Carolina Farm Credit, ACA

SECOND QUARTER 2014

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2014 quarterly report of Carolina Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Vance C Dalton Jr
Vance C. Dalton, Jr.
Chief Executive Officer

Christopher H. Scott
Christopher H. Scott
Chief Financial Officer

Mark A. Bray
Mark A. Bray
Chairman of the Board

August 7, 2014

Carolina Farm Credit, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2014. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of June 30, 2014, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2014.

Vance C Dalton Jr

Vance C. Dalton, Jr.
Chief Executive Officer

Christopher H. Scott

Christopher H. Scott
Chief Financial Officer

August 7, 2014

Carolina Farm Credit, ACA

Management's Discussion and Analysis of Financial Condition and Results of Operations

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Carolina Farm Credit, ACA (Association) for the period ended June 30, 2014. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2013 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including part-time farm, poultry, and rural home loans. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the dependency on a single agricultural commodity.

The gross loan volume of the Association as of June 30, 2014, was $1,373,633, an increase of $11,798 as compared to $1,361,835 at December 31, 2013. Net loans outstanding at June 30, 2014, were $1,367,815 as compared to $1,356,275 at December 31, 2013. Net loans accounted for 94.42% percent of total assets at June 30, 2014, as compared to 92.13 percent of total assets at December 31, 2013. The increase in loan volume during the reporting period is a result of new loan volume outpacing principal payments and payoffs.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory.

Nonaccrual loans decreased from $29,005 at December 31, 2013, to $19,089 at June 30, 2014. This decrease is primarily the result of transfers of loan volume to nonaccrual being less than regular payments made on nonaccrual loans, along with nonaccrual loans liquidated or reinstated back to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2014, was $5,818 compared to $5,560 at December 31, 2013, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2014

Net income for the three months ended June 30, 2014, totaled $6,394, as compared to $6,267 for the same period in 2013, which is an increase of $127. Net interest income increased $1,943 for the three months ended June 30, 2014, as compared to the same period in 2013.

At June 30, 2014, total interest income increased $2,750 compared to June 30, 2013. Nonaccrual income was $251 for the three months ended June 30, 2014, as compared to $297 for the same period in 2013. Interest expense increased $807 for the three months ended June 30, 2014, as compared to the comparable period of 2013.

The Association recorded a provision/(reversal) for loan losses of $393 for the three months ended June 30, 2014 as compared to a provision/(reversal) of $823 for the same period of 2013.

Noninterest income for the three months ended June 30, 2014, totaled $3,406 as compared to $6,211 for the same period of 2013, a decrease of $2,805. The decline in noninterest income is attributed to decreases of $37 in loan fees, $2,566 in patronage refunds from other Farm Credit institutions, $95 in gains/(losses) on the sale of rural home loans, and $204 in other noninterest income, when compared to the same period in 2013. These decreases were offset by increases of $14 in fees for financially-related services, $12 in gains/(losses) on sales of premises and equipment, and $71 in gains/(losses) on other transactions, when compared for the same period of 2013.

The significant increase in net interest income and decrease in estimated patronage refunds is caused by the Association's repurchase of nearly $200 million in loan volume during December 2013, previously sold to AgFirst Farm Credit Bank (AgFirst).

Noninterest expense for the three months ended June 30, 2014, decreased $559 compared to the same period of 2013.

This drop in noninterest expense is attributed to decreases of $72 in occupancy and equipment, $708 in gains/(losses) on other property owned, and $117 in other operating expenses, when compared to the same period in 2013. These decreases were offset by increases of $254 in salaries and employee benefits, and $84 in Insurance Fund premiums, when compared for the same period of 2013.

The Association recorded a provision for income taxes of $1 for the three months ended June 30, 2014 as compared a provision of $1 for the same period of 2013.

For the six months ended June 30, 2014

Net income for the six months ended June 30, 2014, totaled $12,941, as compared to $12,127 for the same period in 2013. This increase of $814, or 6.71 percent, is primarily attributed to significant increase in net interest income, partially offset by a decrease in noninterest income.

At June 30, 2014, total interest income increased $5,244 compared to June 30, 2013. Nonaccrual income was $588 for the six months ended June 30, 2014, as compared to $433 for the same period in 2013. Interest expense increased $1,002 for the six months ended June 30, 2014, as compared to the same period in 2013.

The Association recorded a provision for loan losses of $724 for the six months ended June 30, 2014 as compared to a provision of $1,002 for the same period of 2013. The decrease in provision for loan losses reflects a decreased need to adjust nonaccrual loans down to fair value during the current reporting period.

