GreenStone Farm Credit Services, ACA

Quarterly Report
March 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in GreenStone Farm Credit Services, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports or additional copies of our report, contact us at 3515 West Road, East Lansing, MI 48823, (800) 968-0061, or by e-mail to *Travis.Jones@greenstonefcs.com*, or through our website at *www.greenstonefcs.com.* You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at *financialreporting@agribank.com*. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at *www.agribank.com*.

FORWARD-LOOKING INFORMATION

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

AGRICULTURAL AND ECONOMIC CONDITIONS

According to United States Department of Agriculture (USDA), national net farm income is forecast at $73.6 billion in 2015, down 32% from last year's level of $108.0 billion. The 2015 forecast would be the lowest since 2009. The forecast for lower net farm income is primarily a result of the outlook for lower crop and livestock receipts, down a combined 6.3%. The fall in cash receipts comes despite record corn and soybean harvests in 2014, as commodity prices plunged in the last half of 2014 and are expected to remain at substantially lower levels compared to recent years, when prices for many major program crops experienced record or near-record highs. Government payments to farmers are projected to increase15% to $12.4 billion in 2015 from $10.8 billion in 2014, which partially offsets the $25.8 billion decline in crop and livestock receipts. The 2014 farm bill eliminated direct payments of nearly $5 billion per year and replaced them with a new suite of price and revenue support programs. In particular, the Price Loss Coverage (PLC) program replaced the previous Counter-Cyclical Price (CCP) program, but with a set of reference prices based on substantially higher support levels for most program crops.

Despite the outlook for lower farm income in 2015, farm wealth is projected to remain at record levels. Farm asset values which reflect farm investors' and lenders' expectations about long term profitability of farm sector investments are projected to increase 0.4% in 2015 to $3.0 trillion, reflecting a leveling off of the previous year's strong outlook for the general farm economy. The outlook for lower commodity prices in 2015 has slowed the previously rapid growth of farmland values. At the farm-household level, average farm household incomes have surged ahead of average U.S. household incomes since the late 1990s. In 2013 (the last year for which comparable data is available), the average farm household income of $118,373 was about 63% higher than the average U.S. household income of $72,641.

U.S. Gross Domestic Product (GDP) increased 2.2% in the fourth quarter of 2014 compared to an increase of 5.0% in the third quarter of 2014 according to the Bureau of Economic Analysis. The deceleration in real GDP growth in the fourth quarter primarily reflected an upturn in imports, a downturn in federal government spending, a deceleration in nonresidential fixed investment, and a larger decrease in private inventory investment that were partly offset by accelerations in consumer spending and local government spending. According to the Commerce Department, building permits in February were at a seasonally adjusted annual rate of 1,092,000. This is 7.7% above the February 2014 estimate of 1,014,000. Local housing markets continue to demonstrate positive momentum in both Michigan and Wisconsin. Single family building permits as measured by the National Association of Home Builders were up 8% year over year in Michigan compared to a gain of 34% in Wisconsin. The economies of both Michigan and Wisconsin reported year over year job growth in February as Michigan added 82,800 jobs and Wisconsin added 95,000 jobs compared to February 2014.

Broad-based commodity price declines occurred in the second half of 2014. Crude oil prices declined the most, down 55% to $47/barrel (bbl) in early January, from a high of $115/bbl in late-June 2014, bringing an end to a four-year period of high and stable prices. Agricultural prices weakened as well in the fourth quarter, down by 6% from the previous quarter. Ample supplies, disappointing global growth prospects, and an appreciating U.S. dollar have all weighed on commodity prices. World supplies for key grains and oilseeds have improved significantly due to large harvests in 2014. As a result, prices received by farmers for these crops are expected to be considerably lower than previous years. Agricultural commodity markets enter 2015 in a more balanced position than in previous years, which is expected to result in less volatility. Weaker demand growth over the past year is likely to subside as lower prices provide a tailwind for domestic consumption. Exports will likely come under pressure in 2015 as a stronger dollar and softening global growth figure to be considerable headwinds for U.S. goods in global markets. The U.S. dollar has experienced an impressive rally in recent months. On a trade-weighted basis, the dollar has risen about 15% from July 2014 to March 2015.

