Farm Credit System Insurance Corporation

2014 *Annual* Report

Protecting Investors in Agriculture and Rural America

Mission Statement

The Farm Credit System Insurance Corporation, a Government-controlled, independent entity, shall

- protect investors in insured Farm Credit System obligations and taxpayers through sound administration of the Farm Credit Insurance Fund,

- exercise its authorities to minimize Insurance Fund loss, and

- help ensure the future of a permanent system for delivery of credit to agricultural borrowers.

FARM CREDIT SYSTEM INSURANCE CORPORATION

June 15, 2015

Dear Mr. President and Mr. Speaker:

In accordance with section 5.64 of the Farm Credit Act of 1971, as amended, the Farm Credit System Insurance Corporation is pleased to submit its annual report for calendar year 2014.

This report highlights our role as the independent Federal corporation established to ensure the timely payment of principal and interest to investors in insured Farm Credit System debt securities. The balance in the Farm Credit Insurance Fund as of December 31, 2014, was $3.75 billion.

We collected $223.1 million in insurance premiums from Farm Credit System banks for 2014, earned $34.1 million in investment income in 2014, and expect to incur $4.0 million in operating costs in 2015.

We at FCSIC are proud of the role we play in supporting the safety and soundness of the Farm Credit System, and we are committed to fulfilling our mission faithfully.

Sincerely,

Dallas P. Tonsager

Dallas P. Tonsager
Chairman

The President of the United States Senate
The Speaker of the United States House of Representatives

Contents

Message from the Chairman

I am pleased to present FCSIC's 2014 Annual Report. It is gratifying to note that, for the 25th consecutive year since we began issuing financial statements, our independent public auditor has issued unmodified or unqualified opinions on those statements. The opinion letters, which are enclosed, indicate that the financial statements concerning the Farm Credit Insurance Fund, of which we are stewards, are fairly and accurately presented.

The Corporation's net income for 2014 was $254.1 million, compared with $197.7 million for the previous year. The Insurance Fund balance as of December 31, 2014, was $3.75 billion, compared with $3.50 billion at year-end 2013.

Premium revenue was $223.1 million for 2014, compared with $172.2 million for 2013. It increased because the premium assessment rate went up from 10 basis points in 2013 to 12 basis points in 2014. Interest income for 2014 totaled $34.1 million, compared with $28.8 million in 2013.

In accordance with the requirements of the Federal Managers' Financial Integrity Act of 1982, our management conducted its annual assessment of the system of internal controls. Its findings show that, in the reviewed areas, internal controls comply with the standards prescribed by the U.S. Government Accountability Office and provide reasonable assurance that program objectives are being met.

In 2015, we will continue to carry out our mission and work toward achieving our strategic goals and objectives. We are mindful of our public trust and will ensure that investors, Congress, the Farm Credit System, and other regulatory agencies receive timely and accurate information on issues concerning the Insurance Fund.

Sincerely,

Dallas P. Tonsager

Dallas P. Tonsager

Board of Directors

The Farm Credit System Insurance Corporation (FCSIC) is managed by a three-member board of directors comprising the same three individuals who compose the Farm Credit Administration (FCA) Board. However, the same member may not serve as chairman of both entities. FCA is the independent Federal agency responsible for the regulation and examination of the Farm Credit System (System), a nationwide network of financial cooperatives that lend to agriculture and rural America.

After being appointed to the FCA Board by President Barack Obama on March 17, 2015, Dallas P. Tonsager was elected Chairman of the FCSIC Board of Directors on March 19. He is serving in the Board seat previously held by former Indiana Congresswoman Jill Long Thompson, whose term had expired.

As Chairman of the FCSIC Board of Directors, Mr. Tonsager succeeds Kenneth A. Spearman, who served as Chairman from November 4, 2009, until March 13, 2015, when he was designated FCA Board Chairman and CEO. Mr. Spearman remains a member of the FCSIC Board of Directors.

Jeffery S. Hall is also a member of the FCSIC Board of Directors. He was appointed to the FCA Board by President Barack Obama on March 17, 2015, succeeding Leland A. Strom, whose term had expired.

Board member photos courtesy of Bachrach.

Dallas P. Tonsager

Dallas P. Tonsager is Chairman of the Board of Directors of FCSIC. He was elected to this position on March 19, 2015. He also serves as a member of the FCA Board.

Mr. Tonsager brings to his position as Chairman of FCSIC extensive experience as an agriculture leader and producer, and a commitment to promoting and implementing innovative development strategies to benefit rural residents and their communities.

Mr. Tonsager served as Under Secretary for Rural Development at the U.S. Department of Agriculture (USDA) from 2009 to 2013. In this position, he expanded broadband communication in rural America and implemented other key elements of the Recovery Act for rural America. He dramatically expanded USDA's water and wastewater programs, expanded funding for first- and second-generation biofuels, and funded hospitals and other public facilities in rural America.

In addition, Mr. Tonsager worked with the Farm Credit System and others to set up new venture capital investment funds. From 2010 to 2013, he was a member of the Commodity Credit Corporation Board of Directors.

From 2004 to 2009, Mr. Tonsager served as a member of the FCA Board as well as a member of the FCSIC Board of Directors.

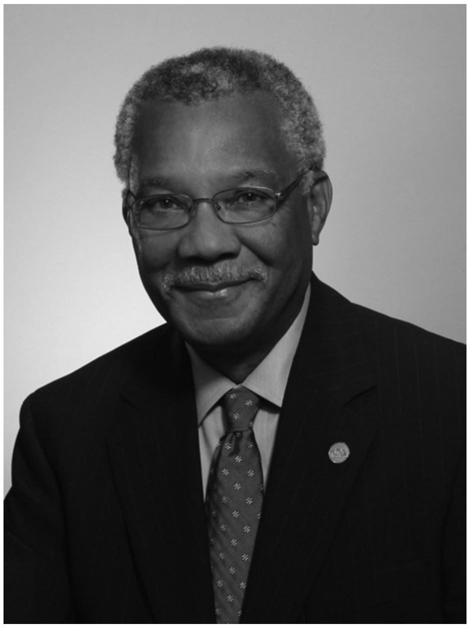
From 2002 to 2004, he was the executive director of the South Dakota Value-Added Agriculture Development Center. In this position, he coordinated initiatives to better serve producers interested in developing value-added agricultural projects. Services provided by the center include project facilitation, feasibility studies, business planning, market assessment, technical assistance, and education.

In 1993, he was selected by President William Clinton to serve as USDA's State director for rural development in South Dakota. Mr. Tonsager oversaw a diversified portfolio of housing, business, and infrastructure loans in South Dakota. In 1999, he was recognized as one of two outstanding State directors in the nation by then-USDA Under Secretary Jill Long Thompson. His term ended in February 2001.

A longtime member of the South Dakota Farmers Union, Mr. Tonsager served two terms as president of the organization, from 1988 to 1993. During that same period, he was a board member of Green Thumb Inc., a nationwide job training program for senior citizens. In addition, he served on the Board of National Farmers Union Insurance from 1989 to 1993, and he was a member of the Advisory Board of the Commodity Futures Trading Commission from 1990 to 1993.

Mr. Tonsager grew up on a dairy farm near Oldham, South Dakota. Mr. Tonsager is a graduate of South Dakota State University, where he earned a B.S. in agriculture in 1976.

Kenneth A. Spearman



Kenneth A. Spearman has served on the FCSIC Board of Directors and on the FCA Board since his appointment by President Barack Obama on October 13, 2009. He served as Chairman of the FCSIC Board of Directors until he was appointed Chairman and CEO of FCA on March 13, 2015.

Mr. Spearman brings to his position as a FCSIC Director many years of experience in finance, agriculture, and agricultural cooperatives, including 28 years in the citrus industry.

From 1980 to 1991, he was controller of Citrus Central, a $100 million cooperative in Orlando, Florida, where he was responsible for financial management and reporting and the supervision of staff accountants.

He later served as director of internal audit for Florida's Natural Growers, where he designed and implemented the annual plan for reviewing and appraising the soundness, adequacy, and application of accounting, financial, and other operating internal controls.

From January 2006 until his appointment to the FCA Board, Mr. Spearman served as an independently appointed outside director on the AgFirst Farm Credit Bank board in Columbia, South Carolina. During his tenure, he served on the board compensation committee and the board governance committee.

Before entering agriculture in central Florida, Mr. Spearman served with the U.S. Army and is a Vietnam veteran. He later was employed by the public accounting firm Arthur Andersen & Co. and was involved with the development of a public accounting firm in Chicago, Illinois. He served as chairman of the board of trustees for the Lake Wales Medical Center. He is a member of the Institute of Internal Auditors, as well as the National Society of Accountants for Cooperatives, for which he served a term as national president.

He obtained his MBA from Governors State University in University Park, Illinois, and his B.S. in accounting from Indiana University. He also attended Harvard Kennedy School Executive Education, where he completed a program with a concentration in Government agency strategic planning.

Mr. Spearman and his wife, Maria, of Winter Haven, Florida, have three children—twin daughters, Michelle Springs and Rochelle Puccia, and a son, Dr. Kenneth Spearman.

Jeffery S. Hall

Jeffery S. Hall has served on the FCSIC Board of Directors and on the FCA Board since his appointment by President Barack Obama on March 17, 2015. Mr. Hall is serving a term that expires on October 13, 2018.

Before coming to FCSIC and FCA, Mr. Hall was president of The Capstone Group, an association management and consulting firm that he cofounded in 2009. From 2001 to 2009, he was the State Executive Director for USDA's Farm Service Agency in Kentucky. In that role, he was responsible for farm program and farm loan program delivery and compliance.

From 1994 to 2001, Mr. Hall served as Assistant to the Dean of the University of Kentucky, College of Agriculture, advising the Dean on State and Federal legislative activities and managing a Statewide economic development initiative called Ag-Project 2000.

Mr. Hall also served as a senior staff member in the office of U.S. Senator Mitch McConnell from 1988 to 1994. During that time, he was the Legislative Assistant for Agriculture, accountable for internal and external issue management.

Before joining Senator McConnell's staff, Mr. Hall served on the staff of the Kentucky Farm Bureau Federation. Over his 30-year career in agriculture, he has held leadership positions in the following nonprofits: the Kentucky Agricultural Council, the Agribusiness Industry Network, the Louisville Agricultural Club, the Kentucky Agricultural Water Quality Authority, and the Governor's Commission on Family Farms.

Mr. Hall was raised on a family farm in southern Indiana, which has been in his family for nearly 200 years. He is currently a partner in the farm with his mother and sister. Mr. Hall received a B.S. from Purdue University.

2014 – Year in Review

Insurance Fund

As of December 31, 2014, the Farm Credit Insurance Fund was at $3.75 billion (1.90 percent of adjusted insured debt outstanding), which was $207 million below the secure base amount. (See "Insurance Fund Management" on page 16 for additional details.) Consequently, no funds were available to transfer to the Allocated Insurance Reserves Accounts (AIRAs). (See "Notes to the Financial Statements" on page F8 for additional details.)

FCSIC's Operations

The Corporation's first year of full operations was 1993. That year, the Insurance Fund grew to $642 million, insuring $53.70 billion in System debt. The Corporation had a nine-member core staff, and it contracted with the Farm Credit Administration (FCA) for examination and administrative support. Other specialized services were available through contractual arrangements on an as-needed basis.

Twenty-one years later, the Insurance Fund is almost five times larger, insuring $225.65 billion of System debt. Yet the Corporation continues to operate effectively with a small staff of 11. It still leverages its resources by purchasing support services from FCA and other public and private sector contractors, which helps ensure the cost-effective administration of its programs.

The Corporation's operating costs as a percentage of its total assets were 8 basis points (0.08 percent) for 2014, an improvement of 1 basis point over 2013. In September 2014, our Board of Directors approved budgets for 2015 and 2016. The 2015 budget is $4.0 million, which is a decrease of 3.5 percent from the 2014 budget.

