
Ag Credit Agricultural Credit Association

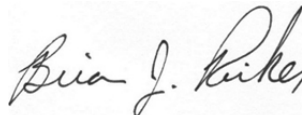
SECOND QUARTER 2014

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CERTIFICATION

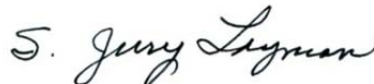
The undersigned certify that we have reviewed the June 30, 2014 quarterly report of Ag Credit Agricultural Credit Association, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements,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



Brian J. Ricker
Chief Executive Officer



Daniel E. Ebert
Chief Financial Officer



S. Jerry Layman
Chairman of the Board

August 7, 2014

Ag Credit Agricultural Credit Association

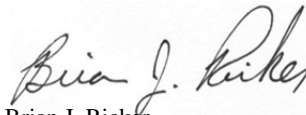
Report on Internal Control Over Financial Reporting

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, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that:

- 1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association,
- 2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of 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.



Brian J. Ricker
Chief Executive Officer



Daniel E. Ebert
Chief Financial Officer

August 7, 2014

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

The following commentary reviews the financial condition and results of operations of Ag Credit Agricultural Credit Association (Association) for the six months ended June 30, 2014. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, the Association's June 30, 2013 quarterly report and the 2013 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes Michael W. Stump, David M. Stott, Ph.D., CPA and Gary L. Baldosser. The results for the first six months of 2014 are not necessarily indicative of results to be expected for the year.

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 through numerous product types. The Association's loan portfolio consists predominantly of general cash grains (primarily soybeans, corn and wheat) which constitute about 62 percent of the entire portfolio as of June 30, 2014. The Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This risk, along with the risk associated with large loans, is reduced by members' off-farm income, utilization of crop insurance, and the use of FSA, USDA, Business and Industry and Farmer Mac loan guarantees. As of June 30, 2014 the Association had \$464,693 of guaranteed loan volume, which is 32.34 percent of loans as compared to \$444,978 of guaranteed volume or 33.35 percent of the portfolio at June 30, 2013. Loan guarantees reduce the potential of loss in the Association's loan portfolio and help to leverage the Association's capital.

Gross loan volume of the Association as of June 30, 2014 was \$1,437,009, a decrease of \$36,450 or 2.47 percent as compared to \$1,473,459 at December 31, 2013. The decrease in loan volume primarily relates to a reduction in production and intermediate-term (IT) volume. The reduction in production and IT loans relates to the normal seasonal pay-downs on lines of credit during the first half of the year from grain sales. From June 30, 2013 to June 30, 2014 volume increased by \$102,725 or 7.70 percent. The increase in loan volume primarily relates to an increase in production and IT, real estate mortgage and rural residential real estate volume.

Net loans outstanding at June 30, 2014 were \$1,421,596 as compared to \$1,458,025 at December 31, 2013. Net loans

accounted for 95.46 percent of total assets at June 30, 2014 as compared to 94.39 percent at December 31, 2013.

The following table summarizes the Association's risk assets (accruing volume includes accrued interest receivable):

	<u>6/30/14</u>	<u>12/31/13</u>
Nonaccrual loans	\$ 12,633	\$ 15,015
Accruing restructured loans	-	-
Accruing loans 90 days or more past due	688	-
Total high risk loans	<u>13,321</u>	<u>15,015</u>
Other property owned	18	763
Total high-risk assets	<u>\$ 13,339</u>	<u>\$ 15,778</u>
Ratios:		
Nonaccrual loans to total loans	0.88%	1.02%
High-risk assets to total assets	0.90%	1.02%

High risk assets decreased during the first six months of 2014 primarily as a result of payments from a large commercial entity in nonaccrual status and due to a reduction of nonaccrual loans. Other property owned (OPO) decreased as a result of the sale of an OPO and partial settlement of another OPO.

There is an inherent risk in the extension of any type of credit, and accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

General portfolio credit quality improved during the first six months of 2014 and remains strong.

Credit administration is satisfactory.