The USDA forecasts milk production for 2015 at 211 billion pounds, 2.5% higher than the 2014 level of 206 billion pounds. The forecasted range for the Class III milk price, which is indicative of the market for milk used in cheese products, is $15.95-$16.55 per hundredweight (cwt). The Class IV milk price, which is indicative of the market for milk used to make butter and other dry products, is forecast to range from $15.30-$16.00 per cwt. The all-milk price for 2015 is forecast at $17.05-$17.65 per cwt. This forecast is down modestly from the previous seven year average of $18.58/cwt and down significantly from the 2014 average of $23.98/cwt. Feed price forecasts remain conducive to expansion of the milk supply, with the current USDA corn price forecast for 2014/15 at $3.50-$3.90 per bushel and the soybean meal price forecast at $350-$390 per short ton. With January's deceleration in the growth rate of milk per cow and the lingering effects of the drought in California and other western areas, the 2015 milk per cow forecast has been reduced to 22,640 pounds per year.

The early 2015/16 USDA outlook for grains and oilseeds reflects lower prospects for prices and producer returns with large domestic and world supplies of wheat, corn, and soybeans. With lower returns, plantings of wheat, corn, and soybeans are all projected to decline. However, the reduction for soybeans is limited as producers look for lower cost cropping alternatives, particularly to corn. Wheat production is projected to rise slightly on increased yields and lower abandonment. Wheat production is expected to increase 5% to 2.1 billion bushels despite lower planted area. The 2015/16 season-average farm price is projected at $5.10 per bushel. Corn plantings are projected to decline for a third straight year with further reductions in the outlook for prices and producer returns. Corn production in 2015 is projected down 4% from the record 2014 crop, but at 13.6 billion bushels, production would still be the third highest ever. The season-average farm price for corn is projected at $3.50 per bushel. Soybean planted area is projected to decline slightly from last year's record on lower expected prices and producer returns. Soybean production for 2015 is projected at 3.8 billion bushels, 4% below last year mainly due to lower yields. With increased soybean supplies, higher ending stocks, and lower corn prices, the season average farm price for soybeans is projected at $9.00 per bushel. Revenue for wheat, corn, and soybeans is expected to fall under the cost of production for most producers in 2015/16 as reductions in variable costs are more than offset by weaker prices under continued pressure from large global supplies following the past two years of record world production.

LOAN PORTFOLIO

Loan Portfolio

Owned loan volume totaled $6.6 billion at March 31, 2015, a $128.6 million decrease from December 31, 2014.

Total owned and managed loan volume, including serviced volume on the real estate loans sold to AgriBank was $6.9 billion at March 31, 2015, a $141.7 million decrease from December 31, 2014. Our combined mortgage portfolio decreased $22.8 million, or 0.4% from December 31, 2014 due to a decline in our mortgage loan volume in our traditional market segment. Our short-term commercial loan portfolio decreased $118.9 million, or 6.1% from December 31, 2014. This expected reduction is primarily attributed to the seasonal repayment of tax planning disbursements from November and December 2014, as well as the significant number of annual payments being due in the first quarter. When compared to March 2014, owned and managed mortgage volume is up 7.6% and commercial loan volume is up 7.2%. Both of these reflect an asset growth rate year over year that supports our 2015 Business Plan.

Portfolio Credit Quality

The credit quality of our loan portfolio remained strong during the first quarter 2015. Acceptable loan credit quality, as measured under the Uniform Classification System, decreased slightly to 97.4% after beginning the year at 97.5%. Year over year, credit quality improved 1.2 percentage points from 96.2% acceptable at March 31, 2014. The level of loan quality is currently above the strategic objective of 90.0% of the portfolio rated acceptable. Portfolio assets criticized as being less than acceptable are comprised of 1.0% other assets especially mentioned (OAEM) and 1.6% adversely classified. Both categories remained relatively unchanged from December 31, 2014.

Adversely classified loans are identified as having material credit weaknesses which, if left uncorrected, result in a greater than normal risk. Portfolio credit quality is considered when assessing the reasonableness of our allowance for loan losses. The credit quality of our core market of traditional production farm loans remains very sound. Weaker borrowers in our greenhouse and nursery, part-time farmers, and rural home portfolios continued to be challenged financially during the first quarter 2015.

The resulting level of credit quality, when combined with our earnings and addition to capital surplus, results in an adverse asset to risk funds ratio of 8.9%. This ratio has improved since December 31, 2014 when it was 9.4%. This ratio is a good measure of our risk-bearing ability.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At March 31, 2015, $265.0 million of our loans were, to some level, guaranteed under these programs.