FCSIC's Legislative Initiative

As part of the FCSIC 2010–2015 Strategic Plan, we continue to pursue a legislative initiative to strengthen our resolution authorities, including our receivership and conservatorship powers. These changes would improve our ability to protect investors. Also, ensuring that we have express statutory authority comparable to other Federal receivers and conservators would reduce the costs of resolving a troubled Farm Credit System institution.

In 2012, after consulting with the FCSIC Board and meeting with a workgroup of senior System officials, we delivered draft legislative language to our congressional oversight committees for their consideration. During 2013 and 2014, we continued to provide information to our oversight committees about the benefits of, and need for, legislative changes.

Financial Assistance and Liquidity

As explained in the FCSIC Board of Directors' "Policy Statement Concerning Assistance," FCSIC has statutory authority to provide various forms of assistance to a System bank, including loans. Any assistance agreement is subject to our Board of Directors' approval. Therefore, in a liquidity crisis, if the System encounters difficulty in obtaining needed financing, FCSIC has authority to provide discretionary assistance.

On September 24, 2013, FCSIC entered into an agreement with the Federal Financing Bank (FFB) for a line of credit to serve as a liquidity backstop for FCSIC under specified circumstances. The FFB is a Government corporation within the U.S. Department of Treasury that provides funding to eligible Federal agencies.

The FFB has a similar line of credit arrangement with other Federal insurers, including the Federal Deposit Insurance Corporation and the National Credit Union Administration's Central Liquidity Fund. Our access to the FFB provides an additional source of funds for assistance if exigent market circumstances threaten the System banks' ability to pay maturing debt obligations.

By obtaining the line of credit agreement with the FFB, we can provide more assistance to System banks than would otherwise be available using only the Insurance Fund. Under the agreement with the FFB, subject to its terms and conditions, we can borrow up to $10 billion upon a showing of exigent circumstances. We can then lend these funds to a System bank or banks as assistance. Exigent circumstances consist of a general disruption in the financial markets emanating external to the System.

There is no cost to us for establishing this line of credit with the FFB. We renewed the agreement in 2014, and it terminates on September 30, 2015, unless renewed. All funds that we advance to System banks as assistance will be fully collateralized and repaid with interest by the bank or banks receiving assistance. Therefore, if accessed, this liquidity backstop should operate without risk or cost to U.S. taxpayers.

Selected Financial Statistics

Farm Credit System Insurance Corporation
(Dollars in Millions)

	2014	2013	2012
BALANCE SHEET:			
Total Assets	$3,750.1	$3,496.0	$3,298.2
Total Liabilities	0.3	0.3	0.3
Insurance Fund Balance			
Allocated Insurance Reserves Accounts	0	0	0
Unallocated Insurance Fund Balance	3,749.8	3,495.7	3,297.9
OPERATIONS:			
Revenues	257.2	200.9	131.1
Operating Expenses	3.1	3.2	3.3
Insurance Expense	0	0	0
Net Income	254.1	197.7	127.8

The Farm Credit System

Structure and Funding

The Farm Credit System is a federally chartered network of cooperative lending institutions owned by the agricultural and rural customers it serves, including farmers, ranchers, producers or harvesters of aquatic products, agricultural cooperatives, and farm-related businesses. As of January 1, 2015, the System had 4 banks and 76 associations. Each of the associations has its own chartered territory and is affiliated with one of the four banks.

Each association receives wholesale funding from its affiliated bank and lends directly to its owner-borrowers, providing a consistent and reliable source of agricultural and rural credit throughout the United States, including the Commonwealth of Puerto Rico. One of the System banks (CoBank, ACB) also has nationwide authority to make retail loans to cooperatives and other eligible entities.

The banks obtain funds for their operations primarily through the sale of consolidated Systemwide debt securities. The banks own and use the Federal Farm Credit Banks Funding Corporation to issue Systemwide debt securities in the capital markets. As the fiscal agent for the banks, the Funding Corporation partners with a select group of dealers to market and distribute the securities to investors throughout the world to finance the System's operations.

Combined Farm Credit System Statistics

(Dollars in Billions)

	2014	2013	2012
Insured Debt Outstanding[1]	$ 225.7	$ 207.5	$ 197.5
Production Agriculture:			
Real Estate Mortgage Loans	98.7	94.2	88.3
Production and Intermediate-Term Loans	49.0	45.4	43.9
Agribusiness Loans[2]	32.8	27.2	27.1
Communication Loans	5.0	4.1	4.2
Energy, Water, and Waste Disposal Loans	16.4	15.5	14.5
Rural Residential Real Estate Loans	6.8	6.6	6.2
Agricultural Export Loans	4.6	4.6	4.7
Lease Receivables	3.0	2.7	2.4
Loans to Other Financing Institutions	0.9	0.7	0.7
Cash and Investments	57.8	51.9	46.9
Net Income	4.7	4.6	4.1
Nonperforming Loans as a Percentage of Total Loans	0.8%	1.0%	1.4%

1. Insured debt outstanding is based on System institution Call Report information and reflects the book value of insured debt outstanding plus accrued interest as of December 31, 2014, 2013, and 2012. (Book value excludes fair-value adjustments.)
2. As of December 31, 2014, agribusiness loans consisted of loans to cooperatives of $14.74 billion, processing and marketing loans of $14.60 billion, and farm-related business loans of $3.41 billion.

Investor Protection

Investors provide the funds the System lends to agriculture and rural America. Our primary purpose, as defined by the Farm Credit Act, is to ensure the timely payment of principal and interest on Systemwide debt securities to these investors.

Regulatory Oversight

The Farm Credit Administration is the safety and soundness regulator responsible for the examination, supervision, and regulation of each System institution. FCA is an independent agency in the executive branch of the U.S. Government and derives its broad authorities from the Farm Credit Act. These authorities include examination and enforcement authorities similar to those of commercial bank regulators. The U.S. Senate Committee on Agriculture, Nutrition, and Forestry and the U.S. House of Representatives Committee on Agriculture oversee FCSIC, FCA, and the System.

Insured and Other Obligations

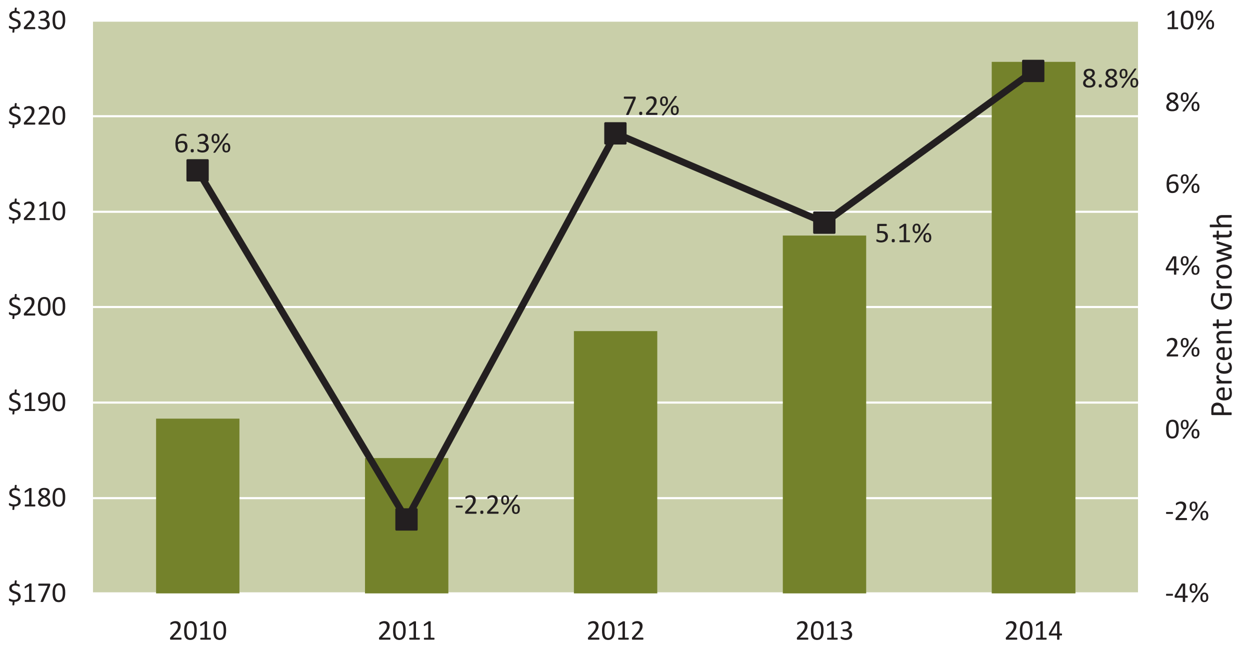
FCSIC insures Systemwide and consolidated bonds, notes, and other obligations issued by System banks through the Federal Farm Credit Banks Funding Corporation under section 4.2(c) or (d) of the Farm Credit Act. Figure 1 shows that insured debt outstanding increased by 8.8 percent in 2014 to $225.7 billion, compared with an increase of 5.1 percent in 2013.

We must also ensure the retirement of eligible borrower stock at par value, as required by section 4.9A of the Farm Credit Act. This stock, also known as protected borrower stock, was outstanding until October 6, 1988. At year-end 2014, protected borrower stock outstanding at System institutions totaled $1 million, unchanged from year-end 2013.

Figure 1

Insured Debt Outstanding
Growth Averaged 5 Percent Over the Past 5 Years

(Dollars in Billions)



Note: Insured debt outstanding, which is based on the Call Report information provided by System Institutions, reflects the book value of insured debt outstanding, plus accrued interest. (Book value excludes fair-value adjustments.)

Farm Credit System Capital

The primary source of funds to repay insured Systemwide debt securities is the System's borrowers. Each borrower must have a minimum net worth and, in most cases, collateral posted in connection with his or her loan. The borrower makes payments on the loan to the lending bank or association.

The lending association in turn makes payments on its loan to the lending bank. Both the banks, which ultimately repay Systemwide debt securities, and the associations exceed their minimum regulatory capital requirements as protection and support for the repayment of the outstanding insured debt.

If a bank were unable to repay its portion of an insured Systemwide debt obligation, FCSIC would use the Insurance Fund to make the payment. If the assets in the Insurance Fund were exhausted, the Farm Credit Act's provisions for joint and several liability would be triggered, requiring the other System banks to repay the defaulting bank's portion of the debt.

As figure 2 shows, the amount of System bank capital and the balance in the Insurance Fund together increased 26 percent, from $15.6 billion at year-end 2010 to $19.6 billion at year-end 2014. Bank capital plus the amount in the Insurance Fund as a percentage of insured debt outstanding decreased from 9.0 percent in 2013 to 8.7 percent in 2014 (see figure 3). In 2014, the growth in insured debt outstanding exceeded capital growth, causing a slight decline in bank capital as a percentage of insured debt. At year-end 2014, bank capital as a percentage of insured debt decreased to 7.0 percent from 7.3 percent at year-end 2013.

Overall, the financial performance and condition of the System on a consolidated basis remains strong, though some individual institutions continue to experience stress from credit deterioration in certain agricultural sectors. (See trends in the Financial Institution Rating System [FIRS] in the "Risk Management" section beginning on page 24.)

System associations have boosted capital levels through the net income they have earned and retained. An association's capital helps reduce the credit exposure of the association's direct loan with its affiliated bank. As figure 4 shows, from 2010 to 2014, combined association capital increased $9.2 billion—an annual average increase of approximately 10.4 percent. Since 2010, the associations have collectively achieved solid earnings and preserved capital, causing association capital as a percentage of total assets to steadily increase to 18.8 percent in 2014 from 16.6 percent in 2010 (see figure 5).

