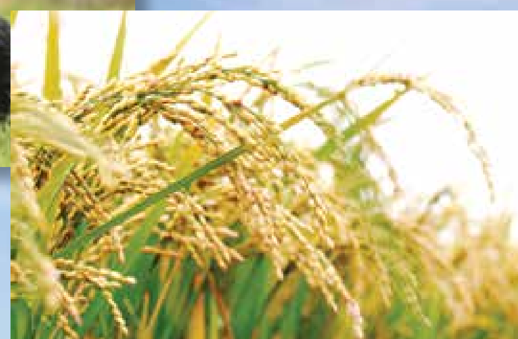

CAPITAL FARM CREDIT

PROUD MEMBER OF THE FARM CREDIT SYSTEM

2014 ANNUAL REPORT

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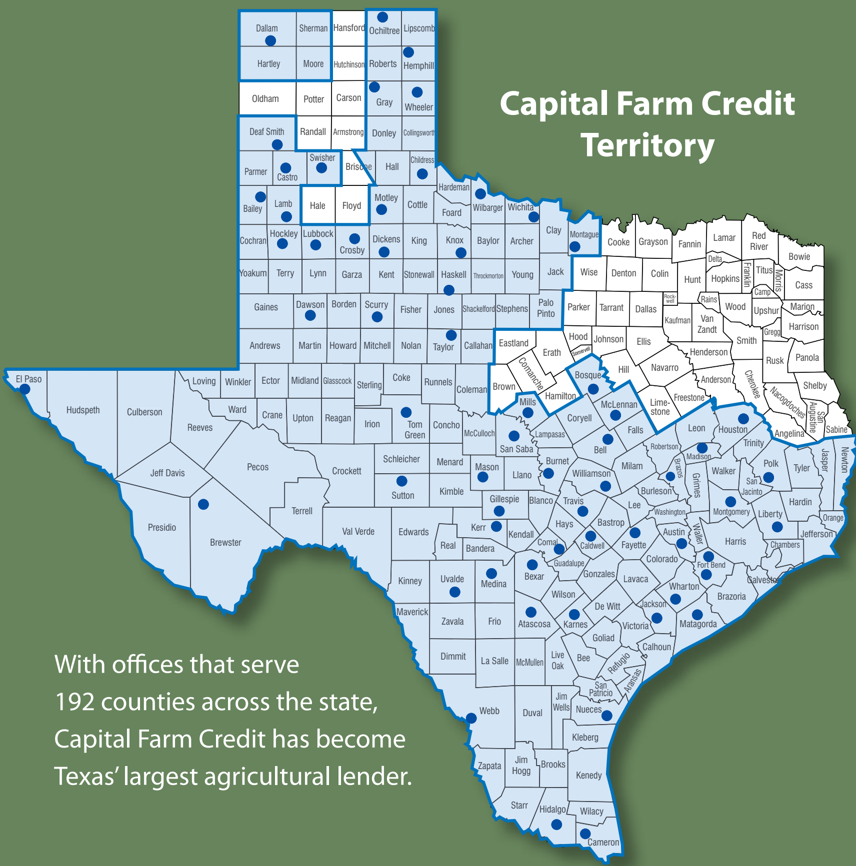

Capital Farm Credit Territory

With offices that serve 192 counties across the state, Capital Farm Credit has become Texas' largest agricultural lender.

CAPITAL FARM CREDIT

PROUD MEMBER OF THE FARM CREDIT SYSTEM

CapitalFarmCredit.com | 877.944.5500

Growing together.

Capital Farm Credit has been creating new opportunities for nearly a century. Over the generations, we have provided competitive financing to help farmers, ranchers, rural landowners and agribusinesses get their start and achieve success. As we build on that long tradition, we are guided by our mission, vision and core values.

Our Mission

Provide financing and related services that enrich stockholders' success in agriculture and rural America.

Our Vision

We will be the *best* provider of agricultural credit — anywhere. We will accomplish this with the *best* people, the *best* service, the *best* financial performance and the *best* patronage program.

Our Core Values

Commitment – We are committed to providing exceptional service to our members, to agriculture and to rural America.

Trust – Our actions reflect integrity, competence, credibility and a strong work ethic.

Value – We are fiscally responsible and dedicated to delivering value to our members.

Family – We care for and cooperate with our members and each other with family-like respect and appreciation.

CAPITAL FARM CREDIT

PROUD MEMBER OF THE FARM CREDIT SYSTEM

Rooted in Tradition, Creating New Opportunities for the Future

Capital Farm Credit has served Texas for nearly a century, becoming the largest agricultural lender in the state. As our association has grown, we have worked to provide an equally broad range of products and services.

In 2014 our lending staff provided customized financing for a growing number of agricultural businesses and full-time and part-time farmers and ranchers. Outstanding loan volume increased 9 percent to a record $5.89 billion, and our association achieved net income of $144.1 million.

Being a full-service lender is our top priority, and we rolled out several new services in order to provide the best experience and value for our customers. We teamed with Agri-Insurance to provide comprehensive and personalized crop, pasture and forage insurance for the first time. We also expanded the availability of fast, flexible equipment financing through our partnership with AgDirect, offering the program at more dealerships.

In 2014 we introduced user-friendly technologies to help members manage their accounts and their businesses. Our Ag Banking mobile application enables customers to make transactions and track their account history, such as patronage and stock in the association, using their mobile phones and tablets. We also provided free access to GrainBridge, a respected Web-based risk management tool for crop and livestock producers.

The Benefits of Cooperative Membership

Our service-oriented culture fits hand in hand with our philosophy as a customer-owned cooperative. We manage our business in a fiscally responsible way for the benefit of our borrowers, who are part owners of the association. The more efficient we are, the more of our earnings we can return to them through our patronage program, lowering the cost of doing business with us.

Our financial strength and commitment to our cooperative business model made it possible to return $65.5 million of our 2013 earnings to our stockholders last year, our largest cash patronage payment to date.

Based on our continued strong earnings, our board of directors has approved the return of $142 million of our $144.1 million net income from 2014 to our stockholders. We will distribute $72 million in cash in the spring of 2015, allocating the remainder to our stockholders while providing for our association's future viability.

Involved in Our Communities

Capital Farm Credit has a long tradition of giving back to rural Texas by supporting youth programs, scholarships and organizations that benefit future agricultural leaders, agricultural commodities, conservation and veterans. We also contribute to the success of the livestock industry by sponsoring shows and sales that provide education for future producers, markets for current producers and quality seed stock.

In 2014, we expanded our corporate sponsorships and educational outreach. We offered additional conferences in our Next Generation program, partnering with Texas A&M AgriLife Extension to teach incoming agricultural producers about financial management and farm and ranch planning. We sponsored the first Capital Farm Credit Rural Youth Entrepreneurship Competition, partnering with the nonprofit Pioneers Youth Leadership Inc. in a business plan contest for rural high school students. We also co-sponsored an interactive crops exhibit at the Bayer Museum of Agriculture in Lubbock, fostering visitors' understanding of our agricultural heritage.

Agriculture is robust and ever-changing, and we believe in serving all aspects of the industry, from sophisticated agribusinesses to young, beginning and small operators. One way we encouraged entrepreneurship and new markets for agricultural products in 2014 was by providing support to a growing number of farmers markets around the state.

Our employees share this spirit of cooperation, and organized fundraisers, judged at youth events, and served on committees for the betterment of their communities, the agriculture industry and the Farm Credit System.

With a solid financial foundation and a commitment to the future success of agriculture and rural America, we look forward to serving our communities in the times ahead.

Community Service

From left, Gary Merritt of Pioneers Youth Leadership, finalist Alicia Saldaña, Linda Ryan of Pioneers and Tanya Foerster of Capital Farm Credit

"The more I speak in front of an audience, the more confident I become. I appreciate the opportunity to learn these life skills and participate in the business plan competition with Pioneers Youth Leadership. Thanks, Capital Farm Credit!"

— Alicia Saldaña, Uvalde
Capital Farm Credit Youth Entrepreneurship Competition finalist

Westin Herber at the Gillespie County Livestock Show

"Our sons enjoy working with their animals and spending family time getting projects ready for the show season. Showing enables us to share our passion for ranching and rural America."

— Kerinne Herber, Fredericksburg
Capital Farm Credit vice president and credit officer

"Thank you, Capital Farm Credit, for your generous donation to the Laredo Main Street Farmers Market. It is because of sponsors like you that we can promote a healthy lifestyle and provide a family-oriented event. This in turn provides economic revitalization that helps us to fulfill our mission of promoting, developing and preserving downtown Laredo."

— Roque H. Haynes, Laredo
Past president of Laredo Main Street

From left, Roque Haynes of Laredo Main Street, Leo Rodriguez of Capital Farm Credit and Betty Flores, Farm Credit Bank of Texas director and former Laredo mayor

Bill Breeding of Independent Cattlemen's Association, left, and Pat Shields of Capital Farm Credit

"I think it is the greatest thing for Capital Farm Credit to sponsor commercial all breeds sales. I know of no other institution that supports the commercial seed stock industry in such a manner."

— Bill Breeding, Miami
Independent Cattlemen's Association board member

"These youngsters spend many hours in the practice pen to hone their skills for competitions across Texas. We are very proud to be involved with such a hard-working group, and stand behind their introduction to the ranching lifestyle through the Texas Youth Rodeo Association."

— Randal Prehoda, Conroe
Capital Farm Credit senior loan officer

The 4T Junior Ranch Rodeo team and Randall Prehoda of Capital Farm Credit

Letter From the CEO

Dear Stockholder:

Growth in Capital Farm Credit's loan portfolios, customer base and array of services resulted in a tremendous 2014 for the association.

Our total loan volume increased at its strongest pace since 2008, and our asset quality remains excellent. We finished the year with a record $5.89 billion in loans and near-record net income of $144.1 million.

We are focused on being a responsive full-service lender, and the increased business tells us that our efforts are paying off. Last year we started a comprehensive initiative to enhance our efficiency and customer service at every step of the lending process. We introduced new customers to Farm Credit financing through our core lending and our partnership with AgDirect, a point-of-sale equipment financing program. And we continued to add to our knowledgeable workforce.

Our customer-owned cooperative is motivated by the needs of you, our members, and we repeatedly add resources for your benefit. In 2014 we introduced crop, pasture and forage insurance; provided free access to the agricultural risk management tool GrainBridge; and introduced a mobile banking app so that you can manage your accounts while on the go.

There is no greater expression of our cooperative philosophy than our patronage program, one of the best in the Farm Credit System. Last year we returned $65.5 million of our 2013 earnings to our customers in cash, and this spring we will distribute $72 million of our 2014 earnings. In addition, we set aside $78.6 million of our 2013 earnings and $70.1 million of our 2014 earnings in our stockholders' names in the form of allocated equities.

Looking ahead, we are monitoring the regulatory climate in the financial industry, including proposed rules regarding capital distributions. We are very committed to our cooperative structure, and our intention is to continue to return earnings to our stockholders while maintaining a sound capital position. We also are keeping watch on the effects of fluctuating commodity and oil prices on our customers, and stand ready to meet their needs for reliable credit.

I'm excited to announce that we will soon provide GrainBridge as a classroom tool to teach agricultural risk management to university students. As the year unfolds, you will hear about more new ways that we will serve our communities and our marketplace.

Our association enters 2015 in a position of strength. As we prepare for our centennial in 2016, we look forward to celebrating our heritage of lending support to agriculture and rural America and to helping you be successful for many years to come.

Ben R. Novosad

Ben R. Novosad
Chief Executive Officer

REPORT OF MANAGEMENT

The consolidated financial statements of Capital Farm Credit, ACA (association) are prepared by management, who is responsible for the statements' integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances. Other financial information included in the annual report is consistent with that in the consolidated financial statements.

To meet its responsibility for reliable financial information, management depends on the Farm Credit Bank of Texas' and the association's accounting and internal control systems, which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost of controls must be related to the benefits derived. The consolidated financial statements are audited by PricewaterhouseCoopers LLP, independent auditors, who conduct a review of internal controls solely for the purpose of establishing a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the audit of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. The association is also examined by the Farm Credit Administration.

The Audit Committee of the board of directors has oversight responsibility for the association's systems of internal controls and financial reporting. The Audit Committee consults regularly with management and the internal auditors and meets periodically with the independent auditors to review the scope and results of their work. The independent auditors and internal auditors have direct access to the Audit Committee.

The undersigned certify that this 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 his knowledge and belief.

Ben R. Novosad

Ben R. Novosad, Chief Executive Officer
March 11, 2015

Phillip Munden

Phillip Munden, Chairman, Board of Directors
March 11, 2015

Don VandeVanter

Don VandeVanter, Chief Financial Officer
March 11, 2015

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The association’s principal executives and principal financial officers are responsible for establishing and maintaining adequate internal control over financial reporting for the association’s consolidated financial statements. For purposes of this report, “internal control over financial reporting” is defined as a process (1) designed by, or under the supervision of the association’s principal executives and principal financial officers, (2) effected by its board of directors, management and other personnel and (3) monitored for adherence to by the board’s Audit Committee through the association’s Internal Audit staff to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the association and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the association’s assets that could have a material effect on its consolidated financial statements.

The association’s management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2014. In making the assessment, management used the framework in Internal Control — Integrated Framework, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the “COSO” criteria.

Based on the assessment performed, the association concluded that as of December 31, 2014, internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the association determined that there were no material weaknesses in internal control over financial reporting as of December 31, 2014. A review of the assessment performed was reported to the association’s audit committee.

Ben R. Novosad	Don VandeVanter
Ben R. Novosad, Chief Executive Officer	Don VandeVanter, Chief Financial Officer
March 11, 2015	*March 11, 2015*

REPORT OF AUDIT COMMITTEE

The Audit Committee (committee) is composed of six directors of Capital Farm Credit, ACA (the association). In 2014, the committee met six times and conducted business by conference call on two occasions. 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 all audit activities. The committee's responsibilities are described more fully in the Audit Committee Charter, which is available on request or on the association's website. The committee approved the appointment of PricewaterhouseCoopers LLP (PwC) for 2014.

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

In this context, the committee reviewed and discussed the association's audited consolidated financial statements for the year ended December 31, 2014, with management and PwC. The committee also reviews with PwC the matters required to be discussed by authoritative guidance, "The Auditor's Communication With Those Charged With Governance," and both PwC and the association's internal auditors directly provide reports on significant matters to the committee.

The committee discussed with PwC its independence from Capital Farm Credit, ACA. The committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining the outside auditor's independence. The committee has discussed with management and PwC other matters and received assurances from them as the committee deemed appropriate.

Based on the foregoing review and discussions and relying thereon, the committee recommended that the board of directors include the audited consolidated financial statements in the association's Annual Report to Stockholders for the year ended December 31, 2014.

Kenton Kimball, Chairman

Additional Members: Richard Counts
Terry McAlister
Carl Sample
Steve Stevens
Joe David Yates

March 11, 2015

FARM CREDIT ADMINISTRATION REQUIRED DISCLOSURES TO SHAREHOLDERS

DESCRIPTION OF BUSINESS

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

The descriptions of significant developments that had or could have a material impact on earnings or interest rates to borrowers, patronage or dividends, and acquisitions or dispositions of material assets, if any, required to be disclosed in this section are incorporated herein by reference to "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

DESCRIPTION OF PROPERTY

Capital Farm Credit, ACA (the association) serves its 192-county territory through its main administrative office at 3000 Briarcrest Drive, Suite 601, Bryan, Texas, and through its accounting/administration, Agri-insurance, loan processing/review and marketing/operations offices, which are located in Bryan, Lubbock, Hondo, Round Rock and Devine, Texas. Additionally, there are 66 lending offices located throughout the territory. The association owns the office buildings in Alpine, Bellville, Bowie, Canadian, Childress, Clifton, Crosbyton, Dalhart, Dayton, Devine, Dimmitt, Edna, El Campo, Goldthwaite, Hereford, Jourdanton, Kenedy, Kerrville, La Grange, Lamesa, Levelland, Littlefield, Lockhart, Lubbock, Madisonville, Mason, Matador, Muleshoe, Munday, Pampa, Perryton, Rosenberg, San Angelo, San Saba, Snyder, Sonora, Spur, Stamford, Taylor, Temple, Tulia, Uvalde, Vernon, Waco, Wheeler and Wichita Falls, free of debt. The association leases office buildings in Abilene, Austin, Bay City, Bryan, Burnet, Conroe, Crockett, Edinburg, El Paso, Fredericksburg, Georgetown, Harlingen, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, Round Rock and San Antonio, Texas.

During November 2012 the Levelland office purchased a lot and began construction on a new office building in 2013. Effective December 31, 2012 the Brady credit office closed its operations and consolidated with other offices within the association's territory. Also, during August 2012, the Bryan corporate office entered into a lease agreement for additional space, to which some senior management and several administrative staff were relocated in 2013. The owned corporate office space was sold in April 2013 as this office was relocated into leased space effective May 2013. In February 2013, the association closed the Gatesville credit office and consolidated its operations with other offices within the association's territory.

During 2013, the association constructed a new credit office in Levelland, and relocated to this office in February 2014. The previously owned Levelland building was sold in November 2013. In addition, the Bryan credit and Residential Lending offices moved into leased space with the new corporate headquarters during February and March 2013, respectively. Effective April 2013, the Bryan corporate office was sold as this office was relocated into leased space effective May 2013. Furthermore, during June 2013 a satellite office was opened in Georgetown as part of the Taylor office. The Seminole satellite office was closed in June 2013.

During 2014, the association sold the Brady, Bryan and Gatesville credit offices. Effective March 2014, the association entered into a new lease agreement for the Hondo Agri-insurance business. In addition, during October 2014, the Laredo and Burnet offices relocated to new leased space, and the association closed the Devine credit office, consolidating its operations with other offices within the association's territory. The association plans to sell the Devine building.

LEGAL PROCEEDINGS

In the ordinary course of business, the association is involved in various legal proceedings. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

DESCRIPTION OF CAPITAL STRUCTURE

The information required to be disclosed in this section is incorporated herein by reference to Note 10 to the consolidated financial statements, "Members' Equity," included in this annual report.

DESCRIPTION OF LIABILITIES

The description of liabilities required to be disclosed in this section is incorporated herein by reference from Note 9 to the consolidated financial statements, "Note Payable to the Bank," Note 12, "Employee Benefit Plans" and in "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this annual report.

The Farm Credit System (System), is a nationwide system of cooperatively owned banks and associations that was established by Acts of Congress. The description of contingent liabilities and intra-System financial assistance rights and obligations required to be disclosed in this section is incorporated herein by reference to Notes 2 and 15 to the consolidated financial statements, "Summary of Significant Accounting Policies" and "Commitments and Contingencies," respectively, included in this annual report.

RELATIONSHIP WITH THE FARM CREDIT BANK OF TEXAS

The association's financial condition may be impacted by factors that affect the Farm Credit Bank of Texas (Bank), as discussed in Note 1 to the consolidated financial statements, "Organization and Operations," included in this annual report. The financial condition and results of operations of the Bank may materially affect the stockholders' investment in the association.

The Farm Credit Bank of Texas and the Texas Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720-2590 or calling (512) 483-9204. Copies of the District's annual and quarterly stockholder reports can also be requested by e-mailing *fcb@farmcreditbank.com*. The District's annual and quarterly stockholder reports are also available on its website at *www.farmcreditbank.com*.

The association's quarterly stockholder reports are also available free of charge, upon request. These reports will be available approximately 40 days after quarter end and can be obtained by writing to Capital Farm Credit, P.O. Box 488, Hondo, Texas 78861 or calling (830) 426-4589. Copies of the association's quarterly stockholder reports can also be requested by e-mailing *isela.morales@capitalfarmcredit.com.* The association's annual stockholder report is available on its website at *www.capitalfarmcredit.com* 75 days after the year end. Copies of the association's annual stockholder report can also be requested 90 days after the year end.