During the first six months of 2014 the Association recorded \$21 of charge-offs and no recoveries or provision for loan losses. For the same period of 2013, the Association recorded charge-offs of \$370, no recoveries and no provision for loan losses. The allowance for loan losses represented 1.07 percent and 1.05 percent of loans at June 30, 2014 and December 31, 2013, respectively.

RESULTS OF OPERATIONS

For the three months ending June 30, 2014

Net income for the three months ended June 30, 2014 (Q2 2014) was \$9,005 an increase of \$568 or 6.73 percent when compared to the net income of \$8,437 for the same period in 2013 (Q2 2013). Major changes in the components of net income when comparing Q2 2014 to Q2 2013 are identified as follows:

- Net interest income increased by \$1,022 or 11.16 percent. The increase resulted primarily from earnings on increased loan

volume and an increase in earnings on the Association's own funds in loans.

- Noninterest income decreased by \$482 or 15.51 percent for the following reasons:

Patronage dividends from AgFirst Farm Credit Bank (the Bank) decreased by \$586 primarily as a result of a \$779 reduction in Bank special patronage. The Bank made a special patronage distribution during Q2 2013 but no distribution in Q2 2014. This reduction was offset partially by higher regular and participation sold patronage related to higher loan volume previously discussed and increased participation sold volume.

Loan fees increased by \$15 primarily due to increased participation fees, new loan fees and sold loan fees partially offset by reduced loan servicing fees. Fees for financially related services (FRS) increased by \$5 due to higher multi-peril crop insurance and life insurance income.

Gains (losses) on sales of premises and equipment increased by \$82 primarily due to the sale of the former Tiffin office building.

- Noninterest expense increased by \$216 or 5.70 percent primarily due to:

Salary and benefits expense increased by \$287 or 12.44 percent due to increased expenses related to scheduled salary increases, additional employees, salary related benefits, decreased deferred loan origination costs, higher incentive accrual, and increased healthcare costs.

Farm Credit System Insurance Corporation (FCSIC) premium expenses increased by \$51 or 26.56 percent due to increased premium rates and increased loan volume offset partially by higher guaranteed loan volume.

Guarantee fees decreased by \$125 or 26.21 percent due to timing of guarantee fee payments.

- The provision for income taxes decreased by \$244 due to the reversal of previously accrued state tax liability. The reversal resulted from the State repealing the Franchise tax, which the Association previously paid. The Association is now paying under the Commercial Activity Tax (CAT).

For the six months ending June 30, 2014

Net income for the six months ended June 30, 2014 (YTD 2014) was \$17,325, which is an increase of \$1,284 or 8.00 percent when compared to the net income of \$16,041 for the same period in 2013 (YTD 2013). Major changes in the components of net income when comparing YTD 2014 to YTD 2013 are identified as follows:

- Net interest income increased by \$2,100 or 11.61 percent. The increase is a result of the same reasons previously discussed.

- The risks identified in the portfolio at June 30, 2014 and June 30, 2013 resulted in no provision for loan losses entry for YTD 2014 or YTD 2013.

- Noninterest income decreased by \$346 or 6.29 percent primarily due to the \$400 decrease in patronage dividends from the Bank as previously discussed. This was offset partially by the \$76 net gain on sales of premises and equipment for reasons previously discussed.

- Noninterest expense increased by \$704 or 9.42 percent primarily due to:

Salary and benefits expense increased by \$610, FCSIC insurance premium expenses increased by \$105 and for the reasons previously discussed.

Guarantee fees increased by \$252 due to higher FSA guarantee fees as a result of federal loan guarantee commitments being funded in YTD 2014 after the lack of funding for most of 2013.

Net losses on other property owned (OPO) decreased by \$286 primarily due to the gain on the sale of an OPO during Q1 2014.

- The provision for income taxes decreased by \$234 for reasons previously discussed.

The following table shows the key results of operations ratios for the six months ended June 30, 2014 and June 30, 2013, respectively.

	6/30/14	6/30/13
Return on average assets	2.39%	2.41%
Return on average equity	15.14%	15.53%
Net interest margin	2.85%	2.83%
Members' equity to assets	16.01%	15.73%
Debt to members' equity (:1)	5.25	5.36

The changes in these ratios are directly related to the changes in income discussed in the Results of Operations section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Capital Resources section.