Figure 2

Bank Capital Plus Insurance Fund

(Dollars in Billions)

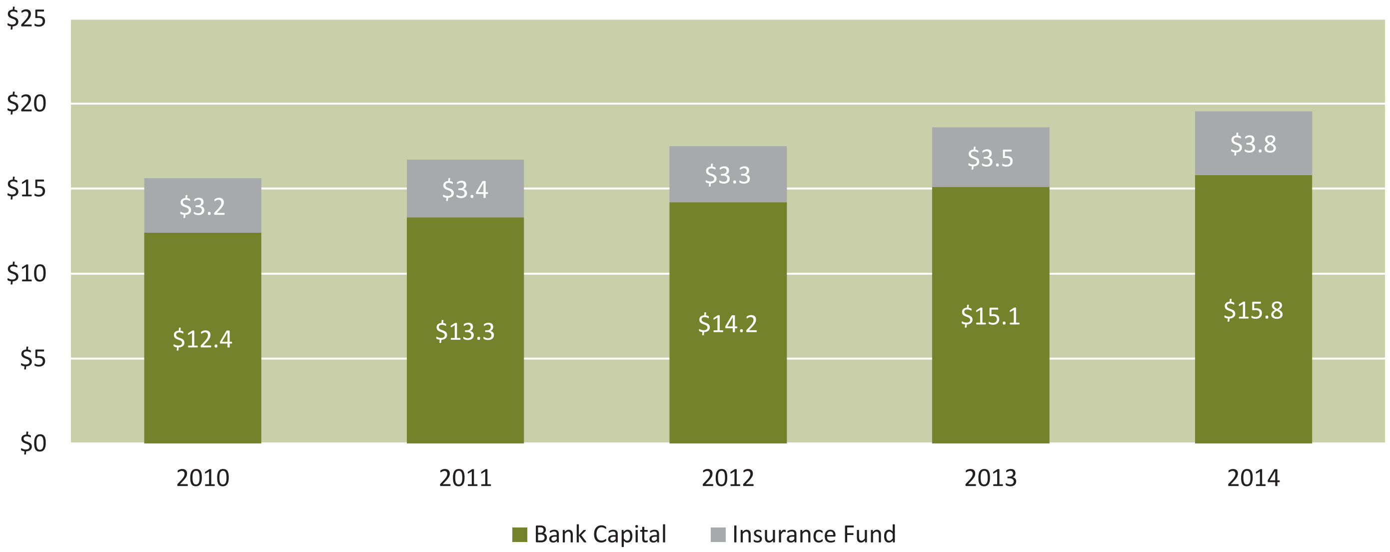


Figure 3

Bank Capital Plus Insurance Fund as Percentage of Insured Debt

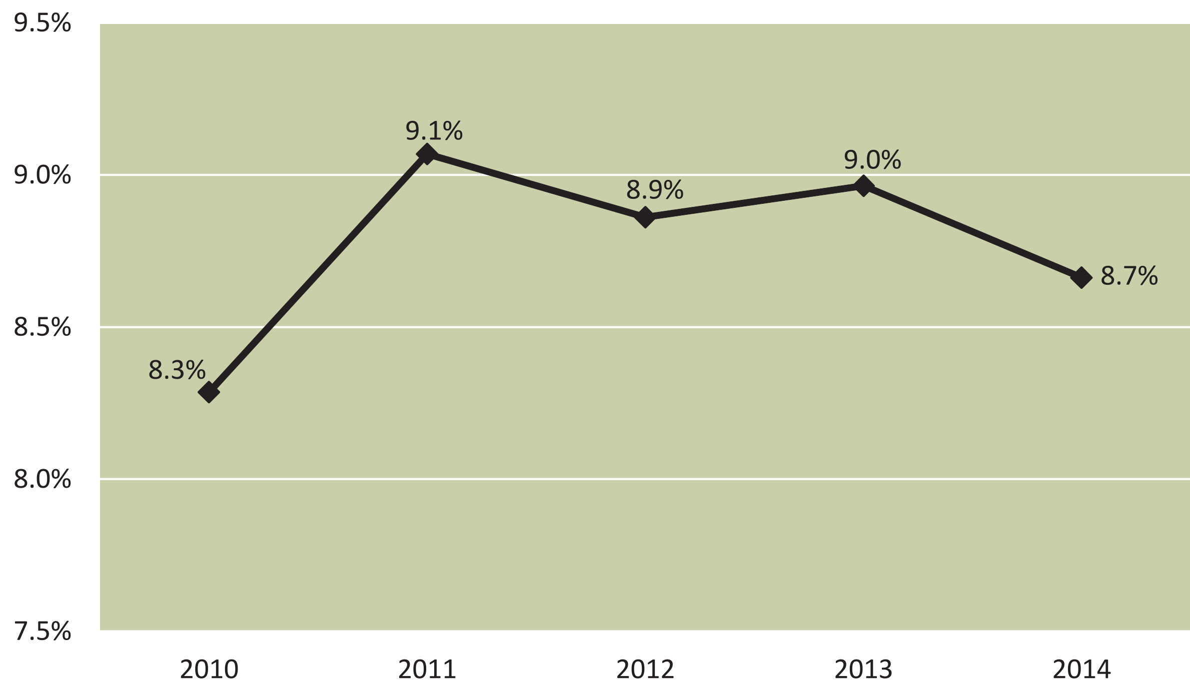


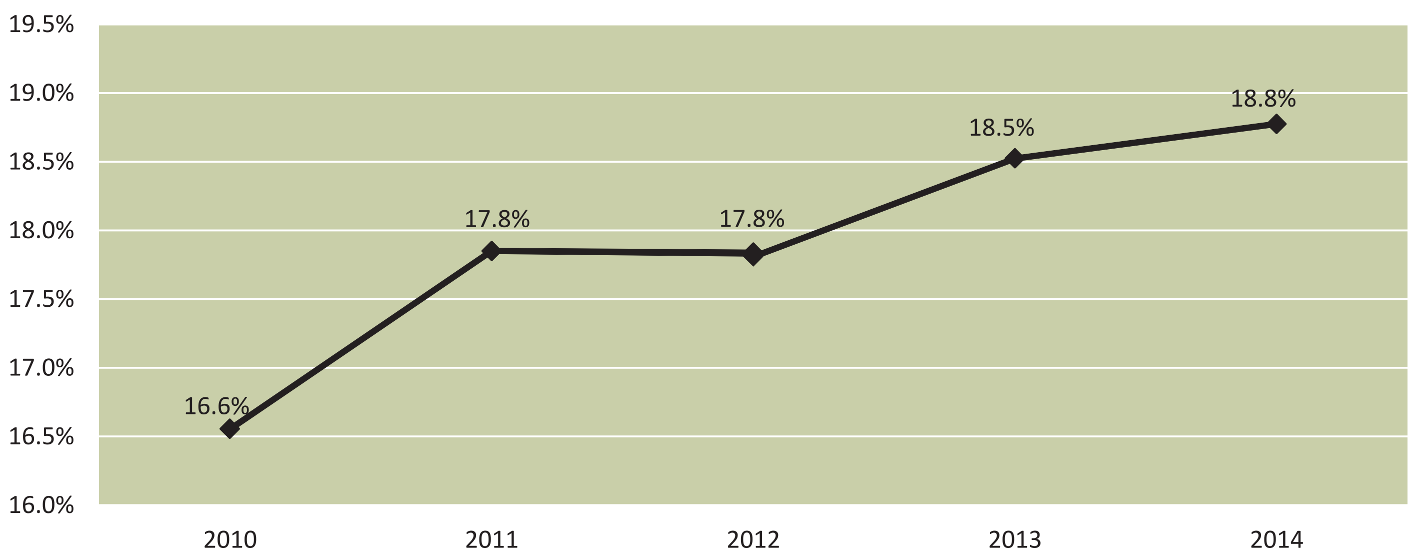
Figure 4

Combined Association Capital

(Dollars in Billions)

Figure 5

Combined Association Capital as a Percentage of Total Assets



Additional Protections

Farm Credit System banks have additional risk management tools to protect investors. One such tool is the Contractual Interbank Performance Agreement (CIPA). All System banks have entered into this agreement, which measures the financial condition and performance of each bank by using ratios that consider bank capital, asset quality, earnings, interest rate risk, and liquidity. The CIPA financially penalizes banks that do not meet performance standards.

The System banks and the Federal Farm Credit Banks Funding Corporation have also entered into the Market Access Agreement, which establishes conditions for each bank's continued participation in the debt market. If a bank fails to meet agreed-upon performance measures, including capital and collateral ratios, the bank may be restricted from issuing debt. The criteria used under the Market Access Agreement are the CIPA scores and the net collateral and permanent capital ratios.

The System entered into a common minimum liquidity standard in 2010 to improve the quality and quantity of bank liquidity reserves. This standard is designed to maintain and ensure adequate liquidity to meet the business and financial needs of each bank and the System as a whole in the event access to the debt market is temporarily impeded.

Also, the Farm Credit Administration adopted a liquidity rule in 2013 that strengthens the banks' liquidity reserve requirement, promotes best practices for liquidity risk management, and better prepares the banks to withstand a liquidity crisis.

Insurance Fund Management

The Insurance Fund and the Secure Base Amount

The Farm Credit Insurance Fund represents FCSIC's equity, the difference between total assets and total liabilities, including insurance obligations. The Insurance Fund is composed of an unallocated insurance fund, the portion of the Insurance Fund for which no specific use has been designated, and an allocated insurance fund, the portion of the Insurance Fund that has been transferred to the AIRAs. Insurance premiums are due until the unallocated portion of the Insurance Fund reaches the secure base amount.

The secure base amount established by the Farm Credit Act is 2 percent of the aggregate outstanding insured obligations (adjusted to exclude 90 percent of Federal Government-guaranteed loans and investments and 80 percent of State Government-guaranteed loans and investments) or another percentage that we determine to be actuarially sound to maintain in the Insurance Fund, taking into account the risk of insuring outstanding insured obligations.

In 2014, both the total Insurance Fund and total assets increased by 7.3 percent to $3.75 billion. Insured debt outstanding grew $18.2 billion in 2014 (8.8 percent). The Insurance Fund finished 2014 at 1.90 percent, which was $207 million below the secure base amount (see figure 6). Consequently, no excess funds were available for allocation to the AIRAs at year-end.

Over the past five years, the total Insurance Fund has grown at an annual rate of 2.75 percent. We did not accrue a provision for insurance obligations in 2014 (see figure 7).

