.43% to 7.09% of our portfolio. Cattle profits do not always trend in correlation with prices, since some are more grain price sensitive (fed cattle) and others are more grazing condition sensitive (cow/calf and stockers).

In addition to commodity diversification noted in the previous table, further diversification is also achieved from loans to rural residents and part-time farmers which typically derive most of their earnings from non-agricultural sources. These borrowers are less subject to agricultural cycles and would likely be more affected by weaknesses in the general economy. Of our loan volume at December 31, 2014, approximately 51% consists of borrowers with income not solely from agricultural sources, a decrease from 66% for 2013, and 65% for 2012.

The principal balance outstanding at December 31, 2014 for loans $250 thousand or less accounted for 29.8% of loan volume and 76.9% of the number of loans. Credit risk on small loans, in many instances, may be reduced by non-farm income sources. The following table details loan principal by dollar size at December 31.

	2014		2013		2012	
(dollars in thousands)	Amount outstanding	Number of loans	Amount outstanding	Number of loans	Amount outstanding	Number of loans
$1 - $250	$ 95,786	1,135	$ 90,961	1,123	$ 91,896	1,166
$251 - $500	73,971	208	62,367	175	49,218	136
$501 - $1,000	66,072	89	61,825	83	41,091	56
$1,001 - $5,000	85,244	44	58,196	31	47,777	27
$5,001 - $25,000	–	–	11,125	2	5,300	1
Total	$ 321,073	1,476	$ 284,474	1,414	$ 235,282	1,386

Approximately 18.84% of our loans outstanding are attributable to ten borrowers, ranging from 1.32% to 2.45% by borrower attribution. Due to their size, the loss of any of these loans or the failure of any of these loans to perform would adversely affect the portfolio and our future operating results.

Credit guarantees with government agencies of $6.1 million at year-end 2014, $6.2 million at year-end 2013 and $6.5 million at year-end 2012 were outstanding.

Credit Commitments

We may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of our borrowers. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in our financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. The following table summarizes the maturity distribution of unfunded credit commitments on loans at December 31, 2014.

(dollars in thousands)	Less than 1 year	1 – 3 years	3 – 5 years	Total
Commitments to extend credit	$ 6,290	$ 9,608	$ 5,823	$ 21,721

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and we apply the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on our credit evaluation of the borrower. No material losses are anticipated as a result of these credit commitments.

High Risk Assets

Nonperforming loan volume is comprised of nonaccrual loans, restructured loans, and loans 90 days past due still accruing interest and are referred to as impaired loans. High risk assets consist of impaired loans and other property owned. Our nonaccrual volume was $22 thousand at December 31, 2014, $33 thousand at December 31, 2013, and $44 thousand at December 31, 2012. We had no loans classified as restructured or 90 days past due still accruing interest, and no other property owned for the years presented.

Total high risk assets decreased $11 thousand, or 33.3%, to $22 thousand at December 31, 2014 compared with year-end 2013. The reduction in high risk assets was due to scheduled loan payments applied to nonaccrual loans. Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of all principal and/or interest. All our nonaccrual loans were delinquent as to principal and interest and were considered cash basis loans as of December 31, 2014, 2013 and 2012.

Total high risk assets are composed solely of nonaccrual loans. High risk asset volume is anticipated to increase in the future. Agriculture is a cyclical industry, and there is a high probability that at some time in the future changes in commodity prices, weather related events, or some other occurrence will contribute to an increase in high risk volume.

Credit Quality

We review the credit quality of the loan portfolio on an on-going basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System (UCS), which is used by all System institutions. Following are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses as substandard assets. However, doubtful assets have additional weaknesses in existing facts that make collection in full highly questionable.
- Loss – Assets are not considered collectible.

The following table presents statistics based on UCS related to the credit quality of the loan portfolio, including accrued interest at December 31.

	2014	2013	2012
Acceptable	98.78%	99.08%	98.37%
OAEM	0.85%	0.86%	1.52%
Substandard	0.37%	0.06%	0.11%
Total	100.00%	100.00%	100.00%

During 2014, overall credit quality declined slightly. Loans classified as Acceptable and OAEM were 99.63% at December 31, 2014, 99.94% at December 31, 2013 and 99.89% at December 31, 2012. The increase in substandard loans was primarily due to loans with one customer attribution being delinquent greater than 60 days. This resulted in a change from an acceptable classification to substandard classification for the two loans involved. Both loan delinquencies were paid subsequent to December 31. We had no loans classified as Doubtful or Loss for any of the three years presented. The financial position of most agricultural producers strengthened during the past decade, and most of our borrowers have maintained generally strong financial positions. As such, our credit quality is anticipated to remain sound in the near term. However, agriculture remains a cyclical business that is heavily influenced by production, operating costs and commodity prices. Each of these can be significantly impacted by uncontrollable events. If less favorable economic conditions continue, it will likely lead to weakening in the loan portfolio. Loan delinquencies (accruing loans 30 days or more past due) as a percentage of accruing loans increased, however, remained at a low level of 0.37% at December 31, 2014, compared with less than 0.01% at December 31, 2013 and 0.03% at December 31, 2012.

Allowance for Loan Losses

We maintain an allowance for loan losses at a level consistent with the probable and estimable losses inherent in the loan portfolio identified by management. The allowance for loan losses at each period end was considered to be adequate to absorb probable losses existing in the loan portfolio. Because the allowance for loan losses considers factors such as current agricultural and economic conditions, loan loss experience, portfolio quality and loan portfolio composition, there will be a direct impact to the allowance for loan losses and our income statement when there is a change in any of those factors. The following table provides relevant information regarding the allowance for loan losses as of December 31.

(dollars in thousands)	2014	2013	2012
Balance at beginning of year	$ 99	$ 109	$ 122
Provision for loan losses/(Loan loss reversals)	9	(10)	(13)
Balance at December 31	$ 108	$ 99	$ 109
Net charge-offs/recoveries to average net loans	–	–	–

The following table presents the allowance for loan losses by loan type as of December 31.

(dollars in thousands)	2014	2013	2012
Real estate mortgage	$ 46	$ 37	$ 45
Production and intermediate-term	21	15	10
Agribusiness	41	47	53
Rural residential real estate	–	–	1
Total	$ 108	$ 99	$ 109

The allowance for loan losses increased $9 thousand from December 31, 2013, to $108 thousand at December 31, 2014. The increase in allowance for loan losses was due to the provision for loan losses totaling $9 thousand that was recorded due to an increase in loans. No charge-offs or recoveries were recorded during 2014 and 2013. During 2013, our allowance for loan losses decreased $10 thousand from 2012 primarily due to an improvement in the risk profile of our loan portfolio. Comparative allowance for loan losses coverage as a percentage of loans and certain other credit quality indicators as of December 31 are presented in the following table.

	2014	2013	2012
Allowance as a percentage of:			
Loans	0.03%	0.03%	0.05%
Impaired loans	490.91%	300.00%	247.73%

Young, Beginning and Small Farmers and Ranchers Program

As part of the Farm Credit System, we are committed to providing sound and dependable credit and related services to young, beginning and small (YBS) farmers and ranchers. The Board has approved the following Mission Statement: "It is our mission to aid in preserving agriculture and rural lifestyles/quality of life for succeeding generations. The YBS Program of the Association will include program objectives and specific means to help insure that all YBS farmers and ranchers will have full and unfettered access to credit and financial services needed to succeed in agriculture as a full or part-time occupation. A YBS Program and Procedures will be reviewed annually by our Board to insure the objective and means are current and relevant to our mission."

Following are FCA regulatory definitions for YBS farmers and ranchers.

- Young Farmer: A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.
- Beginning Farmer: A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.
- Small Farmer: A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The following table outlines our percentage of YBS loans as a percentage of the number of loans in our loan portfolio while the USDA column represents the percent of farmers and ranchers classified as YBS within our territory per the 2012 USDA Agricultural Census, which is the most current data available. Due to FCA regulatory definitions, a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

	USDA	2014	2013	2012
Young	11.05%	14.98%	14.98%	13.23%
Beginning	22.39%	18.49%	18.07%	15.89%
Small	78.14%	47.50%	49.50%	51.25%

Note that several differences exist in definitions between USDA statistics and our data due to our use of FCA definitions. Young farmers are defined as 34 years old and younger by the USDA, while FCA definitions include farmers 35 years old and younger. Beginning farmers are defined by FCA as those with 10 years or less farming experience; however, the USDA identifies beginning farmers as on their current farm less than 10 years. This may include both beginning farmers and experienced farmers who have recently changed farmsteads. Our percentages are based on the number of loans in our portfolio, while the USDA percentages are based on the number of farmers and ranchers. While these definition differences do exist, the information will be utilized as it is the best comparative information available.

We establish annual marketing goals to increase market share of loans to YBS farmers and ranchers. Our goals are as follows:

- Offer related services either directly or in coordination with others that are responsive to the needs of YBS farmers and ranchers in our territory;
- Take full advantage of opportunities for coordinating credit and services offered with other System institutions in the territory and other governmental and private sources of credit who offer credit and services to those who qualify as YBS farmers and ranchers in our territory;
- Implement effective outreach programs to attract YBS farmers and ranchers;
- Award scholarships to college and trade school students; and,
- Support state and county YBS activities, educational, and vocational experiences for youth and young adults, alone and/or in cooperation with other Farm Credit or agriculture related institutions. These include, but are not limited to, 4H and FFA in each of our six counties, Kansas FFA Foundation, Kansas Junior Livestock Scholarships, Kansas Association of Conservations Districts Youth Essay Program, Kansas State Fair Livestock Awards, Kansas Young Farmer and Rancher Conference, Kansas State Ag Education, KARL, Women Managing the Farm, Farm Transition Conference, KLA Leadership Conference, Kansas Junior High School Rodeo, Kansas Foundation for Ag in the Classroom, and MAST through Kansas State University.

The current status of our YBS qualitative goals finds us fully compliant and effective in regards to four of the five goals listed above, and nearly fully compliant in the fifth. Due to our small staff and territory, implementing effective outreach programs specifically at the Association level to attract YBS customers is very challenging and not cost effective. However, we have accomplished effective outreach in leadership and skills training through sponsorships and/or scholarships for YBS and other participants in the annual Women Managing the Farm (WMTF) Conference, Kansas State University's Management Analysis and Strategic Thinking Program (MAST), and Kansas Farm Bureau's Young Farmer and Rancher Leadership Conference, and new in 2014, support of Kansas 4-H 1st Generation Families program. We maintained our level of YBS related advertising, and continue to work closely in cooperation with all Farm Credit Associations in Kansas to channel resources in supporting YBS related organizations and causes. In 2014, we again increased monetary support to the State FFA and 4-H organizations. Farm Credit Associations of Kansas continuing and significant involvement in time and resources, including public speaking and awards presentations at related events, is increasing our visibility and esteem among the membership. More and more, the membership and sponsors understand the Farm Credit System, and that we are a dependable source of credit and services for YBS operators.

