*Ag***Choice** *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 *Ag***Choice** 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.

Darrell L. Curtis
Chief Executive Officer

Robert J. Kobzowicz, Jr.
Chief Financial Officer

Dennis B. Spangler
Chairman of the Board

August 7, 2014

*Ag***Choice** *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.

Darrell L. Curtis

Darrell L. Curtis
Chief Executive Officer

Robert J. Kobzowicz, Jr.

Robert J. Kobzowicz, Jr.
Chief Financial Officer

August 7, 2014

*Ag***Choice** ***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 ***AgChoice*** Farm Credit ACA, (Association) for the period ended June 30, 2014. These comments should be read in conjunction with the accompanying financial statements, notes to the 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. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

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, including dairy, livestock, poultry, forest products, and various crops, and also includes part-time farm 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, impacts the level of dependency on a given commodity.

The gross loan volume of the Association as of June 30, 2014, was $1,511,318, an increase of $23,944 as compared to $1,487,374 at December 31, 2013. Net loans outstanding at June 30, 2014, were $1,500,052 as compared to $1,475,666 at December 31, 2013. Net loans accounted for 97.1 percent of total assets at June 30, 2014, as compared to 95.6 percent of total assets at December 31, 2013. The increase in both gross and net loans primarily resulted from increased participation loans purchased.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual volume decreased from $30,630 at December 31, 2013, to $24,022 at June 30, 2014, mainly due to several large paydowns. The Association continues efforts to work out of nonaccrual accounts or to assist such operations to return 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 was $11,266 and $11,708 at June 30, 2014 and December 31, 2013, respectively. Also at June 30, 2014, the Association maintained a reserve for unfunded commitments of $688 related to a participation account. These reserves were considered by management to be adequate to cover possible losses. As a further means to reduce credit risk, as of June 30, 2014, the Association had loans amounting to $15,212 under a long-term standby commitment from Farmer Mac to purchase these loans in the event of loan defaults.

RESULTS OF OPERATIONS

For the three months ended June 30, 2014

Net income for the three months ended June 30, 2014, totaled $7,264, a decrease of $1,820 compared to $9,084 for the same period in 2013. This decrease resulted primarily from decreased net interest income, decreased equity in earnings of other Farm Credit Institutions and increased noninterest expense.

Net interest income decreased by $81 for the three months ended June 30, 2014 compared to the same period in 2013. This decrease resulted from a decrease of $313 in interest income on nonaccruing loans and an increase of $327 in interest expense, offset by an increase of $559 in interest income on accruing loan volume as a result of volume growth compared to the prior year.

The provision for allowance for loan losses was $663 in the second quarter of 2014 as compared to $627 in the same period for 2013, largely due to increases in specific reserves.

Noninterest income for the three months ended June 30, 2014 decreased by $996 to $3,786 compared to $4,782 for the same period of 2013. This decrease resulted primarily from a special patronage distribution in 2013 that did not repeat in 2014, lower patronage refunds due to decreased participations sold and lower financially related services income.

Noninterest expense for the three months ended June 30, 2014, increased $698, compared to the same period of 2013. This increase is due to higher personnel costs, insurance fund premiums, nonaccrual expenses, directors, purchased services, travel, advertising and other expenses.

The provision for income taxes was $115 and $106 for the second quarters of 2014 and 2013, respectively.

For the six months ended June 30, 2014

Net income for the six months ended June 30, 2014, totaled $16,595, as compared to $16,609 for the same period in 2013. Net interest income increased $645 for the six months ended June 30, 2014, as compared to the same period one year ago.

At June 30, 2014, interest income on accruing loans and investment securities increased $876 compared to a year ago. Nonaccrual interest income was $710 for the six months ended June 30, 2014, as compared to $561 for the same period in 2013. Interest expense increased $380 for the six months ended June 30, 2014, as compared to the comparable period of 2013. The increase in interest income on accruing loans and interest expense is primarily related to an increase in loan volume.

Decreases in general reserves as a result of improving credit quality offset by increases in some specific reserves resulted in a $355 reversal of allowance for loan losses in the first half of 2014.

Noninterest income for the six months ended June 30, 2014, totaled $7,706, as compared to $8,946 for the same period of 2013, a decrease of $1,240. This decrease resulted primarily from the following factors; the receipt of a special patronage distribution in 2013 of $862 that did not repeat in 2014, a decrease of $366 in patronage refunds due to lower participations sold, a decrease in net gains of $134 related to a smaller reversal of reserve for unfunded commitments in 2014 as compared to 2013, a decrease in financially related services income of $67 offset by an increase of $223 in general patronage due to loan volume growth.

Noninterest expense for the six months ended June 30, 2014, increased $905, or 7.2 percent, compared to the same period of 2013. This increase was primarily due to higher personnel, FCSIC, travel, purchased services, nonaccrual and other expenses offset by lower public and member relations and furniture and equipment expense.

The provision for income taxes was $175 for the six months ended June 30, 2014 as compared to $166 in the same period last year.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank 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 Bank advances funds to the Association in the form of notes payable. The notes payable are 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 $1,221,888 as compared to $1,221,761 at December 31, 2013. This slight increase resulted from modest loan volume growth and the spring patronage payments to stockholders offset by the receipt of the 2013 Equity in earnings of other Farm Credit institutions and cash generated from Association year-to-date 2014 earnings.