Figure 6

Insurance Fund Relative to 2 Percent Secure Base Amount

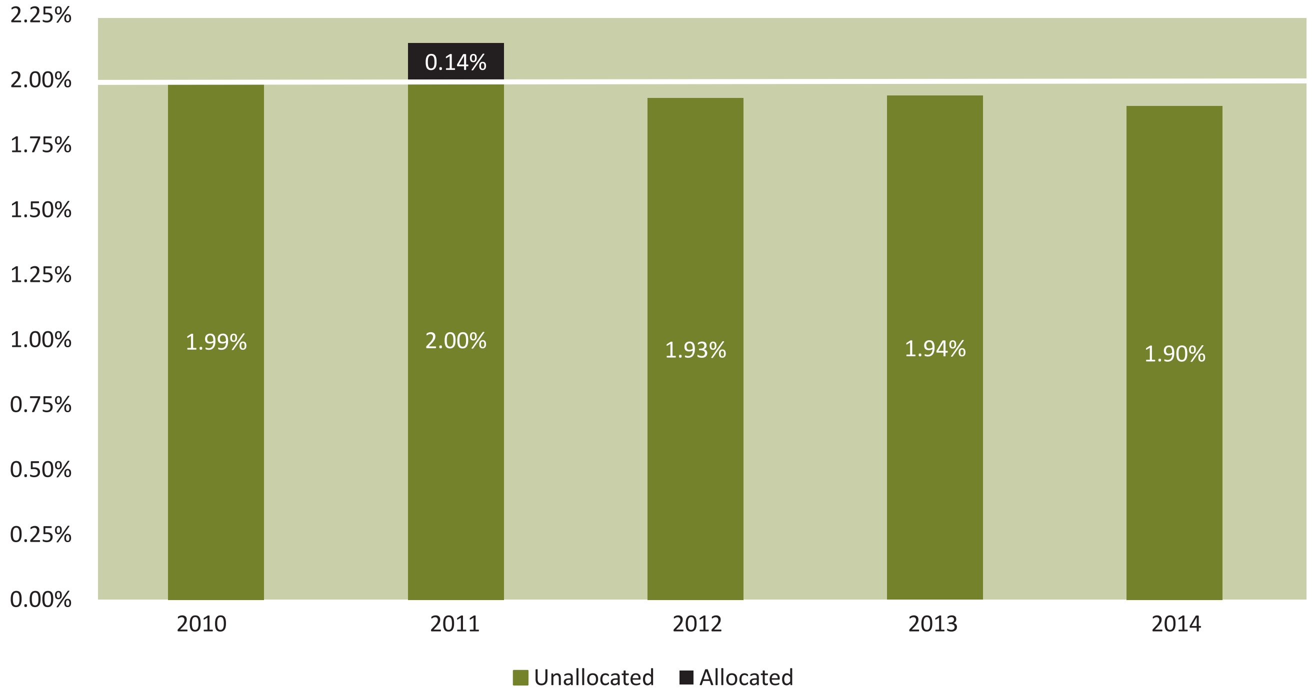
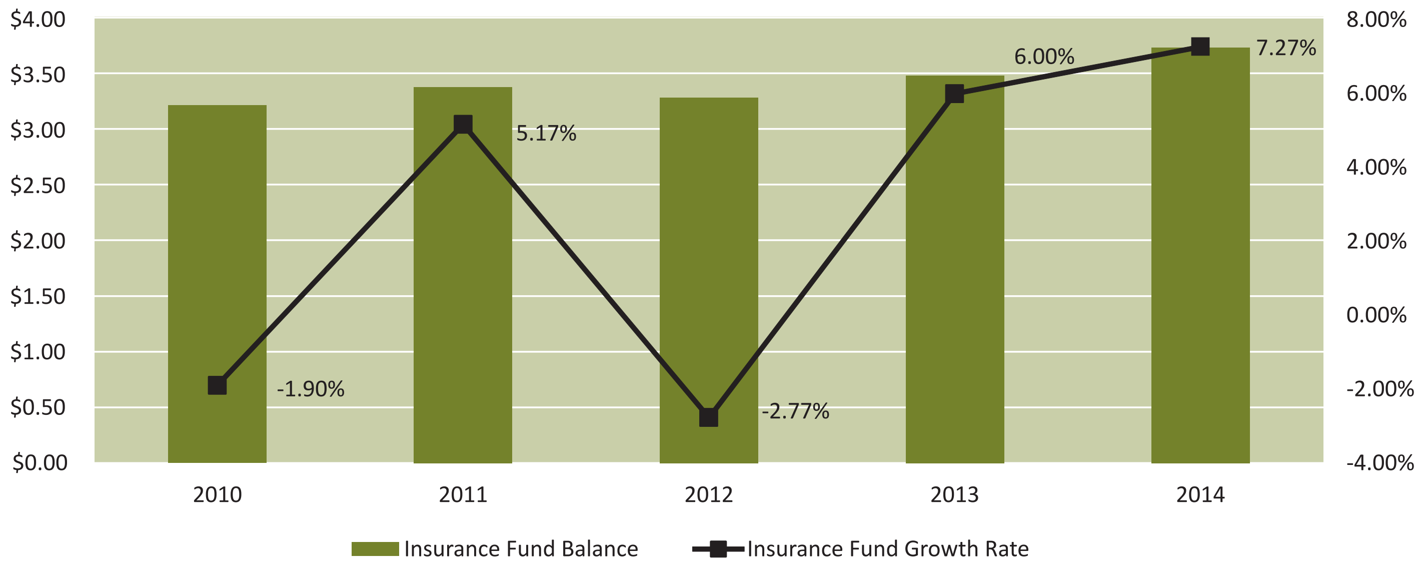


Figure 7

Insurance Fund Balances and Growth Rates

(Dollars in Billions)



Premiums

FCSIC's Board of Directors reviews premium assessment rates as often as necessary but at least semiannually. The Board review focuses on five factors:

- The level of the Insurance Fund relative to the secure base amount
- Projected losses to the Insurance Fund
- The condition of the System
- The health of the agricultural economy
- Risks in the financial environment

The Farm Credit Act allows us to collect from 0 to 20 basis points on adjusted insured debt outstanding. It also authorizes a risk surcharge of up to 10 basis points on nonaccrual loans and on other-than-temporarily impaired investments. In addition, the Act reduces the total insured debt on which premiums are assessed. It bases premiums on outstanding insured debt obligations adjusted downward by 90 percent of Federal Government-guaranteed loans and investments and by 80 percent of State Government-guaranteed loans and investments made by the System banks.

The most important factors in determining premium rates for 2014 were the level of the Insurance Fund and the prospects for growth during the year. The Insurance Fund began 2014 at $115 million below the 2 percent secure base level. Based on System growth projections that ranged from 0.5 to 6.5 percent, with a 4.5 percent weighted average, the FCSIC Board set the assessment rate on adjusted insured debt at 12 basis points for 2014. This rate allowed FCSIC to make progress toward the 2 percent secure base level.

Through May 2014, insured debt outstanding increased by $3.9 billion or 1.9 percent. Also in May, we surveyed the four System banks to update prospects for growth in their use of insured debt obligations during the remainder of 2014. Growth estimates ranged from 0.9 to 9.9 percent with a weighted average growth rate of between 5 percent and 7.5 percent, slightly higher than the weighted average calculated in January.

Based on interim financials from May 31, 2014, the Insurance Fund was estimated to be at 1.96 percent of adjusted insured obligations or $82 million below the secure base amount, an improvement of $33 million from the beginning of the year. As a result, the Board, at its June meeting, maintained the premium assessment rate on adjusted insured debt at 12 basis points for the remainder of 2014.

During the second half of 2014, Systemwide use of insured debt obligations increased more than projected (see figure 8). In fact, in December, Systemwide insured debt obligations grew $6.6 billion. Consequently, the Insurance Fund finished 2014 below the 2 percent secure base level, at 1.90 percent of adjusted insured obligations or $207 million below the target level.

Because the Insurance Fund finished 2014 at $207 million below the 2 percent secure base amount and the System reported prospects for continued growth in the use of insured debt, our Board of Directors increased the assessment rate on adjusted insured debt to 13 basis points for 2015.

Figure 8

Secure Base Amount Calculation

Results as of December 31, 2014
(Dollars in Millions)

Debt Outstanding	**Final** 12/31/2013	**Interim** 5/31/2014	**Final** 12/31/2014
Total Principal and Interest	207,479	211,408	225,654
Less:			
90 percent Federal Government-guaranteed loans	(5,881)	(5,774)	(5,365)
80 percent State Government-guaranteed loans	(19)	(19)	(26)
90 percent Federal Government-guaranteed investments	(21,014)	(21,585)	(22,429)
80 percent State Government-guaranteed investments	(3)	(3)	(3)
Total deductions	(26,917)	(27,381)	(27,823)
Adjusted insured debt	180,562	184,027	197,831
Secure base amount (2%)	3,611	3,681	3,957
Unallocated and allocated Insurance Fund balance	3,496	3,599	3,750
Unallocated and allocated Insurance Fund as a percentage of adjusted insured debt	1.94%	1.96%	1.90%

Revenues and Expenses

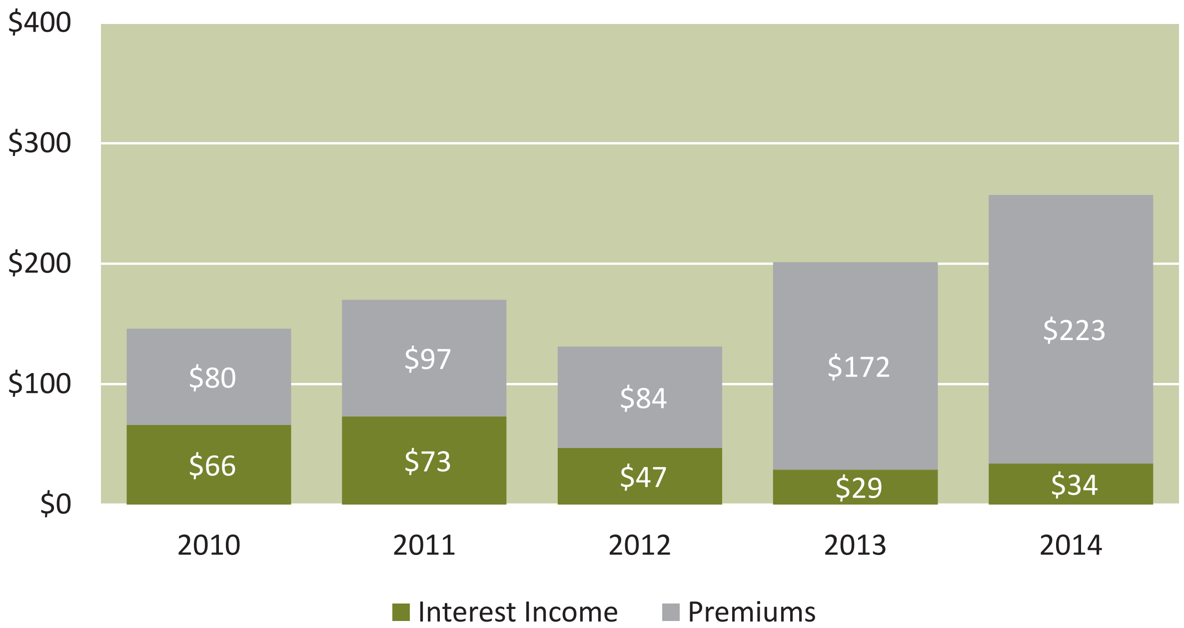
FCSIC operates with no appropriated funds. We collect insurance premiums from each Farm Credit System bank. These premiums and the income from our investment portfolio provide the funds necessary to fulfill our mission.

Our revenues increased by 28 percent to $257.2 million in 2014 from $200.9 million in 2013 (see figure 9). Revenues increased primarily because of higher insurance premiums in 2014. Interest income increased 19 percent in 2014 to $34.1 million from $28.8 million in 2013.

Figure 9

Corporation Revenues

(Dollars in Millions)



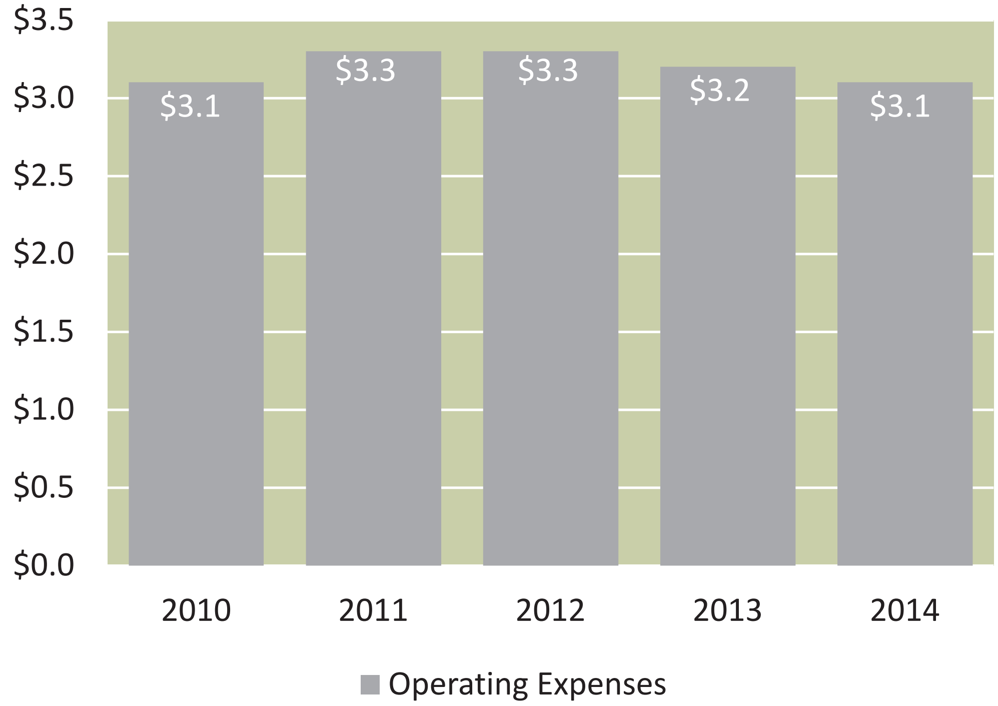
To avoid duplication of effort and to minimize costs, we have operated with a small core staff since 1993 and used private and public sector contractors to leverage our efforts. Our Board of Directors and management have adopted this model as a cost-effective and efficient way to use available expertise, services, and resources to accomplish our mission.