Quarterly reports are provided to our Board of Directors detailing the number, volume and credit quality of our YBS customers. We have developed quantitative targets to monitor our progress.

- Loan volume and loan number goals for YBS farmers and ranchers in our territory;
- Percentage goals representative of the demographics of YBS farmers and ranchers in our territory;
- Percentage goals for loans made to new borrowers qualifying as YBS farmers and ranchers in our territory; and,
- Goals for capital committed to loans made to YBS farmers and ranchers in our territory.

	Target	**Actual**	
Total Portfolio		**Number**	**Volume**
Young	10.00%	14.98%	12.55%
Beginning	13.00%	18.49%	15.97%
Small	37.50%	47.50%	27.03%
New Loans			
Young	10.50%	13.22%	13.26%
Beginning	14.00%	18.06%	16.25%
Small	37.50%	37.00%	20.81%

Volume as a % of risk funds	**Target**	**Actual**
Young	100.00%	80.30%
Beginning	100.00%	102.16%
Small	300.00%	172.97%

To ensure that credit and services offered to our YBS farmers and ranchers are provided in a safe and sound manner and within our risk-bearing capacity, we utilize customized loan underwriting standards, loan guarantee programs, and interest rate tier exceptions. Additionally, we are actively involved in developing and sponsoring educational opportunities, leadership training, and insurance services for YBS farmers and ranchers. We also have a significant scholarship program for customers and their relatives, and contribute to a Fort Hays State University scholarship program together with other western Kansas Farm Credit Associations.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential failure of a borrower to meet repayment obligations that result in a financial loss to the lender. Credit risk exists in our loan portfolio and also in our unfunded loan commitments. Credit risk is actively managed on an individual and portfolio basis through application of sound lending and underwriting standards, policies and procedures.

Underwriting standards are utilized to determine an applicant's operational, financial, and managerial resources available for repaying debt within the terms of the note and loan agreement. Underwriting standards include among other things, an evaluation of:

- character – borrower integrity and credit history;
- capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income;
- collateral – to protect the lender in the event of default and also serve as a secondary source of loan repayment;
- capital – ability of the operation to survive unanticipated risks; and,
- conditions – intended use of the loan funds, terms, restrictions, etc.

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

By regulation, we cannot have loan commitments to one borrower for more than 15% of our permanent capital. Additionally, we set our own lending limits to manage loan concentration risk. Lending limits have been established for attributed liability, commodity type, and special lending programs. We have adopted an individual lending limit maximum of 15% of permanent capital for our highest quality borrowers.

We have established internal lending delegations to properly control the loan approval process. Delegations to staff are based on our risk-bearing ability, loan size, complexity, type and risk, as well as the expertise and position of the credit staff member. Larger and more complex loans or loans perceived to have higher risk are typically approved by the Chief Executive Officer (CEO) who also serves as Chief Credit Officer (CCO). Although the Association has no formal Loan Committee, the CEO often consults with the most experienced and knowledgeable credit staff prior to approving large and/or complex loans.

The majority of our lending is first mortgage real estate loans which must be secured by a first lien on real estate. Production and intermediate-term lending accounts for most of the remaining volume and is typically secured by livestock, crops and equipment. Collateral evaluations are completed in compliance with FCA and Uniform Standards of Professional Appraisal Practices requirements. All property is appraised at market value. All collateral evaluations must be performed by a qualified appraiser. Certain appraisals must be performed by individuals with a state certification or license.

We use a two-dimensional risk rating model (Model) based on the Farm Credit System's Combined System Risk Rating Guidance. The Model estimates each loan's probability of default (PD) and loss given default (LGD). PD estimates the probability that a borrower will experience a default within twelve months from the date of determination. LGD provides an estimation of the anticipated loss with respect to a specific financial obligation of a borrower assuming a default has occurred or will occur within the next twelve months. The Model uses objective and subjective criteria to identify inherent strengths, weaknesses, and risks in each loan. PDs and LGDs are utilized in loan and portfolio management processes and are utilized for the allowance for loan losses estimate. This Model also serves as the basis for economic capital modeling.

The Model's 14-point probability of default scale provides for nine acceptable categories, one OAEM category, two substandard categories, one doubtful category and one loss category; each carrying a distinct percentage of default probability. The Model's LGD scale provides 6 categories, A through F, that have the following anticipated principal loss and range of economic loss expectations:

- A 0% anticipated principal loss; 0% to 5% range of economic loss
- B 0% to 3% anticipated principal loss; >5% to 15% range of economic loss
- C > 3% to 7% anticipated principal loss; >15% to 20% range of economic loss
- D > 7% to 15% anticipated principal loss; >20% to 25% range of economic loss

- E > 15% to 40% anticipated principal loss; >25% to 50% range of economic loss
- F above 40% anticipated loss; above 50% range of economic loss

RESULTS OF OPERATIONS

Earnings Summary

In 2014, we recorded net income of $6.8 million, compared with $5.8 million in 2013, and $5.2 million in 2012. The increase in 2014 was primarily due to an increase in net interest income from an increase in loans. The increase in 2013 was due to an increase in net interest income and noninterest income, partially offset by higher noninterest expense. The following table presents the changes in the significant components of net income from the previous year.

(dollars in thousands)	2014 vs. 2013	2013 vs. 2012
Net income, prior year	$ 5,834	$ 5,244
Increase/(Decrease) from changes in:		
Interest income	1,331	630
Interest expense	(339)	288
Net interest income	992	918
Provision for loan losses/Loan loss reversal	(19)	(3)
Noninterest income	246	56
Noninterest expense	(235)	(381)
Total increase/(decrease) in net income	984	590
Net income, current year	$ 6,818	$ 5,834

Return on average assets decreased to 2.14% from 2.16% in 2013, and return on average shareholders' equity increased to 11.27% from 10.37% in 2013. Return on average assets declined due to lower spreads, while return on average shareholder's equity increased due to a combination of increased net interest income from loan growth and a lower percentage of average shareholder's equity. The average assets grew at a higher rate over the period which caused a lower percentage of average shareholder's equity and thus a higher return on average shareholder's equity.

Net Interest Income

Net interest income for 2014 was $7.8 million compared with $6.8 million for 2013 and $5.9 million for 2012. Net interest income is our principal source of earnings and is impacted by interest earning asset volume, yields on assets and cost of debt. The increase in net interest income was largely due to an increase in loans. The following table provides an analysis of the individual components of the change in net interest income during 2014 and 2013.

(dollars in thousands)	2014 vs. 2013	2013 vs. 2012
Net interest income, prior year	$ 6,840	$ 5,922
Increase/(Decrease) in net interest income from changes in:		
Interest rates earned	(517)	(792)
Interest rates paid	419	887
Volume of interest-bearing assets and liabilities	1,090	832
Interest income on nonaccrual loans	–	(9)
Increase in net interest income	992	918
Net interest income, current year	$ 7,832	$ 6,840

The following table illustrates net interest margin and the average interest rates on loans and debt cost and interest rate spread.

	For the Year Ended December 31		
	2014	2013	2012
Net interest margin	2.60%	2.67%	2.66%
Interest rate on:			
Average loan volume	4.08%	4.28%	4.64%
Average debt	1.75%	1.95%	2.44%
Interest rate spread	2.33%	2.33%	2.20%

The interest rate spread remained unchanged since the interest rate decrease on average loan volume was equal to the decrease in the interest rate on average debt. The decrease in net interest margin was due to lower earnings on our own capital. Loan interest rates remained relatively stable while interest earnings on capital declined from reinvesting the capital at lower rates as fixed term investments matured.

Provision for Loan Losses/(Loan Loss Reversals)

We monitor our loan portfolio on a regular basis to determine if any increase through provision for loan losses or decrease through a loan loss reversal in our allowance for loan losses is warranted based on our assessment of the probable and estimable losses inherent in our loan portfolio. We recorded net provision for loan losses of $9 thousand in 2014, compared with net loan loss reversals of $10 thousand in 2013 and $13 thousand in 2012. The provision for loan losses recorded during 2014 was primarily due to an increase in loans. The loan loss reversals recorded during 2012 and 2013 were primarily due to improved credit quality.

Noninterest Income

During 2014, we recorded noninterest income of $2.2 million, compared with $2.0 million in 2013 and $1.9 million in 2012. Patronage distributions from CoBank are our primary source of noninterest income. Beginning in 2012, patronage is accrued in the year earned and then received from CoBank in the following year. CoBank patronage is distributed in cash and stock. Patronage earned from CoBank was $1.6 million in 2014, $1.4 million in 2013 and $1.1 million in 2012.

We received a patronage distribution from AgVantis, based on our services purchased from AgVantis during 2014. We received a Notice of Allocation with our total patronage of $73 thousand, which includes cash patronage of $15 thousand compared with $15 thousand for 2013 and $12 thousand for 2012. The balance of the allocation is recorded in other assets. Additionally, we received a cash patronage of $2 thousand from Farm Credit Foundations, the organization that provides our payroll and human resource services. This compares with $4 thousand recorded in 2013 and 2012. Patronage from these two entities and CoBank is included in patronage distribution from Farm Credit institutions on the Statement of Comprehensive Income.

We received mineral income of $346 thousand during 2014, which is distributed to us quarterly by CoBank. During 2012, we received a distribution of $191 thousand from Farm Credit System Insurance Corporation (FCSIC) representing our allocated portion of the excess amount in the System's insurance fund above the 2.0% secure base amount. No such distribution was received in 2014 or 2013.

Noninterest income also includes loan fees, financially related services income and other noninterest income. Loan fees in 2014 were $27 thousand, a decrease of $11 thousand, from 2013, primarily due to fewer loan conversions. Income from financially related services was nearly unchanged while other noninterest income declined by $4 thousand in 2014.

Noninterest Expense

Noninterest expense for 2014 increased $235 thousand, or 7.9%, to $3.2 million compared with 2013 and $616 thousand, or 23.8% compared with 2012. Noninterest expense for each of the three years ended December 31 is summarized as follows:

				Percent of Change	
(dollars in thousands)	2014	2013	2012	2014/2013	2013/2012
Salaries & employee benefits	$ 1,781	$ 1,701	$ 1,482	4.70%	14.78%
Occupancy & equipment	126	126	130	–	(3.08%)
Purchased services from AgVantis	376	343	342	9.62%	0.29%
Supervisory & examination costs	94	85	86	10.59%	(1.16%)
Other	540	520	464	3.85%	12.07%
Total operating expense	2,917	2,775	2,504	5.12%	10.82%
Farm Credit Insurance Fund premium	287	194	84	47.94%	130.95%
Total noninterest expense	$ 3,204	$ 2,969	$ 2,588	7.92%	14.72%

For the year ended December 31, 2014, total operating expense increased $142 thousand, or 5.1%, compared with the year ended December 31, 2013, primarily due to an increase in salaries and employee benefits and an increase in Farm Credit Insurance Fund premium. Insurance Fund premium increased $93 thousand to $287 thousand due to an increase in the premium rate and an increase in loan volume. Premium rates were 12 basis points during 2014 compared with 10 basis points in 2013 and 5 basis points in 2012.