Noninterest income for the six months ended June 30, 2014, totaled $6,684, as compared to $10,848 for the same period of 2013, a decrease of $4,164. The overall decrease is attributed to a decrease of $269 in loan fees, $3,746 in patronage refunds from other Farm Credit institutions, $476 in gains/(losses) on the sale of rural home loans, and $49 in other non-interest income, when compared to the same period in 2013. These decreases were offset by increases of $15 in fees for financially-related services, $53 in gains/(losses) on sales of premises and equipment, and $308 in gains/(losses) on other transactions, when compared for the same period of 2013.

Noninterest expense for the six months ended June 30, 2014, decreased $457 compared to the same period of 2013. This drop in noninterest expense is attributed to decreases of $124 in occupancy and equipment, and $717 in gains/(losses) on other property owned, when compared to the same period in 2013. These decreases were offset by increases of $50 in salaries and employee benefits, $168 in Insurance Fund premiums, and $166 in other operating expenses when compared for the same period of 2013.

The Association recorded a provision for income taxes of $1 for the six months ended June 30, 2014 as compared to a provision of $2 for the same period of 2013.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable is segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2014, was $1,129,594 as compared to $1,158,043 at December 31, 2013. The decrease during the period is primarily attributable to the declines in other investment volume, and the payment of AgFirst patronage to the Association in January.

The Association has no lines of credit outstanding with third parties as of June 30, 2014.

CAPITAL RESOURCES

Total members' equity at June 30, 2014, increased to $293,256 from the December 31, 2013, total of $280,065. The change in capital is primarily attributable to net earnings for the year.

Farm Credit administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2014, the Association's total surplus ratio and core surplus ratio were 19.78 percent and 17.11 percent, respectively, and the permanent capital ratio was 20.37 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

On March 31, 2014, the FCA published an interim final rule rescinding all requirements for nonbinding advisory votes on senior officer compensation at System Banks and Associations. The comment period for the interim rule ended on April 30, 2014 and the final rule became effective on June 18, 2014.

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

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

Once the proposed rule is published in the Federal Register, the 120-day public comment period will commence.

On June 12, 2014, the FCA approved a proposed rule to revise the requirements governing the eligibility of investments for System Banks and Associations. The stated objectives of the proposed rule are as follows:

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

The public comment period ends on October 23, 2014.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *"Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements",* in the Notes to the Financial Statements, and the 2013 Annual Report to Shareholders for recently issued accounting pronouncements.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-521-9952, or writing Michael R. Morton, CEO, Carolina Farm Credit, ACA, P.O. Box 1827, Statesville NC 28687-1827, or accessing the website, www.carolinafarmcredit.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Carolina Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2014 *(unaudited)*	December 31, 2013 *(audited)*
Assets		
Cash	$ 3,013	$ 2,348
Investment securities:		
Held to maturity (fair value of $3,332 and $3,406, respectively)	3,270	3,502
Loans	1,373,633	1,361,835
Allowance for loan losses	(5,818)	(5,560)
Net loans	1,367,815	1,356,275
Loans held for sale	5,123	3,136
Other investments	—	12,115
Accrued interest receivable	16,368	13,512
Investments in other Farm Credit institutions	14,231	14,234
Premises and equipment, net	16,946	16,260
Other property owned	2,146	3,581
Accounts receivable	5,296	32,086
Other assets	14,412	15,123
Total assets	$ 1,448,620	$ 1,472,172
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,129,594	$ 1,158,043
Accrued interest payable	2,191	2,348
Patronage refunds payable	839	6,699
Accounts payable	1,703	3,838
Other liabilities	21,037	21,179
Total liabilities	1,155,364	1,192,107
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	7,988	7,927
Retained earnings		
Allocated	167,534	167,311
Unallocated	118,074	105,259
Accumulated other comprehensive income (loss)	(340)	(432)
Total members' equity	293,256	280,065
Total liabilities and members' equity	$ 1,448,620	$ 1,472,172