Our operating costs as a percentage of total assets represented 8 basis points for 2014. Fixed costs for staff, travel, rent, and miscellaneous expenses were $2.4 million of the $3.1 million total for the year (see figure 10). The remaining expenses of $0.7 million were for contract services.

Figure 10

Corporation Expenses

(Dollars in Millions)



Investments

FCSIC investments increased during the year from $3.1 billion as of December 31, 2013, to $3.4 billion as of year-end 2014 (see figure 11). An investment security of $135.1 million matured on December 31, 2014, and its proceeds were placed into an overnight investment account classified as "cash and cash equivalents" on our balance sheet.

Our investment objective is to maximize returns while meeting liquidity needs and minimizing exposure to loss of principal. Funds are invested in U.S. Treasury securities in accordance with the Farm Credit Act and our investment policy.

The average portfolio yield was 0.98 percent, up from 0.87 percent the prior year. We added additional benchmarks in 2014 to enhance our ability to assess portfolio performance. Three weighted-average Treasury yield benchmarks serve as primary benchmarks, and two Treasury index fund benchmarks serve as secondary benchmarks. These index funds are considered secondary benchmarks because a portion of their return is generated through trading. The FCSIC Policy Statement Concerning Investments prohibits trading for capital gains purposes. In 2014, the average return for the primary benchmarks ranged from 0.51 percent to 0.70 percent for 2014. The average return for the secondary benchmarks ranged from 0.58 percent to 1.15 percent for 2014.

In accordance with our investment policy, the portfolio is composed of a liquidity pool and an investment pool. The liquidity pool consists of short-term Treasury securities maturing in two years or less. The investment pool is composed of Treasury securities with maturities that vary from 2 to 10 years. Our investment policy requires that the liquidity pool be at least 20 percent of the portfolio. And until January 2015, no more than 25 percent of the investment pool was allowed to be invested in securities with maturities between 5 and 10 years. To improve the transparency of the policy limit on securities with maturities in the 5- to 10-year range, the Board of Directors modified FCSIC's Policy Statement Concerning Investments in January 2015. Now, securities that mature in the 5- to 10-year range must not exceed 20 percent of the portfolio.

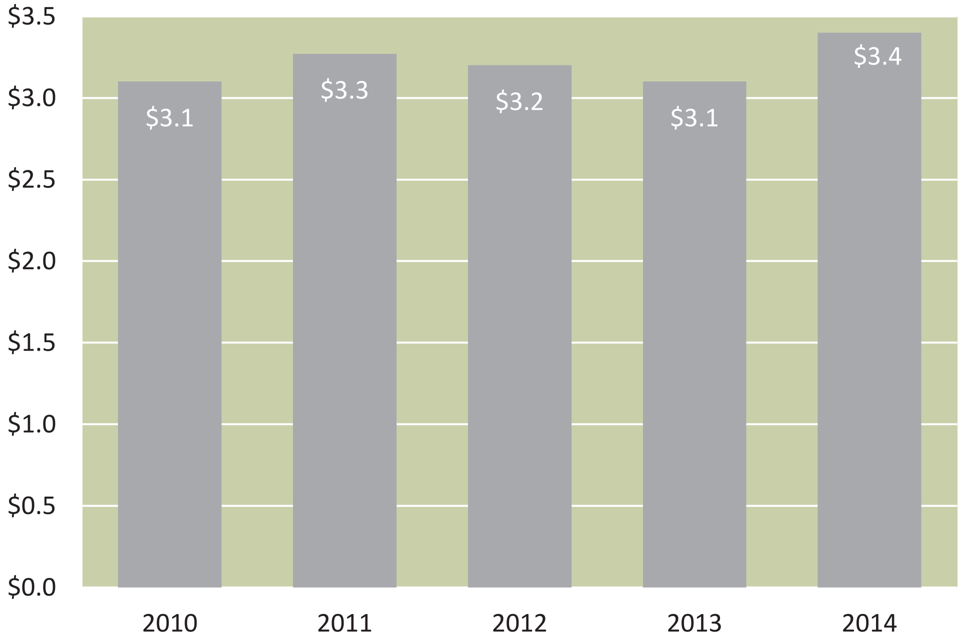
The weighted average maturity of the portfolio at year-end was 2.06 years. The composition of the investment portfolio as of December 31, 2014, is shown in figure 12.

In June 2008, we began purchasing Treasury Inflation Protected Securities (TIPS). TIPS have a stated rate of interest, payable semiannually, which is applied to the inflation-adjusted principal. TIPS provide a hedge against inflation, in terms of both yield and market value. TIPS have experienced monthly inflation or deflation adjustments, but the United States has not had an annual deflationary environment since 1954, more than 60 years ago. Because of the volatility of the monthly returns on TIPS, the FCSIC Investment Committee limits TIPS to no more than 20 percent of the portfolio. At year-end 2014, our TIPS investments totaled $295 million or 8.5 percent of the investment portfolio.

Figure 11

Corporation Investments

(Dollars in Billions)

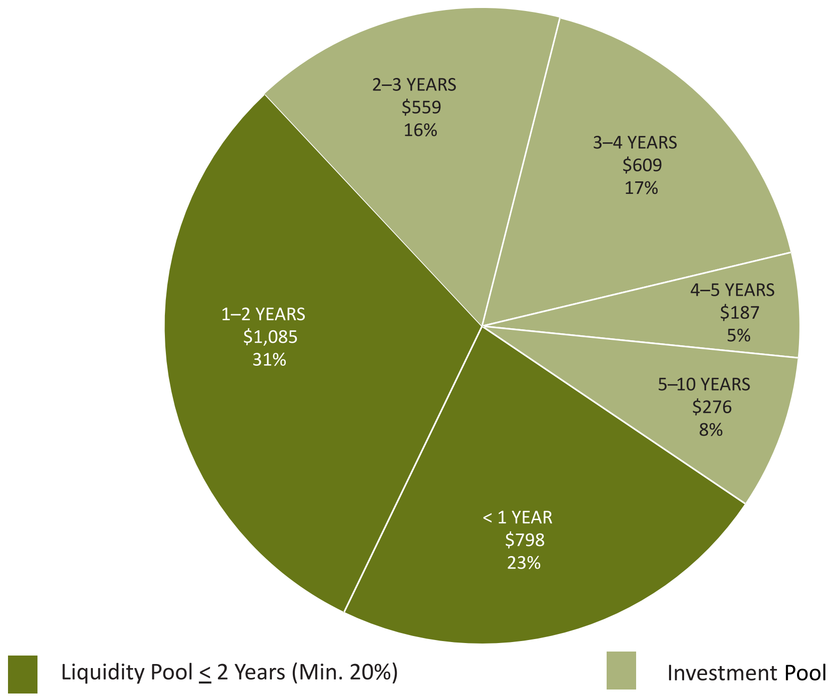


Note: Total investments reflected on the chart do not include the $0.1 billion in "cash and cash equivalents" from the balance sheet.

Figure 12

Investment Portfolio by Maturity as of December 31, 2014

(Dollars in Millions)



Risk Management

FCSIC monitors and manages insurance risk to minimize the Farm Credit Insurance Fund's exposure to potential losses. Our staff analyzes and evaluates the financial performance and condition of Farm Credit System institutions, maintains continual dialogue with Farm Credit Administration examiners, and reviews reports of examination. When necessary, we request special examinations at System institutions of concern. On a quarterly basis, we screen all System institutions against key performance criteria to identify those institutions that may pose an increasing insurance risk.

We also assess risk to the Insurance Fund in the following ways:

- Using analytical models to evaluate insurance risk
- Reviewing corporate actions (such as mergers, restructurings, and other corporate changes) approved by FCA for System institutions
- Monitoring legislative, judicial, regulatory, and economic trends that could adversely affect the agricultural or financial services industries
- Participating as a nonvoting member on FCA's Regulatory Enforcement Committee

During 2014, risk management staff monitored and evaluated the following factors:

- The performance and condition of the four System banks
- Negative trends at specific System institutions with declining Financial Institution Rating System ratings
- Conditions in the global and domestic economy, capital markets, and the agricultural and financial sectors
- The effects of commodity price volatility on agricultural operations and farmland values in the Midwest
- Trade policy and Government programs that support U.S. agriculture
- The effects of drought and crop and livestock diseases on agricultural producers in certain regions of the country

The Risk Environment in 2014

Economic output as measured by real gross domestic product (GDP) increased by 2.4 percent in 2014, the strongest annual rate in four years. The Federal Open Market Committee projects moderate economic growth in 2015, with GDP forecasts ranging from 2.3 percent to 2.7 percent. Analysts had been worried that highly accommodative monetary policy would spur inflation, leading to substantial interest rate increases. However, inflation remained low in 2014, and the Federal Open Market Committee projects inflation to remain below its 2 percent target level throughout 2015.

The Bureau of Labor Statistics reported an unemployment rate of 5.6 percent at year-end 2014, the lowest level since June 2008. An improved labor market, lower fuel prices, reduced household debt, and continued improvement in housing prices and equity markets will likely increase consumer spending, which accounts for almost 70 percent of GDP growth. Moreover, increasing job prospects, higher wages, and the improving consumer and business sentiment should positively affect family incomes of farmers who depend on off-farm sources of income.

The agricultural sector remained strong in 2014; however, there are some signs of increasing headwinds. In February 2015, the U.S. Department of Agriculture estimated that national net farm income in 2014 was $108.0 billion, down 16 percent from 2013. After several years of improvement, farm financial risk indicators such as the debt-to-asset ratio are expected to increase in 2015, indicating increasing financial pressure on the sector. Both net cash and net farm income are forecast to decline for the second consecutive year after reaching historic highs during 2012 and 2013. Net farm income is forecast to be $73.6 billion in 2015, down nearly 32 percent from 2014's forecast of $108 billion. If this forecast is accurate, 2015 net farm income will be the lowest since 2009. Net cash income is forecast at $89.4 billion, down 22 percent from the 2014 forecast. Commodity price volatility has increased in certain sectors. The impact of drought on agricultural producers in certain regions of the country continues to be a concern in 2015.

System earnings were $4.7 billion in 2014, up 1.8 percent from the $4.6 billion for 2013. The net interest spread declined 14 basis points for 2014 to 2.5 percent. Several factors contributed to the decline in the net interest spread: competitive pressures, increases in loan volume in lower-spread lines of business, and a lesser amount of debt being called and replaced with debt issued at more favorable rates. In 2014, the System issued $80 billion in term debt, as compared with $78.8 billion in 2013, and called $19 billion in debt, as compared with $24.3 billion in 2013.

FCA authorizes each System bank to hold eligible investments in an amount not to exceed 35 percent of its total outstanding loans for the purposes of maintaining a liquidity reserve, managing short-term surplus funds, and managing interest rate risk. The liquidity reserve must consist of marketable investments that are sufficient to fund 90 days of on-balance-sheet maturing obligations at all times.