LIQUIDITY

Liquidity is necessary to meet our financial obligations. Liquidity is needed to pay our note with CoBank, fund loans and other commitments, and fund business operations in a cost-effective manner. Our liquidity policy is intended to manage short-term cash flow. Our direct loan with CoBank, cash on hand and borrower loan repayments provide adequate liquidity to fund our on-going operations and other commitments.

Funding Sources

Our primary source of liquidity is the ability to obtain funds for our operations through a borrowing relationship with CoBank. Our note payable to CoBank is collateralized by a pledge to CoBank of substantially all of our assets. Substantially all cash received is applied to the note payable and all cash disbursements are drawn on the note payable. The indebtedness is governed by a General Financing Agreement (GFA) with CoBank which matures on May 31, 2018. The annual average principal balance of the note payable to CoBank was $254.6 million in 2014, $211.4 million in 2013 and $180.7 million in 2012.

We plan to continue to fund lending operations through the utilization of our funding arrangement with CoBank, retained earnings from current and prior years and from borrower stock investments. CoBank's primary source of funds is the ability to issue Systemwide Debt Securities to investors through the Federal Farm Credit Bank Funding Corporation. This access has traditionally provided a dependable source of competitively priced debt that is critical for supporting our mission of providing credit to agriculture and rural America. Although financial markets experienced significant volatility in the last few years, we were able to obtain sufficient funding to meet the needs of our customers.

Interest Rate Risk

The interest rate risk inherent in our loan portfolio is substantially mitigated through our funding relationship with CoBank which allows for loans to be match-funded. Borrowings from CoBank match the pricing, maturity, and option characteristics of our loans to borrowers. CoBank manages interest rate risk through the direct loan pricing and its asset/liability management processes. Although CoBank incurs and manages the primary sources of interest rate risk, we may still be exposed to interest rate risk through the impact of interest rate changes on earnings generated from our loanable funds. To stabilize earnings from loanable funds, we have committed excess loanable funds with CoBank at a fixed rate for a specified term as a part of CoBank's Association Equity Positioning Program (AEPP). This enables us to reduce our overall cost of funds with CoBank without significantly increasing our overall interest rate risk position.

Funds Management

We offer variable, fixed, adjustable prime-based and LIBOR-based rate loans to borrowers. Our Board of Directors determines the interest rate charged based on the following factors: 1) the interest rate charged by CoBank; 2) our existing rates and spreads; 3) the competitive rate environment; and 4) our profitability objectives.

CAPITAL RESOURCES

Capital supports asset growth and provides protection for unexpected credit and operating losses. Capital is also needed for investments in new products and services. We believe a sound capital position is critical to our long-term financial success due to the volatility and cycles in agriculture. Over the past several years, we have been able to build capital primarily through net income retained after patronage. Shareholders' equity at December 31, 2014 totaled $63.6 million, compared with $59.1 million at December 31, 2013 and $55.4 million at December 31, 2012. The increase of $4.5 million in shareholders' equity reflects net income and net stock issuances, partially offset by patronage refunds. Our capital position is reflected in the following ratio comparisons.

	2014	2013	2012
Debt to shareholders' equity	4.35:1	4.09:1	3.54:1
Shareholders' equity as a percent of net loans	19.82%	20.77%	23.55%
Shareholders' equity as a percent of total assets	18.71%	19.65%	22.03%

Debt to shareholders' equity increased and shareholders' equity as a percent of net loans and of total assets decreased from 2013 primarily due to a significant increase in loan volume.

Retained Earnings

Our retained earnings increased $4.6 million to $62.9 million at December 31, 2014 from $58.3 million at December 31, 2013 and increased $8.2 million from $54.7 million at December 31, 2012. The increase from 2013 was a result of net income of $6.8 million, partially offset by $2.3 million of patronage distributions declared.

Patronage Program

We have a Patronage Program that allows us to distribute our available net earnings to our shareholders. This program provides for the application of net earnings in the manner described in our Bylaws. In addition to determining the amount and method of patronage to be distributed, the Bylaws address increasing surplus to meet capital adequacy standards established by Regulations; increasing surplus to a level necessary to support competitive pricing at targeted earnings levels; and increasing surplus for reasonable reserves. Patronage distributions are based on business done with us during the year. We paid cash patronage of $2.3 million in 2014, $2.1 million in 2013 and $1.9 million in 2012. During 2014, we declared patronage distributions of $2.0 million which were paid in July 2014, and paid an additional $0.3 million in patronage which was cash patronage received from CoBank on loan participations.

Stock

Our total stock increased $9 thousand to $748 thousand at December 31, 2014, from $739 thousand at December 31, 2013 and increased from $723 thousand at December 31, 2012. The increase was due to $58 thousand of stock issuances partially offset by $49 thousand of stock retirements. We require a stock investment for each borrower**.** We have a Borrower Level Stock Program which allows stock to be assigned to each borrower instead of each loan. This reduces the stock requirements for borrowers with multiple loans. The current stock requirement for each borrower is one thousand dollars or 2.00% of the combined loan volume.

Capital Plan and Regulatory Requirements

Our Board of Directors establishes a formal capital adequacy plan that addresses capital goals in relation to risks. The capital adequacy plan assesses the capital level necessary for financial viability and to provide for growth. Our plan is updated annually and approved by our Board of Directors. FCA regulations require the plan consider the following factors in determining optimal capital levels, including:

- Regulatory capital requirements;
- Asset quality;
- Needs of our customer base; and,
- Other risk-oriented activities, such as funding and interest rate risks, contingent and off-balance sheet liabilities and other conditions warranting additional capital.

FCA regulations establish minimum capital standards expressed as a ratio of capital to assets, taking into account relative risk factors for all System institutions. In general, the regulations provide for a relative risk weighting of assets and establish a minimum ratio of permanent capital, total surplus and core surplus to risk-weighted assets. Our capital ratios as of December 31 and the FCA minimum requirements follow.

	Regulatory Minimum	2014	2013	2012
Permanent capital ratio	7.00%	16.40%	17.74%	19.42%
Total surplus ratio	7.00%	16.18%	17.48%	19.13%
Core surplus ratio	3.50%	16.18%	17.48%	19.10%

As of December 31, 2014, we exceeded the regulatory minimum capital ratios and expect to do so throughout 2015. However, the minimum ratios established were not meant to be adopted as the optimum capital level, so we have established goals in excess of the regulatory minimum. As of December 31, 2014, we have not met our goals due to the cumulative effects of loan growth over the past three years. Capital goals are expected to be met in 2015, and due to our strong capital position, we will continue to be able to retire at-risk stock.

REGULATORY MATTERS

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

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

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as government-sponsored enterprises;
- To ensure that the Systems' capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System;

- To make System regulatory capital requirements more transparent; and
- To meet certain requirements of the Dodd-Frank Act.

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

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

GOVERNANCE

Board of Directors

We are governed by a seven member board that provides direction and oversees our management. Of these directors, six are elected by the shareholders and one is appointed by the elected directors. Our Board of Directors represents the interests of our shareholders. The Board of Directors meets regularly to perform the following functions, among others:

- selects, evaluates and compensates the chief executive officer;
- approves the strategic plan, capital plan, financial plan and the annual operating budget;
- oversees the lending operations;
- directs management on significant issues; and,
- oversees the financial reporting process, communications with shareholders and our legal and regulatory compliance.

Director Independence

All directors must exercise sound judgment in deciding matters in our interest. All our directors are independent from the perspective that none of our management or staff serves as Board members. However, we are a financial services cooperative, and the Farm Credit Act and FCA Regulations require our elected directors to have a loan relationship with us.

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

Audit Committee

The Audit Committee reports to the Board of Directors. The Audit Committee is composed of the entire Board of Directors, with the Board Chairman as a non-voting member. During 2014, thirteen meetings were held. The Audit Committee responsibilities generally include, but are not limited to:

- oversight of the financial reporting risk and the accuracy of the quarterly and annual shareholder reports;
- the oversight of the system of internal controls related to the preparation of quarterly and annual shareholder reports;
- the review and assessment of the impact of accounting and auditing developments on the financial statements;
- the establishment and maintenance of procedures for the receipt, retention and treatment of confidential and anonymous submission of concerns, regarding accounting, internal accounting controls or auditing matters; and,
- oversight of internal operations and credit review functions.

Compensation Committee

The Compensation Committee is responsible for the oversight of employee and director compensation. The Compensation Committee is composed of the full Board of Directors. The Committee annually reviews, evaluates and approves the compensation policies, programs and plans for senior officers and employees including benefits programs.

Other Governance

The Board has monitored the requirements of public companies under the Sarbanes-Oxley Act. While we are not subject to the requirements of this law, we are striving to implement steps to strengthen governance and financial reporting. We strive to maintain strong governance and financial reporting through the following actions:

- a system for the receipt and treatment of whistleblower complaints;
- a code of ethics for our President/CEO, Chief Financial Officer and Chief Credit Officer;
- open lines of communication between the independent auditors, management, and the Audit Committee;
- "plain English" disclosures;
- officer certification of accuracy and completeness of the financial statements; and,
- information disclosure through our website.

FORWARD-LOOKING INFORMATION

Our discussion contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," and "will," or other variations of these terms are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and/or the Farm Credit System; and,
- actions taken by the Federal Reserve System in implementing monetary policy.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements are based on accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because we have to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2 of the accompanying financial statements. The development and selection of critical accounting policies, and the related disclosures, have been reviewed by our Audit Committee. A summary of critical policies relating to the determination of the allowance for loan losses follows.

Allowance for Loan Losses

The allowance for loan losses is our best estimate of the amount of probable loan losses existing in and inherent in our loan portfolio as of the balance sheet date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan loss reversals and loan charge-offs. We determine the allowance for loan losses based on a regular evaluation of the loan portfolio, which generally considers recent historical charge-off experience adjusted for relevant factors.

Loans are evaluated based on the borrower's overall financial condition, resources, and payment record; the prospects for support from any financially responsible guarantor; and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical factors, internal risk ratings, regulatory oversight, and geographic, industry and other factors.

Changes in the factors we consider in the evaluation of losses in the loan portfolio could occur for various credit related reasons and could result in a change in the allowance for loan losses, which would have a direct impact on the provision for loan losses and results of operations. See Notes 2 and 3 to the accompanying financial statements for detailed information regarding the allowance for loan losses.