CAPITAL FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data					
Assets					
Loans	**$ 5,886,775**	$ 5,380,398	$ 5,168,260	$ 4,932,437	$ 5,096,642
Less: allowance for loan losses	**(15,773)**	(19,526)	(31,817)	(37,023)	(45,294)
Net loans	**5,871,002**	5,360,872	5,136,443	4,895,414	5,051,348
Investments held-to-maturity	**11,474**	14,864	17,175	19,523	24,520
Investment in and receivable from the Bank	**102,671**	99,416	97,235	96,269	96,632
Other property owned, net	**3,841**	5,437	22,900	6,220	16,658
Other assets	**96,739**	70,422	61,726	60,933	71,256
Total assets	**$ 6,085,727**	$ 5,551,011	$ 5,335,479	$ 5,078,359	$ 5,260,414
Liabilities					
Obligations with maturities of one year or less	**$ 135,084**	$ 125,120	$ 101,949	$ 93,668	$ 77,317
Obligations with maturities greater than one year	**4,930,411**	4,473,295	4,321,685	4,113,093	4,348,643
Total liabilities	**5,065,495**	4,598,415	4,423,634	4,206,761	4,425,960
Members' Equity					
Capital stock and participation certificates	**23,417**	22,651	22,145	21,856	22,399
Non-qualified allocated retained earnings	**446,477**	376,634	322,883	281,671	243,561
Unallocated retained earnings	**553,366**	551,319	568,362	567,030	566,822
Accumulated other comprehensive income (loss)	**(3,028)**	1,992	(1,545)	1,041	1,672
Total members' equity	**1,020,232**	952,596	911,845	871,598	834,454
Total liabilities and members' equity	**$ 6,085,727**	$ 5,551,011	$ 5,335,479	$ 5,078,359	$ 5,260,414

	Year Ended December 31,				
Statement of Income Data					
Net interest income	**$ 186,663**	$ 179,491	$ 169,157	$ 161,841	$ 157,498
Reversal of (provision for) loan losses	**3,019**	3,305	2,647	(2,169)	(29,173)
Income from the Bank	**21,960**	21,124	19,870	19,883	24,344
Other noninterest income	**11,317**	9,809	9,022	6,504	13,932
Noninterest expense	**(78,867)**	(68,988)	(60,958)	(59,139)	(60,650)
(Provision for) benefit from income taxes	**(9)**	102	(72)	(110)	(46)
Net income	**$ 144,083**	$ 144,843	$ 139,666	$ 126,810	$ 105,905
Key Financial Ratios for the Year					
Return on average assets	**2.5%**	2.7%	2.7%	2.5%	2.0%
Return on average members' equity	**14.9%**	15.7%	16.0%	15.1%	13.4%
Net interest margin as a percentage of average earning assets	**3.4%**	3.5%	3.4%	3.4%	3.2%
Net charge-offs as a percentage of average loans	**0.0%**	0.2%	0.1%	0.2%	0.6%

CAPITAL FARM CREDIT, ACA

FIVE-YEAR SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA
(unaudited)
(dollars in thousands)

	December 31,				
	2014	2013	2012	2011	2010
Key Financial Ratios at Year End					
Members' equity as a percentage of total assets	**16.8%**	17.2%	17.1%	17.2%	15.9%
Debt as a percentage of members' equity	**496.5%**	482.7%	485.1%	482.6%	530.4%
Allowance for loan losses as a percentage of loans	**0.3%**	0.4%	0.6%	0.8%	0.9%
Permanent capital ratio	**16.3%**	16.4%	16.0%	16.4%	14.4%
Core surplus ratio	**16.0%**	15.9%	14.4%	13.6%	11.5%
Total surplus ratio	**16.0%**	16.0%	15.6%	16.0%	14.0%
Net Income Distribution/Allocation					
Cash patronage paid	**$ 65,477**	$ 42,133	$ 38,400	$ 32,061	$ 17,741
Cash retirement of nonqualified written notices of allocation	**-**	42,663	55,000	50,000	15,000
Nonqualified notices of allocation	**70,070**	78,875	96,201	88,202	73,662

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(ALL DOLLAR AMOUNTS IN THOUSANDS)

The following commentary explains management's assessment of the principal aspects of the consolidated financial condition and results of operations of Capital Farm Credit, ACA, including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA (collectively referred to as the association) for the years ended December 31, 2014, 2013 and 2012, and should be read in conjunction with the accompanying consolidated financial statements.

Forward-Looking Information:

This annual report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will" or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond the association's control. The association is impacted by factors that would impact any agricultural real estate lender. 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-related, disease-related, 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
- actions taken by the Federal Reserve System in implementing monetary policy.

Commodity Review and Outlook

Capital Farm Credit's territory covers most of Texas except for the northeast quadrant. The acreage within this territory includes a broad spectrum of agriculture commodities, land types, production seasons and farming and ranching practices. This variety allows the association to have a loan portfolio comprised of a broad range of commodities with different influences, risks, opportunities and customers. While most of the production and revenue is generated by farmers and ranchers who are engaged in managing full scale operations, there are also many part-time farming and ranching operations. Part-time operators have revenue from nonagricultural sources and many of these operators invest heavily in their agriculture operations with their time and money, and as a result, further diversify the association's credit risks across the portfolio.

The following is a review and outlook of some of the key commodities served by the association and a summary of industries that impact our part-time producers. The percentages shown were determined based on the outstanding loan volume tied to the specific type of operation or commodity as of December 31, 2014.

Livestock (54.1 percent of the loan portfolio) – The demand for cattle remained strong throughout 2014 as producers continued to cautiously rebuild their herds. Expansion of herd size remained slow because of the limited number of replacements that resulted in record high prices for breeding age females. Pasture and hay production conditions improved across most of the territory and for the first time in several years, plentiful feed supplies benefited all stages and types of livestock producers. There are a limited number of feeder cattle available for movement into feedyards and the limited supply resulted in higher prices for the producer but higher expenses for the cattle feeder. However, strong profits at feedyards were earned in 2014 as strong fat cattle prices continued throughout the year because of the low inventories of fat cattle, lower feed costs and stable consumer demand for beef.

Continued strong demand for replacement cattle, coupled with current grain prices and/or improved pasture conditions, should keep most operators profitable. Fat cattle production is expected to be profitable but producers may experience strained conditions depending on demand and competition from other protein sectors.

Crops (20.3 percent of the loan portfolio) – The vastness and variety of the association's territory permits a wide range of crops to be produced. Corn, wheat, cotton and grain sorghum are the largest cash crops. Improved moisture conditions across most of the territory netted higher yields but prices received by the producers were lower than in previous years. Producers who did not have sufficient moisture to produce higher than normal yields experienced financial stress going into year end. While some of these built sufficient reserves over the last few years to allow them to continue farming, others are facing adverse conditions and will have to make tough decisions about their operations such as growing alternative crops or trying to multi-crop their existing acreage. The availability of water for irrigation continues to be a factor for many as underground and above ground reservoirs continue to be at low capacity and competition for water remains from growing metropolitan areas.

Planted acres in 2015 should be consistent with 2014 and prices are expected to remain constant with year end prices but considerably less than prices were in the first two quarters of 2014. In past years, when the drought caused many to have low yields or no crop at all, incomes were boosted by government supported crop insurance. However, there were significant changes made to insurance programs through the Agricultural Act of 2014. Managing through weather conditions and variability in the market place without government sponsored safety nets will present new challenges for both the farmer and the lender.

<u>Dairy (2.4 percent of the loan portfolio)</u> – Dairy farmers experienced strong profit margins during most of 2014, especially for those who were able to control production costs and increase capacity. Lower grain prices in the last two quarters of 2014 were key to controlling expenses but late in the year, market prices received softened for most dairy products.

Prices for milk products in 2015 are expected to continue to soften depending on demand for cheese, butter, whey and different milk classes. The ability to maintain profitable margins throughout the year will depend on the producers' ability to maintain lower feed expense or improve production practices.

<u>Timber (3.3 percent of the loan portfolio)</u> – Timber production is limited to the eastern portion of the association's territory. In 2014, many parts of the state continued to experience increased numbers of residential and commercial construction projects. While increased activity kept demand for wood products stable, there was little change in timber prices except for some improvement in hardwood prices. The overall price outlook is neutral. Although there was strengthening in some economic measurement factors, their positive impact has been recently tempered by lower oil prices. Lower oil prices will result in fewer construction projects and less demand for new home construction by those who earn income from oil and gas mining.

<u>Hunting and recreation (7.9 percent of the loan portfolio)</u> – Land owners across the association's territory have met demand for hunting and recreation with a profitable business model that includes various types of lease arrangements and may also include a variety of services (e.g. cabins, meals, guides, etc.) with the leases. Revenues from hunting and recreation rebounded in 2012 and 2013 and remained strong through the first three quarters of 2014. However, as oil prices fell in the fourth quarter of 2014, the interest in purchasing recreational properties waned and there seemed to be less interest in contracting for hunts and related services. There has not been a noticeable decrease in consumer demand for small or mid-level type hunts; the demand for high-end and corporate style hunts has lessened as the outlook for oil prices fell.

The upcoming year should see stable activity if lakes and streams continue to receive rainfall and conditions for foliage and the habitats and food sources for wildlife remains favorable. Continued population increases with stable workforce demand should result in more demand for both the purchase of rural part-time acreages and recreational activities. However, the demand for larger recreational properties may suffer if oil prices stay low.

<u>Other (12.0 percent of the loan portfolio)</u> – There are many part-time producers in Texas who support their agricultural operations with non-agricultural income. The demographics of Texas are favorable for continued growth in the general economy. The business environment continues to attract companies to Texas and its many desirable attributes makes moving to Texas attractive for many families of varying demographics. Texas continues to have better than average employment rates when compared to the nation's, and the long range outlook for jobs in manufacturing, health and education is positive. As this outlook evolves into economic productivity, the resulting factors will be positive for all segments of the state's economy. The exception to improving economic conditions and activity is the oil and gas industry. Many consumers are benefiting from lower fuel prices but the recent downturn in prices has presented challenges for those who work in the oil and gas industry.

Significant Events:

Patronage Refunds by Association

The board of directors approved a $142,065 patronage distribution for 2014. $71,995 of this distribution will be paid in cash in March 2015. $70,070 will be distributed in the form of nonqualified allocated equity, which means the owners of these distributions will not pay federal income taxes until the equities are retired. It is the board's intention with these allocations to assign ownership of the earnings of the association, allowing the stockholders to benefit more fully from the earnings of the association and to create a method to make future equity distributions in the form of cash. While there is not a planned retirement of these allocated equities, the board of directors will make an annual evaluation of the association's capital position and determine if some cash retirements of these equities can be made. In 2013, the board of directors approved a $144,361 patronage distribution for 2013, with cash patronage payable of $65,486 and $78,875 in nonqualified allocations. In March 2014 the association finalized the computation of these distributions which resulted in a reduction in cash patronage payable of $29 for an actual cash distribution of $65,477. In addition, nonqualified allocations were also adjusted by a reduction of $227 resulting in an actual allocation of $78,648. During 2012 the board of directors approved a $138,334 patronage distribution. $42,133 of this distribution was paid in cash in March 2013. $96,201 of this distribution was made in the form of nonqualified allocated equity distributions.

In November 2013 the association evaluated its capital position and retired $42,663 in non-qualified allocated equities. These equities represented $8,732, $16,026 and $17,905 from those allocated in 2006, 2007 and 2008, respectively. In November 2012, as part of the evaluation of its capital position, the association retired $55,000 in non-qualified allocated equities. These equities represented $11,327, $20,694 and $22,979 from those allocated in 2006, 2007 and 2008, respectively.

Patronage Refund Received from Farm Credit Bank of Texas

In 2014, the association received income in the form of a direct loan patronage of $20,093 from the Farm Credit Bank of Texas (Bank), representing 0.43 percent of the average daily balance of the association's direct loan with the Bank for 2014. During 2014, the association also received $1,581 in patronage payments from the Bank, based on the association's stock investment in the Bank. Also, the association received a capital markets patronage of $286 from the Bank in 2014, representing 0.75 percent on the year's average daily balance for 2014 of participations in capital markets loans with patronage commitments.

Point of Purchase Equipment Financing

During 2012, the association entered into a limited liability partnership with other Farm Credit associations to participate in a point of purchase equipment financing program under the name of AgDirect LLP. The AgDirect program operates through independent equipment dealers to originate and refinance agricultural equipment loans. The association's investment in AgDirect was $4,703, $3,126 and $840 at December 31, 2014, 2013 and 2012, respectively.

Business Acquisition

Effective February 28, 2014, the association entered into an agreement to purchase certain tangible and intangible assets of a sole proprietorship crop insurance business servicing the Winter Garden, Coastal Plains and Brazos Valley areas. The association will utilize the acquisition to enhance the related services the association offers to its members. This asset is included in other assets in the accompanying Consolidated Balance Sheets.

Relationships with Unincorporated Business Entities

The association and the Bank made investments in a limited partnership, the Advantage Capital Ag Partners L.P., that will provide junior capital to rural and agriculture businesses in the United States. This partnership is a Rural Business Investment Company (RBIC), and the investment by the association and the Bank is entered into following the Mission-Related Investment authorities. The structure of the limited partnership includes a third party acting as the sole general partner and another seven participants, including the Bank, as limited partners. Each limited partner is required to contribute the same amount as other limited partners, with a $5,000 minimum from each partner. The association's maximum exposure is $20,000. The general partner will contribute the greater of $3,000 or 3 percent of the total capital contributed. The association has an investment of $610 at December 31, 2014, that is currently included in "other assets" on the balance sheet.

Loan Portfolio:

The association makes and services loans to farmers, ranchers, rural homeowners and certain farm-related businesses. The association's loan volume consists primarily of long-term real estate mortgage loans, production and intermediate-term loans and farm-related business loans. These loan products are available to eligible borrowers with competitive variable, fixed and index-based interest rates. For all loan products, the association is able to lock an interest rate spread for the pricing term of the loan. When the pricing term expires on a loan, the association is subject to a new cost of funds from the Bank. However, the association is then also able to establish a new interest spread on the loan to the customer. Pricing terms range from one month on index-based products, and from 90 days to 30 years on fixed rate products. Loan maturities range from one to 40 years, with annual operating loans comprising the majority of the commercial loans and five- to 20-year maturities comprising the majority of the mortgage loans. Loans serviced by the association offer several installment payment cycles, the timing of which usually coincides with the seasonal cash-flow capabilities of the borrower.

At December 31, 2014, the association's loan volume was $5,886,775, an increase of 9.4 percent from December 31, 2013. At December 2013, loan volume was $5,380,398 which was 4.1 percent higher than the December 31, 2012 loan volume of $5,168,260. General economic conditions continued to improve and provide sustainable underlying strength throughout the association's territory in 2013, and more buyers returned to the real estate market as rural residential real estate loan volume increased 16.9 percent during 2013. Mortgage loans increased a more moderate 5 percent from 2012. During 2014, the association continued to see solid improvements in the economy and weather conditions, as production loan volume increased 33.9 percent, rural residential real estate loans increased 20.0 percent, and real estate mortgage loans increased 6.3 percent during 2014. The credit quality of the association's portfolio continued to improve as well. Loans classified as acceptable improved to 96.6 percent of the total portfolio at December 31, 2014, up from 96.2 percent of the total portfolio at December 31, 2013, and 94.2 percent at December 31, 2012. Overall, there has been no significant change in the geographical distribution of the portfolio or the types of loans that comprise the portfolio. The composition of the association's loan portfolio is described more fully in detailed tables in Note 4 to the consolidated financial statements, "Loans and Allowance for Loan Losses."

At December 31, 2014, 2013 and 2012, the association held 4, 6 and 5 transactions respectively, which are reported as loans on the consolidated balance sheet totaling $6,657, $9,635 and $9,771 with remaining commitments of $44, $70 and $0 extended under the Rural America Bond Program approved by the Farm Credit Administration (FCA). The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing investment in rural areas.

Purchase and Sales of Loans:

The association has obtained loan guarantees from the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the Bank in the form of standby commitments to purchase qualifying loans. At December 31, 2014, 2013 and 2012, loans totaling $28,132, $36,780 and $44,170, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $146, $182 and $210 in 2014, 2013 and 2012, respectively, and are reflected in "other noninterest expense" in the consolidated statement of income.

The association buys and sells loan participations with other lenders in order to diversify its loan portfolio from a commodity and geographical standpoint. As of December 31, 2014, 2013 and 2012, purchased participations totaled $617,203, $559,946 and $573,438, or 10.5 percent, 10.4 percent and 11.1 percent of total loans, respectively. Included in these amounts are participations purchased from entities other than the Bank and its related associations (collectively referred to as the "District") of $186,314, $168,393 and $143,316, or 3.2 percent, 3.1 percent and 2.8 percent of total loans, respectively. The association also sold loan participations of $515,911, $91,796 and $84,235 in 2014, 2013 and 2012 respectively.

Investments:

During 2010, the association exchanged loans totaling $27,975 for Farmer Mac guaranteed mortgage-backed securities (AMBS). The loans were previously covered under the Long Term Standby Commitments to Purchase (LTSCP) Agreement with Farmer Mac. These loans were sold to Farmer Mac and then repurchased in the form of a guaranteed AMBS investment. The primary objective in pursuing the AMBS conversion alternative is to reduce the association's credit exposure to Farmer Mac by putting the association in a position to benefit from the United States Treasury line of credit (under Section 8.13 of the Farm Credit Act), which is only available for the payment of Farmer Mac's guarantee obligations on securities, not for its obligations under the LTSCP program. No gain or loss was recognized in the financial statements as a result of the exchange transaction. These AMBS are included in the association's consolidated balance sheet as held-to-maturity investments at an amortized cost balance of $11,474, $14,864 and $17,175 at December 31, 2014, 2013 and 2012, respectively. The association continues to service the loans included in those transactions.

Risk Exposure:

High-risk assets include nonaccrual loans, loans which are past due 90 days or more and still accruing interest, formally restructured loans and other property owned, net. The following table reflects the association's components and trends of high-risk assets serviced for the prior three years as of December 31:

	2014			2013			2012		
		Amount	**%**		Amount	%		Amount	%
Loans:									
Nonaccrual	**$**	**76,065**	**80.9%**	$	60,622	74.9%	$	97,415	73.1%
90 days past due and still accruing interest		**385**	**0.4%**		2,248	2.8%		51	0.0%
Formally restructured		**13,783**	**14.6%**		12,659	15.6%		12,868	9.7%
Other property owned, net		**3,841**	**4.1%**		5,437	6.7%		22,900	17.2%
Total	**$**	**94,074**	**100.0%**	$	80,966	100.0%	$	133,234	100.0%

At December 31, 2014, 2013 and 2012, loans that were considered impaired were $90,233, $75,529 and $110,334, representing 1.5 percent, 1.4 percent and 2.1 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net. Nonaccrual loans increased $15,443 during 2014. Most of this increase is the result of two unrelated mortgage loans that went past due more than 90 days and without a plan of collection during the year. However, both of these loans are very well secured and the association does not anticipate any losses related to the loans. Formally restructured loans increased $1,124 during 2014 as well. Most of this increase can be attributed to three related dairy loans that were reinstated from nonaccrual status to accrual status during the year. Because the repayment terms of the original loans were extended, this loan is considered formally restructured. The association saw decreases in loans that were 90 days past due and still accruing interest during 2014 as well as other property owned. The association was able to reduce its other property owned from $5,437 at December 31, 2013, to $3,841 at December 31, 2014, while also recognizing gains from those sales of $4,661. Most of this gain is attributable to the sale of an equity interest in an ethanol plant that was granted as part of a formal restructuring of a loan participation in 2009.

Management also continues to routinely evaluate and monitor counterparty and collateral risks in an effort to avoid concentrations that could result in excess exposure to a single counterparty or type of collateral. The loan portfolio management practices in place have been designed to ensure loans and industries with actual or potential problems are promptly identified, monitored and addressed in a manner that allows the lending staff to work with problem customers and industries through periods of adversity.

Except for the relationship between installment due date and seasonal cash-flow capacities of certain borrowers, the association is not affected by any seasonal characteristics.

Allowance for Loan Losses:

The following table provides relevant information regarding the allowance for loan losses as of or for the year ended, December 31:

	2014		2013		2012	
Allowance for loan losses - beginning of year	**$**	**19,526**	$	31,817	$	37,023
Reversal of provision for loan losses		**(3,019)**		(3,305)		(2,647)
Loans charged off		**(1,204)**		(11,896)		(5,949)
Recoveries		**470**		2,910		3,390
Allowance for loan losses - end of year	**$**	**15,773**	$	19,526	$	31,817
Allowance for loan losses to total loans		**0.3%**		0.4%		0.6%
Allowance for loan losses to nonaccrual loans		**20.7%**		32.2%		32.7%
Allowance for loan losses to impaired loans		**17.5%**		25.9%		28.8%
Net charge-offs to average loans		**0.0%**		0.2%		0.1%

The year-end allowance for loan losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy, as well as the association's loan portfolio composition, credit administration and prior loan loss experience. The association calculates its allowance in two parts, specific allowances and a general allowance. The association evaluates all loans classified as impaired for a specific allowance. This specific allowance is generally based upon the value of the collateral securing the loan relative to the loan amount outstanding. Allowance for loan losses of $1,601, $4,458 and $14,839 were specifically related to impaired loans totaling $90,233, $75,529 and $110,334 at December 31, 2014, 2013 and 2012, respectively.

These specific allowances represent 1.8 percent, 5.9 percent and 13.4 percent of the impaired loans at December 31, 2014, 2013 and 2012, respectively. The association experienced loan charge-offs of $1,204, $11,896 and $5,949 in 2014, 2013 and 2012, respectively, representing 1.6 percent, 10.8 percent and 3.9 percent of the previous year-end balance of impaired loans. Loan chargeoffs improved significantly in 2014 as the association's credit quality continues to improve with the agricultural economy and the appreciation of collateral values.