CAPITAL RESOURCES

Total members' equity was \$238,458 at June 30, 2014 as compared to \$221,292 at December 31, 2013 for an increase of \$17,166 or 7.76 percent. The increase is due primarily to year-to-date earnings and more allocated equities, Class A Preferred Stock, Class C Stock and Participation Certificates.

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations,

each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. As of June 30, 2014, the Association exceeded minimum regulatory standards for all the ratios.

The Association's capital ratios as of June 30 and the FCA minimum requirements follow:

	6/30/14	Regulatory Minimum
Permanent capital ratio	20.84%	7.00%
Total surplus ratio	18.99%	7.00%
Core surplus ratio	17.26%	3.50%

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: The Association obtains funding from AgFirst Farm Credit Bank (the Bank). The Association is materially affected and shareholder investment could be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, www.agfirst.com or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202.

Copies of the Association's Quarterly and Annual Reports are available on the Association's website, www.agcredit.net, or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1023, or writing Daniel Ebert, Chief Financial Officer, Ag Credit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares an electronic version of the 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 Association.

Ag Credit Agricultural Credit Association

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2014	December 31, 2013
	<i>(unaudited)</i>	<i>(audited)</i>
Assets		
Cash	\$ 2,604	\$ 4,573
Investment securities:		
Held to maturity (fair value of \$16,338 and \$12,656 respectively)	16,059	13,363
Loans	1,437,009	1,473,459
Allowance for loan losses	(15,413)	(15,434)
Net loans	1,421,596	1,458,025
Accrued interest receivable	20,501	19,031
Investments in other Farm Credit institutions	15,901	15,901
Premises and equipment, net	5,504	5,440
Other property owned	18	763
Accounts receivable	4,829	24,952
Other assets	2,188	2,694
Total assets	<u>\$ 1,489,200</u>	<u>\$ 1,544,742</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,236,893	\$ 1,293,962
Accrued interest payable	2,365	2,522
Patronage refunds payable	67	13,764
Accounts payable	1,449	2,023
Advanced conditional payments	3,061	1,417
Other liabilities	6,907	9,762
Total liabilities	<u>1,250,742</u>	<u>1,323,450</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	19,119	18,956
Retained earnings		
Allocated	137,220	137,127
Unallocated	82,119	65,209
Total members' equity	<u>238,458</u>	<u>221,292</u>
Total liabilities and members' equity	<u>\$ 1,489,200</u>	<u>\$ 1,544,742</u>

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

Ag Credit Agricultural Credit Association

Consolidated Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Interest Income				
Loans	\$ 16,999	\$ 15,559	\$ 33,722	\$ 30,782
Investments	224	147	446	296
Total interest income	17,223	15,706	34,168	31,078
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	7,041	6,546	13,976	12,986
Net interest income	10,182	9,160	20,192	18,092
Provision for loan losses	—	—	—	—
Net interest income after provision for loan losses	10,182	9,160	20,192	18,092
Noninterest Income				
Loan fees	102	87	180	187
Fees for financially related services	17	12	28	40
Patronage refunds from other Farm Credit institutions	2,421	3,007	4,806	5,206
Gains (losses) on sales of premises and equipment, net	83	1	84	8
Other noninterest income	3	1	61	64
Total noninterest income	2,626	3,108	5,159	5,505
Noninterest Expense				
Salaries and employee benefits	2,595	2,308	5,390	4,780
Occupancy and equipment	233	222	457	441
Insurance Fund premiums	243	192	489	384
Guarantee fees	352	477	868	616
(Gains) losses on other property owned, net	1	12	(275)	11
Other operating expenses	584	581	1,252	1,245
Total noninterest expense	4,008	3,792	8,181	7,477
Income before income taxes	8,800	8,476	17,170	16,120
Provision (benefit) for income taxes	(205)	39	(155)	79
Net income	9,005	8,437	17,325	16,041
Other comprehensive income	—	—	—	—
Comprehensive income	\$ 9,005	\$ 8,437	\$ 17,325	\$ 16,041