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

Carolina Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2014	2013	For the six months ended June 30, 2014	2013
Interest Income				
Loans	$ 18,593	$ 15,782	$ 36,928	$ 31,409
Investments	45	106	113	388
Total interest income	18,638	15,888	37,041	31,797
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,512	5,689	12,758	11,742
Other	—	16	2	16
Total interest expense	6,512	5,705	12,760	11,758
Net interest income	12,126	10,183	24,281	20,039
Provision for loan losses	393	823	724	1,002
Net interest income after provision for loan losses	11,733	9,360	23,557	19,037
Noninterest Income				
Loan fees	481	518	836	1,105
Fees for financially related services	58	44	106	91
Patronage refunds from other Farm Credit institutions	2,268	4,834	4,502	8,248
Gains (losses) on sales of rural home loans, net	387	482	589	1,065
Gains (losses) on sales of premises and equipment, net	104	92	175	122
Gains (losses) on other transactions	98	27	278	(30)
Other noninterest income	10	214	198	247
Total noninterest income	3,406	6,211	6,684	10,848
Noninterest Expense				
Salaries and employee benefits	5,497	5,243	11,350	11,300
Occupancy and equipment	545	617	1,064	1,188
Insurance Fund premiums	318	234	630	462
(Gains) losses on other property owned, net	822	1,530	875	1,592
Other operating expenses	1,562	1,679	3,380	3,214
Total noninterest expense	8,744	9,303	17,299	17,756
Income before income taxes	6,395	6,268	12,942	12,129
Provision for income taxes	1	1	1	2
Net income	$ 6,394	$ 6,267	$ 12,941	$ 12,127

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

Carolina Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Net income	$ 6,394	$ 6,267	$ 12,941	$ 12,127
Other comprehensive income net of tax				
Employee benefit plans adjustments	46	121	92	241
Comprehensive income	$ 6,440	$ 6,388	$ 13,033	$ 12,368

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

Carolina Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2012	$ 48	$ 7,860	$ 148,080	$ 101,265	$ (1,075)	$ 256,178
Comprehensive income				12,127	241	12,368
Protected borrower stock issued/(retired), net	(13)					(13)
Capital stock/participation certificates issued/(retired), net		42				42
Patronage distribution adjustment			(564)	541		(23)
Balance at June 30, 2013	$ 35	$ 7,902	$ 147,516	$ 113,933	$ (834)	$ 268,552
Balance at December 31, 2013	$ —	$ 7,927	$ 167,311	$ 105,259	$ (432)	$ 280,065
Comprehensive income				12,941	92	13,033
Capital stock/participation certificates issued/(retired), net		61				61
Patronage distribution adjustment			223	(126)		97
Balance at June 30, 2014	$ —	$ 7,988	$ 167,534	$ 118,074	$ (340)	$ 293,256

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

Carolina Farm Credit, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)
(unaudited)

Note 1 — Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements

Organization

The accompanying financial statements include the accounts of Carolina Farm Credit, ACA (the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2013, are contained in the 2013 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of the results to be expected for a full year.

Significant Accounting Policies

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified.

Recently Issued Accounting Pronouncements

In May 2014 the Financial Accounting Standards Board (FASB), responsible for U.S. Generally Accepted Accounting Principles (U.S. GAAP), and the International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS), jointly issued converged standards on the recognition of revenue from contracts with customers. Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" and IFRS 15 "Revenue from Contracts with Customers" are intended to improve the financial reporting of revenue and comparability of the top line in financial statements globally and supersede substantially all previous revenue recognition guidance. The core principle of the new standards is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Because of the pervasive nature of the new guidance, the boards have established a joint transition resource group in order to aid transition to the new standard. For public entities reporting under U.S. GAAP, the amendments in the Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For nonpublic entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to adopt this guidance earlier under certain circumstances. The amendments are to be applied retrospectively. Because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

In March 2014 the FASB issued ASU 2014-06, "Technical Corrections and Improvements Related to Glossary Terms (Master Glossary)." The amendments in this Update relate to glossary terms, cover a wide range of Topics in the Codification and are presented in four sections: Deletion of Master Glossary Terms, Addition of Master Glossary Term Links, Duplicate Master Glossary Terms, and Other Technical Corrections Related to Glossary Terms. These amendments did not have transition guidance and were effective upon issuance for both public entities and nonpublic entities.

In January 2014 the FASB issued ASU 2014-04, "Receivables—Troubled Debt Restructurings by Creditors

(Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of the amendments in this Update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted.

Other recently issued accounting pronouncements are discussed in the 2013 Annual Report to Shareholders.