The association monitors its general allowance to recognize the trend in the quality of the portfolio. The association uses industry-based loan pools to calculate its general allowance on the loans that are not analyzed specifically. Risk factors are applied to the loan volume in each industry pool based upon current economic conditions and the credit quality of the loans in that pool. With the improved portfolio quality in 2014, 2013 and 2012, the association decreased the general allowance. Total allowances on loans not considered impaired were $14,172, $15,068 and $16,978 at December 31, 2014, 2013 and 2012, respectively. The allowance for loan losses at December 31, 2014, is considered adequate by management to recognize any inherent losses in the loan portfolio.

Results of Operations:

The association's net income for the year ended December 31, 2014, was $144,083, as compared to $144,843 for the year ended December 31, 2013, reflecting a decrease of $760 or 0.5 percent. The association's net income for the year ended December 31, 2012, was $139,666. Net income increased $5,177, or 3.7 percent, in 2013 versus 2012.

Net interest income for 2014, 2013 and 2012 was $186,663, $179,491 and $169,157, reflecting increases of $7,172, or 4.0 percent, for 2014 versus 2013 and $10,334 or 6.1 percent, for 2013 versus 2012. Net interest income is the principal source of earnings for the association and is impacted by loan volume, yields on loans and cost of debt. Over the last three years, the association has benefited from higher loan volumes, higher levels of capital and low funding costs. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following tables:

	2014		2013		2012	
	Average Balance	**Interest**	Average Balance	Interest	Average Balance	Interest
Accrual loans and investments	**$ 5,518,645**	**$ 274,488**	$ 5,193,326	$ 262,088	$ 4,916,922	$ 257,720
Interest-bearing liabilities	**4,674,652**	**87,825**	4,408,771	82,597	4,204,395	88,563
Impact of capital	**$ 843,993**		$ 784,555		$ 712,527	
Net interest income		**$ 186,663**		$ 179,491		$ 169,157

	Average Yield	Average Yield	Average Yield
Yield on loans	**4.97%**	5.05%	5.24%
Cost of interest-bearing liabilities	**1.88%**	1.87%	2.11%
Net interest margin	**3.09%**	3.18%	3.13%

	2014 vs. 2013			2013 vs. 2012		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	**Rate**	**Total**	Volume	Rate	Total
Interest income	**$ 16,418**	**$ (4,018)**	**$ 12,400**	$ 14,488	$ (10,120)	$ 4,368
Interest expense	**4,980**	**248**	**5,228**	4,305	(10,271)	(5,966)
Net interest income	**$ 11,438**	**$ (4,266)**	**$ 7,172**	$ 10,183	$ 151	$ 10,334

While most of the improvement in net interest income for the last three years is due to the increase in loan volume, the association has also benefited from higher levels of capital as a percentage of loan volume. This reduced the amount of debt borrowed against loan volume.

Noninterest income for 2014 increased by $2,344, or 7.6 percent, compared to 2013, due primarily to an increase in the financially related services income of $1,894 generated by the Agri-insurance division that was acquired in the first quarter of 2014. In addition, there was an increase of $836 in patronage income from the Bank as the Bank paid a 43-basis-point cash patronage on the association's average direct note borrowings. This increase was offset by a decrease in loan fees of $821. As interest rates have stabilized, opportunities for rate conversions have declined. Therefore, loan fees from interest rate conversions have decreased.

A provision reversal of $3,019 was recognized for 2014, as compared to provision reversals of $3,305 and $2,647 in 2013 and 2012, respectively. The reduction in loan losses is a direct result of the association's improving loan portfolio quality, as discussed in the risk exposure section of the management's discussion and analysis.

Noninterest expenses increased overall by $9,879 for 2014, or 14.3 percent, compared to 2013. Salaries and employee benefits increased $5,639 during the year, resulting from employees hired during 2014 to staff positions in anticipation of pending retirements, new business initiatives to support future business growth and additional regulatory compliance. In addition, advertising increased $1,149 as the association increased its marketing efforts throughout the year. Furthermore, insurance fund premiums increased $1,082 due to the increase in loan volume. All other noninterest expenses increased $2,009 in 2014 as the association moved into new office spaces and implemented new technology.

For the year ended December 31, 2014, the association's return on average assets was 2.5 percent, as compared to 2.7 percent and 2.7 percent for the years ended December 31, 2013 and 2012, respectively. For the year ended December 31, 2014, the association's return on average members' equity was 14.9 percent, as compared to 15.7 and 16.0 percent for the years ended December 31, 2013 and 2012, respectively.

Because the association depends on the Bank for funding, any significant positive or negative factors affecting the operations of the Bank could have a similar effect on the operations of the association.

Liquidity and Funding Sources:

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The primary source of liquidity and funding for the association is a direct loan from the Bank. The outstanding balance of $4,922,588, $4,466,210 and $4,314,604 as of December 31, 2014, 2013 and 2012, respectively, is recorded as a liability on the association's balance sheet. The note carried a weighted average interest rate of 1.88 percent, 1.87 percent and 2.11 percent at December 31, 2014, 2013 and 2012, respectively. The indebtedness is collateralized by a pledge of substantially all of the association's assets to the Bank and is governed by a financing agreement. This increase in note payable to the Bank for 2014 is the result of the increase in the association's loan portfolio. The association's average loan portfolio funded by the association's equity was $843,993, $784,555 and $712,527 for the years 2014, 2013 and 2012, respectively. The maximum amount the association may borrow from the Bank as of December 31, 2014, was $5,837,385 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general, the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2015, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice. The association anticipates that the association's direct loan will be renewed before its expiration in 2015.

The liquidity policy of the association is to manage cash balances to maximize debt reduction and to increase accrual loan volume. This policy will continue to be pursued during 2015. As borrower payments are received, they are applied to the association's note payable to the Bank.

The association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and member stock. It is management's opinion that funds available to the association are sufficient to fund its operations for the coming year.

Capital Resources:

The association's capital position remains strong with total members' equity of $1,020,232, $952,596 and $911,845 at December 31, 2014, 2013 and 2012, respectively. Under regulations governing minimum permanent capital adequacy and other capitalization issues, the association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The permanent capital ratio measures available at-risk capital relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the institution's financial capacity to absorb potential losses beyond that provided in the allowance for loan loss accounts. The association's permanent capital ratio at December 31, 2014, 2013 and 2012 was 16.3 percent, 16.4 percent and 16.0 percent, respectively.

The core surplus ratio measures available core surplus relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the quality of capital that exists to maintain stable earnings and financial strength. The association's core surplus ratio at December 31, 2014, 2013 and 2012 was 16.0 percent, 15.9 percent and 14.4 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 3.5 percent.

The total surplus ratio measures available surplus relative to risk-adjusted assets and off-balance-sheet contingencies. The ratio is an indicator of the reserves existing to protect stockholders' investment in the association. The association's total surplus ratio at December 31, 2014, 2013 and 2012 was 16.0 percent, 16.0 percent and 15.6 percent, respectively, which is in compliance with the FCA's minimum ratio requirement of 7.0 percent.

The association has been able to maintain solid levels of capital and strong capital ratios, while declaring patronage refunds in cash to its stockholders in the amounts of $71,995, $65,477 and $42,133 in 2014, 2013 and 2012, respectively. The board of directors also issued $70,070, $78,648 and $96,215 in nonqualified written notices of allocation in 2014, 2013 and 2012, respectively. In addition, the association retired $42,663 and $55,000 of previously allocated nonqualified written notices of allocation in November 2013 and December 2012 respectively. The association decided to not retire any previously allocated nonqualified written notices of allocation in 2014 because of proposed FCA regulations which may significantly limit the association's ability to count as capital any such allocations with revolvement cycles less than 10 years. See Note 10 to the consolidated financial statements, "Members' Equity," included in this annual report, for further information.

The association utilizes income pools to determine and allocate the patronage refunds for its customers. Each patronage-eligible customer's loan(s) are allocated to a respective pool based upon common characteristics to service and account for such loans. For 2012 and 2013, the association utilized a participations purchased pool, a sold loan pool, a nonaccrual loan pool and a general loan pool. For 2014, the association utilized a participations purchased pool, a participations sold pool and a general loan pool. The participations purchased pool includes all patronage-eligible loans that are purchased from other farm credit entities. The sold loan pool includes any portion of a loan that the association originates, but sells to another entity. The nonaccrual pool included any loan that is classified nonaccrual at the end of the year. The general pool includes all other patronage eligible loans not included in the other pools. Net income is calculated for each pool by including all of the net interest income from the loans in the pool and a reasonable allocation of association expenses for each pool. The allocation of expenses are based upon the costs to service and account for the loans in the pool. Net income for each pool is determined by subtracting the allocation of expenses from the net interest income of the loans in the pool. Any net income from the pool is eligible for distribution only to the customers with loans in that pool. If a pool does not generate net income, there are no earnings available for distribution to those customers with loans in that pool. For 2012 and 2013, the nonaccrual pool did not generate net income.

Regulatory Matters:

On July 25, 2014, the Farm Credit Administration published a proposed rule to revise the requirements governing the eligibility of investments for System banks and associations. The stated objectives of the proposed rule are as follows:

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

The public comment period ended on October 23, 2014.

On September 4, 2014, the Farm Credit Administration published a proposed rule to modify the regulatory capital requirements for System banks and associations. The stated objectives of the proposed rule are as follows:

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

The public comment period ended on February 16, 2015.

Relationship With the Bank:

The association's statutory obligation to borrow only from the Bank is discussed in Note 9 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank's ability to access additional capital from the association is discussed in Note 2 to the consolidated financial statements, "Summary of Significant Accounting Policies," included in this annual report, within the section "Capital Stock Investment in the Bank."

The Bank's role in mitigating the association's exposure to interest rate risk is described in the section "Liquidity and Funding Sources" of this Management's Discussion and Analysis and in Note 9 to the consolidated financial statements, "Note Payable to the Bank," included in this annual report.

The Bank provides computer systems to support the critical operations of all District associations. In addition, each association has operating systems and facility-based systems that are not supported by the Bank. As disclosed in Note 13 to the consolidated financial statements, "Related Party Transactions," included in this annual report, the Bank provides many services that the association can utilize. Expenses included in purchased services may include purchased services such as administrative services, marketing, information systems, accounting services and allocations of expenses incurred by the Bank passed through to the associations such as FCSIC expenses.

DIRECTORS AND SENIOR OFFICERS

The association's stockholder-elected and director-elected board of directors and senior officers are as follows:

NAME	POSITION	ELECTED/ EMPLOYED	TERM EXPIRES
Phillip Munden	Chairman & Stockholder-Elected Director	2013	2017
Danny Parker	Vice Chairman & Stockholder-Elected Director	2013	2017
Paul Aelvoet	Stockholder-Elected Director	2014	2018
Larry Boleman	Stockholder-Elected Director	2012	2016
Richard Counts*	Director-Elected Director	2013	2017
Dale Crenwelge	Stockholder-Elected Director	2013	2017
Kelly Gaskins	Stockholder-Elected Director	2014	2018
Dan Henard Jr.	Stockholder-Elected Director	2012	2016
Dale Hoelscher	Stockholder-Elected Director	2011	2015
Kenton B. Kimball	Stockholder-Elected Director	2011	2015
John Malazzo	Stockholder-Elected Director	2011	2015
Terry McAlister	Stockholder-Elected Director	2014	2018
Lance D. Morris	Stockholder-Elected Director	2011	2015
Gary L. Palousek	Stockholder-Elected Director	2011	2015
Ronnie Riddle	Stockholder-Elected Director	2012	2016
Carl Sample	Stockholder-Elected Director	2012	2016
Roy Allan Schmidt	Stockholder-Elected Director	2013	2017
Lloyd Shoppa*	Director-Elected Director	2011	2015
Steve Stevens*	Director-Elected Director	2013	2017
James L. Wedel	Stockholder-Elected Director	2013	2017
Lowell Woodward	Stockholder-Elected Director	2014	2018
Joe David Yates	Stockholder-Elected Director	2014	2018
Ben R. Novosad	Chief Executive Officer	1976	----
Eric C. Rothe	Executive Vice President, Lending	1984	----
Don VandeVanter	Senior Vice President, CFO	1999	----
Kenny S. Brown	Senior Vice President, Policy & Compliance	2000	----
Mark L. Hiler	Senior Vice President, COO	1980	----
Patricia A. Gonzales	Senior Vice President, Accounting & Administration	1999	----
Roy A. West	Regional Senior Vice President, Credit	1998	----
Mark Loveland	Regional Senior Vice President, Credit	1997	----
Jay Stewart	Senior Vice President, Chief Lending Officer	2001	----
Jeff Norte	Deputy Chief Credit Officer	2010	----
Scott Taylor	Managing Director, Agribusiness	2009	----

*Director-Elected Director: a director-appointed director who is not a stockholder, director, officer, employee or agent of a Farm Credit System institution (other than as an outside director of the association or its subsidiaries).

A brief statement of the business and employment background of each director and senior officer is provided for informational purposes.

Phillip Munden is a full-time rancher and farmer, and owns a small farm and ranch construction business in Bosque County, Texas, near Walnut Springs. Mr. Munden is a board chairman of the Bosque Soil and Water Conservation District and appointed to serve as advisory member for the Bosque County Appraisal District board.

Danny Parker farms cotton, vegetables and corn in Uvalde and Zavala counties. Mr. Parker resides in Uvalde County, Texas, and is a vice chairman of Gulf Compress in Corpus Christi.

Paul Aelvoet is a self-employed farmer/rancher in Medina County, Texas. Mr. Aelvoet serves in the Medina County Jr. Livestock Show, Hondo 4-H and Hondo 4-H Booster Club. He also serves as partner/manager of Aelvoet Partners LTD and D/A Cattle Company.

Larry Boleman is employed as the Texas A&M AgriLife Administrator-Associate Vice Chancellor and resides in College Station, Texas. Mr. Boleman is the sole owner of Boleman Cattle Company where he raises commercial grade beef cattle for show cattle and regular market channels.

Richard Counts has been a retired CPA and consultant for the past five years. Mr. Counts resides in Fort Bend County, Texas, where he has a 50 percent ownership in “Living Designs,” a company that sells flowers and plants.

Dale Crenwelge resides in Comfort, Texas, and his principal occupation is ranching and real estate investment. Mr. Crenwelge was elected to Notre Dame Catholic School Council, Centurions of Kendall County, Grobe-Lich Properties LTD, Grobe-Lich Properties LLC, DKBC LLC, Pine Ridge Developers, Oak Creek/Mopac Self Storage, Crenwelge LLC, The Reserve at Falling Water LTD, Dancing Hill LLC, Pantego American U Store LTD, American U Store LLC, 210 Blanco Ranch LTD, 210 Blanco Ranch LLC, DeSota Preferred Storage LTD, LaSota Business Park LP, Austin Mini Storage, Vega Altamesa SS LP, D and D Terrel County Ranch Partner, Crenwelge Commercial Consultants, Dale A. and Daniel F. Crenwelge Tenants in Common and Pine Ridge Developers. Mr. Crenwelge is president or general partner of all entities engaged in ranching and real estate development.

Kelly Gaskins resides in Knott, Texas, where he farms and owns a pipeline company. Mr. Gaskins is president of the board for the Knot Co-op Gin and has ownership in K G Farm Services, Hop Toad Enterprises, Salt Cedar Farms and Gaskins Double G Corporation.

Dan Henard Jr. farms and ranches in Collingsworth County, Texas, and Harmon County, Oklahoma. Mr. Henard resides near Wellington, Texas, where he is a member of the Mesquite Ground Water Conservation District (GWCD) Board, the Salt Fork Soil and Water Conservation District Board and a partner in Henard Farms, a farming and ranching operation.

Dale Hoelscher farms and ranches in Bell, Falls, Robertson and Milam counties, and resides in Bell County, Texas. Mr. Hoelscher’s business positions include Hoelscher Brothers Farm and R & D Hoelscher Farm LLC, and he serves on the board of Producers Co-op in Bryan, Texas

Kenton B. Kimball farms and ranches in Stratford, Texas. Mr. Kimball is the president of Kimball Cattle Company and a partner in K & N joint venture.

John Malazzo raises cotton, corn and replacement heifers and has a feeder calf operation in Brazos, Burleson and Milam counties. Mr. Malazzo resides in Caldwell, Texas. Mr. Malazzo serves on the board of Producers Co-op of Bryan, Texas.

Terry McAlister resides and farms and ranches in Wichita and Wilbarger counties. Mr. McAlister is president and CEO of McAlister Properties Inc. and has ownership in McAlister Farm and McAlister Fertilizer. He serves as a board member of Northern Rolling Plains Boll Weevil Eradication and North Texas Rehabilitation Center.

Lance D. Morris farms cotton and milo in Crosby, Dickens and Floyd counties. Mr. Morris is on the board of directors of the Associated Cotton Growers, Crosby County Fuel, White River Municipal Water District and Tri-Global Energy LLC.

Gary L. Palousek is a self-employed farmer raising cotton, milo and sugar cane in Willacy County, Texas. Mr. Palousek resides and maintains an office in Raymondville, Texas. He is director and secretary of the Willacy County Drainage District No. 2 and is chair and committeeman of Willacy County Farm Service Agency.

Ronnie Riddle is owner and operator of Riddle Farms located near Hamlin, Texas. He resides in Abilene, Texas, and farms in Fisher, Stonewall and Haskell counties. Mr. Riddle is a board member of the Texas Trail Council Boy Scouts of America.

Carl Sample resides in Smiley, Texas, and is a contract poultry grower for Tyson Foods and also has a cow/calf operation in Gonzales County, Texas.

Roy Allan Schmidt resides in Burton, Texas. Mr. Schmidt owns and operates La Bahia Antiques LLC, a cattle and farming operation and Schmidt Construction. He serves as president of La Bahia Turn Verein.

Lloyd Shoppa is a businessman residing in Wharton and Colleyville, Texas. Mr. Shoppa is chairman of Shoppa’s Farm Supply Inc. and Shoppa’s Material Handling Inc.

Steve Stevens is a certified public accountant with Stevens & Mathews LLP in Houston, Texas. Mr. Stevens is a member of the board of partners for ANCO Insurance in Bryan, Texas. He has previously served as chairman of the Houston Livestock Show & Rodeo, president of the 12th Man Foundation and president of the American Quarter Horse Association.

James L. Wedel is a farmer in Bailey and Parmer counties, growing organic corn, cotton, wheat, peanuts, soybeans and forage sorghum. He resides in Lubbock and currently serves as president of the Corn Producers Association of Texas, secretary of the Texas Corn Producers Board, president of the Texas Organic Cotton Marketing Cooperative, and president of Double W Farms Inc. and Paradise Plantation Inc.

Lowell Woodward ranches in Pecos, Crockett, Brewster and Upton counties. Mr. Woodward raises sheep, goats, cattle and horses, and has a hunting operation. He is a director of the Sheep and Goat Raisers of Texas board.

Joe David Yates resides in Mason, Texas, and ranches in Texas and New Mexico. Mr. Yates sells ranch real estate with Terry Wootan in Llano. He is part owner of the Bay City Feed in Bay City, Texas, and is the secretary of Stewart Ranch with operations in Texas and New Mexico.

Ben R. Novosad is president and chief executive officer of the association. Mr. Novosad began his career with the Federal Land Bank Association of Bryan in 1976, and in 1986 was named president and chief executive officer. As a 1975 graduate of Texas A&M University, Mr. Novosad received his B.S. in agricultural economics. He currently serves on the Farm Credit System's President's Advisory Committee and the Farm Credit System's Risk Management Committee. He also serves on the Texas Agricultural Lifetime Leadership Program (TALL) Advisory Board of Directors. In 2004, Mr. Novosad was inducted into the Tyrus R. Timm Honor Registry of Former Students of Agricultural Economics at Texas A&M University.

Eric C. Rothe currently serves as the association's executive vice president and chief credit officer. He had previously served as the CEO of Southwest Texas ACA. Prior to that time, he held positions with the Federal Land Bank of Texas in Austin and the Marfa and Uvalde Federal Land Bank Associations.

Don VandeVanter serves as senior vice president and chief financial officer for the association. He is responsible for the financial administration and capital management of the association. Mr. VandeVanter, a certified public accountant, has worked for the association since 1999 and in Farm Credit since 1987. He is a 1984 graduate of the University of Texas with a degree in accounting. Prior to his time with Farm Credit, he worked in public accounting.

Kenny S. Brown is senior vice president/policy and compliance and has been with Capital Farm Credit since October 2000 when he was hired to coordinate the association's internal credit review. In his current position since 2006, Mr. Brown is responsible for ensuring the association takes steps to operate under safe and sound policies and in compliance with applicable laws and regulations. Mr. Brown has more than 20 years of experience in the Farm Credit System following his graduation from Louisiana State University in 1986.

Mark L. Hiler serves as the association's senior vice president and chief operating officer, and was employed in 1980 with the Federal Land Bank Association of Uvalde. He served as chief executive officer of that association prior to its merger with Southwest Federal Land Bank Association in 1995. He served Southwest as president/chief operating officer until its merger with Capital Farm Credit in 2006. Mr. Hiler holds a B.B.A. in finance and M.S. in agriculture from Texas A&M University.