CUSTOMER PRIVACY

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

FARM CREDIT
OF NESS CITY

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REPORT OF MANAGEMENT

The financial statements of Farm Credit of Ness City, FLCA (Association) are prepared by management, who is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and in the opinion of management, fairly present the financial condition of the Association. Other financial information included in the 2014 annual report is consistent with that in the financial statements.

To meet its responsibility for reliable financial information, management depends on the Association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. To monitor compliance, CoBank, ACB's Internal Audit staff performed audits of the accounting records, reviewed accounting systems and internal controls, and recommended improvements as appropriate. The Association is also examined by the Farm Credit Administration.

The Audit Committee of the Board of Directors has overall responsibility for the Association's system of internal control and financial reporting. The Audit Committee consults regularly with management and reviews the results of the examinations by the various entities named above. The independent auditors have direct access to the Audit Committee.

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

Bill Briggs
William (Bill) Briggs
Chairman of the Board

Scott Stockwell
President and Chief Executive Officer

Doris J Scott
Doris J Scott
Chief Financial Officer

March 16, 2015

FARM CREDIT
OF NESS CITY

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AUDIT COMMITTEE REPORT

The Audit Committee (Committee) includes seven members from the Board of Directors of Farm Credit of Ness City, FLCA (Association). In 2014, 13 Committee meetings were held. The Committee oversees the scope of the Association's internal audit program, the independence of the outside auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter. The Committee approved the appointment of PricewaterhouseCoopers, LLP (PwC) as the Association's independent auditors for 2014.

The fees for professional services rendered for the Association by its independent auditor, PwC, during 2014 were $15,500 for audit services.

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

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

Based on the foregoing review and discussions and relying thereon, the Committee recommended that the Board of Directors include the Financial Statements in the Association's Annual Report to Shareholders for the year ended December 31, 2014 and for filing with the Farm Credit Association.

Jeannine Mondero

Jeannine Mondero, Chairman of the Audit Committee

<u>Audit Committee Members</u>

Howard Boese   Marion Ochs
Richard Deines   E. Vance Shay
Keith, Kennedy
William (Bill) Briggs, non-voting, ex-officio

March 16, 2015

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Independent Auditor's Report

To the Board of Directors of
Farm Credit of Ness City, FLCA

We have audited the accompanying financial statements of Farm Credit of Ness City, FLCA (the Association), which comprise the statement of condition as of December 31, 2014, 2013 and 2012, and the related statements of comprehensive income, of changes in shareholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 16, 2015

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Statement of Condition

(Dollars in Thousands)

	December 31		
	2014	2013	2012
ASSETS			
Loans	**$ 321,073**	$ 284,474	$ 235,282
Less allowance for loan losses	**108**	99	109
Net loans	**320,965**	284,375	235,173
Cash	**1,732**	1,381	3,209
Accrued interest receivable	**3,218**	2,835	2,447
Investment in CoBank, ACB	**10,382**	8,545	7,296
Premises and equipment, net	**1,691**	1,738	1,816
Prepaid benefit expense	**158**	169	191
Other assets	**1,929**	1,634	1,282
Total assets	**$ 340,075**	$ 300,677	$ 251,414
LIABILITIES			
Note payable to CoBank, ACB	**$ 273,775**	$ 238,595	$ 192,678
Accrued interest payable	**1,577**	2,325	2,526
Patronage distributions payable	**9**	-	-
Accrued benefits liability	**50**	49	46
Other liabilities	**1,042**	632	789
Total liabilities	**276,453**	241,601	196,039
Commitments and Contingencies (See Note 12)			
SHAREHOLDERS' EQUITY			
Protected borrower stock	**9**	10	10
Capital stock	**739**	729	713
Unallocated retained earnings	**62,874**	58,337	54,652
Total shareholders' equity	**63,622**	59,076	55,375
Total liabilities and shareholders' equity	**$ 340,075**	$ 300,677	$ 251,414

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

Statement of Comprehensive Income

(Dollars in Thousands)

	For the Year Ended December 31		
	2014	2013	2012
INTEREST INCOME			
Loans	**$ 12,296**	$ 10,965	$ 10,333
Other	**-**	-	2
Total interest income	**12,296**	10,965	10,335
INTEREST EXPENSE			
Note payable to CoBank, ACB	**4,464**	4,125	4,413
Total interest expense	**4,464**	4,125	4,413
Net interest income	**7,832**	6,840	5,922
Provision for loan losses/(Loan loss reversal)	**9**	(10)	(13)
Net interest income after provision for loan losses/(loan loss reversal)	**7,823**	6,850	5,935
NONINTEREST INCOME			
Financially related services income	**120**	120	152
Loan fees	**27**	38	76
Patronage distribution from Farm Credit institutions	**1,692**	1,462	1,182
Farm Credit Insurance Fund distribution	**-**	-	191
Mineral income	**346**	315	269
Other noninterest income	**14**	18	27
Total noninterest income	**2,199**	1,953	1,897
NONINTEREST EXPENSE			
Salaries and employee benefits	**1,781**	1,701	1,482
Occupancy and equipment	**126**	126	130
Purchased services from AgVantis, Inc.	**376**	343	342
Farm Credit Insurance Fund premium	**287**	194	84
Supervisory and examination costs	**94**	85	86
Other noninterest expense	**540**	520	464
Total noninterest expense	**3,204**	2,969	2,588
Net income/Comprehensive income	**$ 6,818**	$ 5,834	$ 5,244

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

Statement of Changes in Shareholders' Equity

(Dollars in Thousands)

	Protected Borrower Stock	Capital Stock	Unallocated Retained Earnings	Total Shareholders' Equity
Balance at December 31, 2011	$ 10	$ 746	$ 51,308	$ 52,064
Net income/Comprehensive income			5,244	5,244
Stock issued	-	59		59
Stock retired	-	(92)		(92)
Patronage distributions: Cash			(1,900)	(1,900)
Balance at December 31, 2012	10	713	54,652	55,375
Net income/Comprehensive income			5,834	5,834
Stock issued	-	70		70
Stock retired	-	(54)		(54)
Patronage Distributions: Cash			(2,149)	(2,149)
Balance at December 31, 2013	10	729	58,337	59,076
Net income/Comprehensive income			6,818	6,818
Stock issued	-	58		58
Stock retired	(1)	(48)		(49)
Patronage Distributions: Cash			(2,281)	(2,281)
Balance at December 31, 2014	**$ 9**	**$ 739**	**$ 62,874**	**$ 63,622**

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

Statement of Cash Flows

(Dollars in Thousands)

	For the Year Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income/Comprehensive income	**$ 6,818**	$ 5,834	$ 5,244
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:			
Depreciation	**92**	89	100
Provision for loan losses/(Loan loss reversal)	**9**	(10)	(13)
Stock patronage from CoBank	**(117)**	(108)	(89)
Allocated patronage from AgVantis	**(59)**	(60)	(47)
Gains on sales of premises and equipment	**-**	(1)	(14)
Change in assets and liabilities:			
(Increase)/Decrease in accrued interest receivable	**(383)**	(388)	682
Decrease in prepaid benefit expense	**11**	22	4
Increase in other assets	**(119)**	(184)	(129)
Decrease in accrued interest payable	**(748)**	(201)	(422)
Increase/(Decrease) in accrued benefits liability	**1**	3	(1)
Increase/(Decrease) in other liabilities	**410**	(157)	(779)
Total adjustments	**(903)**	(995)	(708)
Net cash provided by operating activities	**5,915**	4,839	4,536
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in loans, net	**(36,599)**	(49,192)	(23,983)
Increase in investment in CoBank	**(1,837)**	(1,249)	(593)
Expenditures for premises and equipment, net	**(45)**	(10)	(32)
Net cash used in investing activities	**(38,481)**	(50,451)	(24,608)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net draw on note payable to CoBank	**35,180**	45,917	24,400
Protected borrower stock retired	**(1)**	-	-
Capital stock retired	**(48)**	(54)	(92)
Capital stock issued	**58**	70	59
Cash patronage distributions paid	**(2,272)**	(2,149)	(1,900)
Net cash provided by financing activities	**32,917**	43,784	22,467
Net increase/(decrease) in cash	**351**	(1,828)	2,395
Cash at beginning of year	**1,381**	3,209	814
Cash at end of year	**$ 1,732**	$ 1,381	$ 3,209
SUPPLEMENTAL CASH INFORMATION:			
Cash paid during the year for interest	**$ 5,212**	$ 4,326	$ 4,835
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Stock patronage from CoBank	**$ 117**	$ 108	$ 89
Allocated patronage from AgVantis	**$ 59**	$ 60	$ 47
Patronage distributions currently payable	**$ 9**	$ -	$ -

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

NOTES TO FINANCIAL STATEMENTS

(Dollars in Thousands, Except as Noted)

NOTE 1 – ORGANIZATION AND OPERATIONS

A. Organization: Farm Credit of Ness City, FLCA ("the Association") is a member-owned cooperative which provides credit and credit-related services to or for the benefit of eligible borrowers/shareholders for qualified agricultural purposes in the counties of Gove, Sheridan, Lane, Ness, Trego and Hodgeman in the state of Kansas.

The Association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, which was established by Acts of Congress to meet the credit needs of American agriculture and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act). At December 31, 2014, the System was comprised of three Farm Credit Banks, one Agricultural Credit Bank and 77 associations.

Effective January 1, 2012, U.S. AgBank, FCB (AgBank) merged with and into CoBank, FCB, a wholly owned subsidiary of CoBank, ACB (CoBank). As a result of the merger, CoBank became the funding bank of the Association beginning January 1, 2012.

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

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

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System Banks and Associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). By law, the Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected stock at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary use by the Insurance Corporation in providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System Bank is required to pay premiums, which may be passed on to the Associations, into the Insurance Fund based on its annual average outstanding insured debt adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments until the assets in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2.0 percent of the aggregate Insured Debt or such other percentage of the Insured Debt as the Insurance Corporation, in its sole discretion, determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums, as necessary to maintain the Insurance Fund at the 2.0 percent level. As required by the Farm Credit Act, as amended, the Insurance Corporation may return excess funds above the secure base amount to System institutions. The Bank passes this premium expense and the return of excess funds as applicable through to each Association based on the Association's average adjusted note payable with the Bank.

B. Operations: The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow, and financial services which can be provided by the Association. The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents and farm-related businesses.

The Association also offers credit life insurance, multi-peril crop and crop hail insurance, and provides additional services to borrowers such as leasing and fee appraisal services.

The Association's financial condition may be impacted by factors affecting CoBank. The CoBank Annual Report is available free of charge on CoBank's website, www.cobank.com; or may be obtained at no charge by contacting the Association at 101 Eagle Drive, Ness City, Kansas 67560-1001, or by calling (785) 798-2278 or (800) 950-3522. Upon request, Association shareholders will be provided with a copy of the CoBank Annual Report. The CoBank Annual Report discusses the material aspects of CoBank's and District's financial condition, changes in financial condition, and results of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Recently issued or adopted accounting pronouncements follow.