Note 2 — Loans and Allowance for Loan Losses

For a complete description of the Association's accounting for loans (including impaired loans and the allowance for loan losses) and definitions of loan types, see the 2013 Annual Report to Shareholders.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	June 30, 2014	December 31, 2013
Real estate mortgage	$ 680,793	$ 659,116
Production and intermediate-term	593,052	607,613
Loans to cooperatives	1,208	433
Processing and marketing	26,363	18,914
Farm-related business	4,509	6,076
Communication	9,099	9,384
Energy and water/waste disposal	2,218	2,419
Rural residential real estate	56,391	57,880
Total Loans	$ 1,373,633	$ 1,361,835

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present participation loan balances at periods ended:

	June 30, 2014							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 5,129	$ 9,527	$ –	$ 839	$ –	$ –	$ 5,129	$ 10,366
Production and intermediate-term	17,463	76,028	4,510	–	–	–	21,973	76,028
Loans to cooperatives	1,183	–	12	–	–	–	1,195	–
Processing and marketing	25,668	–	–	–	–	–	25,668	–
Farm-related business	441	–	137	–	–	–	578	–
Communication	9,127	–	–	–	–	–	9,127	–
Energy and water/waste disposal	2,241	–	–	–	–	–	2,241	–
Total	$ 61,252	$ 85,555	$ 4,659	$ 839	$ –	$ –	$ 65,911	$ 86,394

	December 31, 2013							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 4,603	$ 10,494	–	940	$ 433	$ –	$ 5,036	$ 11,434
Production and intermediate-term	19,111	119,991	4,130	–	–	–	23,241	119,991
Loans to cooperatives	404	–	–	–	–	–	404	–
Processing and marketing	17,868	–	–	–	–	–	17,868	–
Farm-related business	2,326	–	141	–	–	–	2,467	–
Communication	9,416	–	–	–	–	–	9,416	–
Energy and water/waste disposal	2,449	–	–	–	–	–	2,449	–
Total	$ 56,177	$ 130,485	4,271	940	$ 433	$ –	$ 60,881	$ 131,425

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

	June 30, 2014			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 57,314	$ 135,180	$ 488,299	$ 680,793
Production and intermediate-term	165,300	213,106	214,646	593,052
Loans to cooperatives	467	729	12	1,208
Processing and marketing	1,218	14,938	10,207	26,363
Farm-related business	1,023	1,089	2,397	4,509
Communication	–	6,185	2,914	9,099
Energy and water/waste disposal	–	595	1,623	2,218
Rural residential real estate	6,089	10,888	39,414	56,391
Total Loans	$ 231,411	$ 382,710	$ 759,512	$ 1,373,633
Percentage	16.85%	27.86%	55.29%	100.00%

The following table shows loans and related accrued interest, classified under the FCA Uniform Loan Classification System, as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2014	December 31, 2013
Real estate mortgage:		
Acceptable	90.93%	89.38%
OAEM	4.30	6.24
Substandard/doubtful/loss	4.77	4.38
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	85.59%	87.89%
OAEM	8.42	8.86
Substandard/doubtful/loss	5.99	3.25
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	96.19%
OAEM	–	3.81
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	99.39%	99.41%
OAEM	–	0.09
Substandard/doubtful/loss	0.61	0.50
	100.00%	100.00%

	June 30, 2014	December 31, 2013
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	94.55%	95.40%
OAEM	2.28	1.96
Substandard/doubtful/loss	3.17	2.64
	100.00%	100.00%
Total Loans:		
Acceptable	89.06%	89.25%
OAEM	5.86	7.06
Substandard/doubtful/loss	5.08	3.69
	100.00%	100.00%

The following tables provide an age analysis of past due loans and related accrued interest as of:

	June 30, 2014					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 2,183	$ 2,853	$ 5,036	$ 684,988	$ 690,024	$ –
Production and intermediate-term	1,120	4,858	5,978	593,785	599,763	–
Loans to cooperatives	–	–	–	1,211	1,211	–
Processing and marketing	–	–	–	26,451	26,451	–
Farm-related business	–	–	–	4,525	4,525	–
Communication	–	–	–	9,102	9,102	–
Energy and water/waste disposal	–	–	–	2,218	2,218	–
Rural residential real estate	550	485	1,035	55,643	56,678	–
Total	$ 3,853	$ 8,196	$ 12,049	$ 1,377,923	$ 1,389,972	$ –