Patricia A. Gonzales serves as the association's senior vice president, accounting and administration. She is responsible for managing the association's accounting and human resources. She is a certified public accountant and was employed as chief financial officer in May 1999. She was previously employed as vice president/controller of the Farm Credit Bank of Texas for 12 years. Mrs. Gonzales also serves on the Farm Credit System Accounting Standards Work Group. Prior to her time with Farm Credit, she worked in public accounting.

Roy A. West was employed as chief credit officer in April 1998 and currently serves as the association's regional senior vice president, credit. He was previously employed as director of credit of the Farm Credit Bank of Texas and vice president of the Capital of Texas Federal Land Bank Association.

Mark Loveland serves the association as regional senior vice president, credit. Prior to his employment with the association, he was chief credit officer of First Ag Credit, FCS. He has also held several positions with the Farm Credit Bank of Texas including director of credit operations, engineer/appraiser, mineral representative and loan officer. He has over 30 years of service with the Farm Credit System.

Jay Stewart serves the association as senior vice president, chief lending officer. Mr. Stewart has 20 years of Farm Credit experience, including 13 years with Capital Farm Credit as branch manager, regional president, and has served in his current role since 2010. He also served six years with the Farm Credit Administration as a commissioned examiner. He received his B.S. and M.Agr. in agricultural economics from Texas A&M University.

Jeff Norte serves the association as deputy chief credit officer. Mr. Norte has been with the association since September 2010. Prior to joining the association, he served in various credit and risk positions, including overseeing credit for CoBank's corporate and international portfolio, as well as several years as a regulator in Kansas City with the FDIC. He is a veteran of the military serving with the U.S. Army. Mr. Norte is a certified public accountant and received his M.B.A from Concordia University Texas.

Scott Taylor joined Capital Farm Credit in mid-2009 as managing director of agribusiness/capital markets/correspondent lending. His prior employment history was with several Texas-based banks with a focus on agriculture, energy and general commercial/corporate lending. He spent approximately 20 years with a major global agribusiness bank in Dallas and Chicago, including managing project finance, and was a senior relationship manager in agribusiness and production ag lending.

COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

During 2014 directors were compensated for their service to the association in the form of an honorarium of $1,250 per month, $500 for each board meeting attended, $600 per meeting for Audit Committee meetings, $500 per meeting for committee meetings attended other than Audit Committee, $500 per meeting for all other meetings, $200 per meeting for conference calls and $200 for travel days when required. Committee chairmen received an additional $200 per meeting for committee meetings. The board chairman and vice chairman were compensated $800 per meeting for each board meeting attended, and directors were also reimbursed for certain expenses incurred while representing the association in an official capacity. Mileage for attending official meetings during 2014 was paid at the IRS approved rate of 56.0 cents for the year. A copy of the travel policy is available to stockholders of the association upon request.

	Number of Days Served		
Director	**Board Meetings**	**Other Official Activities**	**Total Compensation in 2014**
Paul Aelvoet	9	5	$ 21,100
Larry Boleman	10	4	20,700
Richard Counts	8	12	26,600
Dale Crenwelge	9	3	20,100
Kelly Gaskins	7	6	21,300
Dan Henard Jr.	10	10	25,700
Dale Hoelscher	10	7	23,200
Kenton B. Kimball	10	12	28,400
John Malazzo	9	5	21,700
Terry McAlister	9	11	24,700
Lance D. Morris	10	10	26,900
Phillip Munden	10	27	38,900
Gary L. Palousek	10	6	22,500
Danny Parker	10	17	34,600
Ronnie Riddle	10	8	24,900
Carl Sample	9	16	27,100
Roy Allen Schmidt	7	3	19,400
Lloyd Shoppa	9	5	22,500
Steve Stevens	10	7	23,400
James L. Wedel	10	10	24,900
Lowell Woodward	10	12	26,100
Joe David Yates	10	12	25,800
			$ 550,500

During 2014 there were seven board meetings with three consisting of a two-day meeting and four consisting of a one-day meeting (directors reflecting 10 or more days in board meeting attendance, attended all board meetings held in 2014).

The aggregate compensation paid to directors in 2014, 2013 and 2012 was $547,300, $555,550 and $440,500, respectively. Additional detail regarding director compensation paid for committee service (which is included in the table above) is as follows:

	Committee				
Director	**Audit**	**Compensation**	**Governance**	**Other***	**Total**
Paul Aelvoet	$ -	$ -	$ 1,500	$ 1,000	$ 2,500
Larry Boleman	-	-	1,000	1,000	2,000
Richard Counts	4,500	200	-	2,500	7,200
Dale Crenwelge	-	-	500	1,000	1,500
Kelly Gaskins	-	2,100	-	1,500	3,600
Dan Henard Jr.	-	-	-	5,000	5,000
Dale Hoelscher	-	2,600	-	1,500	4,100
Kenton B. Kimball	5,200	200	-	2,500	7,900
John Malazzo	-	-	2,100	1,000	3,100
Terry McAlister	3,800	200	-	2,500	6,500
Lance D. Morris	-	3,400	-	3,000	6,400
Phillip Munden	3,400	1,400	1,500	7,500	13,800
Gary L. Palousek	-	2,400	-	1,000	3,400
Danny Parker	3,000	1,100	1,000	4,000	9,100
Ronnie Riddle	-	-	1,500	2,500	4,000
Carl Sample	2,800	-	-	5,500	8,300
Roy Allen Schmidt	-	-	1,500	-	1,500
Lloyd Shoppa	-	2,100	-	1,000	3,100
Steve Stevens	3,100	-	-	1,000	4,100
James L. Wedel	-	2,400	-	3,000	5,400
Lowell Woodward	-	2,400	-	4,000	6,400
Joe David Yates	4,000	-	-	2,500	6,500
	$ 29,800	$ 20,500	$ 10,600	$ 54,500	$ 115,400

*Other includes the following meetings that were held: credit, director development, national director conference, Farm Credit Council and FCBT stockholder.

The aggregate amount of reimbursement for travel, subsistence and other related expenses paid to directors and on their behalf was $254,429, $258,418 and $352,796 in 2014, 2013 and 2012, respectively.

COMPENSATION OF SENIOR OFFICERS

Compensation Discussion and Analysis – Senior Officers

A critical factor to the association's success is its ability to attract, develop and retain staff that are knowledgeable and efficient in their ability to support the association in the execution of its strategic objectives and delivery of association results that maximize the value received by its membership. The association operates utilizing a compensation program which focuses on the performance and contributions of its employees in achieving the association's financial and operational objectives, all for the ultimate benefit of its membership. The association's board of directors, based on recommendations of its Compensation Committee, establishes the salary and approves the incentive programs utilizing data derived from independent third-party compensation specialists in the financial services sector to ensure incentive structures are in line with market-comparable positions. Studies provided by third-party compensation specialists form the foundation for evaluation and establishment of salary and incentive plans used by the association.

Chief Executive Officer (CEO) Compensation Table and Policy

CEO Compensation

Name of Individual	Year	Salary (a)	Long Term Incentives (b)	Current Year Incentives (c)	Deferred Compensation (d)	Other (e)	Total *	Change in Pension Value (f)
Ben R. Novosad,	2014	$ 695,277	$ 185,650	$ 259,335	$ -	$ 24,504	$ 1,164,766	$ 689,877
CEO	2013	$ 675,026	-	$ 203,116	-	23,932	902,074	26,455
	2012	515,019	-	184,050	635,000	23,779	1,357,848	388,826

(a) Gross salary
(b) Cash payout of long term incentives
(c) Cash payout of annual incentives
(d) Nonqualified deferred compensation earnings
(e) Includes contributions to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance
(f) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year.

(Refer to Note 12 – Employee Benefit Plans for detailed explanation on the increase to the retiree welfare plan's projected benefit obligation and corresponding impact to change in pension value.)

* The table above does not include the estimated LTI incentive accruals of $449,922. For details regarding these accruals see disclosure more fully discussed within the Long Term Incentives section of this discussion and analysis.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to the CEO for the year ended December 31, 2014:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2014
Ben R. Novosad	Farm Credit Bank of Texas Pension Plan	39.9	$ 3,307,495	$ -

The "Present Value of Accumulated Benefits" will be actuarially determined based on the association's CEO participation in the defined benefit pension plan.

The CEO and five other senior officers of the association participate in the Farm Credit Bank of Texas Pension Plan (the Pension Plan), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan's benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times "Years of Benefit Service" and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) "Years of Benefit Service" (not to exceed 35). The present value of the senior officers' accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 65. The Pension Plan's benefit formula for the Normal Retirement Pension assumes that the senior officers are married on the date the annuity begins, that their spouses are exactly two years younger than the senior officers and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

The CEO of the association also participated in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (the Plan). The Plan is a defined contribution plan and is sponsored and maintained by the AgFirst/FCBT Plan Sponsor Committee for the benefit of the participating employers in the AgFirst Farm Credit Bank/Farm Credit Bank of Texas Agreement Regarding Employee Benefit Plans (the Administrative Agreement) and their eligible employees. One of the purposes of the Plan is to allow a means for participating employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the association's existing Pension Plan.

During 2008, the association evaluated the benefits lost as a result of these limitations with regard to the CEO of the association and has funded this shortfall over a five-year period using a five-year vesting schedule. The funding of this shortfall occurred annually. Expenses of the Plan for plan years 2014, 2013 and 2012 were $0, $0 and $635, respectively. Funding of these amounts occurred in January following the year of expense. At December 31, 2014, the association had completed the funding of this supplemental compensation program.

Compensation of Other Senior Officers

The following table summarizes the compensation paid to all senior officers, excluding the CEO, of the association during 2014, 2013 and 2012. Amounts reflected in the table are presented in the year the compensation was paid.

Name of Group	Year	Salary (a)	Long Term Incentives (b)	Current Year Incentives (c)	Deferred Compensation (d)	Other (e)	Total *	Change in Pension Value (f)
Aggregate No. of Senior Officers in Year Excluding CEO								
10	2014	$ 2,387,204	$ 611,499	$ 745,034	$ 300,000	$ 162,634	4,206,371	$ 2,610,841
10	2013	$ 2,199,911	-	$ 701,511	$ 200,000	$ 292,230	3,393,652	$ 140,894
10	2012	2,117,176	-	621,782	150,000	174,822	3,063,780	-

(a) Gross salary
(b) Cash payout of long term incentives
(c) Cash payout of annual incentives
(d) Nonqualified deferred compensation earnings for one of the senior officers
(e) Includes contributions to 401(k) and defined contribution plans, automobile benefits and premiums paid for life insurance
(f) Change in pension value represents the change in the actuarial present value of the accumulated benefit under the defined benefit pension plan, the Farm Credit Bank of Texas Pension Plan, from the prior fiscal year to the current fiscal year. This value is not reflected for participating senior officers for the year 2012.

(Refer to Note 12 – Employee Benefit Plans for detailed explanation on the increase to the retiree welfare plan's projected benefit obligation and corresponding impact to change in pension value.)

*The table above does not include the estimated LTI incentive accruals of $1,384,867. For details regarding these accruals see disclosure more fully discussed within the Long Term Incentives section of this discussion and analysis.

Pension Benefits Table

The following table presents the total annual benefit provided from the defined benefit pension plan applicable to senior officers for the year ended December 31, 2014:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payments During 2014
Aggregate No. of Senior Officers in Year Excluding CEO 5	Farm Credit Bank of Texas Pension Plan	168.29	$ 12,417,760	$ -

The “Present Value of Accumulated Benefits” will be actuarially determined based on the association’s senior officers’ participation in the defined benefit pension plan.

Five of the ten senior officers of the association participate in the Farm Credit Bank of Texas Pension Plan (the Pension Plan), which is a qualified defined benefit retirement plan. Compensation, as defined in the Pension Plan, includes wages, incentive compensation and deferrals to the 401(k) and flexible spending account plans, but excludes annual leave or sick leave that may be paid in cash at the time of termination, retirement, or transfer of employment, severance payments, retention bonuses, taxable fringe benefits, and any other payments. Pension Plan benefits are based on the average of monthly eligible compensation over 60 consecutive months that produce the highest average after 1996 (FAC60). The Pension Plan’s benefit formula for a Normal Retirement Pension is the sum of (a) 1.65 percent of FAC60 times “Years of Benefit Service” and (b) 0.50 percent of (i) FAC60 in excess of Social Security covered compensation times (ii) “Years of Benefit Service” (not to exceed 35). The present value of the senior officers’ accumulated Pension Plan is calculated assuming retirement had occurred at the measurement date used for financial statement reporting purposes with retirement at age 65. The Pension Plan’s benefit formula for the Normal Retirement Pension assumes that the senior officers are married on the date the annuity begins, that their spouses are exactly two years younger than the senior officers, and that the benefit is payable in the form of a 50 percent joint and survivor annuity. If any of those assumptions are incorrect, the benefit is recalculated to be the actuarial equivalent benefit.

Disclosure of information on the total compensation paid and the arrangements of the compensation plans during the last fiscal year to any senior officer or to any other officer included in the aggregate are available and will be disclosed to shareholders of the association upon request.

Neither the CEO nor any other senior officer received non-cash compensation exceeding $5,000 in 2014, 2013 or 2012.

Additional Nonqualified Supplemental 401(k) Plan:

During 2011, the association outlined plans for succession for key members of senior management that are reaching retirement eligibility. In conjunction with this plan, the association evaluated the benefits lost due to limitations under the Internal Revenue Code as it relates to the association’s existing pension plan for one of its key members of senior management. As a result, the association has entered into an agreement with one of its executive management team members that calls for discretionary contributions on the key officer’s behalf into the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (“the Plan”). The association has evaluated the need to provide for succession for this key position and to restore a portion of benefits lost, and as a result has developed a plan covering the four year period ending December 31, 2015. The association is funding this plan over a four-year period using a four-year vesting schedule. The funding of this plan occurs annually. At December 31, 2014 the total potential remaining obligation to the association is $350,000. Expenses of the plan relating to this agreement for 2014, 2013 and 2012 were $300,000, $200,000 and $150,000 respectively. Funding of these amounts occurred in January following the year of expense.

Incentive Plan for Officers and Employees:

Effective January 1, 2011, under the guidance of a third party compensation consultant, the board approved two incentive plans; the annual (short-term) incentive plan (STI) based on individual and association performance drives behavior that supports annual association goals, and the Long Term Incentive plan (LTI), which was developed to reward association leadership for achievement of the association’s long-term goals and objectives. Both plans utilize parameters for measuring achievement at either threshold, target or superior performance levels. The LTI evaluates performance annually and is earned over a rolling three-year performance period.

Annual (Short-Term) Incentive Plan (STI)

The STI plan is a balanced scorecard plan which rewards employees for achieving desired business goal objectives for the year. The STI is an annual plan that is administered by the board.

At the beginning of each plan year, the board reviews and approves STI plan performance objectives for the association and the award matrix by which all incentives under the STI shall be calculated. Each STI plan participant is assigned an incentive award target calculated as a percentage of base pay which may be awarded if the association and participant achieve target performance goals. Failure to meet minimum thresholds for individual goals will result in no incentive, while achievement at superior levels for individual goals will result in the maximum incentive opportunity available at that salary grade for that goal. Potential individual award percentages vary based upon an employee’s job grade level and are higher for those persons serving to direct performance of the association which includes its senior lending staff and senior officers. Award payments vary depending upon the extent to which the association goals are achieved.

For calendar year 2014, the board approved the following goal performance measures, weightings and performance goals:

Performance Measures	Weight	Performance Goals Target	2014 Actual Performance	Performance Achievement
Acceptable Credit Quality as percentage of total loan assets	10%	95.00%	96.55%	between target and superior
Net Chargeoffs as percentage of average loans	10%	0.15%	0.00%	superior
Nonearning Assets as percentage of loans plus other property owned	20%	1.00%	1.36%	between threshold and target
Pre-provision return on assets	20%	2.50%	2.44%	between threshold and target
Pre-provision return on equity	20%	14.25%	14.54%	between target and superior
Growth in average accrual loan volume including participations sold	20%	6.50%	6.93%	between target and superior
Total	100%			

As part of this plan the association has also established parameters for goal performance which define threshold and superior levels of incentive opportunities when more or less than the targeted goals are achieved. If less than the threshold level of performance is achieved for a particular performance measure, no incentives will be awarded for that performance measure. Financial results for 2014 resulted in the association's achievement of goal performance which overall achieves targeted goals. As a result, the board approved and the association accrued an estimated payment of $7,900,000 in STI incentives. As specified by the plan, these incentives are to be paid by March 15, 2015.

Long Term Incentive Plan (LTI)

The purpose of the association's LTI is to offer a financial rewards package to key employees based on the long-term performance of the association. The board is the administrator of the LTI. The board has retained the authority to review and approve plan participants, the incentives prior to payment, and the LTI metrics and goals as presented by the CEO and members of management. Any additions or deletions to the participant list must be submitted for board approval prior to the beginning of a performance period (the consecutive 36-month period beginning January 1 and ending December 31). Each participant is assigned an incentive award goal, calculated as a percentage of base salary at the beginning of the performance period at threshold, target and superior performance levels.

At the beginning of each calendar year, the board approves the LTI plan objectives for the association and the award formula or matrix by which all awards under this plan are based. Since its inception in 2011, the LTI plan established goals and metrics which management and the board felt were long term in nature and fostered the long term health and viability of the association and its stockholders. These goals included loan volume growth, operating efficiency and capital distributions to the association's stockholders. The association's vision is to be the best provider of agricultural credit using the best people, best service, best financial performance and the best patronage program. The board believes the goals established for the LTI support this vision.

For the LTI performance period 2014-2016, the board approved the following goal performance measures, weightings and performance goals, which are consistent with goals established for the LTI period 2013-2015.

Performance Measures	Performance Goals Target	Weight
Capital Distributions as a percentage of average loan volume	1.0%	33.3%
Three year average Growth Rate for period end of Accrual Loans	5.0%	33.3%
Ranking among Farm Credit System's Peer Group of Annual Operating Expenses as % of Net Interest Income plus Other Income	70th percentile of peer group	33.4%

The actual/projected results for LTI performance and the estimated incentives based upon the performance for each of the three performance periods are as follows:

	Performance Level					
Plan Period	**Capital Distribution**	**Growth**	**Efficiency**	**CEO LTI**	**Senior Officer LTI**	**Other Executives LTI**
2012-2014 Actual	superior	between target and superior	between target and superior	$201,983	$698,625	$417,386
2013-2015 Projected	superior	superior	between target and superior	181,890	496,527	281,800
2014-2016 projected	between target and superior	superior	less than threshold	66,049	189,715	113,667

Other

Employees who are assigned association automobiles reimburse the association for any personal miles above a pre-established limit. Employees who use their personal automobile for business purposes were reimbursed during 2014 at the IRS-approved rate of 56.0 cents per mile.

Senior officers, including the CEO, are reimbursed for reasonable travel, subsistence and other related expenses while conducting association business. A copy of the association's travel policy is available to shareholders upon request.

TRANSACTIONS WITH DIRECTORS AND SENIOR OFFICERS

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 13 to the consolidated financial statements, "Related Party Transactions," included in this annual report.

DIRECTORS' AND SENIOR OFFICERS' INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS

During the past five years, none of the association's officers or directors has been involved in legal proceedings that are material to an evaluation of the ability or integrity of any person who served as director or senior officer on January 1, 2015, or at any time during the year just ended.

RELATIONSHIP WITH INDEPENDENT AUDITORS

No change in auditors has taken place since the last annual report to stockholders and no disagreements with auditors has occurred that the association is required to report to the Farm Credit Administration under part 621 of the FCA regulations governing this disclosure.

Fees for professional services rendered for the association during 2014 by PricewaterhouseCoopers are as follows:

Service Category	Fees
Annual audit services	$ 129,750
Tax services	11,200
Total	$ 140,950

The tax services were approved by the board's Audit Committee.

FINANCIAL STATEMENTS

The financial statements, together with the report thereon of PricewaterhouseCoopers dated March 11, 2015, and the report of management in this annual report to stockholders, are incorporated herein by reference.

MEMBER/SHAREHOLDER PRIVACY

Members' nonpublic personal financial information is protected by Farm Credit Administration regulation. The directors and employees are restricted from disclosing information not normally contained in published reports or press releases about the association or its members.