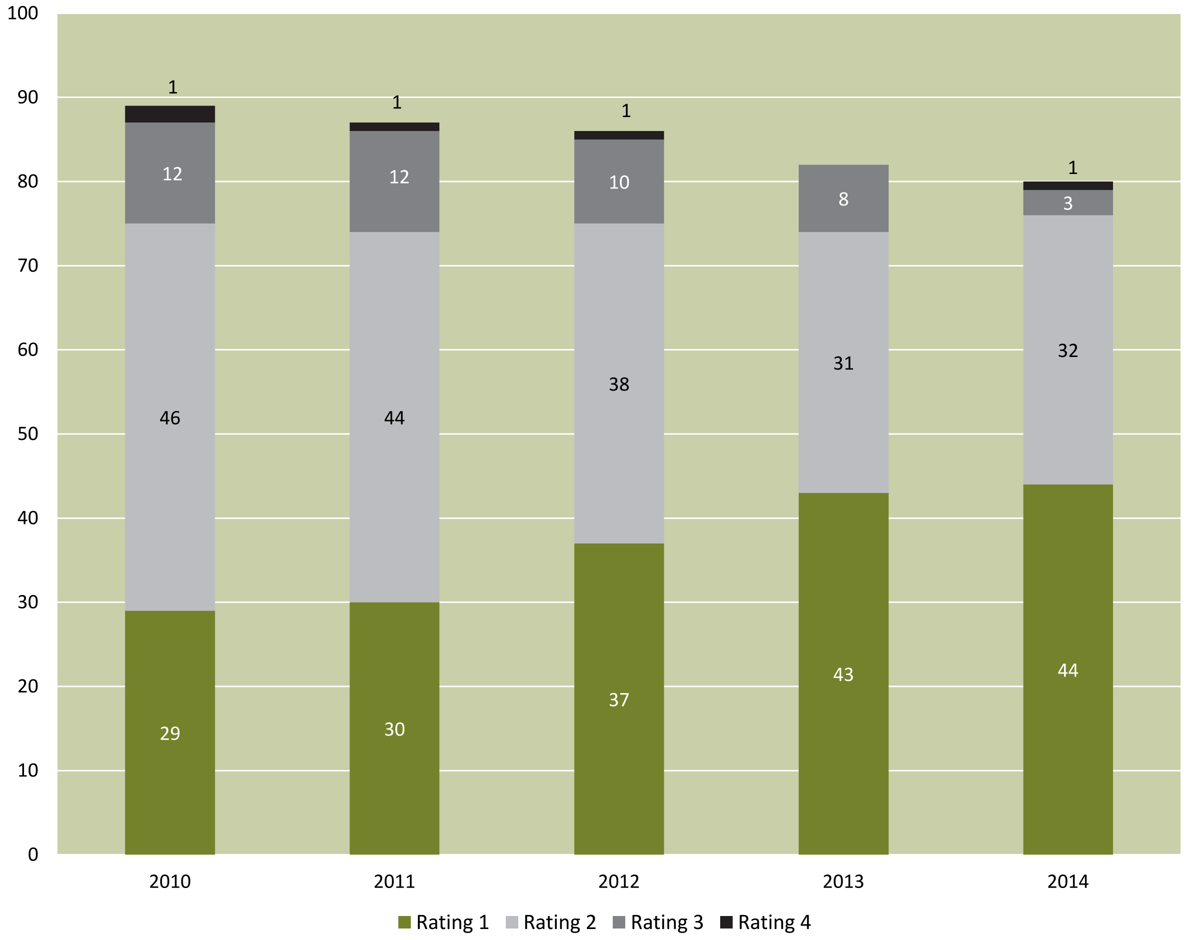
Each System bank is also required to maintain a supplemental liquidity buffer to provide additional liquidity beyond the 90-day liquidity reserve requirement. At December 31, 2014, the System banks collectively held 173 days of liquidity. System banks have updated their contingency funding plans and liquidity stress testing processes over the past few years. The Federal Farm Credit Banks Funding Corporation is currently working toward the development of Systemwide stress testing processes. When completed, these processes should provide a fuller understanding of the interconnections, concentrations, and exposures that may exist within the System.

We continue to work on developing a component of our Insurance Fund solvency model to allow us to simulate the risk that various bank investment assets may pose to the solvency of the Insurance Fund. We expect this addition will improve our ability to forecast the Insurance Fund's ability to withstand future insurance losses if they occur.

Figure 13 shows a summary of composite year-end FIRS ratings for System banks and associations. The improvement reflects the strong agricultural sector and improving financial conditions and performance at numerous institutions. Institutions with performance-related issues continued to receive higher examination scrutiny and supervisory attention from FCA.

Figure 13

FCS Institution Financial Institution Rating System Composite Year-end Ratings



Source: FCA

Note: Figure reflects ratings for only the System's banks and direct-lending associations; it does not include ratings for the System's service corporations, the Federal Agricultural Mortgage Corporation, or the Federal Farm Credit Banks Funding Corporation.

Financial Assistance and Receivership

FCSIC is authorized to provide assistance to System institutions to prevent default, restore normal operations, and facilitate mergers or consolidations. At present, no assistance agreements are outstanding. If a System institution were to need financial assistance, we would first have to ensure that the proposed assistance is the least costly means for resolving the institution's problems. By law, we may not provide financial assistance if the cost of liquidation is lower than providing assistance.

When appointed by FCA, we have the statutory responsibility to serve as receiver or conservator for System banks and associations. Upon appointment as receiver, we will take possession of a System institution to settle its business operations, collect the debts owed to it, liquidate its property and assets, pay its creditors, and distribute any remaining proceeds to stockholders. There are no active receiverships or conservatorships currently in the System.

To maintain the capability to act as receiver or conservator while continuing to operate with a small core staff, we use contractors on an as-needed basis. These contractors provide knowledgeable and readily available staff resources while allowing us to contain costs during periods of limited or no activity.

Our staff also maintains contact with the resolution staff of the Federal Deposit Insurance Corporation and the National Credit Union Administration to stay informed about best practices and to exchange information concerning receivership management.

As discussed earlier, we are pursuing a legislative initiative to modernize and strengthen our resolution authorities. Since 1987, there have been no substantive amendments to the Farm Credit Act relating to FCSIC's resolution authorities.

We have a number of Board-approved policy statements that provide guidance related to resolution activities, including appraisals of real estate securing nonperforming assets, insurance of assets that come under our control, and environmental hazards assessments of real estate securing nonperforming assets. Policy statements are required to be reviewed and approved by the FCSIC Board every five years.

FARM CREDIT SYSTEM INSURANCE CORPORATION

McLean, VA

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2014 and 2013

TABLE OF CONTENTS

BAKER TILLY

Baker Tilly Virchow Krause, LLP
777 E Wisconsin Ave, 32nd Floor
Milwaukee, WI 53202-5313
tel 414 777 5500
fax 414 777 5555
bakertilly.com

Independent Auditors' Report

February 10, 2015

To the Board of Directors
Farm Credit System Insurance Corporation
McLean, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Farm Credit System Insurance Corporation ("FCSIC"), which comprise the statement of financial condition as of December 31, 2014 and 2013, and the related statements of income and expenses and changes in insurance fund and cash flows for the years then ended, and related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in U.S. Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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 estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Farm Credit System Insurance Corporation as of December 31, 2014 and 2013, 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.

Other Reporting Required by U.S. Government Auditing Standards

In accordance with U.S. Government Auditing Standards, we have also issued our report dated February 10, 2015 on our consideration of FCSIC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with U.S. Government Auditing Standards in considering FCSIC's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
February 10, 2015

BAKER TILLY

Baker Tilly Virchow Krause, LLP
777 E Wisconsin Ave, 32nd Floor
Milwaukee, WI 53202-5313
tel 414 777 5500
fax 414 777 5555
bakertilly.com

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with U.S. Government Auditing Standards

To the Board of Directors
Farm Credit System Insurance Corporation
McLean, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in U.S. Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the Farm Credit System Insurance Corporation ("FCSIC"), which comprise the statement of financial condition as of December 31, 2014, and the related statements of income and expenses and changes in insurance fund and cash flows for the year then ended, and related notes to the financial statements, and have issued our report thereon dated February 10, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements we considered FCSIC's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCSIC's internal control. Accordingly, we do not express an opinion on the effectiveness of FCSIC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FCSIC's financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported herein under U.S. Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of FCSIC's internal control or on compliance. This report is an integral part of an audit performed in accordance with U.S. Government Auditing Standards in considering FCSIC's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
February 10, 2015

FARM CREDIT SYSTEM INSURANCE CORPORATION
STATEMENTS OF FINANCIAL CONDITION
As of December 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Assets		
Cash and cash equivalents	$ 135,176	$ 249,285
Investments in U.S. Treasury obligations	3,378,139	3,060,465
Premiums receivable	223,258	173,639
Accrued interest receivable	13,524	12,601
Total assets	**$ 3,750,097**	**$ 3,495,990**
Liabilities and Insurance Fund		
Accounts payable and accrued expenses	$ 348	$ 341
Total liabilities	348	341
Farm Credit Insurance Fund		
Allocated Insurance Reserves Accounts	-	-
Unallocated Insurance Fund	3,749,749	3,495,649
Total Insurance Fund	3,749,749	3,495,649
Total liabilities and Insurance Fund	**$ 3,750,097**	**$ 3,495,990**

FARM CREDIT SYSTEM INSURANCE CORPORATION
STATEMENTS OF INCOME AND EXPENSES AND CHANGES IN INSURANCE FUND
For the Years Ended December 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Income		
Premiums	$ 223,145	$ 172,164
Interest income	34,090	28,768
Total income	**257,235**	**200,932**
Expenses		
Administrative operating expenses	3,135	3,219
Total Expenses	**3,135**	**3,219**
Net Income	**254,100**	**197,713**
Farm Credit Insurance Fund — beginning of year	**3,495,649**	**3,297,936**
Payments to AIRAs Accountholders	-	-
Farm Credit Insurance Fund — end of year	**$ 3,749,749**	**$ 3,495,649**

FARM CREDIT SYSTEM INSURANCE CORPORATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013
(Dollars in thousands)

	2014	2013
Cash flows from operating activities		
Net income	$ 254,100	$ 197,713
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in premiums receivable	(49,619)	(89,373)
(Increase) decrease in accrued interest receivable	(923)	66
Net amortization and accretion of investments	37,941	36,944
Increase (decrease) in accounts payable and accrued expenses	7	54
Net cash provided by operating activities	**241,506**	**145,404**
Cash flows from investing activities		
Payments for purchase of U. S. Treasury obligations	(1,076,820)	(525,559)
Proceeds from maturity of U.S. Treasury obligations	721,205	624,361
Net cash provided by investing activities	**(355,615)**	**98,802**
Cash flows from financing activities		
Payment to AIRAs Accountholders	-	-
Net cash used in financing activities	-	-
Net change in cash and cash equivalents	(114,109)	244,206
Cash and cash equivalents, beginning of year	249,285	5,079
Cash and cash equivalents, end of year	**$ 135,176**	**$ 249,285**

NOTE 1 – Farm Credit Insurance Fund (Insurance Fund): Statutory Framework

The Agricultural Credit Act of 1987 established the Farm Credit System Insurance Corporation (the Corporation or FCSIC) for the purpose of ensuring the timely payment of principal and interest on notes, bonds, debentures, and other obligations issued under subsection (c) or (d) of section 4.2 of the Farm Credit Act of 1971, as amended (the Farm Credit Act), (insured obligations). Each bank in the Farm Credit System (System) participating in insured obligations is an insured System bank. At December 31, 2014, there were four insured System banks and 77 direct lender associations.

The Corporation is managed by a Board of Directors consisting of the same individuals as the Farm Credit Administration (FCA) Board except that the Chairman of the FCA Board may not serve as the Chairman of the Corporation's Board of Directors.

The Corporation must spend the amounts necessary to:

1. Ensure the timely payment of interest and principal on insured obligations in the event of default by an insured System bank; and

2. Ensure the retirement of eligible borrower stock at par value under section 4.9A of the Farm Credit Act.

The Corporation, in its sole discretion, is authorized to expend amounts to provide financial assistance to certain insured institutions.

As of December 31, 2014, there were $225.7 billion of insured obligations and $1 million of eligible borrower stock outstanding.

If the Corporation does not have sufficient funds to ensure payment on insured obligations, System banks will be required to make payments under joint and several liability, as required by section 4.4 (a)(2) of the Farm Credit Act.

Under section 5.63 of the Farm Credit Act, the Corporation is exempt from all Federal, state, and local taxes with the exception of real property taxes.

NOTE 2 – Summary of Significant Accounting Policies

Basis of Accounting—The accounting and reporting policies of the Corporation conform to accounting principles generally accepted in the United States of America (GAAP) and, as such, the financial statements have been prepared using the accrual basis of accounting.