Risk Assets

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

As of:	**March 31 2015**	December 31 2014
Loans:		
Nonaccrual	**$50,695**	$47,553
Accruing restructured	**3,177**	3,173
Accruing loans 90 days or more past due	**230**	--
Total risk loans	**54,102**	50,726
Acquired property	**2,152**	1,904
Total risk assets	**$56,254**	$52,630
Risk loans as a percentage of total loans	**0.8%**	0.7%
Nonaccrual loans as a percentage of total loans	**0.8%**	0.7%
Total delinquencies as a percentage of total loans	**0.6%**	0.3%

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

Nonaccrual loans increased from $47.6 million at December 31, 2014 to $50.7 million at March 31, 2015. This $3.1 million increase in nonaccrual volume was partially attributable to a general crop operation totaling $2.8 million that was downgraded to nonaccrual status during the first quarter. As of March 31, 2015, approximately 44% of the nonaccrual loan portfolio was comprised of greenhouse and nursery loans, 19% part-time farmers, and 14% general crop and livestock farms. Nonaccrual loans remained at an acceptable level at March 31, 2015 and 70.2% of our nonaccrual loans were current.

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

Acquired property inventory increased slightly from $1.9 million as of December 31, 2014 to $2.2 million as of March 31, 2015. The increase was primarily due to the addition of six new properties during the first quarter.

Allowance for Loan Losses

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

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

As of:	**March 31 2015**	December 31 2014
Allowance as a percentage of:		
Loans	**0.5%**	0.5%
Nonaccrual loans	**61.0%**	71.7%
Total risk loans	**57.2%**	67.2%

The allowance for loan losses decreased $3.2 million from December 31, 2014 to March 31, 2015. During the first quarter of 2015, a reversal of loan loss provision of $3.0 million was recorded, as well as $149 thousand of net charge-offs. The decrease in the allowance for loan losses is primarily due to a large commercial relationship payoff and the decrease in our loan volume.

Under certain circumstances, credit losses may be recorded to establish a reserve on unfunded loan commitments. The “Reversal of provision for credit losses” in the Consolidated Statements of Income includes a reversal of provision for loan losses of $3.0 million as well as a reversal of provision for credit losses on unfunded loan commitments of $359 thousand. The accrued credit losses are recorded in “other liabilities” in the Consolidated Statements of Condition. The accrued credit losses related to unfunded loan commitments were $1.7 million and $2.1 million as of March 31, 2015 and December 31, 2014, respectively.

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at March 31, 2015.

RESULTS OF OPERATIONS

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

For the three months ended March 31	**2015**	2014
Net income	**$36,750**	$38,177
Return on average assets	**2.2%**	2.4%
Return on average members' equity	**11.5%**	13.0%

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

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

For the three months ended March 31	**2015**	2014	**Increase (decrease) in net income**
Net interest income	**$44,658**	$43,345	**$1,313**
Reversal of provision for credit losses	**3,387**	3,826	**(439)**
Patronage income	**5,715**	6,756	**(1,041)**
Financially related services income	**2,689**	2,565	**124**
Fee income	**2,952**	2,436	**516**
Acquired property income, net	**84**	199	**(115)**
Miscellaneous income, net	**359**	332	**27**
Operating expenses	**(21,156)**	(19,126)	**(2,030)**
Provision for income taxes	**(1,938)**	(2,156)	**218**
Net income	**$36,750**	$38,177	**($1,427)**

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

	2015 vs 2014
Changes in volume	**$3,782**
Changes in interest rates	**(2,264)**
Changes in nonaccrual income and other	**(205)**
Net change	**$1,313**

The change in patronage income was primarily related to a decreased patronage rate applied to loans in the AgriBank Asset Pool Program and to the average balance on our note payable compared to the prior year.

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

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on January 31, 2015 and was renewed for $7.0 billion with a maturity date of January 31, 2016. The note payable will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk. Due to the cooperative structure of the Farm Credit System and as the Association is a stockholder of AgriBank, we expect this borrowing relationship to continue into the foreseeable future.

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

Total members' equity increased $29.3 million from December 31, 2014 primarily due to net income for the period partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0%, and a core surplus ratio of at least 3.5%. Refer to Note 8 in our 2014 Annual Report for a more complete description of these ratios. As of March 31, 2015, the ratios were as follows:

- The permanent capital ratio was 16.1%.
- The total surplus ratio was 15.8%.
- The core surplus ratio was 15.8%.