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Independent Auditor's Report

To the Board of Directors of Capital Farm Credit, ACA:

We have audited the accompanying consolidated financial statements of Capital Farm Credit, ACA and its subsidiaries (the Association), which comprise the consolidated balance sheets as of December 31, 2014, 2013 and 2012, and the related consolidated statements of comprehensive income, of changes in members' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

PricewaterhouseCoopers LLP

March 11, 2015

PricewaterhouseCoopers LLP, 300 West 6th Street, Suite 1800, Austin, Texas 78701
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CAPITAL FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	December 31, 2014	2013	2012
Assets			
Cash	**$ 37**	$ 1,014	$ 1,038
Loans	**5,886,775**	5,380,398	5,168,260
Less: allowance for loan losses	**(15,773)**	(19,526)	(31,817)
Net loans	**5,871,002**	5,360,872	5,136,443
Accrued interest receivable - loans	**46,502**	44,023	42,514
Accrued interest receivable - investments	**215**	223	168
Investments held-to-maturity	**11,474**	14,864	17,175
Investment in and receivable from the Bank:			
Capital stock	**92,734**	87,900	83,766
Receivable	**9,937**	11,516	13,469
Investments in other Farm Credit Institutions	**4,798**	3,221	936
Other property owned, net	**3,841**	5,437	22,900
Premises and equipment, net	**17,344**	14,928	11,980
Other assets	**27,843**	7,013	5,090
Total assets	**$ 6,085,727**	$ 5,551,011	$ 5,335,479
Liabilities			
Note payable to the Bank	**$ 4,922,588**	$ 4,466,210	$ 4,314,604
Advance conditional payments	**5,763**	6,855	8,884
Accrued interest payable	**7,823**	7,085	7,081
Drafts outstanding	**2,955**	5,557	5,658
Patronage distributions payable	**72,004**	65,486	42,133
Unfunded postretirement medical obligation	**23,451**	18,030	20,859
Other liabilities	**30,911**	29,192	24,415
Total liabilities	**5,065,495**	4,598,415	4,423,634
Members' Equity			
Capital stock and participation certificates	**23,417**	22,651	22,145
Non-qualified allocated retained earnings	**446,477**	376,634	322,883
Unallocated retained earnings	**553,366**	551,319	568,362
Accumulated other comprehensive income (loss)	**(3,028)**	1,992	(1,545)
Total members' equity	**1,020,232**	952,596	911,845
Total liabilities and members' equity	**$ 6,085,727**	$ 5,551,011	$ 5,335,479

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	Year Ended December 31,		
	2014	2013	2012
Interest Income			
Loans	**$ 273,865**	$ 261,309	$ 256,811
Investments	**623**	779	909
Total interest income	**274,488**	262,088	257,720
Interest Expense			
Note payable to the Bank	**87,823**	82,594	88,559
Advance conditional payments	**2**	3	4
Total interest expense	**87,825**	82,597	88,563
Net interest income	**186,663**	179,491	169,157
Provision for Loan Losses			
Reversal of provision for loan losses	**(3,019)**	(3,305)	(2,647)
Net interest income after provision for loan losses	**189,682**	182,796	171,804
Noninterest Income			
Patronage income from the Bank	**21,960**	21,124	19,870
Loan fees	**2,593**	3,414	5,525
Financially related services income	**2,101**	207	164
Gain (loss) on other property owned, net	**4,661**	4,141	(3,417)
Gain on sale of premises and equipment, net	**904**	822	264
Other noninterest income	**1,058**	1,225	6,486
Total noninterest income	**33,277**	30,933	28,892
Noninterest Expenses			
Salaries and employee benefits	**46,155**	40,516	36,720
Insurance Fund premiums	**5,279**	4,197	2,089
Occupancy and equipment	**3,820**	3,415	2,900
Pension plan funding expense	**3,777**	4,574	4,920
Advertising	**3,495**	2,346	2,001
Purchased services	**2,961**	2,270	1,994
Travel	**2,777**	2,673	2,408
Public and member relations	**2,515**	2,231	1,681
Supervisory and exam expense	**1,255**	1,232	1,331
Communications	**1,184**	1,175	1,021
Directors' expense	**802**	814	793
Other noninterest expense	**4,847**	3,545	3,100
Total noninterest expenses	**78,867**	68,988	60,958
Income before income taxes	**144,092**	144,741	139,738
Provision for (benefit from) income taxes	**9**	(102)	72
Net income	**$ 144,083**	$ 144,843	$ 139,666
Other comprehensive gain (loss):			
Change in postretirement benefit plans	**(5,020)**	3,537	(2,586)
Income tax expense related to items of other comprehensive income	-	-	-
Other comprehensive gain (loss), net of tax	**(5,020)**	3,537	(2,586)
COMPREHENSIVE INCOME	**$ 139,063**	$ 148,380	$ 137,080

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
(dollars in thousands)

	Capital Stock/ Participation Certificates	Retained Earnings Nonqualified Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2011	$ 21,856	$ 281,671	$ 567,030	$ 1,041	$ 871,598
Net Income	-	-	139,666	-	139,666
Other comprehensive loss	-	-	-	(2,586)	(2,586)
Capital stock/participation certificates issued	3,427	-	-	-	3,427
Capital stock/participation certificates/ allocated equities retired	(3,138)	(55,000)	-	-	(58,138)
Patronage distributions declared:					
Cash	-	-	(42,133)	-	(42,133)
Other adjustments	-	11	-	-	11
Nonqualified allocations	-	96,201	(96,201)	-	-
Balance at December 31, 2012	22,145	322,883	568,362	(1,545)	911,845
Net Income	-	-	144,843	-	144,843
Other comprehensive gain	-	-	-	3,537	3,537
Capital stock/participation certificates issued	3,530	-	-	-	3,530
Capital stock/participation certificates/ allocated equities retired	(3,024)	(42,663)	-	-	(45,687)
Reclassification		17,525	(17,525)		-
Patronage distributions declared:					
Cash	-	-	(65,486)	-	(65,486)
Other adjustments	-	14	-	-	14
Nonqualified allocations	-	78,875	(78,875)	-	-
Balance at December 31, 2013	22,651	376,634	551,319	1,992	952,596
Net income	-	-	144,083	-	144,083
Other comprehensive loss	-	-	-	(5,020)	(5,020)
Capital stock/participation certificates issued	3,653	-	-	-	3,653
Capital stock/participation certificates/ retired	(2,887)	-	-	-	(2,887)
Patronage distributions declared:					
Cash	-	-	(71,995)	-	(71,995)
Other adjustments	-	(227)	29	-	(198)
Nonqualifed allocations	-	70,070	(70,070)	-	-
Balance at December 31, 2014	**$ 23,417**	**$ 446,477**	**$ 553,366**	**$ (3,028)**	**$ 1,020,232**

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2014	2013	2012
Cash flows from operating activities:			
Net income	**$ 144,083**	$ 144,843	$ 139,666
Adjustments to reconcile net income to net cash provided by operating activities:			
(Reversal of) provision for loan losses	**(3,019)**	(3,305)	(2,647)
(Gain) loss on other property owned, net	**(4,661)**	(4,141)	3,417
Depreciation and amortization	**2,391**	1,398	997
Gain on sale of premises and equipment, net	**(908)**	(804)	(264)
(Increase) decrease in accrued interest receivable	**(2,471)**	(1,564)	1,898
(Increase) decrease in other assets	**(19,251)**	(133)	(2,590)
Increase (decrease) in accrued interest payable	**738**	4	(1,181)
Increase in other liabilities	**2,120**	5,487	3,274
Net cash provided by operating activities	**$ 119,022**	$ 141,785	$ 142,570
Cash flows from investing activities:			
Increase in loans, net	**$ (508,968)**	$ (228,484)	$ (267,044)
Cash recoveries of loans previously charged off	**470**	2,910	3,390
Purchases of investment in AgDirect, LLP	**(1,577)**	(2,285)	(841)
(Purchase) sale of investment in the Bank	**(4,834)**	(4,134)	543
Decrease in investments held to maturity	**3,390**	2,311	2,348
Purchases of premises and equipment	**(8,546)**	(4,835)	(2,481)
Proceeds from sales of premises and equipment	**4,338**	1,423	865
Proceeds from sales of other property owned	**7,953**	26,087	5,041
Net cash used in investing activities	**$ (507,774)**	$ (207,007)	$ (258,179)

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

CAPITAL FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,		
	2014	2013	2012
Cash flows from financing activities:			
Net increase (decrease) in note payable to the Bank	**$ 456,378**	$ 151,604	$ 209,773
Decrease in drafts outstanding	**(2,602)**	(101)	(614)
(Decrease) increase in advance conditional payments	**(1,092)**	(2,029)	(696)
Issuance of capital stock and participation certificates	**3,653**	3,530	3,427
Retirement of capital stock, participation certificates and allocated equities	**(3,085)**	(45,673)	(58,127)
Patronage distributions paid	**(65,477)**	(42,133)	(38,402)
Net cash provided by financing activities	**$ 387,775**	$ 65,198	$ 115,361
Net decrease in cash	**(977)**	(24)	(248)
Cash at the beginning of the year	**1,014**	1,038	1,286
Cash at the end of the year	**$ 37**	$ 1,014	$ 1,038
Supplemental schedule of noncash investing and financing activities:			
Loans transferred to other property owned upon loan forclosure	**$ 2,303**	$ 7,876	$ 28,521
Financed sales of other property owned	**583**	3,370	3,696
Net loans charged off	**1,204**	11,896	5,949
Patronage distributions declared	**71,995**	65,486	42,133
Supplemental cash information:			
Cash paid during the year for:			
Interest	**$ 87,087**	$ 82,593	$ 89,744
Income taxes	**-**	32	65

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

CAPITAL FARM CREDIT, ACA
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(ALL DOLLAR AMOUNTS IN THOUSANDS)

NOTE 1 — ORGANIZATION AND OPERATIONS:

A. Organization: Capital Farm Credit, ACA, including its wholly-owned subsidiaries, Capital Farm Credit, PCA and Capital Farm Credit, FLCA (collectively called the association), is a member-owned cooperative which provides credit and credit-related services to, or for the benefit of, eligible borrowers/stockholders for qualified agricultural purposes in 192 counties in the state of Texas.

The association is a lending institution of the Farm Credit System (System), a nationwide system of cooperatively owned banks and associations, that 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 (Act). At December 31, 2014, the System was composed of three Farm Credit Banks (FCBs) and their affiliated associations, one Agricultural Credit Bank (ACB) and its affiliated associations, the Federal Farm Credit Banks Funding Corporation (Funding Corporation) and various service and other organizations.

The Farm Credit Bank of Texas (Bank) and its related associations are collectively referred to as the "District." The Bank provides funding to all associations within the District and is responsible for supervising certain activities of the District associations. At December 31, 2014, the District consisted of the Bank, one FLCA and 14 ACA parent companies (including Capital Farm Credit, ACA), which have two wholly-owned subsidiaries, an FLCA and a PCA, operating in or servicing the states of Alabama, Louisiana, Mississippi, New Mexico and Texas. ACA parent companies provide financing and related services through their FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans. The PCA makes short- and intermediate-term loans for agricultural production or operating purposes.

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

The Act established the Farm Credit System Insurance Corporation (FCSIC) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations, (2) to ensure the retirement of protected borrower capital at par or stated value and (3) for other specified purposes. The Insurance Fund is also available for the discretionary uses by the FCSIC of providing assistance to certain troubled System institutions and to cover the operating expenses of the FCSIC. Each System bank has been required to pay premiums, which may be passed on to the associations, into the Insurance Fund, based on its annual average outstanding insured debt, until the monies in the Insurance Fund reach the "secure base amount," which is defined in the Farm Credit Act as 2 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or other such percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the FCSIC is required to reduce premiums as necessary to maintain the Insurance Fund at the 2 percent level. As required by the Farm Credit Act, as amended, the FCSIC may return excess funds above the secure base amount to System institutions.

FCA regulations require borrower information to be held in strict confidence by Farm Credit institutions, their directors, officers and employees. Directors and employees of the Farm Credit institutions are prohibited, except under specified circumstances, from disclosing nonpublic personal information about members.

B. Operations: The Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services that can be offered by the association. The association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, rural residents and farm-related businesses. The association makes and services short- and intermediate-term loans for agricultural production or operating purposes, and secured long-term real estate mortgage loans, with funding from the Bank. The association also serves as an intermediary in offering credit life insurance and multi-peril crop insurance.

The association's financial condition may be affected by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect stockholders' investments in the association. Upon request, stockholders of the association will be provided with the Farm Credit Bank of Texas and District association's Annual Report to Stockholders, which includes the combined financial statements of the Bank and all of the District associations. The District's annual report discusses the material aspects of the financial condition, changes in financial condition and results of operations of the Bank and the District. In addition, the District's annual report identifies favorable and unfavorable trends, significant events, uncertainties and the impact of activities of the Insurance Fund.

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 consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results could differ from those estimates. Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current financial statement presentation. The consolidated financial statements include the accounts of Capital Farm Credit, PCA and Capital Farm Credit, FLCA. All significant intercompany transactions have been eliminated in consolidation.

A. Recently Issued or Adopted Accounting Pronouncements:

   In May 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Revenue from Contracts with Customers." The guidance governs revenue recognition from contracts with customers and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Financial instruments and other contractual rights within the scope of other guidance issued by the FASB are excluded from the scope of this new revenue recognition guidance. In this regard, a majority of the association's 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.

   In August 2014, the Financial Accounting Standards Board (FASB) issued guidance entitled "Presentation of Financial Statements – Going Concern." The guidance governs management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This guidance requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year after the date the financial statements are issued or within one year after the financial statements are available to be issued, when applicable. Substantial doubt exists if it is probable that the entity will be unable to meet its obligations for the assessed period. This guidance becomes effective for interim and annual periods ending after December 15, 2016, and early application is permitted. Management will be required to make its initial assessment as of December 31, 2016.

B. Cash: Cash, as included in the statement of cash flows, represents cash on hand and on deposit at banks.

C. Investments: The association's investments include mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac) for which the association has the intent and ability to hold to maturity and which are consequently classified as held-to-maturity. Held-to-maturity investments are carried at cost, adjusted for the amortization of premiums and accretion of discounts. Changes in the fair value of these investments are not recorded unless the investment is deemed to be other-than-temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a credit loss). If an entity intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

   Gains and losses on the sales of investments available-for-sale are determined using the specific identification method. Premiums and discounts are amortized or accreted into interest income over the term of the respective issues. The association does not hold investments for trading purposes.

   The association holds additional investments in accordance with mission-related investment and other investment programs approved by the FCA. These programs allow the association to make investments that further the System's mission to serve rural America. Mission-related investments for which the association has the intent and ability to hold to maturity are classified as held-to-maturity and carried at cost, adjusted for the amortization of premiums and accretion of discounts.

D. 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 for agricultural production or operating purposes have maturities of 10 years or less. Loans are carried at their principal amount outstanding adjusted for charge-offs and deferred loan fees or costs. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding.

Authoritative accounting guidance requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. In 2014, 2013 and 2012 the association capitalized $7,734, $7,158 and $6,968 in origination fees, and $5,596, $5,414 and $6,398 in origination costs, primarily salaries and benefits related to the origination of loans, respectively. The net adjustment to earnings from loans for 2014, 2013 and 2012 was a decrease of $1,828, $1,713 and $704 respectively.

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loan. Impaired loans include nonaccrual loans, restructured loans and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan 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 as a result of past-due status, is collected or otherwise discharged in full.

Impaired loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days (unless adequately secured and in the process of collection) or 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 either reversed (if accrued in the current year) or charged against the allowance for loan losses (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 (TDR) 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. A concession is generally granted in order to minimize the association's economic loss and avoid foreclosure. Concessions vary by program and are borrower-specific and may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. A loan restructured in a troubled debt restructuring is an impaired loan.

Payments received on nonaccrual loans are generally applied to the loan asset. If collection of the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments is recognized as current interest income. Nonaccrual loans may be returned to accrual status when principal and interest are 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 Bank and related associations use a two-dimensional loan rating model based on an 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 (OAEM) and grows significantly as a loan moves to a substandard (viable) level. A substandard (nonviable) 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 incorporated into its loan underwriting standards and internal lending limit. The year-end allowance for loan losses is based upon estimates that consider the general financial strength of the overall economy and the agricultural economy specifically, loan portfolio composition, credit administration and the portfolio's prior loan loss experience. The association calculates its allowance in two parts, specific allowances and general allowance. The association evaluates all loans classified as impaired for a specific allowance. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the loan balance 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, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using factors related to its risk rating, and its commodity type.

E. Capital Stock Investment in the Bank: The association's investment in the Bank is in the form of Class A voting capital stock and allocated retained earnings. This investment is adjusted periodically based on the association's average borrowing from the Bank. The Bank requires a minimum stock investment of 2 percent of the association's average borrowing from the Bank. This investment is carried at cost plus allocated equities in the accompanying consolidated balance sheet.

   If needed to meet regulatory capital adequacy requirements, the board of directors of the Bank may increase the percentage of stock held by an association from 2 percent of the average outstanding balance of borrowings from the Bank to a maximum of 5 percent of the average outstanding balance of borrowings from the Bank.

F. Other Property Owned, Net: Other property owned, net, consisting of real and personal property acquired through a collection action, is recorded at fair value less estimated selling costs upon acquisition. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations are included in (gain) loss on other property owned, net in the consolidated statements of comprehensive income.

G. Premises and Equipment: Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is provided on the straight-line method using estimated useful lives of each asset. Gains and losses on dispositions are reflected in current operations. Maintenance and repairs are charged to operating expense, and improvements are capitalized.

H. Advance Conditional Payments: The association is authorized under the Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the association on such accounts at a rate established by the board of directors which was 0.10 percent at December 31, 2014.

I. Employee Benefit Plans: Employees of the association participate in either the District defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan) and are also eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. The DB plan is closed to new participants. Participants generally include employees hired prior to January 1, 1996. The DB plan is noncontributory and provides benefits based on salary and years of service. The "Projected Unit Credit" actuarial method is used for financial reporting and funding purposes for the DB plan. The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor costs of the plan are segregated or separately accounted for by the associations. No portion of any surplus assets is available to the associations, nor are the associations required to pay for plan liabilities upon withdrawal from the plans. As a result, the associations recognize as pension cost the required contribution to the plans for the year. Contributions due and unpaid are recognized as a liability. For the DB plan, the association recognized pension costs of $3,777, $4,574 and $4,920 for the years ended December 31, 2014, 2013 and 2012, respectively.

   Participants in the DC plan generally include employees who elected to transfer from the DB plan prior to January 1, 1996, and employees hired on or after January 1, 1996. Participants in the DC plan direct the placement of their employers' contributions, 5.0 percent of eligible pay for the year ended December 31, 2014, made on their behalf into various investment alternatives. The association recognized pension costs for the DC plan of $1,461, $1,235 and $1,080 for the years ended December 31, 2014, 2013 and 2012, respectively.

   The association also participates in the Farm Credit Benefits Alliance 401(k) plan which requires the associations to match 100 percent of employee contributions up to 3.0 percent of eligible earnings and to match 50 percent of employee contributions for the next 2.0 percent of employee contributions, up to a maximum employer contribution of 4.0 percent of eligible earnings. Association 401(k) plan costs are expensed as incurred. The association's contributions to the 401(k) plan were $1,429, $1,250 and $1,151 for the years ended December 31, 2014, 2013 and 2012, respectively.

   In addition to the DB plan, the DC plan and the Farm Credit Benefits Alliance 401(k) plans discussed above, the association also participates in a defined contribution nonqualified supplemental 401(k) plan. The purpose of the plan is (a) to provide eligible employees (those with compensation in excess of $100 in the immediately preceding tax year) of the association who participate in the 401(k) plan with benefits in excess of the limitations on benefits imposed, (b) to allow a means for those employees to make pre-tax deferrals of additional amounts payable to them to a future payment date and (c) to allow a means for participating employers to provide discretionary deferred income to those employees. During 2010, the agreement covering the supplemental plan for the CEO was revised in order to fix the total obligation of the association under the plan and as of December 31, 2014, all of the obligation for this agreement had been fully funded. During 2011, the association established a new supplemental plan for another member of its senior management team, as a retention tool utilized in succession planning.

The total expenses of the nonqualified plan included in the association's employee benefit costs were $317, $243 and $817 for the years ended December 31, 2014, 2013 and 2012, respectively. The associated liabilities are included in the association's consolidated balance sheets in other liabilities.

In addition to pension benefits, the association provides certain health care and life insurance benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer. Association employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums.

J. Income Taxes: The ACA holding company conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are operated through the wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are operated through the wholly-owned PCA subsidiary. Operating expenses are allocated to each subsidiary based on estimated relative service. All significant transactions between the subsidiaries and the parent company have been eliminated in consolidation. The ACA, along with the PCA subsidiary, is subject to income tax. The association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or qualified allocated retained earnings. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. The association distributes patronage on the basis of book income. Deferred taxes are recorded on the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the association's expected patronage program, which reduces taxable earnings.

Deferred income taxes have not been provided by the association on patronage stock distributions from the Bank prior to January 1, 1993, the adoption date of FASB guidance on "Accounting for Income Taxes." Management's intent is (1) to permanently invest these and other undistributed earnings in the Bank, thereby indefinitely postponing their conversion to cash, or (2) to pass through any distribution related to pre-1993 earnings to association borrowers through qualified patronage allocations.

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

K. Patronage Refunds From the Farm Credit Bank of Texas: The association records patronage refunds from the Bank on an accrual basis.