Cash and Cash Equivalents—Cash and cash equivalents include investments in U.S. Treasury obligations with original maturities of 90 days or less. At December 31, 2014, the Corporation held $135.1 million in overnight Treasury Certificates maturing on January 2, 2015, with an investment rate of 0.03 percent, and $100,196 in cash. At December 31, 2013, the Corporation held $249.1 million in overnight Treasury Certificates maturing on January 2, 2014, with an investment rate of 0.01 percent, and $200,896 in cash.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Investments in U.S. Treasury Obligations—Section 5.62 of the Farm Credit Act requires that funds of the Corporation, not otherwise employed, shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. The Corporation has classified its investments as held to maturity in accordance with Financial Accounting Standards Board Accounting Standards Codification 320, *Investments - Debt and Equity Securities* (formerly Statement of Financial Accounting Standard No. 115) and carries them at amortized cost. Amortization of premium and accretion of discount on investments has been computed under the interest method since 2002. Fair value of investments is estimated based on quoted market prices for those or similar instruments.

Liability for Estimated Insurance Obligations—The liability for estimated insurance obligations is the present value of estimated probable insurance payments to be made in the future based on the Corporation's analysis of economic conditions of insured System banks.

The insured System banks' primary lending markets are borrowers engaged in farming, ranching, and producing or harvesting of aquatic products, and their cooperatives. Financial weaknesses in these market segments and the effect of general market conditions on the System's borrowers could adversely affect the banks' financial condition and profitability. Insured System banks also face risks from changing interest rate environments and the need to maintain ongoing access to financial markets. Adverse changes in the financial condition and profitability of insured System banks resulting from increased levels of credit, financial, or other risks could occur in the future which would require a liability for estimated insurance obligations to be recorded.

The Corporation actively monitors the creditworthiness and financial position of the insured System banks. Management is not aware of any events or circumstances at this time which would require a liability for estimated insurance obligations to be recorded.

Premiums—Annual premiums are recorded as revenue during the period on which the premiums are based. All premiums are due on or before January 31 of the year subsequent to the year in which they are earned.

Use of Estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – Investments in U.S. Treasury Obligations

In addition to the amounts referenced in Note 2, Cash and Cash Equivalents, at December 31, 2014 and 2013, investments in U.S. Treasury obligations which are carried at amortized cost consisted of the following:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
December 31, 2014				
U.S. Treasury obligations	$ 3,378,139	$ 7,577	$ (10,129)	$ 3,375,587
December 31, 2013				
U.S. Treasury obligations	$ 3,060,465	$ 11,437	$ (13,206)	$ 3,058,696

The amortized cost and estimated market value of U.S. Treasury obligations at December 31, 2014, by contractual maturity, are shown below.

(Dollars in thousands)	Amortized Cost	Estimated Market Value
Due in one year or less	$ 807,895	$ 808,892
Due after one year through five years	2,294,031	2,294,020
Due after five years through ten years	276,213	272,675
	$ 3,378,139	$ 3,375,587

The Corporation follows GAAP for measuring, reporting, and disclosing fair value. These standards apply to all assets and liabilities that are measured, reported, and/or disclosed on a fair value basis.

As defined in the accounting standards, fair value is 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. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Inputs to the valuation methodology are unadjusted quoted market prices for identical assets in active markets that the plan has the ability to access.

NOTE 3 – Investments in U.S. Treasury Obligations (cont.)

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data. Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Unobservable inputs that are unobservable and not corroborated by market data.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair values of FCSIC's investments in U.S. Treasury obligations are estimated based on quoted market prices for those instruments; accordingly these are classified as Level 1 assets.

NOTE 4 – Premiums, the Secure Base Amount and Excess Insurance Fund Balances

Each System bank which issues insured obligations under subsection (c) or (d) of section 4.2 of the Farm Credit Act is an insured System bank and may be required to pay premiums to the Corporation.

The Food, Conservation, and Energy Act of 2008 amended the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.) to generally assess premiums based on each bank's pro rata share of insured debt (rather than on loans), aligning premiums with what FCSIC insures. The changes were implemented beginning July 1, 2008. Now FCSIC may collect from 0 to 20 basis points annually on adjusted insured debt outstanding. The amendments also authorize a risk surcharge of up to 10 basis points on non-accrual loans and on other-than-temporarily impaired investments. The amendments reduce the total insured debt on which premiums are assessed by 90 percent of Federal government-guaranteed loans and investments and 80 percent of state government-guaranteed loans and investments, and deduct similar percentages of such guaranteed loans and investments when calculating the secure base amount (SBA). The amendments clarify that FCSIC may collect premiums more frequently than annually.

In addition, the Farm Credit Act no longer specifies how the System banks pass premiums to associations and other financing institutions, although it will require that the banks do so in an equitable manner. This change allows the banks flexibility in allocating premium costs to associations. The amendments clarify that, in addition to FCSIC's regulatory authority under Title V of the Farm Credit Act, FCSIC has the authority to adopt rules and regulations concerning provisions in Title I of the Farm Credit Act related to banks passing along the cost of insurance premiums. Finally, the amendments change the Farm Credit Act provisions regarding certified statements and simplify the formula for payments from the Farm Credit Insurance Fund Allocated Insurance Reserves Accounts (AIRAs) to allow more immediate distribution of excess Insurance Fund balances to insured banks and the System Financial Assistance Corporation (the FAC) stockholders.

NOTE 4 – Premiums, the Secure Base Amount and Excess Insurance Fund Balances (cont.)

The Farm Credit Act sets a base amount for the Insurance Fund to achieve. The statutory SBA is equivalent to 2.0 percent of the aggregate outstanding insured obligations of all insured System banks (adjusted downward by a percentage of the guaranteed portions of principal outstanding on certain government-guaranteed loans and investments) or such other percentage as determined by the Corporation, in its sole discretion, to be actuarially sound. When the assets in the Insurance Fund for which no specific use has been designated exceed the SBA, the Corporation is required to reduce the premiums, but it still must ensure that reduced premiums are sufficient to maintain at the SBA the assets in the Insurance Fund for which no specific use has been designated (the unallocated Insurance Fund).

Insurance premium rates are reviewed semiannually. For 2014, the Board of Directors set premium rates at its January 23, 2014, meeting at 12 basis points on average adjusted insured debt and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments. The Board of Directors again reviewed premiums at its June 12, 2014 meeting. The Board of Directors voted to maintain the premium accrual rate on average adjusted insured debt at 12 basis points and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments for the remainder of 2014. In 2014, outstanding insured obligations increased by $18 billion (9 percent). At December 31, 2014, both of the unallocated Insurance Fund and the total Insurance Fund were 1.90 percent of adjusted insured obligations.

For 2013, the Board of Directors set premium rates at its January 24, 2013, meeting at 10 basis points on average adjusted insured debt and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments. The Board of Directors again reviewed premiums at its June 13, 2013 meeting. The Board of Directors voted to maintain the premium accrual rate on average adjusted insured debt at 10 basis points and continued the assessment of the 10 basis point surcharge on the average principal balance outstanding for nonaccrual loans and other-than-temporarily impaired investments for the remainder of 2013. In 2013, outstanding insured obligations increased by $10 billion (5.1 percent). At December 31, 2013, both of the unallocated Insurance Fund and the total Insurance Fund were 1.94 percent of adjusted insured obligations.

A 1996 amendment to the Farm Credit Act requires the Corporation to establish AIRAs for each System bank and an account for the stockholders of the FAC. If at the end of any calendar year the unallocated Insurance Fund is at the SBA, the Corporation is to segregate any excess balances into these AIRAs. In 2011, the Corporation's Board of Directors revised the *Policy Statement on the Secure Base Amount and Allocated Insurance Reserves Accounts* which provides guidelines for implementing this statutory authority. If at the end of any calendar year, the aggregate of the amounts in the Insurance Fund exceeds the SBA, the Corporation shall allocate to the AIRAs the excess amount less the amount that the Corporation, in its sole discretion, determines to be the sum of the estimated operating expenses and estimated insurance obligations of the Corporation for the immediately succeeding calendar year.

The AIRAs' balances are recorded as part of the Insurance Fund until approved for payment by the Corporation's Board of Directors. AIRAs balances may be used to absorb any insurance losses and claims. Furthermore, the Board of Directors has discretion to limit or restrict the AIRAs payments. In accordance with the Corporation's policy statement, any AIRAs' balances do not count in measuring the Insurance Fund's compliance with the SBA.

At year end 2014, the Insurance Fund was below the SBA by $207 million. Consequently no funds were available to transfer to the AIRAs.

NOTE 5 – Operating Lease

On November 30, 2009, the Corporation executed a six-year lease with the FCS Building Association for office space. The terms of the lease provide for an annual minimum base rent for office space for the remaining term of $155,440 for 2015. The Corporation recorded lease expense (including operating cost assessments) of $152,408 and $148,025 for 2014 and 2013, respectively.

NOTE 6 – Line of Credit

On September 24, 2013, the Corporation entered into an agreement with the Federal Financing Bank (the FFB), a federal instrumentality subject to the supervision and direction of the U.S. Treasury. Pursuant to this agreement, the FFB may advance funds to the Corporation when exigent market circumstances threaten an insured System Bank's ability to pay maturing debt obligations. The Corporation will in turn use the funds advanced by the FFB to provide assistance to the System banks until market conditions improve. The agreement provides for a short-term revolving credit facility of up to $10 billion, is renewable annually and terminates on September 30, 2015, unless otherwise further extended.

Under the agreement, each provision of funds by the FFB is subject to certain terms and conditions. The interest rate for each advance will be established by the FFB at the time the respective advance is made. Each advance cannot have a maturity date longer than twelve months and the maturity date cannot be later than the final termination date of the agreement.

The Corporation paid no commitment fee to secure this line of credit. There were no amounts drawn on this line of credit during 2014.

NOTE 7 – Retirement Plan

All permanent Corporation employees are covered by the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The Corporation's contribution during 2014 to the CSRS plan was 7 percent of base pay. For those employees covered by FERS, the Corporation's contribution was 11.9 percent of base pay from January 1 through September 30, 2014. The rate increased on October 1, 2014 to 13.2 percent. In addition, for FERS-covered employees, the Corporation automatically contributes 1 percent of base pay to the employee's Thrift Savings Plan account, matches the first 3 percent contributed by the employee, and matches one-half of the next 2 percent contributed by the employee. Retirement plan expenses amounted to $257,717 in 2014 and $256,420 in 2013.

NOTE 8 – Related Parties

The Corporation purchases services from the FCA under an Interagency Agreement. These include examination and administrative support services. The intention of the parties as stated in the agreement is that specified rates and fees will reimburse the party providing services for all reasonable costs associated with provision of the services. The Corporation had zero payables due to the FCA at December 31, 2014 and 2013. The Corporation purchased services for 2014 which totaled $319,336 compared with $366,920 for 2013.

The Corporation may also provide assistance to the FCA under the same Interagency Agreement; however the Corporation provided no services and recognized no revenue for 2014 and 2013. At December 31, 2014, and 2013, the Corporation did not have any receivables from the FCA.

NOTE 9 – Subsequent Events

Management evaluated subsequent events through February 10, 2015, the date the financial statements were available to be issued. Events or transactions occurring after the balance sheet date but prior to the date the financial statements were available to be issued, that provide additional evidence about conditions that existed at the balance sheet date, are recognized in the financial statements. Events or transactions that provide evidence about conditions that did not exist at the balance sheet date but arose before the financial statements were available to be issued are not recognized in the financial statements.

The financial statements for the year ended December 31, 2014 have not been adjusted for any events or transactions occurring after the balance sheet date.

Management Report on Internal Control Over Financial Reporting

April 15, 2015

FCSIC's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation.

FCSIC is an independent U.S. Government-controlled corporation. Our primary purpose is to ensure the timely payment of principal and interest on insured debt obligations issued on behalf of System banks. The System is a nationwide Government-sponsored enterprise of privately owned banks and affiliated associations that serve borrowers and related entities in the agricultural sector. By protecting investors, we help maintain a dependable source of funds for the farmers, ranchers, and other borrowers of the System.

FCSIC actively monitors and manages insurance risk in order to minimize the Farm Credit Insurance Fund's exposure to potential losses. We also must be prepared to serve as conservator or receiver of any System bank or association when appointed by the Board of the Farm Credit Administration.