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

CERTIFICATION

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

Scott A. Roggenbuck
Chairperson of the Board
GreenStone Farm Credit Services, ACA

David B. Armstrong
Chief Executive Officer
GreenStone Farm Credit Services, ACA

Travis D. Jones
Chief Financial Officer
GreenStone Farm Credit Services, ACA

May 4, 2015

CONSOLIDATED STATEMENTS OF CONDITION

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

As of:	**March 31 2015**	December 31 2014
ASSETS		
Loans	**$6,593,175**	$6,721,782
Allowance for loan losses	**30,929**	34,106
Net loans	**6,562,246**	6,687,676
Investment in AgriBank, FCB	**106,069**	103,368
Investment securities	**24,359**	25,661
Accrued interest receivable	**42,577**	47,645
Premises and equipment, net	**35,036**	34,526
Acquired property	**2,152**	1,904
Deferred tax assets, net	**4,636**	5,170
Other assets	**33,972**	40,386
Total assets	**$6,811,047**	$6,946,336
LIABILITIES		
Note payable to AgriBank, FCB	**$5,449,966**	$5,582,495
Accrued interest payable	**21,693**	21,324
Patronage distribution payable	**7,525**	36,200
Other liabilities	**39,621**	43,343
Total liabilities	**5,518,805**	5,683,362
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Protected members' equity	**2**	2
Capital stock and participation certificates	**21,148**	21,105
Unallocated surplus	**1,271,092**	1,241,867
Total members' equity	**1,292,242**	1,262,974
Total liabilities and members' equity	**$6,811,047**	$6,946,336

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

CONSOLIDATED STATEMENTS OF INCOME

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

For the three months ended March 31	**2015**	2014
Interest income	**$67,098**	$63,784
Interest expense	**22,440**	20,439
Net interest income	**44,658**	43,345
Reversal of provision for credit losses	**(3,387)**	(3,826)
Net interest income after reversal of provision for credit losses	**48,045**	47,171
Non-interest income		
Patronage income	**5,715**	6,756
Financially related services income	**2,689**	2,565
Fee income	**2,952**	2,436
Acquired property income, net	**84**	199
Miscellaneous income, net	**359**	332
Total non-interest income	**11,799**	12,288
Operating expenses		
Salaries and employee benefits	**14,011**	12,631
Other operating expenses	**7,145**	6,495
Total operating expenses	**21,156**	19,126
Income before income taxes	**38,688**	40,333
Provision for income taxes	**1,938**	2,156
Net income	**$36,750**	$38,177

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2013	$3	$20,614	$1,135,295	$1,155,912
Net income	--	--	38,177	38,177
Unallocated surplus designated for patronage distributions	--	--	(6,937)	(6,937)
Capital stock and participation certificates issued	--	331	--	331
Capital stock and participation certificates retired	--	(364)	--	(364)
Balance at March 31, 2014	$3	$20,581	$1,166,535	$1,187,119
Balance at December 31, 2014	$2	$21,105	$1,241,867	$1,262,974
Net income	**--**	**--**	**36,750**	**36,750**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(7,525)**	**(7,525)**
Capital stock and participation certificates issued	**--**	**421**	**--**	**421**
Capital stock and participation certificates retired	**--**	**(378)**	**--**	**(378)**
Balance at March 31, 2015	**$2**	**$21,148**	**$1,271,092**	**$1,292,242**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Recently Issued or Adopted Accounting Pronouncements

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

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

As of:	**March 31, 2015**		December 31, 2014	
	Amount	**Percentage**	Amount	Percentage
Real estate mortgage	**$4,021,240**	**61.0%**	$3,985,716	59.3%
Production and intermediate term	**1,802,202**	**27.3**	2,001,441	29.8
Agribusiness	**486,493**	**7.4**	454,574	6.8
Other	**283,240**	**4.3**	280,051	4.1
Total	**$6,593,175**	**100.0%**	$6,721,782	100.0%

The other category is primarily comprised of rural residential real estate, communication, and energy related loans as well as loans originated under our mission related investment authority.

Delinquency

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

As of March 31, 2015	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	**$9,379**	**$6,928**	**$16,307**	**$4,030,065**	**$4,046,372**	**$ --**
Production and intermediate term	**17,243**	**3,110**	**20,353**	**1,797,410**	**1,817,763**	**230**
Agribusiness	**75**	**--**	**75**	**487,440**	**487,515**	**--**
Other	**1,189**	**1,180**	**2,369**	**281,386**	**283,755**	**--**
Total	**$27,886**	**$11,218**	**$39,104**	**$6,596,301**	**$6,635,405**	**$230**

As of December 31, 2014	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less than 30 Days Past Due	Total	90 Days or More Past Due and Accruing
Real estate mortgage	$9,501	$4,089	$13,590	$3,999,010	$4,012,600	$ --
Production and intermediate term	3,823	2,502	6,325	2,013,730	2,020,055	--
Agribusiness	--	--	--	455,861	455,861	--
Other	2,649	1,042	3,691	276,872	280,563	--
Total	$15,973	$7,633	$23,606	$6,745,473	$6,769,079	$ --