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

Below is a summary of our significant accounting policies.

A. Loans and Allowance for Loan Losses: Long-term real estate mortgage loans generally have original maturities ranging from five to 40 years. Substantially all short- and intermediate-term loans made for agricultural production or operating purposes have maturities of ten years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. Loan origination fees and direct loan origination costs are capitalized and the net fee or cost is amortized over the life of the related loan as an adjustment to yield.

   Impaired loans are loans for which it is probable that principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan contract is not received on or before the due date. A loan shall remain contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred is collected in full or otherwise discharged.

   Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately collateralized and in the process of collection) or when circumstances indicate that collection of principal and/or interest is in doubt. Additionally, all loans over 180 days past due are placed in nonaccrual status. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or included in the recorded nonaccrual balance (if accrued in prior years). Loans are charged-off at the time they are determined to be uncollectible.

   A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider.

   When loans are in nonaccrual status, loan payments are generally applied against the recorded nonaccrual balance. A nonaccrual loan may, at times, be maintained on a cash basis. As a cash basis nonaccrual loan, the recognition of interest income from cash payments received is allowed when the collectibility of the recorded investment in the loan is no longer in doubt and the loan does not have a remaining unrecovered charge-off associated with it. Nonaccrual loans may be returned to accrual status when all contractual principal and interest is current, the borrower has demonstrated payment performance, there are no unrecovered prior charge-offs and collection of future payments is no longer in doubt. If previously unrecognized interest income exists at the time the loan is transferred to accrual status, cash received at the time of or subsequent to the transfer is first recorded as interest income until such time as the recorded balance equals the contractual indebtedness of the borrower.

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

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

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

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

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated, the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective interest rate, or at the fair value of the collateral, if the loan is collateral dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model as previously discussed.

B. Cash: Cash, as included in the financial statements, represents cash on hand and on deposit at financial institutions.

C. Investment in CoBank: The Association's required investment in CoBank is in the form of Class A Stock. The minimum required investment is 4.00 percent of the prior year's average direct loan volume. The investment in CoBank is comprised of patronage based stock and purchased stock. The requirement for capitalizing its patronage-based participation loans sold to CoBank is 8.00 percent of the prior ten-year average of such participations sold to CoBank.

D. Premises and Equipment: Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Estimated useful life for the building is 40 years and ranges from 3 to 8 years for furniture, equipment and automobiles. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are expensed and improvements above certain thresholds are capitalized.

E. Other Assets and Other Liabilities: Other assets are comprised primarily of accounts receivable, prepaid expenses, and investment in Farm Credit institutions. Significant components of other liabilities primarily include accounts payable and employee benefits.

F. Employee Benefit Plans: Substantially all employees of the Association participate in the Ninth Farm Credit District Pension Plan (Pension Plan) and/or the Farm Credit Foundations Defined Contribution/401(k) Plan (401(k) Plan). The Pension Plan is a non-contributory defined benefit plan. Benefits are based on compensation and years of service. The Association recognizes its proportional share of expense and contributes its proportional share of funding. The Pension Plan was closed to employees beginning January 1, 2007.

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

   The Association also participates in the Farm Credit Foundations Retiree Medical Plan. These postretirement benefits (other than pensions) are provided to eligible retired employees of the Association. The anticipated costs of these benefits were accrued during the period of the employee's active service. The authoritative accounting guidance requires the accrual of the expected cost of providing postretirement benefits during the years that the employee renders service necessary to become eligible for these benefits.

G. Patronage Distribution from CoBank: Patronage distributions from CoBank are accrued by the Association in the year earned.

H. Income Taxes: The Association is exempt from federal and other income taxes as provided in the Farm Credit Act.

I. Fair Value Measurement: Accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. It describes three levels of inputs that may be used to measure fair value:

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

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

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

The fair value disclosures are presented in Note 13.

J. Off-balance-sheet credit exposures: Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans follows.

	December 31		
	2014	2013	2012
Real estate mortgage	$ 276,937	$ 240,575	$ 198,451
Production and intermediate-term	19,019	13,517	15,534
Agribusiness:			
Processing and marketing	23,424	28,824	19,590
Farm related business	278	162	74
Rural residential real estate	1,415	1,396	1,633
Total loans	$ 321,073	$ 284,474	$ 235,282

The Association purchases or sells loan participations with Farm Credit institutions in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding participations purchased and sold as of December 31, 2014:

	Purchased	Sold
Real estate mortgage	$ 3,117	$ 52,283
Production and intermediate-term	19,019	–
Agribusiness	23,424	–
Total	$ 45,560	$ 52,283

The Association's concentration of credit risk in various agricultural commodities is shown in the following table.

	December 31					
	2014		2013		2012	
SIC Category	Amount	Percent	Amount	Percent	Amount	Percent
Wheat	$ 93,368	29.08%	$ 75,471	26.53%	$ 72,443	30.79%
Corn	81,713	25.45%	69,610	24.47%	47,409	20.15%
Cattle	68,068	21.20%	56,668	19.92%	57,504	24.44%
Other	77,924	24.27%	82,725	29.08%	57,926	24.62%
Total	$ 321,073	100.00%	$ 284,474	100.00%	$ 235,282	100.00%

While the percentages shown in the previous table represent the relative amounts of the Association's potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's loans are collateralized. Accordingly, the Association's exposure to credit loss associated with lending activities is considerably less than the recorded loan balances. An estimate of the Association's current loss exposure is indicated in the financial statements in the allowance for loan losses.

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

Credit enhancements with federal government agencies of $6,055 at year-end 2014, $6,233 at year-end 2013 and $6,513 at year-end 2012 were outstanding. Farm Service Agency (FSA) loan guarantees are utilized when appropriate to manage credit risk. Typically, the Association has a 90% guarantee from the FSA which would insure that our loss on a guaranteed loan would not exceed 10% of the original loan balance in the event that we instituted foreclosure and collected the loan after liquidation of all loan collateral secured.

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

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

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification system as a percentage of total loans and related accrued interest receivable by loan type as of December 31.

	2014	2013	2012
Real estate mortgage			
Acceptable	98.68%	98.92%	98.47%
OAEM	0.98%	1.00%	1.39%
Substandard	0.34%	0.08%	0.14%
Total	100.00%	100.00%	100.00%
Production and intermediate-term			
Acceptable	98.72%	100.00%	100.00%
Substandard	1.28%	–	–
Total	100.00%	100.00%	100.00%
Agribusiness			
Acceptable	100.00%	100.00%	96.05%
OAEM	–	–	3.95%
Total	100.00%	100.00%	100.00%
Rural residential real estate			
Acceptable	97.98%	97.82%	98.04%
OAEM	2.02%	2.18%	1.96%
Total	100.00%	100.00%	100.00%
Total Loans			
Acceptable	98.78%	99.08%	98.37%
OAEM	0.85%	0.86%	1.52%
Substandard	0.37%	0.06%	0.11%
Total	100.00%	100.00%	100.00%

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Nonaccrual volume was $22 at December 31, 2014, $33 at December 31, 2013 and $44 at December 31, 2012. At year-end 2014, 2013 and 2012, all nonaccrual volume was past due. All nonaccrual volume was real estate mortgage for the years presented. There were no loans classified as accruing restructured or accruing loans 90 days or more past due for the years presented. There were no material commitments to lend additional funds to debtors whose loans were classified impaired for the years presented.

Additional impaired loan information is as follows:

	Recorded Investment at 12/31/14	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 22	$ 23		$ 23	$ 1
Total	$ 22	$ 23		$ 23	$ 1

	Recorded Investment at 12/31/13	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 33	$ 33		$ 60	$ 2
Total	$ 33	$ 33		$ 60	$ 2

	Recorded Investment at 12/31/12	Unpaid Principal Balance*	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 44	$ 43		$ 90	$ 11
Total	$ 44	$ 43		$ 90	$ 11

* Unpaid principal balance represents the recorded principal balance of the loan

No impaired loans had a related allowance as of December 31, 2014, 2013 and 2012.

Interest income is recognized and cash payments are applied on nonaccrual impaired loans as described in Note 2. Interest income on nonaccrual loans was $1 in 2014, $2 in 2013 and $11 in 2012.

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

	For the Year Ended December 31		
	2014	2013	2012
Interest income which would have been recognized under the original loan terms	$ 1	$ 1	$ 7
Less: interest income recognized	1	2	11
Interest income (recognized)/foregone	$ –	$ (1)	$ (4)

The following table provides an age analysis of past due loans (including accrued interest).

December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 982	$ –	$ 982	$278,974	$ 279,956	$ –
Production and intermediate-term	248	–	248	18,882	19,130	–
Agribusiness	–	–	–	23,786	23,786	–
Rural residential real estate	–	–	–	1,419	1,419	–
Total	$ 1,230	$ –	$ 1,230	$ 323,061	$ 324,291	$ –

December 31, 2013	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 33	$ –	$ 33	$ 243,171	$ 243,204	$ –
Production and intermediate-term	12	–	12	13,623	13,635	–
Agribusiness	–	–	–	29,070	29,070	–
Rural residential real estate	–	–	–	1,400	1,400	–
Total	$ 45	$ –	$ 45	$ 287,264	$ 287,309	$ –

December 31, 2012	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or less than 30 Days Past Due	Total Loans	Recorded Investment > 90 Days and Accruing
Real estate mortgage	$ 80	$ –	$ 80	$ 200,558	$ 200,638	$ –
Production and intermediate-term	24	–	24	15,625	15,649	–
Agribusiness	–	–	–	19,804	19,804	–
Rural residential real estate	–	–	–	1,638	1,638	–
Total	$ 104	$ –	$ 104	$ 237,625	$ 237,729	$ –

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

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The Association recorded no trouble debt restructurings during any of the years presented.