Our management has completed an assessment of the effectiveness of the internal controls and financial management systems in effect during 2014 in accordance with guidelines provided by the Office of Management and Budget (OMB) in consultation with the Comptroller General (OMB Circular A-123, "Management's Responsibility for Internal Control"). The objective of these controls and systems is to provide reasonable assurance that

- obligations and costs comply with applicable laws;
- all assets are safeguarded against waste, fraud, unauthorized use, and mismanagement;
- revenues and expenditures applicable to our operations are recorded and accounted for properly; and
- financial and statistical reports will be reliable, complete, and timely, and accountability of the assets will be maintained.

Based on the established guidelines and the assessment performed, we concluded that as of December 31, 2014, the internal control over financial reporting was effective.

In addition, as stated in the accompanying report, the Corporation's independent auditor, Baker Tilly Virchow Krause, LLP, did not identify any material weaknesses in the effectiveness of FCSIC's internal control over financial reporting as of December 31, 2014.

Dorothy L Nichols

Dorothy L. Nichols
Chief Operating Officer

Emily W. F. Dean
Chief Financial Officer

C. Richard Pfitzinger
Director of Risk Management

Performance Management Program

FCSIC has a mandate to ensure the timely payment of principal and interest on insured Farm Credit System debt securities and to serve as receiver or conservator of any institution placed into conservatorship or receivership by the Farm Credit Administration Board. As a result, we have three fundamental program goals:

1. Building and managing the Insurance Fund to protect investors
2. Detecting, evaluating, and managing insurance risk
3. Maintaining the capability to act as receiver or conservator as the need arises

Performance Measures

1. Building and managing the Insurance Fund to protect investors

To maintain the solvency of the Insurance Fund, we must adjust insurance premium assessments when appropriate and manage assets to optimize investment returns. At the same time, we must maintain appropriate liquidity to carry out our mission. Congress established a statutory requirement that the Insurance Fund be maintained at a secure base amount equal to 2 percent of adjusted insured obligations or such other percentage as we in our sole discretion determine to be actuarially sound.

We assess the effectiveness of our performance in achieving this goal through the following:

- Reviewing semiannually the need for adjustments to insurance premium assessments
- Measuring investment performance by comparing the portfolio's average yield with peer investment funds that have similar investment parameters for quality and maturity
- Monitoring the level of the Insurance Fund every month as compared with the secure base amount target level and reporting results to the Board of Directors

Our ability to maintain the Insurance Fund at the secure base amount may be affected by events beyond our control, such as insurance losses.

2. Detecting, evaluating, and managing insurance risk

We measure progress toward this program goal by how promptly we detect emerging problems and how effectively we minimize insurance losses. We use financial indicators to monitor conditions and trends, and we analyze and report data before losses become likely. In periods of probable or actual insurance claims, the ratio of estimated losses to actual losses is an indicator of our ability to assess prospective loss exposure.

As guidance, our management uses criteria specified in our allowance for loss procedure and the Financial Accounting Standards Board's Accounting Standards Topic 450, Contingencies. Timely evaluation of the Insurance Fund's risk exposure is critical to preserving the Insurance Fund's solvency. We use FCA reports of examination to evaluate risks to the Insurance Fund. From time to time, we independently examine and require information from System institutions.

3. Maintaining the capability to act as receiver or conservator as the need arises

FCSIC is required to serve as receiver or conservator of System banks and associations when appointed by FCA. This program goal requires us to maintain readiness through periodic staff training and evaluation of contractors' capabilities. We must ensure that we have the resources we need to manage receiverships or conservatorships in case the need arises.

We use the following measures to determine the effectiveness of our receivership operations:

- Whether all claims received initial processing within a period specified according to the size and complexity of the individual case
- Operating costs as a percentage of total assets
- Actual asset recovery returns as a percentage of net realizable asset values

2014 Budget and Expenditure by Program

(Dollars in Millions)

Strategic Goal	Strategic Objectives	High-Priority Performance Goals	For More Information
Investors in insured debt are protected from loss without need for a joint and several liability call.	The Farm Credit Insurance Fund remains strong and adequately financed.	Maintain the Insurance Fund at the statutory 2 percent secure base amount.	See pages 16-19 for 2014 results.
	FCSIC promptly identifies and responds to potential risks to the Insurance Fund.	Identify and address risks to the Insurance Fund.	See pages 24-27 for 2014 results.
		Disseminate data and analyses on issues to the FCSIC Board, the public, and other stakeholders.	See pages 8-9 and 24-27 for 2014 results.
		Effectively administer temporary financial assistance programs subject to the statutory least-cost requirements.	See page 27 for 2014 results.
	FCSIC resolves failure of System institutions in the manner least costly to the Insurance Fund.	Market failing institutions to qualified and interested potential bidders.	See page 27 for 2014 results.
	The public, insured investors, and System institutions have access to accurate and easily understood information about our insurance program.	Provide information about the benefits of the insurance program through our website, annual report, and other outlets.	See the FCSIC website for additional information.

Glossary

Farm Credit Act—The Farm Credit Act of 1971, as amended, (12 U.S.C. §2001 et seq.) is the statute under which the Farm Credit System, FCSIC, and the Farm Credit Administration operate.

Farm Credit Administration—FCA was established in 1933 to regulate the System. It is governed by a three-member presidentially appointed board. To ensure the safety and soundness of the System, the Agency examines and supervises System institutions and develops regulations to govern them.

Federal Farm Credit Banks Funding Corporation—Based in Jersey City, New Jersey, the Funding Corporation manages the sale of Systemwide debt securities to finance the loans made by System institutions. It uses a network of bond dealers to market the System's securities.

Federal Open Market Committee—The branch of the Federal Reserve Board that determines the direction of monetary policy. The committee is composed of the Board of Governors, which has seven members and five Federal Reserve Bank presidents. The president of the Federal Reserve Bank of New York serves continuously, while the presidents of the other reserve banks rotate their service of one-year terms.

Financial Institution Rating System (FIRS)—The FIRS is similar to the Uniform Financial Institutions Rating System used by other Federal banking regulators except that the FIRS reflects the nondepository nature of System institutions. The FIRS provides a general framework for assimilating and evaluating all significant financial, asset quality, and management factors to assign a composite rating to each System institution. The ratings are described below.

Rating 1—Institutions in this group are basically sound in every respect; any negative findings or comments are of a minor nature and are anticipated to be resolved in the normal course of business. Such institutions are well managed, resistant to external economic and financial disturbances, and more capable of withstanding the uncertainties of business conditions than institutions with lower ratings. Each institution in this category exhibits the best performance and risk management practices for its size, complexity, and risk profile. These institutions give no cause for regulatory concern.

Rating 2—Institutions in this group are fundamentally sound but may reflect modest weaknesses correctable in the normal course of business. Since the nature and severity of deficiencies are not material, such institutions are stable and able to withstand business fluctuations. Overall risk management practices are satisfactory for the size, complexity, and risk profile of each institution in this group. While areas of weakness could develop into conditions of greater concern, regulatory response is limited to the extent that minor adjustments are resolved in the normal course of business and operations continue in a satisfactory manner.

Rating 3—Institutions in this category exhibit a combination of financial, management, operational, or compliance weaknesses ranging from moderately severe to unsatisfactory. When weaknesses relate to asset quality or financial condition, these institutions may be vulnerable to the onset of adverse business conditions and could easily deteriorate if weaknesses are not corrected. Institutions that are in significant noncompliance with laws and regulations may also be given this rating. Risk management practices are less than satisfactory for the size, complexity, and risk profile of each institution in this group. Institutions in this category generally give cause for regulatory concern and require more than normal supervision to address deficiencies. Overall strength and financial capacity, however, still make failure only a remote possibility if corrective actions are taken.

Rating 4—Institutions in this group have an immoderate number of serious financial or operating weaknesses. Serious problems or unsafe and unsound conditions exist that are not being satisfactorily addressed or resolved. Unless effective actions are taken to correct these conditions, they are likely to impair future viability or constitute a threat to the interests of investors, borrowers, and stockholders. Risk management practices are generally unacceptable for the size, complexity, and risk profile of each institution in this group. A potential for failure is present but is not yet imminent or pronounced. Institutions in this category require close regulatory attention, financial surveillance, and a definitive plan for corrective action.

Rating 5—This category is reserved for institutions with an extremely high, immediate, or near-term probability of failure. The number and severity of weaknesses or unsafe and unsound conditions are so critical as to require urgent external financial assistance. Risk management practices are inadequate for the size, complexity, and risk profile of each institution in this group. In the absence of decisive corrective measures, these institutions will likely require liquidation or some form of emergency assistance, merger, or acquisition.

Government-Sponsored Enterprise (GSE)—A GSE is typically a federally chartered corporation that is privately owned, designed to provide a source of credit nationwide, and limited to servicing one economic sector. Each GSE has a public or social purpose. GSEs are usually created because the private markets did not satisfy a purpose that Congress deems worthy either to fill a credit gap or to enhance competitive behavior in the loan market. Each is given certain features or benefits (called GSE attributes) to allow it to overcome the barriers that prevented purely private markets from developing. In some cases, the GSE receives public assistance only to get started, as the Farm Credit System did; in other cases, the assistance is ongoing. The System is the oldest financial GSE.

Acronyms and Abbreviations

AIRAs	Allocated Insurance Reserves Accounts
CIPA	Contractual Interbank Performance Agreement
Farm Credit Act	Farm Credit Act of 1971, as amended
FCA	Farm Credit Administration
FCSIC	Farm Credit System Insurance Corporation
FFB	Federal Financing Bank
FIRS	Financial Institution Rating System
Funding Corporation	Federal Farm Credit Banks Funding Corporation
System	Farm Credit System
TIPS	Treasury Inflation Protected Securities
USDA	U.S. Department of Agriculture

Corporate Staff

Dorothy L. Nichols	Chief Operating Officer
C. Richard Pfitzinger	Director of Risk Management
Emily W. F. Dean	Chief Financial Officer
Howard I. Rubin	General Counsel
William R. Fayer	Senior Resolution Specialist
Wade Wynn	Chief Investment Officer and Senior Risk Analyst
Tanya Renica	Accountant
Mark Bowen	Accountant
Matthew Morgan	Financial Analyst
Barbara Loggins	Senior Administrative Specialist
Molly Sproles	Administrative Management Assistant

Contact Information

To obtain Farm Credit System quarterly and annual information statements, contact the Federal Farm Credit Banks Funding Corporation at the following address:

Federal Farm Credit Banks Funding Corporation
10 Exchange Place
Suite 1401
Jersey City, NJ 07302
(201) 200-8000

These documents are also available on the Funding Corporation's website at www.farmcreditfunding.com.

To obtain copies of the Farm Credit Administration's Annual Report on the Farm Credit System and the FCA Annual Performance and Accountability Report, contact FCA at the following address:

Office of Congressional and Public Affairs
Farm Credit Administration
1501 Farm Credit Drive
McLean, VA 22102
(703) 883-4056

These documents are also available on the FCA website at www.fca.gov.

FCSIC — Insured Banks (as of January 1, 2015)

To obtain copies of quarterly and annual reports of a Farm Credit System bank and its affiliated associations, please contact the bank directly. The mailing addresses, website addresses, and telephone numbers of all four System banks are provided below.

AgFirst Farm Credit Bank
P.O. Box 1499
Columbia, SC 29202-1499
(803) 799-5000
www.agfirst.com

AgriBank
30 E. 7th Street, Suite 1600
St. Paul, MN 55101-4914
(651) 282-8800
www.agribank.com

CoBank
P.O. Box 5110
Denver, CO 80217-5110
(303) 740-4000
www.cobank.com

Farm Credit Bank of Texas
P.O. Box 202590
Austin, TX 78720-2590
(512) 465-0400
www.farmcreditbank.com

Note: Information contained on these websites is not incorporated by reference into this annual report, and you should not consider information contained on these websites to be part of this annual report.

Farm Credit System Insurance Corporation
1501 Farm Credit Drive
McLean, VA 22102

Voice: 703-883-4380
Fax: 703-790-9088
www.fcsic.gov