L. Fair Value Measurement: The FASB 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 and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain U.S. Treasury, other U.S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets. Also included in Level 1 are assets held in trust funds which relate to deferred compensation and the association's supplemental retirement plan. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace. Pension plan assets that are invested in equity securities, including mutual funds and fixed-income securities that are traded, are also included in Level 1.

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. This category generally includes certain U.S. government and agency mortgage-backed debt securities, corporate debt securities and derivative contracts. The association does not have any assets that fall within this level.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are considered Level 3. These unobservable inputs reflect the reporting entity's own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is 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. This category generally includes certain private equity investments, retained residual interests in securitizations, asset-backed securities, highly structured or long-term derivative contracts, and certain loans and other property owned.

The fair value disclosures are disclosed in Note 14, "Fair Value Measurements."

M. 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 a 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 — INVESTMENTS:

Investments Held-to-Maturity

The association's held-to-maturity investment consists of Farmer Mac guaranteed agricultural mortgage-backed securities (AMBS). A summary of the amortized cost and fair value of investment securities held-to-maturity is as follows:

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 11,474	$ 115	$ -	$ 11,589	4.99%	3.11

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 14,864	$ 27	$ -	$ 14,891	4.77%	3.52

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield	Weighted Average Life (Years)
Agricultural mortgage-backed securities	$ 17,175	$ 86	$ -	$ 17,261	4.86%	3.54

The Farmer Mac AMBS were received in exchange for mortgage loans which were previously covered under the long-term standby commitments to purchase agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transactions. The association continues to service the loans included in the transaction.

NOTE 4 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans as of December 31 follows:

	2014		2013		2012	
Loan Type	**Amount**	**%**	Amount	%	Amount	%
Real estate mortgage	**$ 4,547,614**	**77.3%**	$ 4,279,805	79.5%	$ 4,059,651	78.5%
Production and intermediate term	**710,391**	**12.1%**	530,522	9.9%	536,326	10.4%
Agribusiness	**402,344**	**6.8%**	373,129	6.9%	390,170	7.5%
Rural residential real estate	**119,731**	**2.0%**	99,753	1.9%	85,365	1.7%
Energy	**50,183**	**0.9%**	42,998	0.8%	38,560	0.7%
Communication	**41,766**	**0.7%**	34,911	0.6%	34,997	0.7%
Mission related investments	**8,410**	**0.1%**	11,617	0.2%	19,070	0.4%
Lease receivables	**3,763**	**0.1%**	4,092	0.1%	4,121	0.1%
Water and waste disposal	**2,573**	**0.0%**	3,571	0.1%	-	0.0%
Total	**$ 5,886,775**	**100.0%**	$ 5,380,398	100.0%	$ 5,168,260	100.0%

At December 31, 2014, the association held four transactions, which are reported as loans on the consolidated balance sheet totaling $6,657 and with $44 in remaining commitments extended under the Rural America Bond Program approved by the FCA. The program is designed to meet the growing and changing needs of agricultural enterprises, agribusinesses and rural communities by providing qualified loans in rural areas.

The association has purchased and sold participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding participations purchased and sold as of December 31, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 88,738	$ 65,865	$ 2,530	$ -	$ 91,268	$ 65,865
Production and intermediate term	135,287	411,909	-	-	135,287	411,909
Agribusiness	282,905	38,137	3,019	-	285,924	38,137
Communication	41,766	-	-	-	41,766	-
Energy	50,183	-	-	-	50,183	-
Water and waste	-				-	-
disposal	2,355	-	-	-	2,355	-
Rural residential	-				-	-
real estate	-	-	-	-	-	-
Lease receivables	3,763				3,763	-
Mission related investments	2,310	-	4,347	-	6,657	-
Total	$ 607,307	$ 515,911	$ 9,896	$ -	$ 617,203	$ 515,911

Loan Volume by Office:

Offices	**2014**	2013	2012
Agribusiness	**13.3%**	12.2%	12.6%
Kerrville	**4.1%**	4.2%	4.3%
Bryan	**3.7%**	3.5%	3.6%
San Antonio	**3.4%**	2.9%	2.9%
Mason	**3.2%**	3.4%	3.5%
Hondo	**3.1%**	3.0%	3.0%
Conroe	**2.9%**	3.0%	2.8%
Austin	**2.9%**	3.1%	3.0%
Dayton	**2.7%**	3.2%	3.8%
Uvalde	**2.6%**	2.3%	2.4%
Edna	**2.5%**	2.8%	3.0%
La Grange	**2.5%**	2.5%	2.5%
Fredericksburg	**2.3%**	2.3%	1.9%
Bellville	**2.3%**	2.3%	2.2%
Dalhart	**2.2%**	1.8%	1.5%
Robstown	**2.0%**	1.9%	1.8%
Kenedy	**1.9%**	2.1%	1.8%
El Campo	**1.9%**	1.8%	1.9%
Burnet	**1.9%**	1.9%	1.9%
Edinburg	**1.8%**	2.0%	2.1%
Jourdanton	**1.7%**	1.3%	0.9%
Wichita Falls	**1.7%**	1.5%	1.9%
Temple	**1.7%**	1.7%	1.5%
Waco	**1.6%**	1.5%	1.3%
San Angelo	**1.6%**	1.7%	1.3%
Madisonville	**1.5%**	1.7%	1.6%
Laredo	**1.5%**	1.5%	1.5%
Munday	**1.4%**	1.5%	1.6%
Lockhart	**1.4%**	1.5%	1.4%
New Braunfels	**1.3%**	1.2%	1.0%
Stamford	**1.3%**	1.1%	0.8%
Rosenberg	**1.2%**	1.2%	1.1%
Lubbock	**1.2%**	1.1%	1.1%
Bowie	**1.1%**	1.3%	1.3%
Hereford	**1.1%**	1.2%	1.2%
Katy	**1.1%**	0.8%	0.7%
Levelland	**1.1%**	1.2%	1.2%
San Saba	**1.1%**	1.1%	1.2%
Muleshoe	**1.0%**	0.9%	0.9%
Lamesa	**0.9%**	0.9%	0.9%
Taylor	**0.9%**	0.9%	0.9%
Bay City	**0.7%**	0.6%	0.7%
Abilene	**0.7%**	0.5%	0.6%
Littlefield	**0.7%**	0.8%	0.9%
Spur	**0.7%**	0.8%	0.7%
Crockett	**0.7%**	0.6%	0.6%
Alpine	**0.7%**	0.7%	0.6%
Childress	**0.7%**	0.6%	0.6%
El Paso	**0.6%**	0.6%	0.6%
Livingston	**0.5%**	0.5%	0.4%
Snyder	**0.5%**	0.6%	0.5%
All Other Offices	**2.9%**	4.7%	6.0%
Totals	**100%**	100%	100%

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

	2014		2013		2012	
Operation/Commodity	**Amount**	**%**	Amount	%	Amount	%
Livestock	**$ 3,184,660**	**54.1%**	$ 3,000,040	55.8%	$ 2,898,150	56.1%
Crops	**1,192,725**	**20.3%**	1,087,693	20.2%	1,064,123	20.6%
Hunting	**465,283**	**7.9%**	387,933	7.2%	318,180	6.1%
Timber	**194,131**	**3.3%**	208,744	3.9%	165,952	3.2%
Dairy	**139,612**	**2.4%**	126,066	2.3%	112,383	2.2%
Rural home loans	**115,887**	**1.9%**	96,560	1.8%	79,912	1.5%
Utilities	**100,611**	**1.7%**	84,841	1.6%	82,268	1.6%
Poultry	**49,373**	**0.8%**	47,542	0.9%	49,702	1.0%
Industrial/organic chemical	**16,446**	**0.3%**	28,038	0.5%	45,757	0.9%
Other	**428,047**	**7.3%**	312,941	5.8%	351,833	6.8%
Total	**$ 5,886,775**	**100.0%**	$ 5,380,398	100.0%	$ 5,168,260	100.0%

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 (or 97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the association in the collateral, may result in the loan-to-value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the association has obtained loan guarantees in the form of standby commitments to purchase qualifying loans from Farmer Mac through an arrangement with the Bank. The agreements, which will remain in place until the loans are paid in full, give the association the right to sell the loans identified in the agreements to Farmer Mac in the event of defaults (typically four months past due), subject to certain conditions. At December 31, 2014, 2013 and 2012, loans totaling $28,132, $36,780 and $44,170, respectively, were guaranteed by these commitments. Fees paid for these guarantees totaled $146, $182 and $210 in 2014, 2013 and 2012, respectively, and are reflected in "other noninterest expense" in the consolidated statements of comprehensive income.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	December 31, 2014	December 31, 2013	December 31, 2012
Nonaccrual loans:			
Real estate mortgage	**$ 65,336**	$ 42,188	$ 58,426
Production and intermediate-term	**6,212**	10,677	6,017
Agribusiness	**4,301**	7,272	31,483
Communication	**-**	-	697
Residential real estate	**184**	437	729
Lease receivable	**32**	48	63
Mission related invesments	**-**	-	-
Total nonaccrual loans	**$ 76,065**	$ 60,622	$ 97,415
Accruing restructured loans:			
Real estate mortgage	**$ 4,960**	$ 7,932	$ 7,977
Production and intermediate-term	**6,533**	2,471	2,584
Residential real estate	**80**	-	2,352
Mission related invesments	**2,334**	2,355	-
Total accruing restructured loans	**$ 13,907**	$ 12,758	$ 12,913
Accruing loans 90 days or more past due:			
Real estate mortgage	**$ 234**	$ 399	$ -
Production and intermediate-term	**-**	1,902	51
Agribusiness	**1**	-	-
Residential real estate	**157**	-	-
Total accruing loans 90 days or more past due	**$ 392**	$ 2,301	$ 51
Total nonperforming loans	**$ 90,364**	$ 75,681	$ 110,379
Other property owned, net	**3,841**	5,437	22,900
Total nonperforming assets	**$ 94,205**	$ 81,118	$ 133,279

One credit quality indicator utilized by the Bank and 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 considered to be 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 Farm Credit Administration's 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	**96.8%**	97.0%	95.4%
OAEM	**1.3%**	1.0%	2.0%
Substandard/doubtful	**1.9%**	2.0%	2.6%
	100.0%	100.0%	100.0%
Production and intermediate-term			
Acceptable	**95.2%**	92.3%	91.1%
OAEM	**2.2%**	3.1%	5.4%
Substandard/doubtful	**2.6%**	4.6%	3.5%
	100.0%	100.0%	100.0%
Agribusiness			
Acceptable	**94.9%**	92.9%	84.8%
OAEM	**4.0%**	3.0%	5.6%
Substandard/doubtful	**1.1%**	4.1%	9.6%
	100.0%	100.0%	100.0%
Energy			
Acceptable	**100.0%**	89.4%	87.6%
OAEM	**-**	-	-
Substandard/doubtful	**0.0%**	10.6%	12.4%
	100.0%	100.0%	100.0%
Water and waste disposal			
Acceptable	**100.0%**	100.0%	-
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	-
	100.0%	100.0%	-
Communication			
Acceptable	**100.0%**	100.0%	98.0%
OAEM	**-**	-	-
Substandard/doubtful	**-**	-	2.0%
	100.0%	100.0%	100.0%
Rural residential real estate			
Acceptable	**97.8%**	97.4%	96.4%
OAEM	**1.4%**	1.5%	2.1%
Substandard/doubtful	**0.8%**	1.1%	1.5%
	100.0%	100.0%	100.0%
Lease receivables			
Acceptable	**93.3%**	92.3%	98.5%
OAEM	**5.7%**	6.3%	-
Substandard/doubtful	**1.0%**	1.4%	1.5%
	100.0%	100.0%	100.0%
Mission related investments			
Acceptable	**100.0%**	97.1%	98.3%
OAEM	**-**	-	-
Substandard/doubtful	**-**	2.9%	1.7%
	100.0%	100.0%	100.0%
Total loans			
Acceptable	**96.6%**	96.2%	94.2%
OAEM	**1.6%**	1.3%	2.6%
Substandard/doubtful	**1.8%**	2.5%	3.2%
	100.0%	100.0%	100.0%

The following table provides an age analysis of past due loans (including accrued interest) as of December 31, 2014, 2013 and 2012:

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	Loans >90 Days and Accruing
Real estate mortgage	$ 26,065	$ 36,353	$ 62,418	$ 4,507,398	$ 4,569,816	$ 234
Production and intermediate term	9,344	1,778	11,122	707,566	718,688	-
Agribusiness	8,775	2,030	10,805	392,822	403,627	1
Communication	-	-	-	41,810	41,810	-
Energy	-	-	-	50,223	50,223	-
Water and waste disposal	-	-	-	2,573	2,573	-
Rural residential real estate	1,499	166	1,665	132,553	134,218	157
Lease receivables	-	-	-	3,849	3,849	-
Mission related investments	-	-	-	8,473	8,473	-
Total	$ 45,683	$ 40,327	$ 86,010	$ 5,847,267	$ 5,933,277	$ 392

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	Loans >90 Days and Accruing
Real estate mortgage	$ 19,401	$ 18,283	$ 37,684	$ 4,260,949	$ 4,298,633	$ 399
Production and intermediate term	7,067	3,998	11,065	526,797	537,862	1,902
Agribusiness	1,087	2,238	3,325	371,223	374,548	-
Communication	-	-	-	34,958	34,958	-
Energy	-	-	-	43,028	43,028	-
Water and waste disposal	-	-	-	3,573	3,573	-
Rural residential real estate	418	201	619	115,269	115,888	-
Lease receivables	-	-	-	4,187	4,187	-
Mission related investments	-	-	-	11,744	11,744	-
Total	$ 27,973	$ 24,720	$ 52,693	$ 5,371,728	$ 5,424,421	$ 2,301

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	Loans >90 Days and Accruing
Real estate mortgage	$ 24,124	$ 14,613	$ 38,737	$ 4,036,298	$ 4,075,035	$ -
Production and intermediate term	2,742	3,317	6,059	537,334	543,393	51
Agribusiness	11,356	13,023	24,379	368,401	392,780	-
Communication	-	-	-	35,074	35,074	-
Energy	-	-	-	38,588	38,588	-
Rural residential real estate	-	75	75	102,364	102,439	-
Lease receivables	-	-	-	4,227	4,227	-
Mission related investments	-	-	-	19,238	19,238	-
Total	$ 38,222	$ 31,028	$ 69,250	$ 5,141,524	$ 5,210,774	$ 51

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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of December 31, 2014 total troubled debt restructured loans was $16,758, including $2,851 classified as nonaccrual and $13,907 classified as accrual, with specific allowance for loan losses of $109. As of December 31, 2014, 2013 and 2012 commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring were $50, $70 and $36, respectively.

The following table presents additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation that occurred during the year ended December 31, 2014, 2013 and 2012:

2014	Balance Pre-TDR designation		Balance Post-TDR designation	
Troubled debt restructurings:				
Real estate mortgage	$	472	$	471
Production and intermediate term		4,682		4,113
Rural residential real estate		94		91
Total	$	5,248	$	4,675

2013	Balance Pre-TDR designation		Balance Post-TDR designation	
Troubled debt restructurings:				
Real estate mortgage	$	515	$	504
Production and intermediate term		83		83
Agribusiness		5,434		1,974
Mission related investments		2,315		2,331
Total	$	8,347	$	4,892

2012	Balance Pre-TDR designation		Balance Post-TDR designation	
Troubled debt restructurings:				
Real estate mortgage	$	104	$	64
Agribusiness		692		681
Total	$	796	$	745

Balance of pre-TDR designation represents quarter-end loans just prior to restructuring and post-TDR represents the quarter-end loans immediately following the restructuring.

In 2014 there were nine troubled debt restructurings that occurred within the previous 12 months for which there was a payment default during the period.

The most common form of concession granted for troubled debt restructuring is an extension of term. Other types of modifications include principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case the association assesses all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

Additional impaired loan information is as follows:

	Loan Balance at 12/31/2014	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 986	$ 1,292	$ 18	$ 6,963	$ -
Production and intermediate term	3,743	3,946	1,378	6,143	39
Processing and marketing	983	1,488	123	1,608	
Farm-related business	-	-	-	-	-
Rural residential real estate	10	61	1	11	-
Lease receivables	-	-	-	-	-
Mission related investments	2,310	2,310	81	2,320	144
Total	$ 8,032	$ 9,097	$ 1,601	$ 17,045	$ 183
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 69,522	$ 75,812	$ -	$ 49,700	$ 1,697
Production and intermediate term	8,921	12,667	-	6,416	398
Processing and marketing	3,309	22,236	-	3,346	2
Farm-related business	10	373	-	14	-
Rural residential real estate	407	499	-	389	20
Lease receivables	32	32	-	39	-
Mission related investments	-	-	-	-	-
Total	$ 82,201	$ 111,619	$ -	$ 59,904	$ 2,117
Total impaired loans:					
Real estate mortgage	$ 70,508	$ 77,104	$ 18	$ 56,663	$ 1,697
Production and intermediate term	12,664	16,613	1,378	12,559	437
Processing and marketing	4,292	23,724	123	4,954	2
Farm-related business	10	373	-	14	-
Rural residential real estate	417	560	1	400	20
Lease receivables	32	32	-	39	-
Mission related investments	2,310	2,310	81	2,320	144
Total	$ 90,233	$ 120,716	$ 1,601	$ 76,949	$ 2,300

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

	Loan Balance at 12/31/2013	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 14,719	$ 20,288	$ 2,042	$ 16,728	$ 8
Production and intermediate term	6,796	7,029	1,291	3,657	24
Processing and marketing	4,069	7,096	1,047	10,475	
Farm-related business	-	-	-	228	-
Communication	-	-	-	225	-
Rural residential real estate	-	-	-	120	-
Lease receivables	-	-	-	-	-
Mission related investments	2,331	2,331	78	194	145
Total	$ 27,915	$ 36,744	$ 4,458	$ 31,627	$ 177
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 35,759	$ 37,060	$ -	$ 44,581	$ 1,460
Production and intermediate term	8,167	13,742	-	7,414	622
Processing and marketing	3,184	20,701	-	5,310	4
Farm-related business	18	441	-	6	183
Communication	-	-	-	-	-
Rural residential real estate	438	524	-	758	9
Lease receivables	48	48	-	54	-
Mission related investments	-	-	-	-	-
Total	$ 47,614	$ 72,516	$ -	$ 58,123	$ 2,278
Total impaired loans:					
Real estate mortgage	$ 50,478	$ 57,348	$ 2,042	$ 61,309	$ 1,468
Production and intermediate term	14,963	20,771	1,291	11,071	646
Processing and marketing	7,253	27,797	1,047	15,785	4
Farm-related business	18	441	-	234	183
Communication	-	-	-	225	-
Rural residential real estate	438	524	-	878	9
Lease receivables	48	48	-	54	-
Mission related investments	2,331	2,331	78	194	145
Total	$ 75,529	$ 109,260	$ 4,458	$ 89,750	$ 2,455

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

	Loan Balance at 12/31/2012	Unpaid Principal Balance	Related Specific Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for loan losses:					
Real estate mortgage	$ 17,557	$ 23,943	$ 1,855	$ 37,088	$ 36
Production and intermediate term	2,674	4,215	907	2,580	58
Processing and marketing	20,423	20,655	11,587	19,229	190
Farm-related business	280	304	-	-	-
Communication	697	697	453	763	-
Rural residential real estate	202	202	37	130	3
Lease receivables	-	-	-	690	-
Mission related investments	-	-	-	-	-
Total	$ 41,833	$ 50,016	$ 14,839	$ 60,480	$ 287
Impaired loans with no related specific allowance for loan losses:					
Real estate mortgage	$ 48,839	$ 50,964	$ -	$ 52,057	$ 1,242
Production and intermediate term	5,940	9,302	-	5,703	278
Processing and marketing	13,132	31,357	-	16,090	1,672
Farm-related business	-	3,862	-	-	146
Communication	-	-	-	-	-
Rural residential real estate	527	616	-	553	5
Lease receivables	63	63	-	76	-
Mission related investments	-	-	-	7	-
Total	$ 68,501	$ 96,164	$ -	$ 74,486	$ 3,343
Total impaired loans:					
Real estate mortgage	$ 66,396	$ 74,907	$ 1,855	$ 89,145	$ 1,278
Production and intermediate term	8,614	13,517	907	8,283	336
Processing and marketing	33,555	52,012	11,587	35,319	1,862
Farm-related business	280	4,166	-	-	146
Communication	697	697	453	763	-
Rural residential real estate	729	818	37	683	8
Lease receivables	63	63	-	766	-
Mission related investments	-	-	-	7	-
Total	$ 110,334	$ 146,180	$ 14,839	$ 134,966	$ 3,630

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

The association has remaining commitments to lend additional funds to 12, 22 and 18 borrowers whose loans were classified as impaired at December 31, 2014, 2013 and 2012, respectively. These commitments totaled $357, $1,625 and $6,119 at December 31, 2014, 2013 and 2012, respectively.

Interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans at December 31:

	2014	2013	2012
Total interest income which would have been recognized under the original terms	**$ 6,549**	$ 6,973	$ 8,725
Less: interest income recognized	**2,300**	2,455	3,630
Interest income not recognized	**$ 4,249**	$ 4,518	$ 5,095

A summary of the changes in the allowance for loan losses and the ending balance including accrued interest of loans outstanding are as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Lease Receivable	Mission Related Investments	Total
Allowance for loan losses:									
Balance at December 31, 2013	$ 9,284	$ 4,968	$ 4,326	$ 104	$ 502	$ 211	$ 26	$ 105	$ 19,526
Charge-offs	(137)	(745)	(248)	-	-	(74)	-	-	(1,204)
Recoveries	85	162	223	-	-	-	-	-	470
Provision for loan losses	(2,239)	2,277	(2,790)	29	(324)	54	(3)	(23)	(3,019)
Balance at December 31, 2014	$ 6,993	$ 6,662	$ 1,511	$ 133	$ 178	$ 191	$ 23	$ 82	$ 15,773
Allowance for loan losses: individually evaluated for impairment	$ 18	$ 1,378	$ 123	$ -	$ -	$ 1	$ -	$ 81	$ 1,601
Allowance for loan losses: collectively evaluated for impairment	$ 6,975	$ 5,284	$ 1,388	$ 133	$ 178	$ 190	$ 23	$ 1	$ 14,172
Loans, including accrued interest:									
Ending Balance at December 31, 2014	$ 4,569,816	$ 718,688	$ 403,627	$ 41,810	$ 52,796	$ 134,218	$ 3,849	$ 8,473	$ 5,933,277
Ending balance for loans individually evaluated for impairment	$ 70,508	$ 12,664	$ 4,302	$ -	$ -	$ 417	$ 32	$ 2,310	$ 90,233
Ending balance for loans collectively evaluated for impairment	$ 4,499,308	$ 706,024	$ 399,325	$ 41,810	$ 52,796	$ 133,801	$ 3,817	$ 6,163	$ 5,843,044

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Lease Receivable	Mission-Related Investments	Total
Allowance for loan losses:									
Balance at December 31, 2012	$ 11,120	$ 4,362	$ 15,170	$ 554	$ 410	$ 170	$ 7	$ 24	$ 31,817
Charge-offs	(1,108)	(481)	(10,170)	-	-	(137)	-	-	(11,896)
Recoveries	825	630	1,433	-	-	22	-	-	2,910
Provision for loan losses	(1,553)	457	(2,107)	(450)	92	156	19	81	(3,305)
Balance at December 31, 2013	$ 9,284	$ 4,968	$ 4,326	$ 104	$ 502	$ 211	$ 26	$ 105	$ 19,526
Allowance for loan losses: individually evaluated for impairment	$ 2,042	$ 1,291	$ 1,047	$ -	$ -	$ -	$ -	$ 78	$ 4,458
Allowance for loan losses: collectively evaluated for impairment	$ 7,242	$ 3,677	$ 3,279	$ 104	$ 502	$ 211	$ 26	$ 27	$ 15,068
Loans, including accrued interest:									
Ending Balance at December 31, 2013	$ 4,298,633	$ 537,862	$ 374,548	$ 34,958	$ 46,601	$ 115,888	$ 4,187	$ 11,744	$ 5,424,421
Ending balance for loans individually evaluated for impairment	$ 50,478	$ 14,963	$ 7,271	$ -	$ -	$ 438	$ 48	$ 2,331	$ 75,529
Ending balance for loans collectively evaluated for impairment	$ 4,248,155	$ 522,899	$ 367,277	$ 34,958	$ 46,601	$ 115,450	$ 4,139	$ 9,413	$ 5,348,892

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communication	Energy	Rural Residential Real Estate	Lease Receivable	Mission-Related Investments	Total
Allowance for loan losses:									
Balance at December 31, 2011	$ 22,598	$ 4,017	$ 9,585	$ 537	$ 111	$ 125	$ 35	$ 15	$ 37,023
Charge-offs	(4,078)	(479)	(1,369)	-	-	(20)	-	(3)	(5,949)
Recoveries	2,109	605	662	-	-	14	-	-	3,390
Provision for loan losses	(9,509)	219	6,292	17	299	51	(28)	12	(2,647)
Balance at December 31, 2012	$ 11,120	$ 4,362	$ 15,170	$ 554	$ 410	$ 170	$ 7	$ 24	$ 31,817
Allowance for loan losses: individually evaluated for impairment	$ 1,855	$ 907	$ 11,587	$ 453	$ -	$ 37	$ -	$ -	$ 14,839
Allowance for loan losses: collectively evaluated for impairment	$ 9,265	$ 3,455	$ 3,583	$ 101	$ 410	$ 133	$ 7	$ 24	$ 16,978
Loans, including accrued interest:									
Ending Balance at December 31, 2012	$ 4,075,035	$ 543,392	$ 391,721	$ 35,074	$ 38,588	$ 103,499	$ 4,227	$ 19,238	$ 5,210,774
Ending balance for loans individually evaluated for impairment	$ 66,396	$ 8,614	$ 33,835	$ 697	$ -	$ 729	$ 63	$ -	$ 110,334
Ending balance for loans collectively evaluated for impairment	$ 4,008,639	$ 534,778	$ 357,886	$ 34,377	$ 38,588	$ 102,770	$ 4,164	$ 19,238	$ 5,100,440

NOTE 5 – INVESTMENT IN THE FARM CREDIT BANK OF TEXAS

The investment in the Farm Credit Bank of Texas is a requirement of borrowing from the Bank and is carried at cost plus allocated equities, not fair value, in the accompanying balance sheet. Estimating the fair value of the association's investment in the Farm Credit Bank of Texas is not practicable because the stock is not traded. The association owns 39.72 percent of the issued stock of the bank as of December 31, 2014. As of that date, the bank's assets totaled $18,013,550 and members' equity totaled $1,479,221. The bank's earnings were $188,260 during 2014.

NOTE 6 — PREMISES AND EQUIPMENT:

Premises and equipment consisted of the following at December 31:

	2014	2013	2012
Land and improvements	**$ 3,504**	$ 3,473	$ 3,795
Building and improvements	**13,659**	11,977	12,339
Furniture and equipment	**3,578**	3,875	3,479
Computer equipment and software	**4,973**	4,708	2,396
Automobiles	**3,789**	748	514
Construction in progress	**161**	1,482	166
	29,664	26,263	22,689
Accumulated depreciation	**(12,320)**	(11,335)	(10,709)
Total	**$ 17,344**	$ 14,928	$ 11,980

The association leases office space in Abilene, Austin, Bay City, Bryan, Burnet, Conroe, Crockett, Edinburg, El Paso, Fredericksburg, Georgetown, Harlingen, Hondo, Katy, Laredo, Livingston, New Braunfels, Robstown, Round Rock and San Antonio, Texas. Lease expense was $1,554, $1,357 and $989 for 2014, 2013 and 2012, respectively. Minimum annual lease payments for the next five years are as follows:

2015	$1,487
2016	1,388
2017	940
2018	372
Thereafter	32
Total	$4,219

NOTE 7 – OTHER PROPERTY OWNED, NET:

Net gain (loss) on other property owned consisted of the following for the years ended December 31:

	2014	2013	2012
Gain (loss) on sale of other property owned	**$ 4,871**	$ 4,148	$ (1,126)
Direct write-down of other property owned to fair value	**(57)**	(51)	(1,960)
Holding costs of other property owned	**(153)**	44	(331)
Net gain (loss) on other property owned	**$ 4,661**	$ 4,141	$ (3,417)

The association's other property owned (OPO) at December 31, 2014, includes 13 properties totaling 968 acres. All these properties have been individually appraised and the carrying amounts are not in excess of appraised values at December 31, 2014.

NOTE 8 – OTHER ASSETS AND OTHER LIABILITIES:

Other assets comprised the following at December 31:

	2014	2013	2012
Prepaid captive insurance premium	**$ 1,846**	$ 1,884	$ 1,768
Nonqualified deferred compensation trust	**5,097**	4,402	2,937
Deposit	**15,530**	-	-
Acquisition intangibles	**4,143**	-	-
RBIC investment	**610**	-	-
Other assets	**617**	727	385
Total	**$ 27,843**	$ 7,013	$ 5,090

Other liabilities comprised the following at December 31:

	2014	2013	2012
Accounts payable	**$ 14,648**	$ 12,833	$ 12,825
Annual leave payable	**2,436**	2,283	2,075
FCS insurance payable	**5,279**	4,197	2,089
Nonqualified deferred compensation payable	**5,097**	4,402	2,937
Other liabilities	**3,451**	5,477	4,489
Total	**$ 30,911**	$ 29,192	$ 24,415

NOTE 9 — NOTE PAYABLE TO THE BANK:

The interest rate risk inherent in the association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process. The association's indebtedness to the Bank represents borrowings by the association to fund the majority of its loan portfolio. The indebtedness is collateralized by a pledge of substantially all of the association's assets and is governed by a general financing agreement. The interest rate on the direct loan is based upon the Bank's cost of funding the loans the association has outstanding to its borrowers. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2015, unless sooner terminated by the Bank upon the occurrence of an event of default, or by the association, in the event of a breach of this agreement by the Bank, upon giving the Bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice. The association anticipates that the direct loan will be renewed prior to its expiration.

The total amount and the weighted average interest rate of the association's direct loan from the Bank at December 31, 2014, 2013 and 2012, were $4,922,588 at 1.88 percent, $4,466,210 at 1.87 percent and $4,314,604 at 2.11 percent, respectively.

Under the Act, the association is obligated to borrow only from the Bank unless the Bank approves borrowing from other funding sources. The Bank and FCA regulations have 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, 2013 and 2012, the association's note payable was within the specified limitations. The maximum amount the association may borrow from the Bank as of December 31, 2014, was $5,837,385 as defined by the general financing agreement. This borrowing limit changes as the borrowing base increases or decreases. In general the Bank funds 100 percent of all eligible acceptable and special mention loans and 75 percent of all eligible substandard loans.

In addition to borrowing limits, the financing agreement establishes certain covenants including limits on leases, investments, other debt and dividend and patronage distributions; minimum standards for return on assets and for liquidity; and maintaining records, reporting financial information and establishing policies and procedures. Remedies specified in the general financing agreement associated with the covenants include additional reporting requirements, development of action plans, increases in interest rates on indebtedness, reduction of lending limits or repayment of indebtedness. As of and for the years ended December 31, 2014, 2013 and 2012, the association was not subject to remedies associated with the covenants in the general financing agreement.

NOTE 10 — MEMBERS' EQUITY:

In accordance with the Act and the association's capitalization bylaws, each borrower is required to invest in the association as a condition of borrowing. The investment in Class B capital stock or participation certificates is equal to 2 percent of the loan amount, up to a maximum amount of one thousand dollars. The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, usually by adding the aggregate par value of the capital stock or participation certificates to the principal amount of the related loan obligation. The capital stock or participation certificates are subject to a first lien by the association. 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 capital stock or participation certificates.

If needed to meet regulatory capital adequacy requirements, the board of directors of the association may increase the percentage of stock requirement for each borrower up to a maximum of 10 percent of the loan amount.

Each owner of Class B capital stock is entitled to a single vote, while participation certificates provide no voting rights to their owners.

Within two years of repayment of a loan, the association capital bylaws require the conversion of any borrower's outstanding Class B and participation certificates to Class A stock. Class A stock has no voting rights except in a case where a new issuance of preferred stock has been submitted to stockholders affected by the preference. Redemption of capital stock and participation certificates is made solely at the discretion of the association's board of directors. At December 31, 2014, 2013 and 2012, the association had $1, $1 and $1, respectively, of Class A stock.

All borrower stock and allocated equities are at-risk. Net losses recorded by the association shall first be applied against unallocated retained earnings. To the extent such losses exceed unallocated retained earnings, such losses would be applied in accordance with association bylaws and be borne first on a pro rata basis by holders of all allocated equities and then on a pro rata basis by all holders of Class A stock, Class B capital stock and participation certificates. In the event of liquidation or dissolution of the association, any assets of the association remaining after payment or retirement of all liabilities shall first be distributed to the holders of stock and participation certificates pro rata in proportion to the number of shares or units of stock or participation certificates then outstanding until an amount equal to the aggregate par value or unit value of all shares of such stock and participation certificates issued and outstanding has been distributed to such holders; second, to the holders of qualified allocated earnings on the basis of the oldest allocations first, until an amount equal to the balance outstanding in this account has been distributed to the holders; third, to the holders of nonqualified allocated earnings on a pro rata basis until an amount equal to the total of all notices outstanding has been distributed to the holders; and fourth, any remaining assets of the association shall be distributed to the members, in proportion to which the aggregate patronage of each such member bears to the total patronage of all such parties insofar as practicable, unless provided by law.

Patronage distributions may be paid on the capital stock and participation certificates of the association, as the board of directors may determine by resolution subject to capitalization requirements as defined by the FCA. Amounts not distributed are retained as unallocated retained earnings. The following patronage distributions were declared and paid in 2014, 2013 and 2012, respectively:

	Non-Qualified Allocated Retained Earnings Issued	Cash Patronage	
Date Declared		**Amount**	**Date Paid (Payable)**
December 2014	**$ 70,070**	**$ 71,995**	**March 2015**
December 2013	$ 78,648	$ 65,477	March 2014
December 2012	$ 96,215	$ 42,133	March 2013

The association may create and maintain an allocated surplus account consisting of earnings held therein and allocated to borrowers on a patronage basis pursuant to its bylaws. Allocated surplus may be evidenced by either "qualified written notices of allocation" or "non-qualified written notices of allocation," or both.

All allocations in the form of qualified written notices of allocation shall be issued in annual series and shall be identified by the year of issuance. Each such series shall be retired fully or on a pro rata basis, only at the discretion of the board, in order of issuance by years as funds are available. Currently, the association has no qualified allocated equity outstanding.

All allocations in the form of non-qualified notices of allocation shall be issued in annual series and identified by the year of issuance. Each annual series may be subdivided between two or more classes. Each such series, or class thereof, shall be retired at the discretion of the board. The association currently has the following series of non-qualified allocated retained earnings outstanding:

Declaration for year	Non-qualified Allocated Retained Earnings
2009	$ 39,761
2010	73,570
2011	88,213
2012	96,215
2013	78,648
2014	70,070
Total	**$ 446,477**

Prior to the association's merger with First Ag Credit effective October 1, 2008, First Ag Credit distributed non-qualified notices of allocation with no intent to retire those equities in the future. Because there was no intent to retire, these equities were classified as unallocated earnings in the balance sheet. With the board of directors' decision to retire all 2006, 2007 and 2008 non-qualified notices of allocation in September 2013, $17,525 was reclassified from unallocated earnings to allocated earnings.

FCA's proposed rule to modify the regulatory capital requirements would require allocated retained earnings to be subject to a minimum 10 year retirement to be eligible for Tier 1 classification, the highest form of capital. The association has expressed its opinion to FCA through a formal comment letter that this particular rule undermines the association's ability to operate on a cooperative basis, specifically in the management of its allocated equities. Nevertheless, the board of directors decided not to retire any allocated equities in 2014 because of the proposed regulation.

In September 2013, the board of directors approved a resolution to retire $42,663 in non-qualified allocated equities which were paid to the stockholders in November 2013. The equities retired represented $8,732, $16,026 and $17,905 from those allocated in 2006, 2007 and 2008, respectively.

In September 2012, the board of directors approved a resolution to retire $55,000 in non-qualified allocated equities which were paid to the stockholders in November 2012. The equities retired represented $11,327, $20,694 and $22,979 from those allocated in 2006, 2007 and 2008, respectively.

The FCA's current capital adequacy regulations require the association to achieve permanent capital and total surplus of at least 7.0 percent and core surplus of at least 3.5 percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the ratio requirements can initiate certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on the association's financial statements. The association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. As of December 31, 2014, the association is not prohibited from retiring stock or distributing earnings. The association does not know of any such prohibitions that may apply during the subsequent fiscal year. The association's permanent capital ratio, core surplus ratio and total surplus ratio at December 31, 2014, were 16.3 percent, 16.0 percent and 16.0 percent, respectively.

The association has a capital plan in place with the objective of managing capital at a level that supports the growth of the association's lending activities. The association's plan is to continue to generate earnings to meet plan objectives, retire stock on paid loans in an orderly manner and to pay patronage refunds to its stockholders as capital allows.

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

At December 31, the association had the following shares of Class A capital stock, Class B stock and participation certificates outstanding at a par value of five dollars per share:

	2014	2013	2012
Class A stock	**113**	113	275
Class B stock	**4,458,595**	4,329,632	4,256,139
Participation certificates	**224,725**	200,425	172,654
Total	**4,683,433**	4,530,170	4,429,068

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes as follows:

	2014	2013	2012
Accumulated other comprehensive income (loss) at January 1	**$ 3,537**	$ (2,586)	$ (631)
Amortization of prior service credit (costs) included			
in net period postretirement benefit cost	**(8,557)**	6,123	(1,955)
Other comprehensive income (loss), net of tax	**(8,557)**	6,123	(1,955)
Accumulated other comprehensive income (loss) at December 31	**$ (5,020)**	$ 3,537	$ (2,586)

NOTE 11 — INCOME TAXES:

The provision (benefit from) income taxes follows for the years ended December 31:

	2014	2013	2012
Current federal tax	**$ 9**	$ (102)	$ 72
Deferred federal tax	**-**	-	-
Provision for (benefit from) income taxes	**$ 9**	$ (102)	$ 72

The provision for (benefit from) income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows for the years ended December 31:

	2014	2013	2012
Federal tax at statutory rate	**$ 48,991**	$ 49,212	$ 47,511
Federal income tax attributable to:			
Income not subject to federal tax	**(46,877)**	(46,698)	(45,527)
Nondeductible provision for loan losses	**967**	(303)	(434)
Patronage distributions	**(2,865)**	(1,214)	(1,253)
(Charge-offs) recoveries on loans	**(188)**	(966)	(137)
Other	**(19)**	(133)	(88)
Provision for (benefit from) income taxes	**$ 9**	$ (102)	$ 72

Deferred tax assets in accordance with FASB guidance, "Accounting for Income Taxes," result from the following at December 31:

	2014	2013	2012
Allowance for losses on loans	**$ 2,486**	$ 1,708	$ 2,977
Net operating loss carryfoward	**7,377**	7,377	7,377
Deferred tax assets	**9,863**	9,085	10,354
Valuation allowance	**(9,863)**	(9,085)	(10,354)
Net deferred tax asset	**$ -**	$ -	$ -

The calculation of tax assets involves various management estimates and assumptions as to the future taxable earnings, including the following at December 31, 2014. Nonpatronage income is expected to be less than 5 percent of total taxable income (before patronage), and all patronage income is expected to be disbursed over time. The expected future tax rates are based upon enacted tax laws.

The association recorded valuation allowances of $9,863, $9,085 and $10,354 in 2014, 2013 and 2012, respectively. The association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

NOTE 12 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: Employees of the association participate in either the defined benefit retirement plan (DB plan) or the defined contribution plan (DC plan) and are eligible to participate in the Farm Credit Benefits Alliance 401(k) plan. Also, the association sponsors a nonqualified defined contribution 401(k) plan. These plans are described more fully in section I of Note 2, "Summary of Significant Accounting Policies."

The structure of the District's DB plan is characterized as multi-employer, since neither the assets, liabilities nor cost of any plan is segregated or separately accounted for by participating employers (Bank and associations). No portion of any surplus assets is available to any participating employer. As a result, participating employers of the plan only recognize as cost the required contributions for the period and a liability for any unpaid contributions required for the period of their financial statements. Plan obligations, assets and the components of annual benefit expenses are recorded and reported upon District combination only. The association records current contributions to the DB plan as an expense in the year paid.

The CEO and certain members of senior management or highly-compensated employees in the association are eligible to participate in a separate nonqualified supplemental 401(k) plan, named the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (Supplemental 401(k) Plan). This plan allows District employers to elect to participate in any or all of the following benefits:

- Restored Employer Contributions – to allow "make-up" contributions for eligible employees whose benefits to the qualified 401(k) plan were limited by the Internal Revenue Code during the year
- Elective Deferrals – to allow eligible employees to make pre-tax deferrals of compensation above and beyond any deferrals into the qualified 401(k) plan
- Discretionary Contributions – to allow participating employers to make a discretionary contribution to an eligible employee's account in the plan, and to designate a vesting schedule

The association elected to participate in the Supplemental 401(k) Plan and provided for elective deferrals and discretionary contributions to be made through the plan. The total expenses of the nonqualified plan included in the association's employee benefit costs were $317, $243 and $817 for the years ended December 31, 2014, 2013 and 2012, respectively.