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

Ag Credit Agricultural Credit Association
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2012	\$ 18,285	\$ 119,997	\$ 61,821	\$ 200,103
Comprehensive income			16,041	16,041
Capital stock/participation certificates issued/(retired), net	341			341
Dividends declared/paid			(95)	(95)
Retained earnings retired		(12)		(12)
Patronage distribution adjustment		(40)	(207)	(247)
Balance at June 30, 2013	<u>\$ 18,626</u>	<u>\$ 119,945</u>	<u>\$ 77,560</u>	<u>\$ 216,131</u>
Balance at December 31, 2013	\$ 18,956	\$ 137,127	\$ 65,209	\$ 221,292
Comprehensive income			17,325	17,325
Capital stock/participation certificates issued/(retired), net	163			163
Dividends declared/paid			(98)	(98)
Retained earnings retired		(3)		(3)
Patronage distribution adjustment		96	(317)	(221)
Balance at June 30, 2014	<u>\$ 19,119</u>	<u>\$ 137,220</u>	<u>\$ 82,119</u>	<u>\$ 238,458</u>

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

Ag Credit Agricultural Credit Association

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 Ag Credit Agricultural Credit Association (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	\$ 699,819	\$ 693,477
Production and intermediate-term	474,094	525,533
Processing and marketing	17,970	13,923
Farm-related business	15,233	16,742
Rural residential real estate	227,606	220,937
Lease receivables	2,287	2,847
Total loans	\$ 1,437,009	\$ 1,473,459

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	\$ —	\$ 7,644	\$ —	\$ 748	\$ —	\$ —	\$ —	\$ 8,392
Production and intermediate-term	1,078	70,065	2,148	319	—	—	3,226	70,384
Processing and marketing	6,729	370	970	—	1,300	—	8,999	370
Lease receivables	—	—	348	—	—	—	348	—
Total	\$ 7,807	\$ 78,079	\$ 3,466	\$ 1,067	\$ 1,300	\$ —	\$ 12,573	\$ 79,146

	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	\$ —	\$ 6,671	\$ —	\$ 617	\$ —	\$ —	\$ —	\$ 7,288
Production and intermediate-term	1,050	73,891	1,516	418	—	—	2,566	74,309
Processing and marketing	3,254	371	4,333	—	1,300	—	8,887	371
Lease receivables	—	—	444	—	—	—	444	—
Total	\$ 4,304	\$ 80,933	\$ 6,293	\$ 1,035	\$ 1,300	\$ —	\$ 11,897	\$ 81,968

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	\$ 11,703	\$ 52,156	\$ 635,960	\$ 699,819
Production and intermediate-term	141,002	206,171	126,921	474,094
Processing and marketing	929	4,771	12,270	17,970
Farm-related business	2,094	2,634	10,505	15,233
Rural residential real estate	1,356	7,785	218,465	227,606
Lease receivables	383	1,872	32	2,287
Total loans	<u>\$ 157,467</u>	<u>\$ 275,389</u>	<u>\$ 1,004,153</u>	<u>\$ 1,437,009</u>
Percentage	10.96%	19.16%	69.88%	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		June 30, 2014	December 31, 2013
Real estate mortgage:			Rural residential real estate:		
Acceptable	98.85%	98.62%	Acceptable	98.96%	98.57%
OAEM	0.68	0.75	OAEM	0.27	0.36
Substandard/doubtful/loss	0.47	0.63	Substandard/doubtful/loss	0.77	1.07
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Lease receivables:		
Acceptable	95.35%	94.49%	Acceptable	100.00%	100.00%
OAEM	1.80	1.69	OAEM	-	-
Substandard/doubtful/loss	2.85	3.82	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Processing and marketing			Total loans:		
Acceptable	100.00%	79.97%	Acceptable	97.70%	96.94%
OAEM	-	8.93	OAEM	0.97	1.10
Substandard/doubtful/loss	-	11.10	Substandard/doubtful/loss	1.33	1.96
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business					
Acceptable	96.27%	96.51%			
OAEM	0.46	0.41			
Substandard/doubtful/loss	3.27	3.08			
	<u>100.00%</u>	<u>100.00%</u>			

