Farm Credit Midsouth, ACA

Quarterly Report
March 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Midsouth, ACA (the parent) and Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2014 (2014 Annual Report).

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in Farm Credit Midsouth, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports or additional copies of our report, contact us at 3000 Prosperity Drive, Jonesboro, AR 72404, (870) 932-2288. Our financial reports are also available on our website at www.farmcreditmidsouth.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at financialreporting@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

FORWARD-LOOKING INFORMATION

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

AGRICULTURAL AND ECONOMIC CONDITIONS

The year is off to a wet start with average rainfall for March 2015 being about 4 inches over the average as reported by the United States Department of Agriculture (USDA) in the Arkansas Crop Progress and Condition Report March 30, 2015. Due to the excessive rainfall planting has been delayed and most crops are behind the 5 year average for this time of year. Unemployment in each of our counties declined from December 2013 to December 2014 mimicking the state and national unemployment rates. The 2014 second and third quarter personal income for the state have increased by 1.9% and 0.6%, respectively, according to the Bureau of Economic Analysis. The national average was around 1.2% and 1%, respectively for these periods. With declining corn, cotton, and rice prices, coupled with the delayed planting, it is projected that we will have record-high soybean plantings. According to the USDA National Agricultural Statistics Service March 31, 2015 article, Arkansas is projected to increase soybean acres by 200,000.

LOAN PORTFOLIO

Loan Portfolio

Total loans were $735.4 million at March 31, 2015, a decrease of $33.9 million from December 31, 2014. The decrease was primarily due to normal loan repayments, partially offset by new loan growth.

Portfolio Credit Quality

The credit quality of our portfolio remained stable from December 31, 2014. Adversely classified loans were 0.7% of the portfolio at March 31, 2015 and December 31, 2014. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At March 31, 2015, $5.6 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

The following table summarizes risk information (accruing loans include accrued interest receivable) (dollars in thousands):

As of:	March 31 2015	December 31 2014
Loans:		
Nonaccrual	**$ 4,870**	$ 1,479
Accruing restructured	**3**	4
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**4,873**	1,483
Other property owned	**--**	--
Total risk assets	**$ 4,873**	$ 1,483
Risk loans as a percentage of total loans	**0.7%**	0.2%
Nonaccrual loans as a percentage of total loans	**0.7%**	0.2%
Total delinquencies as a percentage of total loans	**0.8%**	0.2%

Our risk assets have increased from December 31, 2014, but remain at acceptable levels. Despite the increase in risk assets, total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The increase in nonaccrual loans was primarily due to lower crop prices and resulting working capital shortfalls. Lower crop prices combined with the loss of government subsidies has some of our customers adapting their operations to better align with the changing business conditions. Nonaccrual loans remained at an acceptable level at March 31, 2015 and 11.5% of our nonaccrual loans were current.

The increase in total delinquencies as a percentage of total loans was primarily due to the majority of our payments coming due during the first quarter of the year. Additionally, 68.7% of the past due loans were in nonaccrual status at March 31, 2015.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, estimated probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

The following table presents comparative allowance coverage of various loan categories:

As of:	March 31 2015	December 31 2014
Allowance as a percentage of:		
Loans	**0.2%**	0.2%
Nonaccrual loans	**33.2%**	98.2%
Total risk loans	**33.2%**	97.9%

The allowance for loan losses increased slightly from December 31, 2014 to March 31, 2015 primarily due to increased risk within the portfolio, but was outpaced by the increase in nonaccrual loans. The increased risk is a result of reduced commodity prices and the elimination of government subsidies. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2015.

RESULTS OF OPERATIONS

The following table presents profitability information (dollars in thousands):

For the three months ended March 31	2015	2014
Net income	**$ 2,937**	$ 2,924
Return on average assets	**1.5%**	1.6%
Return on average members' equity	**6.6%**	7.0%

Changes in these ratios are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section, and changes in capital discussed in the Funding, Liquidity, and Capital section.

The following table summarizes the changes in components of net income (in thousands):

For the three months ended March 31	2015	2014	Increase (decrease) in net income
Net interest income	**$ 5,366**	$ 4,947	**$ 419**
Provision for loan losses	**164**	--	**(164)**
Patronage income	**563**	637	**(74)**
Other income, net	**409**	312	**97**
Operating expenses	**3,259**	3,028	**(231)**
Benefit from income taxes	**(22)**	(56)	**(34)**
Net income	**$ 2,937**	$ 2,924	**$ 13**

The following table quantifies changes in net interest income for the three months ended March 31, 2015 compared to the same period in 2014 (in thousands):

	2015 vs 2014
Changes in volume	**$ 358**
Changes in interest rates	**84**
Changes in nonaccrual income and other	**(23)**
Net change	**$ 419**

The change in the provision for loan losses was related to risk identified in our allowance process. The elimination government subsidies and reduced commodity prices were identified as creating greater risk in our portfolio.