Supplemental 401(k) Plan

Plan Name		Farm Credit Benefits Alliance Nonqualifed Supplemental 401(k) Plan
Present Value of accumulated benefits	$	**5,097**
Contributions made during the year	$	**217**
Distributions made during the year	$	**-**
Funded and unfunded obligations	$	**5,097**
Off-balance sheet amounts including benefits earned but not vested		**None**

The DB plan is noncontributory and benefits are based on salary and years of service. The legal name of the plan is the Farm Credit Bank of Texas Pension Plan; its employer identification number is 74-1110170. The DB plan is not subject to any contractual expiration dates. The DB plan's funding policy is to fund current year benefits expected to be earned by covered employees plus an amount to improve the accumulated benefit obligation funded status by the percentage approved by the plan sponsor. The plan sponsor is the board of directors of the Farm Credit Bank of Texas. The "projected unit credit" actuarial method is used for both financial reporting and funding purposes. District employers have the option of providing enhanced retirement benefits, under certain conditions, within the DB plan, to facilitate reorganization and/or restructuring. Actuarial information regarding the DB pension plan accumulated benefit obligation and plan asset is calculated for the District as a whole and is presented in the District's Annual Report to Stockholders. The actuarial present value of vested and non-vested accumulated benefit obligations exceeded the net assets of the DB plan as of December 31, 2014.

The following table includes additional information regarding the funded status of the plan, the association's contributions, and the percentage of association contribution to total plan contributions for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Funded status of plan	**67.5%**	77.3%	65.0%
Association's contribution	**$ 3,777**	$ 4,574	$ 4,920
Percentage of association's contribution to total contributions	**30.9%**	27.7%	31.2%

The funded status presented above is based on the percentage of plan assets to projected benefit obligations. DB plan funding is based on the percentage of plan assets to the accumulated benefit obligation, which was 74.5 percent, 86.1 percent and 72.7 percent, at December 31, 2014, 2013 and 2012 respectively.

The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If the association chooses to stop participating in some of its multi-employer plans, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Other Postretirement Benefits: In addition to pension benefits, the association provides certain health care benefits to qualifying retired employees (other postretirement benefits) for those employees hired on or before December 31, 2004. These benefits are not characterized as multi-employer and, consequently, the liability for these benefits is included in the liability section of the association's consolidated balance sheet. Association employees hired after January 1, 2004, will be eligible for retiree medical benefits for themselves and their spouses but will be responsible for 100 percent of the related premiums. In October 2014, the Society of Actuaries issued revised mortality tables (RP 2014) and a mortality improvement scale (MP 2014) for use by actuaries, insurance companies, governments, benefit plan sponsors and others in setting assumptions regarding life expectancy in the United States for purposes of estimating pension and other postemployment benefit obligations, costs and required contribution amounts. The new mortality tables indicate substantial life expectancy improvements since the last study published in 2000 (RP 2000). The adoption of these new tables resulted in an increase of $2,711 to the association's retiree welfare plan's projected benefit obligation.

The following table reflects the benefit obligation, cost and actuarial assumptions for the association's other postretirement benefits:

	2014	2013	2012
Change in Accumulated Postretirement Benefit Obligation			
Accumulated postretirement benefit obligation, beginning of year	**$ 18,030**	$ 20,859	$ 17,730
Service cost	**372**	537	493
Interest cost	**922**	906	891
Plan participants' contributions	**131**	132	120
Actuarial (gain) loss	**4,696**	(3,688)	2,248
Benefits paid	**(700)**	(716)	(623)
Accumulated postretirement benefit obligation, end of year	**$ 23,451**	$ 18,030	$ 20,859
Change in Plan Assets			
Association contributions	**$ 569**	$ 584	$ 482
Plan participants' contributions	**131**	132	120
Benefits paid	**(700)**	(716)	(602)
Plan assets at fair value, end of year	**$ -**	$ -	$ -
Amounts Recognized in Consolidated Balance Sheet			
Current liabilities	**$ (697)**	$ (662)	$ (670)
Noncurrent liabilities	**(22,754)**	(17,368)	(20,189)
Total	**$ (23,451)**	$ (18,030)	$ (20,859)
Amounts Recognized in Accumulated Other Comprehensive Income (AOCI)			
Net actuarial (gain) loss	**$ 4,334**	$ (363)	$ 3,498
Prior service credit	**(1,305)**	(1,629)	(1,953)
Total	**$ 3,029**	$ (1,992)	$ 1,545
Measurement date	**12/31/2014**	12/31/2013	12/31/2012
Discount rate	**4.55%**	5.20%	4.40%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	**7.25% /6.75%**	7.50%/6.50%	7.25%/6.50%
Health care cost trend rate assumed for next year - Rx	**6.75%**	6.50%	7.75%
Ultimate health care cost trend rate	**5.00%**	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	**2024**	2024	2023

Disclosure Information Related to Retirement Benefits	**2014**	2013	2012
Components of Net Postretirement Benefit Cost			
Service cost	**$ 372**	$ 537	$ 493
Interest cost	**922**	906	891
Amortization of:			
Unrecognized prior service credit	**(324)**	(324)	(339)
Actuarial (gain) loss	**-**	173	-
Net postretirement benefit cost	**$ 970**	$ 1,292	$ 1,045
Other Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income			
Net actuarial (gain) loss	**$ 4,696**	$ (3,688)	$ 2,247
Prior service cost	**$ 324**	$ 324	$ 339
Net actuarial (gain) loss	**$ -**	$ (173)	$ -
Total recognized in other comprehensive income	**$ 5,020**	$ (3,537)	$ 2,586
AOCI Amounts Expected to be Amortized into Expense			
Unrecognized prior service cost	**$ (374)**	$ (324)	$ (324)
Unrecognized net loss	**263**	-	174
Total	**$ (111)**	$ (324)	$ (150)
Weighted-Average Assumptions Used to Determine Net Postretirement Benefit Cost			
Measurement date	12/31/2013	12/31/2012	12/31/2011
Discount rate	5.20%	4.40%	5.10%
Health care cost trend rate assumed for next year (pre-/post-65) - medical	7.50%/6.50%	7.25%/6.50%	8.50%/6.75%
Health care cost trend rate assumed for next year - Rx	6.50%	7.75%	8.00%
Ultimate health care cost trend rate	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2024	2023	2018

Expected Future Cash Flows

Expected Benefit Payments (net of employee contributions)	
Fiscal 2015	**$ 697**
Fiscal 2016	**812**
Fiscal 2017	**870**
Fiscal 2018	**968**
Fiscal 2019 to 2023	**1,076**
Fiscal 2020 to 2024	**6,203**
Expected Contributions	
Fiscal 2015	**$ 697**

NOTE 13 — RELATED PARTY TRANSACTIONS:

Directors of the association, except for any director-elected directors, are required to be borrowers/stockholders of the association. Also, in the ordinary course of business, the association may enter into loan origination or servicing transactions with its officers, relatives of officers and directors or with organizations with which such persons are associated. Such loans are subject to special approval requirements contained in FCA regulations and are made on the same terms, including interest rates, amortization schedule and collateral, as those prevailing at the time for comparable transactions with unrelated borrowers.

Total loans to such persons for the association amounted to $30,948, $27,311 and $23,748 at December 31, 2014, 2013 and 2012, respectively. During 2014, $23,798 of new loans were made and repayments totaled $20,161. In the opinion of management, no such loans outstanding at December 31, 2014, 2013 and 2012 involved more than a normal risk of collection.

Expenses billed by the Bank included in purchased services include professional services purchased from the Bank in addition to legal, appraisal, intercompany and clerical fees. The Bank charges the individual associations directly for services provided based on each association's proportionate usage. Other purchased services are those purchased from third parties as reflected in the chart below:

	2014	2013	2012
Other Purchased Services	**$ 2,058**	$ 1,404	$ 1,234
Purchased Bank Services	**903**	866	760
Total	**$ 2,961**	$ 2,270	$ 1,994

As of April 2011, the Bank ceased billing for allocated expenses and only bills associations for direct pass through expenses.

The association received patronage income from the Bank totaling $21,960, $21,124 and $19,870 during 2014, 2013 and 2012, respectively.

NOTE 14 — 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. See Note 2, "Summary of Significant Accounting Policies," for additional information.

Valuation Techniques

As more fully discussed in Note 2, "Summary of Significant Accounting Policies," accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represents a brief summary of the valuation techniques used by the association for assets and liabilities:

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Mission-related and other investments held-to-maturity	Discounted cash flow	Prepayment rates Probability of default Loss severity
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Other interest-bearing liabilities	Carrying value	Par/principal and appropriate interest yield

Assets held in nonqualified benefits trusts related to deferred compensation and supplemental retirement plans are classified as Level 1. Level 1 valuation utilizes quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The trust funds include investments that are actually traded and have quoted net assets values that are quoted in the marketplace. These assets are measured at fair value on a recurring basis and are summarized below:

	Total Fair Value December 31, 2014	Total Fair Value December 31, 2013	Total Fair Value December 31, 2012
Beginning Balance	**$ 4,402**	$ 2,937	$ 2,006
Transfers In	**217**	828	667
Other Market Changes	**478**	637	264
Assets held in non-qualified benefits trusts	**$ 5,097**	$ 4,402	$ 2,937

Sensitivity to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs used in the fair value measurement of the mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

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

With regard to impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Financial assets and financial liabilities as well as OPO measured at carrying amounts and not measured at fair value on the balance sheet for each of the fair value hierarchy values are summarized below:

	December 31, 2014					December 31, 2013		December 31, 2012	
	Total Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	Total Carrying Amount	Total Fair Value	Total Carrying Amount	Total Fair Value
Assets:									
Cash	**$ 37**	**$ 37**	**$ -**	**$ -**	**$ 37**	$ 1,014	$ 1,014	$ 1,038	$ 1,038
Mission-related and other investments held-to-maturity	**11,474**	**-**	**-**	**11,589**	**11,589**	14,864	14,891	17,175	17,261
Nonqualified deferred compensation trust	**5,097**	**5,097**			**5,097**	4,402	4,402	2,937	2,937
Other property owned	**3,949**	**-**	**-**	**3,841**	**3,841**	5,488	5,437	24,821	22,900
Impaired loans	**8,032**			**6,431**	**6,431**	27,915	23,457	41,833	26,994
Net loans	**5,864,571**	**-**	**-**	**5,870,398**	**5,870,398**	5,337,415	5,305,652	5,109,449	5,125,631
Total Assets	**$ 5,893,160**	**$ 5,134**	**$ -**	**$5,892,259**	**$ 5,897,393**	$ 5,391,098	$ 5,354,853	$ 5,197,253	$ 5,196,761
Liabilities:									
Note payable to the Bank	**$ 4,922,588**	**$ -**	**-**	**$4,928,825**	**$ 4,928,825**	$ 4,466,210	$ 4,443,343	$ 4,314,604	$ 4,340,876
Total Liabilities	**$ 4,922,588**	**$ -**	**$ -**	**$4,928,825**	**$ 4,928,825**	$ 4,466,210	$ 4,443,343	$ 4,314,604	$ 4,340,876

A description of the methods and assumptions used to estimate the fair value of each class of the association's financial instruments for which it is practicable to estimate that value follows:

A. Cash:

For cash, the carrying amount is a reasonable estimate of fair value. The fair value of term Federal funds sold and securities purchased under resale agreements is based on currently quoted market prices, which are reflective of current interest rates.

B. Investment Securities:

Includes available-for-sale investments for liquidity, mission-related and other purposes, as well as held-to-maturity investments.

C. 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. 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, which could be less.

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

Fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher discount rates to 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 that 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 net realizable value.

The carrying value of accrued interest approximates its fair value.

D. Assets held in nonqualified benefits trusts: These assets relate to deferred compensation and supplemental retirement plans. The fair value of these assets is based on quoted net asset values in the market place.

E. Other Property Owned: These assets are generally classified as Level 3 and evaluated for impairment. It is not practicable to provide specific information on inputs as each collateral property is unique. The association utilizes appraisals to value these loans and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

F. Note Payable to the Bank:

The note payable to the Bank is not regularly traded; thus, quoted market prices are not available. Fair value of this instrument is discounted based on the association's and Bank's loan rates as well as on management estimates. For the purposes of this estimate it is assumed that the cash flow on the note is equal to the principal payments on the association's loan receivables plus accrued interest on the note payable. This assumption implies that earnings on the association's interest margin are used to fund operating expenses and capital expenditures. Management has no basis to determine whether the fair values would be indicative of the value negotiated in an actual sale.

NOTE 15 — COMMITMENTS AND CONTINGENCIES:

In addition to those commitments and contingencies discussed in Note 2, “Summary of Significant Accounting Policies,” the association is involved in various legal proceedings in the ordinary course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the association.

The association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers in the form of commitments to extend credit and commercial letters of credit. These financial instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee by the borrower. At December 31, 2014, $826,204 of commitments and $10,506 of commercial letters of 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 balance sheet until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers, and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management’s credit evaluation of the borrower.

The association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financing obligations. Standby letters of credit are recorded, at fair value, on the balance sheet by the association. At December 31, 2014, there were no standby letters of credit included in other liabilities. Outstanding standby letters of credit have expiration dates ranging from February 26, 2015, to November 8, 2020. The maximum potential amount of future payments the association is required to make under the guarantees is $10,506.

The association also participates in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (the Plan). The Plan is a defined contribution plan and maintained for the benefit of the participating employers including the association and its eligible employees. One of the purposes of the Plan is to allow a means for participating employers to restore benefits lost due to limitations under the Internal Revenue Code as it relates to the association’s existing Pension Plan. The association has evaluated the benefits lost as a result of these limitations with regard to the CEO of the association and has funded this shortfall over a five-year period using a five-year vesting schedule. During 2010, the agreement covering the supplemental plan for the CEO was revised in order to fix the total obligation of the association under the Plan. The funding of this shortfall occurred annually. Expenses of the Plan for plan years 2014, 2013 and 2012 were $0, $0 and $635, respectively. At December 31, 2014, the association had completed the funding of this supplemental compensation program for the CEO.

During 2011, the association outlined plans for succession for key members of senior management that are reaching retirement eligibility. In conjunction with this plan, the association evaluated the benefits lost due to limitations under the Internal Revenue Code as it relates to the association’s existing pension plan for one of its key members of senior management. As a result, the association has entered into an agreement with one of its senior management team members that calls for discretionary contributions on the key officer’s behalf into the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan (“the Plan”). The association has evaluated the need to provide for succession for this key position and to restore a portion of benefits lost, and as a result has developed a plan covering the four years ending December 31, 2015. The association is funding this plan over a four-year period using a four-year vesting schedule. The funding of this plan occurs annually. At December 31, 2014, the total potential remaining obligation to the association is $350. Expenses of the plan relating to this agreement for 2014, 2013 and 2012 were $300, $200 and $150, respectively.

NOTE 16 – QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

Quarterly results of operations for the years ended December 31 are as follows:

	2014				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	**$ 45,767**	**$ 46,448**	**$ 46,864**	**$ 47,584**	**$ 186,663**
(Provision for) reversal of loan losses	**575**	**3,783**	**544**	**(1,883)**	**3,019**
Noninterest expense, net	**(12,661)**	**(10,128)**	**(6,986)**	**(15,824)**	**(45,599)**
Net income	**$ 33,681**	**$ 40,103**	**$ 40,422**	**$ 29,877**	**$ 144,083**

	2013				
	First	Second	Third	Fourth	Total
Net interest income	$ 44,347	$ 44,254	$ 45,838	$ 45,052	$ 179,491
(Provision for) reversal of loan losses	(1,391)	986	(510)	4,220	3,305
Noninterest expense, net	(9,102)	(9,851)	(9,891)	(9,109)	(37,953)
Net income	$ 33,854	$ 35,389	$ 35,437	$ 40,163	$ 144,843

	2012				
	First	Second	Third	Fourth	Total
Net interest income	$ 40,826	$ 42,244	$ 42,905	$ 43,182	$ 169,157
Provision for loan losses	1,212	(851)	380	1,906	2,647
Noninterest expense, net	(6,367)	(3,583)	(7,123)	(15,065)	(32,138)
Net income	$ 35,671	$ 37,810	$ 36,162	$ 30,023	$ 139,666

NOTE 17 – SUBSEQUENT EVENTS:

The association has evaluated subsequent events through March 11, 2015, which is the date the financial statements were issued or available to be issued. The association is not aware of any subsequent events that would materially impact the financial statements as presented.

CREDIT AND SERVICES TO YOUNG, BEGINNING AND SMALL FARMERS AND RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS (UNAUDITED)

The association has a policy to make a concerted effort to finance young, beginning or small farmers and ranchers, and producers or harvesters of aquatic products (YBS program). For purposes of the association's YBS program, young producers are defined as those age 35 or younger. Beginning producers are defined as producers with 10 years or less of experience at farming, ranching or producing or harvesting aquatic products. A small producer is defined as one who normally generates less than $250,000 in annual gross sales of agricultural or aquatic products. Using statistics obtained from a United States Department of Agriculture census and information from the association's loan accounting records as of June 30, 2014, the following table compares the percentage of YBS farmers in the association's territory (based on USDA data) with the percentage of YBS customers in the association's loan portfolio. While the measurement (farmers) used in the USDA census information is not directly comparable to the measurement (customers) used by the association, the statistics presented herein serve as a quantitative measurement of the association's success in attracting and making loans to young, beginning and/or small farmers that live or have operations in the association's territory.

In the following table, 4.0 percent of the farmers in the association's territory are "Young" farmers while 17.1 percent of our customers that live or operate in the association's territory meet the "Young" criterion. The same explanation applies to the Beginning and Small categories.

FARMERS, RANCHERS, AND PRODUCERS OR HARVESTERS OF AQUATIC PRODUCTS CLASSIFIED AS:	FARMERS IN TERRITORY	ASSOCIATION CUSTOMERS
Young	4.0%	17.1%
Beginning	20.8%	65.8%
Small	95.5%	86.1%

At December 31, 2014, the association had the following number of loans and volume outstanding in its YBS Program (loans may fit in one, two or all three categories):

YOUNG		BEGINNING		SMALL	
Number of Loans	Volume	Number of Loans	Volume	Number of Loans	Volume
4,043	$694,592	14,354	$3,374,136	19,024	$3,912,764

The association maintains a policy that directs management to implement a program that strives to fully utilize its resources to: (A) attract and retain YBS customers, (B) implement lending programs and/or services that meet the needs of YBS customers and (C) develop quantitative standards that may be used to measure the number of YBS customers served as compared to the number in the CFC territory. Management has implemented programs to address each component by:

Attracting and retaining YBS customers – The employees of Capital Farm Credit are involved in working with youth livestock programs that have historically produced individuals who become farmers and ranchers in the future. Hundreds of hours are spent annually serving in various capacities that promote livestock shows and sales for youth across the state and Capital Farm Credit spends thousands of dollars sponsoring and contributing to these programs. These programs are spread across the state and include county, regional and statewide shows and involve both 4-H and FFA programs.

In addition, CFC sponsors and supports programs and organizations around the state that are targeted at young, beginning or small farmers or ranchers, some in cooperation with various county and statewide organizations but also with the Texas A&M AgriLife Extension Service. Programs such as the "Next Generation Program" and others have been successful in helping to educate and provide knowledge and other resources to thousands of individuals who are taking steps to initiate or increase their involvement in agriculture or increase the size and productivity of their existing operations. The Association is concerned about the next generation of agriculture and utilizes its programs and personnel to help develop those who will be producing food and fiber after the current generation of farmers and ranchers retire.

The involvement and support of these programs also help YBS farmers/ranchers become aware of Capital Farm Credit and understand how its loan programs and services can be of value to them as they improve or expand their current operations, but also aids them in improving or expanding their operation regardless if they do business with Capital Farm Credit.

Implementing lending programs and/or services that meet the needs of YBS customers – The association implemented a policy that permits the association to provide constructive credit to serve any financing need of YBS customers that are taking demonstrated steps to become more fully engaged as a full-time farmer or rancher. Also, the association has adopted underwriting standards that contain flexible criteria that permit the credit needs of customers to be met when the customer falls short of meeting an established standard but has one or more compensating strengths to offset the area of weakness. These flexible criteria, while still requiring reasonable and prudent underwriting standards, allow customers who engage in agriculture operations less than full-time to have the capital resources they need to begin or grow their operations. In addition, the association cooperates with government agencies to structure loans with third party guarantees when the applicant does not have sufficient equity or proven repayment sources to qualify for credit by themselves. These cooperative efforts allow YBS customers to begin an agriculture operation, maintain their operation through stressful periods or make expansions in herd size, facilities or acreage.

Developing quantitative standards that may be used to measure the number of YBS customers served as compared to the number in the CFC territory – In each year's business plan, the board establishes YBS goals and develops quantitative standards to measure the level of success in achieving the established goals. The business plan also defines how and when the standards will be measured and assigns responsibility to an officer for monitoring, tracking and reporting the standards. The progress in achieving the goals is reported to the board of directors each quarter. Through this process, the board is able to evaluate if the programs implemented by management are successful in achieving the goals in the business plan and are successful in achieving compliance with the board's policy direction to serve the needs of YBS customers.