	December 31, 2013					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 3,322	$ 9,121	$ 12,443	$ 653,609	$ 666,052	$ –
Production and intermediate-term	1,711	11,634	13,345	600,571	613,916	–
Loans to cooperatives	17	–	17	416	433	–
Processing and marketing	–	–	–	18,926	18,926	–
Farm-related business	–	–	–	6,096	6,096	–
Communication	–	–	–	9,386	9,386	–
Energy and water/waste disposal	–	–	–	2,419	2,419	–
Rural residential real estate	878	259	1,137	56,953	58,090	–
Total	$ 5,928	$ 21,014	$ 26,942	$ 1,348,376	$ 1,375,318	$ –

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

Nonperforming assets (including related accrued interest) and related credit quality statistics at period end were as follows:

	June 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	$ 7,697	$ 13,285
Production and intermediate-term	10,464	14,929
Farm-related business	7	7
Rural residential real estate	921	784
Total nonaccrual loans	$ 19,089	$ 29,005
Accruing restructured loans:		
Real estate mortgage	$ 1,772	$ 1,838
Production and intermediate-term	907	267
Farm-related business	596	620
Rural residential real estate	122	217
Total accruing restructured loans	$ 3,397	$ 2,942
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 22,486	$ 31,947
Other property owned	2,146	3,581
Total nonperforming assets	$ 24,632	$ 35,528
Nonaccrual loans as a percentage of total loans	1.39%	2.13%
Nonperforming assets as a percentage of total loans and other property owned	1.79%	2.60%
Nonperforming assets as a percentage of capital	8.40%	12.69%

The following table presents information related to impaired loans (including accrued interest) at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	June 30, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	$ 10,508	$ 7,113
Past due	8,581	21,892
Total	19,089	29,005
Impaired accrual loans:		
Restructured	3,397	2,942
90 days or more past due	–	–
Total	3,397	2,942
Total impaired loans	$ 22,486	$ 31,947

The following tables present additional impaired information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	June 30, 2014			Quarter Ended June 30, 2014		Six Months Ended June 30, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 1,895	$ 3,231	$ 133	$ 2,091	$ 24	$ 2,341	$ 55
Production and intermediate-term	3,379	3,997	1,031	3,727	42	4,175	97
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	92	90	54	101	1	113	3
Total	$ 5,366	$ 7,318	$ 1,218	$ 5,919	$ 67	$ 6,629	$ 155
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 7,574	$ 8,472	$ –	$ 8,356	$ 95	$ 9,358	$ 218
Production and intermediate-term	7,992	10,596	–	8,817	100	9,872	231
Farm-related business	603	608	–	666	8	745	18
Rural residential real estate	951	1,037	–	1,050	12	1,176	27
Total	$ 17,120	$ 20,713	$ –	$ 18,889	$ 215	$ 21,151	$ 494
Total impaired loans:							
Real estate mortgage	$ 9,469	$ 11,703	$ 133	$ 10,447	$ 119	$ 11,699	$ 273
Production and intermediate-term	11,371	14,593	1,031	12,544	142	14,047	328
Farm-related business	603	608	–	666	8	745	18
Rural residential real estate	1,043	1,127	54	1,151	13	1,289	30
Total	$ 22,486	$ 28,031	$ 1,218	$ 24,808	$ 282	$ 27,780	$ 649

	December 31, 2013			Year Ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 4,415	$ 6,155	$ 137	$ 6,506	$ 236
Production and intermediate-term	5,987	10,479	1,247	8,820	321
Farm-related business	–	–	–	–	–
Rural residential real estate	350	355	24	515	19
Total	$ 10,752	$ 16,989	$ 1,408	$ 15,841	$ 576
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 10,708	$ 12,006	$ –	$ 15,776	$ 575
Production and intermediate-term	9,209	11,419	–	13,570	494
Farm-related business	627	631	–	924	33
Rural residential real estate	651	841	–	960	35
Total	$ 21,195	$ 24,897	$ –	$ 31,230	$ 1,137
Total impaired loans:					
Real estate mortgage	$ 15,123	$ 18,161	$ 137	$ 22,282	$ 811
Production and intermediate-term	15,196	21,898	1,247	22,390	815
Farm-related business	627	631	–	924	33
Rural residential real estate	1,001	1,196	24	1,475	54
Total	$ 31,947	$ 41,886	$ 1,408	$ 47,071	$ 1,713

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at each reporting period.