The change in other income was primarily related to increased fee income. We originated rural home loans for resale into the secondary market. We sold loans in the secondary market totaling $1.0 million through March 31, 2015 compared to $679 thousand for the same period in 2014. The fee income from this activity totaled $23 thousand for the three months ended March 31, 2015 compared to $8 thousand for the same period of 2014.

The change in operating expenses was primarily related to increases in salaries and benefits and Farm Credit Insurance Corporation (FCSIC) expense. FCSIC expense increased in 2015 primarily due to an increase in the premium rate charged on accrual loans by FCSIC from 12 basis points in 2014 to 13 basis points in 2015.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on April 30, 2015 and was renewed for $850 million with a maturity date of April 30, 2016. The note payable will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as the Association is a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. We were not subject to a risk premium at March 31, 2015 or December 31, 2014.

Total members’ equity increased $1.9 million from December 31, 2014 primarily due to net income for the period partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0%, and a core surplus ratio of at least 3.5%. Refer to Note 6 in our 2014 Annual Report for a more complete description of these ratios. As of March 31, 2015, the ratios were as follows:

- The permanent capital ratio was 19.2%.
- The total surplus ratio was 19.0%.
- The core surplus ratio was 19.0%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

CERTIFICATION

The undersigned certify they have reviewed Farm Credit Midsouth, ACA's March 31, 2015 Quarterly Report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Jane Pirani
Chairperson of the Board
Farm Credit Midsouth, ACA

James McJunkins
President and Chief Executive Officer
Farm Credit Midsouth, ACA

Shari J. Wilson
Senior Vice President of Finance, Chief Financial Officer
Farm Credit Midsouth, ACA

May 8, 2015

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

As of:		March 31 2015		December 31 2014
ASSETS				
Loans	**$**	**735,446**	$	769,337
Allowance for loan losses		**1,616**		1,452
Net loans		**733,830**		767,885
Investment in AgriBank, FCB		**15,775**		17,532
Accrued interest receivable		**8,409**		13,696
Other assets		**6,283**		6,959
Total assets	**$**	**764,297**	$	806,072
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**579,671**	$	618,260
Accrued interest payable		**2,282**		2,458
Deferred tax liabilities, net		**242**		251
Patronage distribution payable		**1,050**		4,200
Other liabilities		**1,731**		3,436
Total liabilities		**584,976**		628,605
Contingencies and commitments		**--**		--
MEMBERS' EQUITY				
Protected members' equity		**3**		4
Capital stock and participation certificates		**2,038**		2,070
Unallocated surplus		**177,280**		175,393
Total members' equity		**179,321**		177,467
Total liabilities and members' equity	**$**	**764,297**	$	806,072

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

For the three months ended March 31	**2015**	2014
Interest income	**$ 7,649**	$ 7,219
Interest expense	**2,283**	2,272
Net interest income	**5,366**	4,947
Provision for loan losses	**164**	--
Net interest income after provision for loan losses	**5,202**	4,947
Other income		
Patronage income	**563**	637
Financially related services income	**49**	58
Fee income	**260**	173
Miscellaneous income, net	**100**	81
Total other income	**972**	949
Operating expenses		
Salaries and employee benefits	**2,199**	2,086
Other operating expenses	**1,060**	942
Total operating expenses	**3,259**	3,028
Income before income taxes	**2,915**	2,868
Benefit from income taxes	**(22)**	(56)
Net income	**$ 2,937**	$ 2,924

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2013	$ 5	$ 2,094	$ 164,779	$ 166,878
Net income	--	--	2,924	2,924
Unallocated surplus designated for patronage distributions	--	--	(1,049)	(1,049)
Capital stock and participation certificates issued	--	32	--	32
Capital stock and participation certificates retired	--	(64)	--	(64)
Balance at March 31, 2014	$ 5	$ 2,062	$ 166,654	$ 168,721
Balance at December 31, 2014	$ 4	$ 2,070	$ 175,393	$ 177,467
Net income	**--**	**--**	**2,937**	**2,937**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(1,050)**	**(1,050)**
Capital stock and participation certificates issued	**--**	**41**	**--**	**41**
Capital stock and participation certificates retired	**(1)**	**(73)**	**--**	**(74)**
Balance at March 31, 2015	**$ 3**	**$ 2,038**	**$ 177,280**	**$ 179,321**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the three months ended March 31, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report for the year ended December 31, 2014 (2014 Annual Report).