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

	Balance at December 31, 2013	Charge-offs	Recoveries	Provision for loan losses/ (Loan Loss Reversals)	Balance at December 31, 2014
Real estate mortgage	$ 37	$ –	$ –	$ 9	$ 46
Production and intermediate-term	15	–	–	6	21
Agribusiness	47	–	–	(6)	41
Total	$ 99	$ –	$ –	$ 9	$ 108

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for loan losses/ (Loan Loss Reversals)	Balance at December 31, 2013
Real estate mortgage	$ 45	$ –	$ –	$ (8)	$ 37
Production and intermediate-term	10	–	–	5	15
Agribusiness	53	–	–	(6)	47
Rural residential real estate	1	–	–	(1)	–
Total	$ 109	$ –	$ –	$ (10)	$ 99

	Balance at December 31, 2011	Charge-offs	Recoveries	Provision for loan losses/ (Loan Loss Reversals)	Balance at December 31, 2012
Real estate mortgage	$ 61	$ –	$ –	$ (16)	$ 45
Production and intermediate-term	19	–	–	(9)	10
Agribusiness	41	–	–	12	53
Rural residential real estate	1	–	–	–	1
Total	$ 122	$ –	$ –	$ (13)	$ 109

	Allowance for Credit Losses Ending Balance at December 31, 2014		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2014	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 46	$ 22	$ 279,934
Production and intermediate-term	–	21	–	19,130
Agribusiness	–	41	–	23,786
Rural residential real estate	–	–	–	1,419
Total	$ –	$ 108	$ 22	$ 324,269

	Allowance for Credit Losses Ending Balance at December 31, 2013		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2013	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 37	$ 33	$ 243,171
Production and intermediate-term	–	15	–	13,635
Agribusiness	–	47	–	29,070
Rural residential real estate	–	–	–	1,400
Total	$ –	$ 99	$ 33	$ 287,276

	Allowance for Credit Losses Ending Balance at December 31, 2012		Recorded Investment in Loans Outstanding Ending Balance at December 31, 2012	
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment
Real estate mortgage	$ –	$ 45	$ 44	$ 200,594
Production and intermediate-term	–	10	–	15,649
Agribusiness	–	53	–	19,804
Rural residential real estate	–	1	–	1,638
Total	$ –	$ 109	$ 44	$ 237,685

NOTE 4 – INVESTMENT IN COBANK

At December 31, 2014, the Association's investment in CoBank is in the form of Class A stock with a par value of $100.00 per share. The Association is required to own stock in CoBank to capitalize its direct loan balance and participation loans sold to CoBank. The current requirement for capitalizing its direct loan from CoBank is 4.00 percent of the Association's prior year average direct loan balance. The 2014 requirement for capitalizing its patronage-based participation loans sold to CoBank is 8.00 percent of the Association's prior ten-year average balance of such participation sold to CoBank. Under the current CoBank capital plan applicable to such participation sold, patronage from CoBank related to these participation sold is paid 75 percent cash and 25 percent Class A stock. The capital plan is evaluated annually by CoBank's board of directors and management and is subject to change.

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

The Association owned approximately 0.38 percent of the outstanding common stock of CoBank at December 31, 2014.

NOTE 5 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following.

	December 31		
	2014	2013	2012
Land	$ 47	$ 47	$ 47
Building and leasehold improvements	1,794	1,791	1,791
Furniture, equipment and automobiles	310	275	277
	2,151	2,113	2,115
Less: accumulated depreciation	460	375	299
Total	$ 1,691	$ 1,738	$ 1,816

NOTE 6 – NOTE PAYABLE TO COBANK

The Association's indebtedness to CoBank represents borrowings by the Association to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and is governed by a General Financing Agreement (GFA) which provides for an open-ended revolving line of credit. The GFA and promissory note are subject to periodic renewals in the normal course of business. The GFA matures on May 31, 2018. Management expects renewal of the GFA at that time. The Association was in compliance with the terms and conditions of the GFA as of December 31, 2014. Substantially all borrower loans are match-funded with CoBank. Payments and disbursements are made on the note payable to CoBank on the same basis the Association collects payments from and disburses on borrower loans. The interest rate may periodically be adjusted by CoBank based on the terms and conditions of the borrowing. The weighted average interest rate was 1.75 percent for the year ended December 31, 2014, compared with 1.95 percent at December 31, 2013, and 2.44 percent at December 31, 2012.

The Association has the opportunity to commit loanable funds with CoBank under a variety of programs at either fixed or variable rates for specified timeframes. Participants in the program receive a credit on the committed loanable funds balance classified as a reduction of interest expense. These committed funds are netted against the note payable to the Bank. The average committed funds as of December 31 are as follows:

	2014	2013	2012
Committed funds	$ 49,163	$ 47,462	$ 44,323
Average rates	1.20%	1.40%	1.58%

Under the Farm Credit Act, the Association is obligated to borrow only from CoBank, unless CoBank gives approval to borrow elsewhere. CoBank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2014, the Association's notes payable was within the specified limitations.

NOTE 7 – SHAREHOLDERS' EQUITY

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

A. Protected Borrower Stock

   Protection of certain stock is provided under the Farm Credit Act which requires the Association, when retiring protected stock, to retire it at par or stated value regardless of its book value. Protected stock includes stock and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If the Association is unable to retire protected stock at par value or stated value, amounts required to retire this stock would be obtained from the Insurance Fund.

B. Capital Stock

In accordance with the Farm Credit Act, each borrower is required to invest in the Association as a condition of borrowing. The borrower normally acquires ownership of the stock at the time the loan is made, but usually does not make a cash investment. Generally, the aggregate par value of the stock is added to the principal amount of the related loan obligation. The Association has a first lien on the stock owned by its borrowers. At the discretion of the Board of Directors, retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock.

Capitalization bylaws allow stock requirements to range from the lesser of one thousand dollars or 2.00 percent of the amount of the loan to 10.00 percent of the loan. The Board of Directors has the authority to change the minimum required stock level of a shareholder as long as the change is within this range. Currently, the Association has a stock requirement of the lesser of one thousand dollars or 2.00 percent of the amount of the borrower's combined loan volume.

C. Regulatory Capitalization Requirements and Restrictions

The FCA's capital adequacy regulations require the Association to maintain permanent capital of 7.00 percent of average risk-adjusted assets. Failure to meet the requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. The FCA regulations also require other additional minimum standards for capital be maintained. These standards require all System institutions to achieve and maintain ratios of total surplus as a percentage of average risk-adjusted assets of 7.00 percent and of core surplus (generally unallocated surplus) as a percentage of average risk-adjusted assets of 3.50 percent. At December 31, 2014, the Association's permanent capital ratio was 16.40 percent, total surplus ratio was 16.18 percent and core surplus ratio was 16.18 percent.

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

D. Description of Equities

The following paragraphs describe the attributes of each class of stock authorized by the Association bylaws and indicate the number of shares outstanding at December 31, 2014. Unless otherwise indicated all classes of stock have a par value of $5.00.

Class A Preferred Stock (Nonvoting, at-risk, no shares outstanding) - Represents Association retained earnings, dividends or patronage distributions allocated on or after October 6, 1988. This stock may also represent Class B or Class C Common Stock of a borrower which automatically converts to Class A two years after repayment of the loan in full. Retirement is at the sole discretion of the Board of Directors.

Class B Common Stock (Voting, at-risk, 143,860 shares outstanding) - Issued on or after October 6, 1988, for farm and ranch loans. Retirement is at the sole discretion of the Board of Directors. If the Association is unable to retire Class B Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class C Common Stock (Nonvoting, at-risk, 3,671 shares outstanding) - Issued on or after October 6, 1988, for farm-related and rural home loans and to other persons or organizations who are eligible to borrow but are not eligible to hold voting stock. Retirement is at the sole discretion of the Board of Directors. If the Association is unable to retire Class C Common Stock, or if the borrower elects to keep his/her investment in the Association after repayment of the loan in full, the stock must be converted to Class A Preferred Stock within two years.

Class D Investor Stock (Nonvoting, at-risk, 200 shares outstanding, par value of one thousand dollars) - Available to outside parties.

Class E Preferred Stock (Nonvoting, at-risk, no shares outstanding, par value of one thousand dollars) - Issued only to CoBank in consideration of financial assistance to the Association from CoBank. Retirement is at the sole discretion of the Board of Directors.

Class F Common Stock (Voting, protected, 1,825 shares outstanding) - Issued prior to October 6, 1988, to borrowers entitled to vote. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association. If so, the stock must be converted to Class G Common Stock within two years after loan repayment in full.

Class G Common Stock (Nonvoting, protected, no shares outstanding) - Formerly participation certificates, this represents stock issued prior to October 6, 1988, to rural residence borrowers and others not eligible to vote. This stock may also represent Class F Common Stock of a borrower which automatically converts to Class G Common Stock two years after repayment of the loan in full. It must be retired at par value upon repayment of the loan unless the borrower elects to retain his/her investment in the Association.

The changes in the number of shares of protected and capital stock outstanding during 2014 are summarized in the following table.

Shares in whole numbers	Protected	Capital
Balance outstanding at January 1, 2014	2,011	145,809
Issuances	–	11,531
Retirements	(186)	(9,609)
Balance outstanding at December 31, 2014	1,825	147,731

E. Patronage and/or Dividends

Dividends may be declared or patronage distributions allocated to holders of Class B, C, F and G Stock out of the whole or any part of net earnings which remain at the end of the fiscal year, as the Board of Directors may determine, in accordance with the regulations for banks and associations of the System. However, distributions and retirements are precluded by regulation until the minimum capital adequacy standards have been attained. Amounts not distributed are retained as unallocated retained earnings. The Association made a cash patronage distribution of $2,281 in 2014, $2,149 in 2013 and $1,900 in 2012. The Association contemplates a patronage distribution in 2015.

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities shall be distributed to retire stock in the following order of priority: first, to Class E Preferred Stock, then Class A Preferred Stock; second, pro rata to all classes of common stock and investor stock. Any remaining assets of the Association after such distributions shall be distributed to holders of all classes of common stock, pro rata.

NOTE 8 – PATRONAGE DISTRIBUTION FROM FARM CREDIT INSTITUTIONS

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

	2014	2013	2012
CoBank	$ 1,617	$ 1,384	$ 1,119
AgVantis	73	74	59
Farm Credit Foundations	2	4	4
Total	$ 1,692	$ 1,462	$ 1,182

Patronage distributed from CoBank was in cash and stock. The amount earned in 2014 was accrued and will be paid by CoBank in March 2015. The amount earned and accrued in 2013 was paid by CoBank in March 2014. The amount declared in December 2012 by CoBank was accrued in 2012 and was paid in March 2013.

Patronage distribution from AgVantis was in the form of a Notice of Allocation; 20 percent was distributed in cash with the balance of the allocation recorded as an investment in AgVantis which is recorded in other assets in the year received.

Patronage distributed by Farm Credit Foundations was in cash and was recorded in the year received. Farm Credit Foundations, a human resource service provider for a number of Farm Credit institutions, provides our payroll and human resource services.

NOTE 9 – EMPLOYEE BENEFIT PLANS

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

The defined benefit pension plan reflects an unfunded liability totaling $89.8 million at December 31, 2014. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the plan was $242.1 million at December 31, 2014, $203.2 million at December 31, 2013 and $210.1 million at December 31, 2012. The fair value of the plan assets was $152.3 million at December 31, 2014, $144.7 million at December 31, 2013 and $116.2 million at December 31, 2012. The amount of the pension benefits funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to its current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. The Association recognizes its proportional share of expense and contributes a proportional share of funding. Total plan expense for participating employers was $12.9 million in 2014, $15.8 million in 2013 and $25.4 million in 2012. The Association's allocated share of plan expenses included in salaries and employee benefits was $240 in 2014, $296 in 2013, and $242 in 2012. Participating employers contributed $11.1 million in 2014, $14.6 million in 2013 and $12.8 million in 2012 to the plan. The Association's allocated share of these pension contributions was $229 in 2014, $274 in 2013, and $238 in 2012. While the plan is a governmental plan and is not subject to minimum funding requirements, 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. The amount of the total employer contributions expected to be paid into the pension plans during 2015 is $13.0 million. The Association's allocated share of these pension contributions is expected to be $259. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than anticipated.