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at March 31, 2014	$ 2,300	$ 3,659	$ 80	$ 25	$ 10	$ 75	$ 6,149
Charge-offs	(619)	(761)	–	–	–	–	(1,380)
Recoveries	409	240	–	–	–	7	656
Provision for loan losses	(440)	805	(18)	10	(4)	40	393
Balance at June 30, 2014	$ 1,650	$ 3,943	$ 62	$ 35	$ 6	$ 122	$ 5,818
Balance at December 31, 2013	$ 1,396	$ 3,988	$ 55	$ 22	$ 9	$ 90	$ 5,560
Charge-offs	(665)	(860)	–	–	–	(15)	(1,540)
Recoveries	451	609	–	–	–	14	1,074
Provision for loan losses	468	206	7	13	(3)	33	724
Balance at June 30, 2014	$ 1,650	$ 3,943	$ 62	$ 35	$ 6	$ 122	$ 5,818
Balance at March 31, 2013	$ 1,995	$ 4,708	$ 1,975	$ 10	$ 6	$ 122	$ 8,816
Charge-offs	(1,190)	(1,224)	(700)	–	–	(3)	(3,117)
Recoveries	387	101	154	–	–	–	642
Provision for loan losses	104	851	(158)	2	1	23	823
Balance at June 30, 2013	$ 1,296	$ 4,436	$ 1,271	$ 12	$ 7	$ 142	$ 7,164
Balance at December 31, 2012	$ 1,678	$ 4,895	$ 2,006	$ 13	$ 6	$ 159	$ 8,757
Charge-offs	(1,223)	(1,350)	(700)	–	–	(4)	(3,277)
Recoveries	389	136	154	–	–	3	682
Provision for loan losses	452	755	(189)	(1)	1	(16)	1,002
Balance at June 30, 2013	$ 1,296	$ 4,436	$ 1,271	$ 12	$ 7	$ 142	$ 7,164
Loans individually evaluated for impairment	$ 133	$ 1,031	$ –	$ –	$ –	$ 54	$ 1,218
Loans collectively evaluated for impairment	1,517	2,912	62	35	6	68	4,600
Balance at June 30, 2014	$ 1,650	$ 3,943	$ 62	$ 35	$ 6	$ 122	$ 5,818
Loans individually evaluated for impairment	$ 137	$ 1,247	$ –	$ –	$ –	$ 24	$ 1,408
Loans collectively evaluated for impairment	1,259	2,741	55	22	9	66	4,152
Balance at December 31, 2013	$ 1,396	$ 3,988	$ 55	$ 22	$ 9	$ 90	$ 5,560
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 9,469	$ 11,371	$ 603	$ –	$ –	$ 1,043	$ 22,486
Loans collectively evaluated for impairment	680,555	588,392	31,584	9,102	2,218	55,635	1,367,486
Ending balance at June 30, 2014	$ 690,024	$ 599,763	$ 32,187	$ 9,102	$ 2,218	$ 56,678	$ 1,389,972
Loans individually evaluated for impairment	$ 15,123	$ 15,196	$ 627	$ –	$ –	$ 1,001	$ 31,947
Loans collectively evaluated for impairment	650,929	598,720	24,828	9,386	2,419	57,089	1,343,371
Ending balance at December 31, 2013	$ 666,052	$ 613,916	$ 25,455	$ 9,386	$ 2,419	$ 58,090	$ 1,375,318

**Includes the loan types; Loans to cooperatives, Processing and marketing, and Farm-related business.*

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no TDRs that occurred during the three months ended June 30, 2014.

	Six months ended June 30, 2014				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	$ 729	$ 697	$ –	$ 1,426	
Production and intermediate-term	–	2,100	–	2,100	
Rural residential real estate	–	117	–	117	
Total	$ 729	$ 2,914	$ –	$ 3,643	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	$ 715	$ 700	$ –	$ 1,415	$ –
Production and intermediate-term	–	2,099	–	2,099	–
Rural residential real estate	–	100	–	100	–
Total	$ 715	$ 2,899	$ –	$ 3,614	$ –

	Three months ended June 30, 2013				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	$ 24	$ –	$ –	$ 24	
Production and intermediate-term	–	1,029	–	1,029	
Rural residential real estate	30	–	–	30	
Total	$ 54	$ 1,029	$ –	$ 1,083	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	$ 24	$ –	$ –	$ 24	$ –
Production and intermediate-term	–	965	–	965	–
Rural residential real estate	29	–	–	29	–
Total	$ 53	$ 965	$ –	$ 1,018	$ –

	Six months ended June 30, 2013				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	$ 24	$ –	$ –	$ 24	
Production and intermediate-term	–	1,394	–	1,394	
Rural residential real estate	30	–	–	30	
Total	$ 54	$ 1,394	$ –	$ 1,448	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	$ 24	$ –	$ –	$ 24	$ –
Production and intermediate-term	–	1,329	–	1,329	–
Rural residential real estate	29	–	–	29	–
Total	$ 53	$ 1,329	$ –	$ 1,382	$ –