The consolidated financial statements present the consolidated financial results of Farm Credit Midsouth, ACA (the parent) and Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Certain amounts in prior periods' financial statements have been reclassified to conform to the current period's presentation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued, but are not yet effective, and have determined that no such standards are expected to have a material impact to our consolidated financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

As of:	**March 31, 2015**		December 31, 2014	
	Amount	%	Amount	%
Real estate mortgage	**$ 401,228**	**54.6%**	$ 388,772	50.5%
Production and intermediate term	**307,479**	**41.8%**	356,795	46.4%
Agribusiness	**25,709**	**3.5%**	22,460	2.9%
Other	**1,030**	**0.1%**	1,310	0.2%
Total	**$ 735,446**	**100.0%**	$ 769,337	100.0%

The other category is comprised of loans originated under our mission related investment authority and rural residential real estate loans.

Delinquency

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (in thousands):

As of March 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	**$ 2,416**	**$ --**	**$ 2,416**	**$ 403,504**	**$ 405,920**
Production and intermediate term	**2,891**	**964**	**3,855**	**307,057**	**310,912**
Agribusiness	**--**	**--**	**--**	**25,981**	**25,981**
Other	**--**	**--**	**--**	**1,042**	**1,042**
Total	**$ 5,307**	**$ 964**	**$ 6,271**	**$ 737,584**	**$ 743,855**

As of December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total
Real estate mortgage	$ 225	$ --	$ 225	$ 396,197	$ 396,422
Production and intermediate term	1,509	203	1,712	360,949	362,661
Agribusiness	--	--	--	22,636	22,636
Other	--	--	--	1,314	1,314
Total	$ 1,734	$ 203	$ 1,937	$ 781,096	$ 783,033

There were no loans 90 days or more past due and still accruing interest at March 31, 2015 or December 31, 2014.

Risk Loans

The following table presents risk loan information (accruing loans include accrued interest receivable) (in thousands):

As of:	March 31 2015	December 31 2014
Volume with specific reserves	**$ 3,130**	$ 1,225
Volume without specific reserves	**1,743**	258
Total risk loans	**$ 4,873**	$ 1,483
Total specific reserves	**$ 958**	$ 125
For the three months ended March 31	**2015**	2014
Income on accrual risk loans	**$ 3**	$ --
Income on nonaccrual loans	**--**	19
Total income on risk loans	**$ 3**	$ 19
Average risk loans	**$ 1,762**	$ 1,486

The increase in nonaccrual loans was primarily due to lower crop prices and resulting working capital shortfalls. Lower crop prices combined with the loss of government subsidies has some of our customers adapting their operations to better align with the changing business conditions.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at March 31, 2015.

Troubled Debt Restructurings (TDRs)

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as TDRs are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were no TDRs that occurred during the three months ended March 31, 2015 or 2014. In addition, there were no TDRs that defaulted during the three months ended March 31, 2015 or 2014 in which the modification was within twelve months of the respective reporting period.

The following table presents information regarding TDRs outstanding (in thousands):

As of:	March 31 2015	December 31 2014
Accrual status:		
Real estate mortgage	**$ --**	$ --
Production and intermediate term	**3**	4
Total TDRs in accrual status	**$ 3**	$ 4
Nonaccrual status:		
Real estate mortgage	**$ 28**	$ 29
Production and intermediate term	**38**	40
Total TDRs in nonaccrual status	**$ 66**	$ 69
Total TDRs	**$ 69**	$ 73

There were no additional commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2015.

Allowance for Loan Losses

A summary of changes in the allowance for loan losses follows (in thousands):

Three months ended March 31	**2015**	2014
Balance at beginning of year	**$ 1,452**	$ 858
Provision for loan losses	**164**	--
Balance at end of period	**$ 1,616**	$ 858

The allowance for loan losses increased from March 31, 2014 to March 31, 2015 primarily due to increased risk within the portfolio. The increased risk is a result of reduced commodity prices and the elimination of government subsidies.

NOTE 3: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have contingent liabilities and outstanding commitments, primarily commitments to extend credit, which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

NOTE 4: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Note 2 in our 2014 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at March 31, 2015 or December 31, 2014.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis follows (in thousands):

	As of March 31, 2015				**Three months ended March 31, 2015**
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Losses
Impaired loans	**$ --**	**$ 2,281**	**$ --**	**$ 2,281**	**$ (833)**

	As of December 31, 2014				Three months ended March 31, 2014
	Fair Value Measurement Using			Total Fair	Total
	Level 1	Level 2	Level 3	Value	Losses
Impaired loans	$ --	$ 1,155	$ --	$ 1,155	$ (12)

Valuation Techniques

Impaired loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. If the process uses independent appraisals and other market-based information, they fall under Level 2. If the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters, they fall under Level 3.

NOTE 5: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 8, 2015, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.