Postretirement benefits other than pensions are provided through the Farm Credit Foundations Retiree Medical Plan to retired employees of the Association. Benefits provided are determined on a graduated scale based on years of service. The anticipated costs of these benefits were accrued during the period of the employee's active service. Postretirement benefits expense (primarily health care benefits) included in salaries and employee benefits were $2 in 2014, 2013 and 2012. These expenses are equal to the Association's cash contributions for each year.

The Association also participates in the Farm Credit Foundations Defined Contribution/401(k) Plan. Employees who do not participate in the Pension Plan may receive benefits through the Employer Contribution portion of the Contribution Plan. In this plan, the Association provides a monthly contribution based on a defined percentage of the employee's salary. Employees may also participate in a Salary Deferral Plan governed by Section 401(k) of the Internal Revenue Code. The Association matches a certain percentage of employee contributions to the plan. Employer contributions to the Contribution Plan were $83 in 2014, $75 in 2013 and $62 in 2012.

NOTE 10 – RELATED PARTY TRANSACTIONS

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

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

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

	2014	2013	2012
New loans	$ 2,013	$ 4,979	$ 1,072
Repayments	$ 1,078	$ 1,244	$ 1,114
Ending balance	$ 10,936	$ 9,863	$ 5,665

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

The Association also has business relationships with certain other System entities. The Association paid $376 in 2014, $343 in 2013 and $342 in 2012 to AgVantis for technology services and $56 in 2014, $43 in 2013 and $41 in 2012 to CoBank for operational services. The Association paid $60 in 2014, $54 in 2013, and $52 in 2012 to Foundations for human resource services.

NOTE 11 – REGULATORY ENFORCEMENT MATTERS

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

NOTE 12 – COMMITMENTS AND CONTINGENCIES

The Association has various commitments outstanding and contingent liabilities. With regard to contingent liabilities, there are no actions pending against the Association in which claims for monetary damages are asserted.

The Association may participate in financial instruments with off-balance sheet risk to satisfy the financing needs of its borrowers and to manage their exposure to interest-rate risk. These financial instruments include commitments to extend credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2014, $21,721 of commitments to extend credit were outstanding.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Statement of Condition until funded or drawn upon. The credit risk associated with issuing commitments is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

NOTE 13 – FAIR VALUE MEASUREMENTS

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

The Association has no assets or liabilities measured at fair value for any of the periods presented.

The estimated fair values of the Association's financial instruments recorded at carrying amount on the Statement of Condition follow.

	December 31					
	2014		2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Loans, net	$ 320,965	$ 320,739	$ 284,375	$ 281,943	$ 235,173	$ 238,779
Cash	$ 1,732	$ 1,732	$ 1,381	$ 1,381	$ 3,209	$ 3,209
Financial liabilities:						
Note payable to CoBank	$ 273,775	$ 273,831	$ 238,595	$ 235,273	$ 192,678	$ 195,198

Valuation Techniques

As more fully discussed in Note 2, accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair values of financial instruments represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability in active markets among willing participants at the reporting date. Due to the uncertainty of expected clash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain of the estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction. The following presents a brief summary of the valuation techniques used by the Association for assets and liabilities subject to fair value measurement:

Loans

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

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

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

With regards to impaired loans, it is not practicable to provide specific information on inputs as each collateral property is unique. For certain loans evaluated for impairment under accounting impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established and the net loan is reported at its fair value.

Cash

The carrying value is a reasonable estimate of fair value.

Note Payable to the Funding Bank

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets), which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current interest rate that would be charged for borrowings. For purposes of this estimate, it is assumed the cash flow on the notes payable is equal to the principal payments on the Association's loan receivables plus accrued interest on the notes payable.

Commitments to Extend Credit and Standby Letters of Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit approximate the fees currently charged for similar agreements or the estimated cost to terminate or otherwise settle similar obligations. These are generally classified as Level 3 and are valued by using discounted cash flows with unobservable inputs of rate of funding and risk-adjusted spread. As of December 31, 2014, 2013 and 2012, the fair value was considered nominal.

NOTE 14 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly results of operations for the years ended December 31, 2014, 2013 and 2012, follow.

	2014				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,861	$ 1,927	$ 1,998	$ 2,046	$ 7,832
Provision for loan losses	–	–	–	9	9
Noninterest expense, net	344	142	243	276	1,005
Net income	$ 1,517	$ 1,785	$ 1,755	$ 1,761	$ 6,818

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,600	$ 1,665	$ 1,760	$ 1,815	$ 6,840
Provision for loan losses/(Loan loss reversal)	4	(5)	2	(11)	(10)
Noninterest expense, net	341	297	150	228	1,016
Net income	$ 1,255	$ 1,373	$ 1,608	$ 1,598	$ 5,834

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 1,374	$ 1,449	$ 1,547	$ 1,552	$ 5,922
(Loan loss reversal)/Provision for loan losses	(12)	4	3	(8)	(13)
Noninterest expense, net	333	34	109	215	691
Net income	$ 1,053	$ 1,411	$ 1,435	$ 1,345	$ 5,244

NOTE 15 – SUBSEQUENT EVENTS

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

DISCLOSURE INFORMATION REQUIRED BY FARM CREDIT ADMINISTRATION REGULATIONS

(Amounts in Whole Dollars)

DESCRIPTION OF BUSINESS

The description of the territory served, persons eligible to borrow, types of lending activities engaged in and financial services offered, and related Farm Credit organizations required to be disclosed in this section is incorporated herein by reference from Note 1 to the financial statements, "Organization and Operations," included in this annual report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, required to be disclosed in this section, is incorporated herein by reference from "Management's Discussion and Analysis" (MD&A) included in this annual report to shareholders.

DESCRIPTION OF PROPERTY

The following table sets forth certain information regarding the properties of the Association:

Location	Description	Form of Ownership
101 Eagle Drive Ness City, Kansas	7,660 Square Feet Frame Office Building	Owned

LEGAL PROCEEDINGS AND ENFORCEMENT ACTIONS

Information required to be disclosed in this section is incorporated herein by reference from Note 11 to the financial statements, "Regulatory Enforcement Matters," and Note 12 to the financial statements, "Commitments and Contingencies," included in this annual report to shareholders.

DESCRIPTION OF CAPITAL STRUCTURE

Information required to be disclosed in this section is incorporated herein by reference from Note 7 to the financial statements, "Shareholders' Equity," included in this annual report to shareholders.

DESCRIPTION OF LIABILITIES

The description of debt outstanding required to be disclosed in this section is incorporated herein by reference from Note 6 to the financial statements, "Note Payable to CoBank," included in this annual report to shareholders.

The description of advance conditional payments is incorporated herein by reference to Note 2 to the financial statements, "Summary of Significant Accounting Policies," included in this annual report to shareholders.

The description of contingent liabilities required to be disclosed in this section is incorporated herein by reference from Note 12 included in this annual report to shareholders.

SELECTED FINANCIAL DATA

The selected financial data for the five years ended December 31, 2014, required to be disclosed in this section is incorporated herein by reference from the "Five-Year Summary of Selected Financial Data," included in this annual report to shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

"Management's Discussion and Analysis," which appears within this annual report to shareholders and is required to be disclosed in this section, is incorporated herein by reference.

DIRECTORS AND SENIOR OFFICERS

The following reflects the past 5 year's business experience for each director and senior officer and represents certain information regarding the directors and senior officers of the Association.

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DIRECTORS

William Briggs	- Chairman, serving a three-year term which expires in 2015. Mr. Briggs also serves as CoBank District Farm Credit Council Representative. He is a farmer and stockman. He is Elder and Treasurer of the Bible Fellowship Church in Dighton. He is an American Legion and VFW member. Mr. Briggs was in the U.S. Navy and is a Vietnam veteran.
Keith Kennedy	- Vice Chairman of the Board, serving a three-year term which expires in 2017. Mr. Kennedy also serves as a representative on the CoBank Association Leadership Committee. He holds a B.S. in Accounting from Fort Hays State University. Mr. Kennedy is a farmer and stockman.
Howard Boese	- Director, serving a three-year term which expires in 2017. Mr. Boese also serves as Audit Committee Vice Chairman. He is a farmer and stockman. Mr. Boese past board service includes 12 years on the Board of USD #304 (Bazine) and he is a past Supervisor of the Ness County Conservation District Board.
Richard Deines	- Director, serving a three-year term which expires in 2016. Mr. Deines serves as Vice-Chairman of the Compensation Committee. His principal occupation is farming. Mr. Deines is a member of the Zion Lutheran Church in Trego Center, American Legion and VFW. He was in the U.S. Army and is a Vietnam veteran.
Jeannine Mondero	- Appointed Director, serving a three-year term that expires in 2017. Mrs. Mondero serves as Chairperson of the Audit Committee. She serves as Ness City Rotary Club Treasurer and is a member of PEO. She holds an MBA from Fort Hays State University and is a recently retired Certified Public Accountant after 36 years of working in public accounting.
Marion Ochs	- Director, serving a three-year term which expires in 2016. His principal occupation is farming. Mr. Ochs attends the First Southern Baptist Church.
E. Vance Shay, Jr.	- Director, serving a three-year term that expires in 2015. Mr. Shay serves as Chairman of the Compensation Committee. Mr. Shay is a farmer and stockman and is actively involved in the daily operations of his family owned farm, Shay Farms. He holds a B.S. in Agricultural Economics from Fort Hays State University.

OFFICERS

Scott Stockwell	- President, Chief Executive Officer (CEO), and Chief Credit Officer (CCO) since June 1986. Mr. Stockwell has been an employee of the Farm Credit System for the past 34 years.
Ron Pridey	- Senior Vice President–Evaluation and Risk Management. Mr. Pridey joined Farm Credit of Ness City in January 1984. Mr. Pridey is a State certified appraiser. His experience is in quality control and training appraisal staff.
Dennis McNinch	- Senior Vice President–Lending. Mr. McNinch has been an employee of the Farm Credit System for 29 years. He has been with this Association since October 1987. His experience is in agricultural lending.
Eldon Pfannenstiel	- Senior Vice President. Mr. Pfannenstiel has been an employee of the Farm Credit System for 26 years. He has been with this Association since March 1990. His experience is in agricultural lending.
Doris Scott	- Financial and Reporting Administrator and Chief Financial Officer (CFO). Ms. Scott joined Farm Credit of Ness City in April 1987 as a Loan Processor. She served as the Operations Supervisor/Chief Financial Officer from January 2005 to April 2010 and has been serving as the Financial and Reporting Administrator/Chief Financial Officer of this Association since April 2010. Her experience has been with loan processing, Association finance, reporting and internal controls.
Janel Schroeder	- Vice President Operations. Ms. Schroeder began her career with Farm Credit of Ness City, FLCA in May 2002 being hired as the Secretary. She began serving as the Loan Processor in January 2005 and was promoted to Operations Supervisor in 2010 and to Vice President-Operations in 2013. Her experience is in loan processing, reporting, and training and supervising the support staff.