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Production and intermediate-term	$ –	$ –	$ –	$ 684
Total	$ –	$ –	$ –	$ 684

The following table provides information at period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

	Total TDRs		Nonaccrual TDRs	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Real estate mortgage	$ 3,729	$ 3,441	$ 1,957	$ 1,603
Production and intermediate-term	4,810	5,166	3,903	4,899
Farm-related business	596	620	–	–
Rural residential real estate	214	217	92	–
Total Loans	$ 9,349	$ 9,444	$ 5,952	$ 6,502
Additional commitments to lend	$ 18	$ 16		

Note 3 — Investment Securities

The Association's held-to-maturity investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. FCA approval has been obtained to allow the Association to continue to hold one Rural America bond whose credit quality has deteriorated beyond the program limits.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	June 30, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments	$ 3,270	$ 203	$ (141)	$ 3,332	5.33%

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments	$ 3,502	$ 113	$ (209)	$ 3,406	5.25%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	June 30, 2014		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 49	$ 47	4.25 %
After one year through five years	–	–	–
After five years through ten years	155	162	4.01
After ten years	3,066	3,123	5.42
Total	$ 3,270	$ 3,332	5.33 %

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	June 30, 2014			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission Related Investments	$ 235	$ (6)	$ 1,688	$ (135)

	December 31, 2013			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission Related Investments	$ 1,271	$ (145)	$ 571	$ (64)

FASB guidance contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to AgFirst Farm Credit Bank (AgFirst or the Bank) represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

The following presents activity related to AOCI for the periods presented:

Changes in Accumulated Other Comprehensive income by Component *(a)*

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Employee Benefit Plans:				
Balance at beginning of period	$ (386)	$ (955)	$ (432)	$ (1,075)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	46	121	92	241
Net current period other comprehensive income	46	121	92	241
Balance at end of period	$ (340)	$ (834)	$ (340)	$ (834)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (46)	$ (121)	$ (92)	$ (241)	See Note 7.
Net amounts reclassified	$ (46)	$ (121)	$ (92)	$ (241)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 6 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date.

A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 5.46 percent of the issued stock of the Bank as of June 30, 2014 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.2 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $183 million for the first six months of 2014. In addition, the Association has an investment of $486 related to other Farm Credit institutions.

The classifications within the fair value hierarchy are as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Assets held in trust funds, related to deferred compensation and supplemental retirement plans, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

	Standby Letters of Credit	
	For the six months ended June 30,	
	2014	2013
Balance at beginning of period	$ 17	$ 34
Issuances	–	–
Settlements	(7)	–
Balance at end of period	$ 10	$ 34

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS.

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Investment Securities

The fair values of predominantly all level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these level 3 assets.

Other Property Owned/Impaired Loans

Other property owned and impaired loans are valued using appraisals, market comparable sales, replacement costs and income and expense (cash flow) techniques. Certain unobservable inputs are used within these techniques to determine the level 3 fair value of these properties. The significant unobservable inputs are primarily sensitive only to industry, geographic and overall economic conditions, and/or specific attributes of each property.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 23,672	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principle and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecast Probability of default Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Risk adjusted discount rate
Other investments	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

The following tables present the carrying amounts and fair values of assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, as well as those financial instruments not measured at fair value, for each of the hierarchy levels at the period ended:

At or for the Six Months Ended June 30, 2014

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 2,112	$ 2,112	$ –	$ –	$ 2,112	
Recurring Assets	$ 2,112	$ 2,112	$ –	$ –	$ 2,112	
Liabilities:						
Standby letters of credit	$ 10	$ –	$ –	$ 10	$ 10	
Recurring Liabilities	$ 10	$ –	$ –	$ 10	$ 10	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 21,268	$ –	$ –	$ 21,268	$ 21,268	$ (275)
Other property owned	2,146	–	–	2,404	2,404	(434)
Nonrecurring Assets	$ 23,414	$ –	$ –	$ 23,672	$ 23,672	$ (709)
Other Financial Instruments						
Assets:						
Cash	$ 3,013	$ 3,013	$ –	$ –	$ 3,013	
Investment securities, held-to-maturity	3,270	–	–	3,332	3,332	
Loans	1,351,669	–	–	1,356,927	1,356,927	
Other Financial Assets	$ 1,357,952	$ 3,013	$ –	$ 1,360,259	$ 1,363,272	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,129,594	$ –	$ –	$ 1,123,616	$ 1,123,616	
Other Financial Liabilities	$ 1,129,594	$ –	$ –	$ 1,123,616	$ 1,123,616	