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	\$ 540	\$ 209	\$ 749	\$ 711,466	\$ 712,215	\$ -
Production and intermediate-term	1,397	688	2,085	478,740	480,825	688
Processing and marketing	-	-	-	18,027	18,027	-
Farm-related business	49	-	49	15,356	15,405	-
Rural residential real estate	879	30	909	227,713	228,622	-
Lease receivables	-	-	-	2,287	2,287	-
Total	<u>\$ 2,865</u>	<u>\$ 927</u>	<u>\$ 3,792</u>	<u>\$ 1,453,589</u>	<u>\$ 1,457,381</u>	<u>\$ 688</u>

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	\$ 1,205	\$ -	\$ 1,205	\$ 703,547	\$ 704,752	\$ -
Production and intermediate-term	3,449	-	3,449	528,638	532,087	-
Processing and marketing	-	-	-	13,991	13,991	-
Farm-related business	34	-	34	16,873	16,907	-
Rural residential real estate	1,032	32	1,064	220,721	221,785	-
Lease receivables	-	-	-	2,847	2,847	-
Total	<u>\$ 5,720</u>	<u>\$ 32</u>	<u>\$ 5,752</u>	<u>\$ 1,486,617</u>	<u>\$ 1,492,369</u>	<u>\$ -</u>

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	\$ 1,450	\$ 1,676
Production and intermediate-term	10,409	12,241
Farm-related business	358	380
Rural residential real estate	416	718
Total nonaccrual loans	<u>\$ 12,633</u>	<u>\$ 15,015</u>
Accruing restructured loans:		
Total accruing restructured loans	<u>\$ -</u>	<u>\$ -</u>
Accruing loans 90 days or more past due:		
Production and intermediate-term	\$ 688	\$ -
Total accruing loans 90 days or more past due	<u>\$ 688</u>	<u>\$ -</u>
Total nonperforming loans	\$ 13,321	\$ 15,015
Other property owned	18	763
Total nonperforming assets	<u>\$ 13,339</u>	<u>\$ 15,778</u>
Nonaccrual loans as a percentage of total loans	0.88%	1.02%
Nonperforming assets as a percentage of total loans and other property owned	0.93%	1.07%
Nonperforming assets as a percentage of capital	<u>5.59%</u>	<u>7.13%</u>

The following table presents information relating 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	\$ 12,304	\$ 14,888
Past due	329	127
Total	<u>12,633</u>	<u>15,015</u>
Impaired accrual loans:		
Restructured	-	-
90 days or more past due	688	-
Total	<u>688</u>	<u>-</u>
Total impaired loans	<u>\$ 13,321</u>	<u>\$ 15,015</u>

The following tables present additional impaired loan 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate-term	8,626	9,007	4,580	10,360	108	10,283	114
Farm-related business	358	417	196	430	5	427	5
Rural residential real estate	416	476	114	499	5	496	5
Total	\$ 9,400	\$ 9,900	\$ 4,890	\$ 11,289	\$ 118	\$ 11,206	\$ 124
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 1,450	\$ 1,611	\$ -	\$ 1,741	\$ 18	\$ 1,728	\$ 19
Production and intermediate-term	2,471	10,902	-	2,968	31	2,947	32
Farm-related business	-	-	-	-	-	-	-
Rural residential real estate	-	-	-	-	-	-	-
Total	\$ 3,921	\$ 12,513	\$ -	\$ 4,709	\$ 49	\$ 4,675	\$ 51
Total impaired loans:							
Real estate mortgage	\$ 1,450	\$ 1,611	\$ -	\$ 1,741	\$ 18	\$ 1,728	\$ 19
Production and intermediate-term	11,097	19,909	4,580	13,328	139	13,230	146
Farm-related business	358	417	196	430	5	427	5
Rural residential real estate	416	476	114	499	5	496	5
Total	\$ 13,321	\$ 22,413	\$ 4,890	\$ 15,998	\$ 167	\$ 15,881	\$ 175