Risk Loans

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

As of:	**March 31 2015**	December 31 2014
Volume with specific reserves	**$34,231**	$33,272
Volume without specific reserves	**19,871**	17,454
Total risk loans	**$54,102**	$50,726
Total specific reserves	**$15,669**	$15,895

For the three months ended March 31	**2015**	2014
Income on accrual risk loans	**$47**	$25
Income on nonaccrual loans	**327**	1,006
Total income on risk loans	**$374**	$1,031
Average risk loans	**$52,631**	$60,944

We had two relationships to lend additional money to borrowers whose loans were at risk at March 31, 2015. The balance of the unfunded loan commitments were $1.7 million and $2.1 million as of March 31, 2015 and December 31, 2014, respectively.

Troubled Debt Restructurings (TDRs)

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

The following table presents information regarding TDRs that occurred during the three months ended March 31 (in thousands):

	2015		2014	
	Pre-modification	**Post-modification**	Pre-modification	Post-modification
Real estate mortgage	**$ --**	**$ --**	$292	$292
Production and intermediate term	**15**	**15**	--	--
Total	**$15**	**$15**	$292	$292

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

The primary type of modification during the first quarter of 2015 was extension of maturity.

The following table presents TDRs that defaulted during the three months ended March 31 in which the modification date was within twelve months of the respective reporting period (in thousands):

	2015	2014
Production and intermediate term	**$22**	$ --
Other	**99**	--
Total	**$121**	$ --

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

As of:	**March 31 2015**	December 31 2014
Accrual status:		
Real estate mortgage	**$2,416**	$2,412
Production and intermediate term	**594**	594
Other	**167**	167
Total TDRs in accrual status	**$3,177**	$3,173
Nonaccrual status:		
Real estate mortgage	**$1,308**	$1,366
Production and intermediate term	**323**	346
Other	**249**	254
Total TDRs in nonaccrual status	**$1,880**	$1,966
Total TDRs	**$5,057**	$5,139

We did not have any material commitments to lend to borrowers whose loans have been modified in a TDR at March 31, 2015.

Allowance for Loan Losses

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

Three months ended March 31	**2015**	2014
Balance at beginning of year	**$34,106**	$38,772
Reversal of loan loss provision	**(3,028)**	(2,520)
Loan recoveries	**177**	87
Loan charge-offs	**(326)**	(445)
Balance at end of period	**$30,929**	$35,894

The allowance for loan losses decreased $3.2 million from December 31, 2014 to March 31, 2015. During the first quarter of 2015, a reversal of loan loss provision of $3.0 million was recorded, as well as $149 thousand of net charge-offs. The decrease in the allowance for loan losses is primarily due to a large commercial relationship payoff and the decrease in our loan volume.

Under certain circumstances, credit losses may be recorded to establish a reserve on unfunded loan commitments. The "Reversal of provision for credit losses" in the Consolidated Statements of Income includes a reversal of provision for loan losses of $3.0 million as well as a reversal of provision for credit losses on unfunded loan commitments of $359 thousand. The accrued credit losses are recorded in "other liabilities" in the Consolidated Statements of Condition. The accrued credit losses related to unfunded loan commitments were $1.7 million and $2.1 million as of March 31, 2015 and December 31, 2014, respectively.

NOTE 3: INVESTMENT SECURITIES

We held investment securities of $24.4 million at March 31, 2015 and $25.7 million at December 31, 2014. Our investment securities consisted of securities containing loans fully guaranteed by the Small Business Administration. These investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

The following table presents further information on investment securities (dollars in thousands):

As of:	**March 31 2015**	December 31 2014
Amortized cost	**$24,359**	$25,661
Unrealized gains	**1,010**	933
Fair value	**$25,369**	$26,594
Weighted average yield	**0.7%**	0.7%

Investment income is recorded in "Interest income" in the Consolidated Statements of Income and totaled $41 thousand and $67 thousand for the three months ended March 31, 2015 and 2014, respectively.

NOTE 4: CONTINGENCIES AND COMMITMENTS

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

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

NOTE 5: FAIR VALUE MEASUREMENTS

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

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

Non-Recurring Basis

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

	As of March 31, 2015				**Three months ended March 31, 2015**
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	**$ --**	**$11,139**	**$8,352**	**$19,491**	**($100)**
Acquired property	**--**	**2,967**	**--**	**2,967**	**45**
	As of December 31, 2014				Three months ended March 31, 2014
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Impaired loans	$ --	$10,157	$8,089	$18,246	($2,140)
Acquired property	--	2,719	--	2,719	195

Valuation Techniques

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

Acquired property: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through May 4, 2015, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.