Unaudited

Neil Wilson - Assistant Vice President. Mr. Wilson began his career with Farm Credit of Ness City, FLCA in September 2011 as a Loan Officer. He was promoted to Assistant Vice President in February 2013. Prior to his employment with the Association, he served in multiple financial and administrative management positions in rural hospitals. His experience is in agricultural lending.

COMPENSATION OF DIRECTORS AND OFFICERS

Directors of the Association were compensated for services on a per diem basis at the rate of $450 per day, and were reimbursed mileage at the rate of $0.56 per mile. Directors were also compensated for conference call board meetings at the rate of $50 for the first thirty minutes or less, and an additional $50 for each additional thirty minutes or fraction thereof.

The Compensation and Audit committee meetings were held in conjunction with the regular board meetings, so no additional compensation was paid to the directors for these meetings.

Additional information for each director is provided below:

Name	Number of Days Served at Board Meetings	Number of Days Served in Other Official Activities	Board Meetings & Other Official Duties Comp	Conference Calls	Total Compensation Paid During 2014
William Briggs	11	9	$ 9,000	$ 150	$ 9,150
Keith Kennedy	10	9	8,550	150	8,700
Howard Boese	11	6	7,650	150	7,800
Richard Deines	11	6	7,650	50	7,700
Jeannine Mondero	9	6	6,750	550	7,300
Marion Ochs	10	4	6,300	150	6,450
E. Vance Shay, Jr.	10	2	5,400	150	5,550
Total Compensation			$ 51,300	$ 1,350	$ 52,650

Directors and officers are reimbursed for travel, subsistence and other expenses related to Association business according to Association policy. A copy of this policy is available to shareholders upon request. Aggregate reimbursements to directors for travel, subsistence and other related expenses were $36,482 in 2014, $46,158 in 2013 and $32,779 in 2012. There was no non-cash compensation paid to directors during 2014.

Information on the President/CEO's, officers and highly compensated individuals follows.

President/CEO	Year	Salary	Administrative Performance Pay	Change in Pension Value (4)	Deferred/ Perq (5)	Other (6)	Total
Scott Stockwell	2014	$ 199,867	$ 50,175	$ 214,606	$ 13,370	$ –	$ 478,018
Scott Stockwell	2013	$ 189,842	$ 30,512	$ 34,027	$ 11,299	$ 825	$ 266,505
Scott Stockwell	2012	$ 180,509	$ 28,864	NA	$ –	$ –	$ 209,373

Aggregate Number of Officers/Highly Compensated Individuals (excluding CEO)	Year	Salary	Administrative Performance Pay	Loan Officer Incentive Plan	Change in Pension Value (4)	Deferred/ Perq (5)	Total
7	2014	$ 616,901	$ 59,805	$ 237,622	$ 711,260	$ 58,457	$ 1,684,045
6	2013	$ 520,259	$ 35,683	$ 224,649	$ 203,730	$ 44,199	$ 1,028,520
5	2012	$ 424,934	$ 34,446	$ 128,915	$ NA	$ –	$ 588,295

1. Disclosure of information on the total compensation paid during the last fiscal year to any designated senior officer or highly compensated employee is available to our shareholders upon request.

2. The senior officers and highly compensated employees included above are those officers defined by FCA regulations Section 619.9310 and Section 620.6.

3. Incentive compensation amounts represent amounts earned and paid quarterly in the fiscal year, however the fourth quarter amounts earned are paid in January of the subsequent year. The Administrative Performance Pay

compensation amounts are earned in the reported fiscal year which are paid in January of the subsequent year. The Incentive and Administrative Performance Pay compensation amounts are calculated based on relevant performance factors for the reported fiscal year.

4. The Change in Pension Value increased in 2014 primarily due to the increase in years of service and age and changes in actuarial assumptions such as the discount rate. The change in value of the pension benefits is defined as the vested portion of the present value of the accumulated benefit obligation from December 31 of the prior year, disclosed in Note 9 of the Financial Statements. This value is not reflected for the year 2012.

5. Represents company contributions to a 401(k) retirement savings plan as well as payment for certain other expenses, such as wellness benefits, life insurance/long term disability benefits.

6. Other represents payout of annual leave.

7. No tax reimbursements are made to senior officers/highly compensated individuals.

We believe the design and governance of our compensation program is consistent with the highest standards of risk management and provides total compensation that promotes our mission to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. Our compensation philosophy aims to provide a competitive total rewards package that will enable us to attract and retain highly qualified officers with the requisite expertise and skills while achieving desired business results aligned with the best interest of our shareholders. The design of our senior officer compensation program supports our risk management goals and includes (1) a balanced mix of base and variable pay, (2) a balanced use of performance measures that are risk-adjusted where appropriate, (3) a pay-for-performance process that allocates individual awards based on both results and how those results were achieved, and (4) a long-term portion of variable pay to encourage retention and alignment with shareholder interests.

Senior officers are compensated with a mix of direct cash and long-term compensation as well as retirement plans generally available to all employees. Our Board of Directors determines the appropriate balance of short-term and long-term compensation while keeping in mind their responsibilities to our shareholders. Base salary and short-term incentive are intended to be competitive with annual compensation for comparable position at peer organizations.

Senior officer base salaries reflect the officer's experience and level of responsibility. Base salaries are subject to review and approval by the Compensation Committee of our Board of Directors and are subject to adjustment based on changes in responsibilities or competitive market conditions.

In addition to base salary, the President/CEO and three of the officers can earn additional compensation under an annual administrative performance pay program which is tied to the overall business performance and the individual's rating. The administrative performance pay program is based on a fiscal year and is designed to motivate employees to exceed financial and credit quality performance targets approved by the Board of Directors. These targets typically include return on assets, credit quality, adverse loan volume, new loan volume, loan portfolio growth and other key ratios. Program payments are paid in January to the officers and the program payment to the President is paid as soon as practical following the January Board meeting. The three remaining officers participate in a Loan Officer Incentive Plan (LOIP) with payments made quarterly. The officers earn incentives under the LOIP for new loan volume and sales of related services.

Information on pension benefits attributable to the CEO, senior officers and other highly compensated individuals follows.

As of December 31, 2014 President/CEO	Plan	Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
Scott Stockwell	Ninth Pension Plan	35.86	$ 1,694,944	$ –

Aggregate Number of Senior Officers/ Highly Compensated Individuals	Plan	Average Years of Credited Service	Present Value of Accumulated Benefits	Payments Made During the Reporting Period
7	Ninth Pension Plan	29.46	$ 3,308,806	$ –

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For the Ninth Pension Plan, the average years of service represents an average for the aggregate senior officers and highly compensated employee group.

The CEO and certain Senior Officers and highly compensated employees participate in the Ninth Farm Credit District Pension Plan (the Pension Plan), which is a qualified defined benefit plan. Additionally, substantially all employees participate in the 401(k) Plan, which has an employer matching contribution. In general, the Pension Plan provides participants with a 50% joint-and-survivor annuity benefit at normal retirement that is equal to 1.50% of average monthly compensation during the 60 consecutive months in which an individual receives his highest compensation (High 60) multiplied by his years of benefit service, plus 0.25% of the amount by which the High 60 exceeds covered compensation multiplied by years of benefit service. The benefit is actuarially adjusted if the individual chooses a different form of distribution than a 50% joint-and-survivor annuity, such as a lump sum distribution. The pension valuation was determined using a blended approach assuming half of the benefits would be paid as a lump sum and half as an annuity at the participants earliest unreduced retirement age. The Pension Plan pays benefits up to the applicable limits under the Internal Revenue Code.

TRANSACTIONS WITH SENIOR OFFICERS AND DIRECTORS

The Association's policies on loans to and transactions with its officers and directors, required to be disclosed in this section are incorporated herein by reference from Note 10 to the financial statements, "Related Party Transactions," included in this annual report to shareholders.

INVOLVEMENT OF SENIOR OFFICERS AND DIRECTORS IN CERTAIN LEGAL PROCEEDINGS

There were no matters which came to the attention of management or the Board of Directors regarding involvement of senior officers or current directors in specified legal proceedings which are required to be disclosed in this section.

BORROWER PRIVACY STATEMENT

Since 1972, Farm Credit Administration (FCA) regulations have forbidden the directors and employees of Farm Credit institutions from disclosing personal borrower information to others without borrower consent. The Association does not sell or trade customers' personal information to marketing companies or information brokers. Additional information regarding FCA rules governing the disclosure of customer information can be obtained by contacting the Association.

RELATIONSHIP WITH COBANK, ACB (COBANK)

The Association is materially affected by CoBank's financial condition and results of operations.

The Association's statutory obligation to borrow from CoBank is discussed in Note 6. Financial assistance agreements between the Association and CoBank are discussed in Note 7. Association requirement to invest in CoBank and CoBank's ability to access capital of the Association is discussed in Note 4 to the financial statements, "Investment in CoBank," included in this annual report to shareholders. CoBank's role in mitigating the Association's exposure to interest rate risk is discussed in the MD&A section – Liquidity.

CoBank is required to distribute its Annual Report to shareholders of the Association if the bank experiences a significant event that has a material effect on the Association, as defined by FCA regulations.

RELATIONSHIP WITH INDEPENDENT AUDITORS

There were no changes in independent auditors since the prior annual report to shareholders and there were no material disagreements with our independent auditors on any matter of accounting principles or financial statement disclosure during this period.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 16, 2015, and the Report of Management, appearing as part of this annual report to shareholders, are incorporated herein by reference.

COBANK ANNUAL AND QUARTERLY REPORTS TO SHAREHOLDERS

The shareholders' investment in the Association is materially affected by the financial condition and results of operations of CoBank. Consequently, the Association's annual and quarterly reports should be read in conjunction with CoBank's 2014 Annual and Quarterly Reports to Shareholders. Quarterly reports are available approximately 40 days after the calendar quarter end and annual reports are available approximately 75 days after the calendar year end. A copy of these reports may be obtained free upon request from the Association. The Association is located at 101 Eagle Drive, Ness City, Kansas 67560-1001, or may be contacted by calling (785) 798-2278 or (800) 950-3522. The reports may also be obtained free of charge by visiting CoBank's website at www.cobank.com.

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