	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:					
Production and intermediate-term	\$ 8,873	\$ 9,167	\$ 4,582	\$ 15,565	\$ 94
Farm-related business	380	428	146	667	4
Rural residential real estate	436	484	110	764	4
Total	\$ 9,689	\$ 10,079	\$ 4,838	\$ 16,996	\$ 102
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 1,676	\$ 1,893	\$ -	\$ 2,940	\$ 18
Production and intermediate-term	3,368	11,811	-	5,908	35
Rural residential real estate	282	319	-	495	4
Total	\$ 5,326	\$ 14,023	\$ -	\$ 9,343	\$ 57
Total impaired loans:					
Real estate mortgage	\$ 1,676	\$ 1,893	\$ -	\$ 2,940	\$ 18
Production and intermediate-term	12,241	20,978	4,582	21,473	129
Farm-related business	380	428	146	667	4
Rural residential real estate	718	803	110	1,259	8
Total	\$ 15,015	\$ 24,102	\$ 4,838	\$ 26,339	\$ 159

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

	Real Estate Mortgage	Production and Intermediate- term	Agribusiness*	Rural Residential Real Estate	Lease Receivables	Total
Allowance for credit losses:						
Balance at March 31, 2014	\$ 1,794	\$ 11,337	\$ 268	\$ 2,028	\$ 7	\$ 15,434
Charge-offs	-	-	-	(21)	-	(21)
Recoveries	-	-	-	-	-	-
Provision for loan losses	(87)	14	109	(35)	(1)	-
Balance at June 30, 2014	\$ 1,707	\$ 11,351	\$ 377	\$ 1,972	\$ 6	\$ 15,413
Balance at December 31, 2013	\$ 1,635	\$ 11,558	\$ 429	\$ 1,806	\$ 6	\$ 15,434
Charge-offs	-	-	-	(21)	-	(21)
Recoveries	-	-	-	-	-	-
Provision for loan losses	72	(207)	(52)	187	-	-
Balance at June 30, 2014	\$ 1,707	\$ 11,351	\$ 377	\$ 1,972	\$ 6	\$ 15,413
Balance at March 31, 2013	\$ 869	\$ 14,669	\$ 1,121	\$ 897	\$ 9	\$ 17,565
Charge-offs	-	(358)	-	-	-	(358)
Recoveries	-	-	-	-	-	-
Provision for loan losses	(172)	528	(250)	(104)	(2)	-
Balance at June 30, 2013	\$ 697	\$ 14,839	\$ 871	\$ 793	\$ 7	\$ 17,207
Balance at December 31, 2012	\$ 893	\$ 14,850	\$ 1,160	\$ 670	\$ 4	\$ 17,577
Charge-offs	-	(358)	-	(12)	-	(370)
Recoveries	-	-	-	-	-	-
Provision for loan losses	(196)	347	(289)	135	3	-
Balance at June 30, 2013	\$ 697	\$ 14,839	\$ 871	\$ 793	\$ 7	\$ 17,207
Loans individually evaluated for impairment	\$ -	\$ 4,581	\$ 195	\$ 114	\$ -	\$ 4,890
Loans collectively evaluated for impairment	1,707	6,770	182	1,858	6	10,523
Balance at June 30, 2014	\$ 1,707	\$ 11,351	\$ 377	\$ 1,972	\$ 6	\$ 15,413
Loans individually evaluated for impairment	\$ -	\$ 4,582	\$ 146	\$ 110	\$ -	\$ 4,838
Loans collectively evaluated for impairment	1,635	6,976	283	1,696	6	10,596
Balance at December 31, 2013	\$ 1,635	\$ 11,558	\$ 429	\$ 1,806	\$ 6	\$ 15,434
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	\$ 1,450	\$ 10,409	\$ 358	\$ 416	\$ -	\$ 12,633
Loans collectively evaluated for impairment	710,765	470,416	33,074	228,206	2,287	1,444,748
Balance at June 30, 2014	\$ 712,215	\$ 480,825	\$ 33,432	\$ 228,622	\$ 2,287	\$ 1,457,381
Loans individually evaluated for impairment	\$ 1,676	\$ 12,241	\$ 380	\$ 718	\$ -	\$ 15,015
Loans collectively evaluated for impairment	703,076	519,846	30,518	221,067	2,847	1,477,354
Balance at December 31, 2013	\$ 704,752	\$ 532,087	\$ 30,898	\$ 221,785	\$ 2,847	\$ 1,492,369

*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. There were no TDRs that occurred during the three or six month periods ended June 30, 2014 or 2013.