	At or for the Year Ended December 31, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 2,096	$ 2,096	$ –	$ –	$ 2,096	
Recurring Assets	$ 2,096	$ 2,096	$ –	$ –	$ 2,096	
Liabilities:						
Standby letters of credit	$ 17	$ –	$ –	$ 17	$ 17	
Recurring Liabilities	$ 17	$ –	$ –	$ 17	$ 17	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 30,539	$ –	$ –	$ 30,539	$ 30,539	$ (1,151)
Other property owned	3,581	–	–	3,926	3,926	(2,281)
Nonrecurring Assets	$ 34,120	$ –	$ –	$ 34,465	$ 34,465	$ (3,432)
Other Financial Instruments						
Assets:						
Cash	$ 2,348	$ 2,348	$ –	$ –	$ 2,348	
Investment securities, held-to-maturity	3,502	–	–	3,406	3,406	
Loans	1,328,872	–	–	1,330,159	1,330,159	
Other investments*	12,115	–	–	12,131	12,131	
Other Financial Assets	$ 1,346,837	$ 2,348	$ –	$ 1,345,696	$ 1,348,044	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,158,043	$ –	$ –	$ 1,143,717	$ 1,143,717	
Other Financial Liabilities	$ 1,158,043	$ –	$ –	$ 1,143,717	$ 1,143,717	

**Final payments to financial institutions under these investment agreements occurred in 2014.*

Note 7 — Employee Benefit Plans

The following is a table of retirement and other postretirement benefit expenses for the Association:

	For the three months ended June 30 ,		For the six months ended June 30 ,	
	2014	2013	2014	2013
Pension	$ 1,518	$ 1,569	$ 3,036	$ 3,139
401(k)	122	106	249	228
Other postretirement benefits	280	268	560	535
Total	$ 1,920	$ 1,943	$ 3,845	$ 3,902

The following is a table of retirement and other postretirement benefit contributions for the Association:

	Actual YTD Through 6/30/14	Projected Contributions For Remainder of 2014	Projected Total Contributions 2014
Pension	$ 67	$ 4,571	$ 4,638
Other postretirement benefits	359	379	738
Total	$ 426	$ 4,950	$ 5,376

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2014.

Further details regarding employee benefit plans are contained in the 2013 Annual Report to Shareholders.

In May 2014, the AgFirst Plan Sponsor Committee voted to approve changes to certain employee benefit plans as follows:

(1) On January 1, 2015, the AgFirst Farm Credit Cash Balance Retirement Plan (Cash Balance Plan) will be frozen, employer contributions will cease, and the Cash Balance Plan will be closed to new entrants.
(2) In lieu of participation in and contributions to the Cash Balance Plan, additional employer contributions will be made to the Farm Credit Benefits Alliance 401(k) Plan.

The above changes are expected to become officially executed plan amendments in November 2014. The Cash Balance Plan will not be terminated on January 1, 2015, but is expected to be terminated in 2015 or 2016 once all necessary actions have been performed and approvals obtained. Participants in the Cash Balance Plan will continue to receive employer contributions to their hypothetical cash balance accounts through the end of 2014, at which time contributions will cease. Participants will continue receiving interest credits on the same basis as currently being provided until the Cash Balance Plan is terminated. Participants who are not already fully vested in their accounts will automatically become 100% vested on December 31, 2014. Following the termination of the Cash Balance Plan, vested benefits will be distributed to participants.

Beginning on January 1, 2015, for participants in the Cash Balance Plan and eligible employees hired on or after this date, an additional employer contribution will be made to the Farm Credit Benefits Alliance 401(k) Plan equal to 3% of the participants' eligible compensation.

Accounting related to the curtailment of future benefit service under the Cash Balance Plan, as prescribed in ASC 715 “Compensation – Retirement Benefits”, is expected to be triggered in November 2014 when the plan amendments are officially executed. This accounting is not expected to have a material impact on the Association’s financial condition or results of operations.

Note 8 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

Note 9 — Subsequent Events

The Association has evaluated subsequent events and has determined there are none requiring disclosure through August 7, 2014, which is the date the financial statements were issued.