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.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during periods presented. Payment default is defined as a payment that was thirty days or more past due.

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	\$ 1,151	\$ 1,159	\$ 1,151	\$ 1,159
Production and intermediate-term	10,398	12,125	10,398	12,125
Rural residential real estate	386	404	386	404
Total Loans	\$ 11,935	\$ 13,688	\$ 11,935	\$ 13,688
Additional commitments to lend	\$ -	\$ 2,000		

Note 3 — Investment Securities

The Association's held-to-maturity investments consist 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 probability of default scale (the scale) used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. The Association had one Rural America Bond rated an 11 on the scale. The Association has FCA's permission to continue to hold this investment.

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	\$ 16,059	\$ 600	\$ (321)	\$ 16,338	5.46%

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments	\$ 13,363	\$ 185	\$ (892)	\$ 12,656	5.53%

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	\$ -	\$ -	-%
After one year through five years	-	-	-
After five years through ten years	2,765	2,829	5.12
After ten years	13,294	13,509	5.53
Total	\$ 16,059	\$ 16,338	5.46%

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	\$ -	\$ -	\$ 6,512	\$ (321)

	December 31, 2013			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission Related Investments	\$ 5,753	\$ (549)	\$ 2,734	\$ (343)

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— 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 6.31 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 \$10 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.

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 had no Level 2 assets or 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	\$ -	\$ -
Issuances	-	-
Settlements	-	-
Balance at end of period	<u>\$ -</u>	<u>\$ -</u>

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. 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	\$ 8,449	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			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/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Investment securities, held-to-maturity	Discounted cash flow	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:						
Recurring Assets	\$ –	\$ –	\$ –	\$ –	\$ –	
Liabilities:						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 8,431	\$ –	\$ –	\$ 8,431	\$ 8,431	\$ (73)
Other property owned	18	–	–	18	18	281
Nonrecurring Assets	\$ 8,449	\$ –	\$ –	\$ 8,449	\$ 8,449	\$ 208
Other Financial Instruments						
Assets:						
Cash	\$ 2,604	\$ 2,604	\$ –	\$ –	\$ 2,604	
Investment securities, held-to-maturity	16,059	–	–	16,338	16,338	
Loans	1,413,165	–	–	1,383,599	1,383,599	
Other Financial Assets	\$ 1,431,828	\$ 2,604	\$ –	\$ 1,399,937	\$ 1,402,541	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,236,893	\$ –	\$ –	\$ 1,211,316	\$ 1,211,316	
Other Financial Liabilities	\$ 1,236,893	\$ –	\$ –	\$ 1,211,316	\$ 1,211,316	
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:						
Recurring Assets	\$ –	\$ –	\$ –	\$ –	\$ –	
Liabilities:						
Recurring Liabilities	\$ –	\$ –	\$ –	\$ –	\$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 10,177	\$ –	\$ –	\$ 10,177	\$ 10,177	\$ (1,590)
Other property owned	763	–	–	888	888	(105)
Nonrecurring Assets	\$ 10,940	\$ –	\$ –	\$ 11,065	\$ 11,065	\$ (1,695)
Other Financial Instruments						
Assets:						
Cash	\$ 4,573	\$ 4,573	\$ –	\$ –	\$ 4,573	
Investment securities, held-to-maturity	13,363	–	–	12,656	12,656	
Loans	1,447,848	–	–	1,413,324	1,413,324	
Other Financial Assets	\$ 1,465,784	\$ 4,573	\$ –	\$ 1,425,980	\$ 1,430,553	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,293,962	\$ –	\$ –	\$ 1,254,251	\$ 1,254,251	
Other Financial Liabilities	\$ 1,293,962	\$ –	\$ –	\$ 1,254,251	\$ 1,254,251	

Note 6 — 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	\$ 350	\$ 355	\$ 699	\$ 710
401(k)	101	92	201	185
Other postretirement benefits	87	84	175	168
Total	\$ 538	\$ 531	\$ 1,075	\$ 1,063

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	\$ —	\$ 429
Other postretirement benefits	99	104	203
Total	\$ 99	\$ 533	\$ 632

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 7 — 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 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 8 — 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.