CAPITAL RESOURCES

Total members' equity at June 30, 2014 increased by $16,552 to $307,294 from the December 31, 2013 total of $290,742. The increase is primarily attributed to year-to-date 2014 net income.

Total capital stock and participation certificates were $10,855 on June 30, 2014, compared to $10,878 on December 31, 2013.

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 permanent capital and total surplus ratios were 17.71 percent and 17.03 percent, respectively, and the core surplus ratio was 16.13 percent. All three ratios were well above the minimum regulatory requirements of 7.00 percent for the 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 1-800-349-3568 or writing ***Ag*Choice** Farm Credit, ACA, 900 Bent Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website *www.agchoice.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.

AgChoice Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	**June 30, 2014**	**December 31, 2013**
	(unaudited)	*(audited)*
Assets		
Cash	$ 261	$ 228
Investment securities:		
Held to maturity (fair value of $2,383 and $2,253, respectively)	2,311	2,342
Loans	1,511,318	1,487,374
Allowance for loan losses	(11,266)	(11,708)
Net loans	1,500,052	1,475,666
Accrued interest receivable	6,542	4,987
Investments in other Farm Credit institutions	21,356	22,210
Premises and equipment, net	5,010	3,846
Other property owned	—	83
Accounts receivable	6,146	29,435
Other assets	3,505	4,993
Total assets	$ 1,545,183	$ 1,543,790
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,221,888	$ 1,221,761
Accrued interest payable	1,664	1,741
Patronage refunds payable	475	15,413
Accounts payable	2,335	2,999
Other liabilities	11,527	11,134
Total liabilities	1,237,889	1,253,048
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	10,855	10,878
Surplus		
Allocated	152,443	152,204
Unallocated	144,021	127,685
Accumulated other comprehensive income (loss)	(25)	(25)
Total members' equity	307,294	290,742
Total liabilities and members' equity	$ 1,545,183	$ 1,543,790

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

AgChoice Farm Credit, ACA

Consolidated Statements of Comprehensive 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	$ 17,369	$ 17,123	$ 34,902	$ 33,876
Investments	37	37	73	74
Total interest income	17,406	17,160	34,975	33,950
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,525	6,198	12,823	12,443
Net interest income	10,881	10,962	22,152	21,507
Provision for (reversal of allowance for) loan losses	663	627	(355)	1,140
Net interest income after provision for (reversal of allowance for) loan losses	10,218	10,335	22,507	20,367
Noninterest Income				
Loan fees	403	390	715	716
Fees for financially related services	297	368	595	662
Patronage refunds from other Farm Credit institutions	3,001	3,938	5,899	6,904
Gains (losses) on sales of rural home loans, net	16	47	23	90
Gains (losses) on sales of premises and equipment, net	49	22	121	36
Gains (losses) on other transactions	(3)	—	214	366
Other noninterest income	23	17	139	172
Total noninterest income	3,786	4,782	7,706	8,946
Noninterest Expense				
Salaries and employee benefits	4,153	4,036	8,675	8,458
Occupancy and equipment	252	249	512	505
Insurance Fund premiums	352	276	695	546
(Gains) losses on other property owned, net	(15)	31	2	117
Other operating expenses	1,883	1,335	3,559	2,912
Total noninterest expense	6,625	5,927	13,443	12,538
Income before income taxes	7,379	9,190	16,770	16,775
Provision for income taxes	115	106	175	166
Net income	7,264	9,084	16,595	16,609
Other comprehensive income	—	—	—	—
Comprehensive income	$ 7,264	$ 9,084	$ 16,595	$ 16,609

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

AgChoice Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Surplus: Allocated	Surplus: Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2012	$ 10,895	$ 137,817	$ 115,558	$ (41)	$ 264,229
Comprehensive income			16,609		16,609
Capital stock/participation certificates issued/(retired), net	(83)				(83)
Dividends declared/paid	9		(9)		—
Surplus retired		(74)			(74)
Patronage distribution adjustment		95	(97)		(2)
Balance at June 30, 2013	$ 10,821	$ 137,838	$ 132,061	$ (41)	$ 280,679
Balance at December 31, 2013	$ 10,878	$ 152,204	$ 127,685	$ (25)	$ 290,742
Comprehensive income			16,595		16,595
Capital stock/participation certificates issued/(retired), net	(32)				(32)
Dividends declared/paid	9		(9)		—
Surplus retired		(11)			(11)
Patronage distribution adjustment		250	(250)		—
Balance at June 30, 2014	$ 10,855	$ 152,443	$ 144,021	$ (25)	$ 307,294

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

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***Choice** 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	$ 660,118	$ 642,117
Production and intermediate-term	562,501	583,862
Loans to cooperatives	25,743	18,309
Processing and marketing	108,177	90,613
Farm-related business	24,938	23,562
Communication	66,997	63,583
Energy and water/waste disposal	25,536	26,609
Rural residential real estate	21,436	22,528
International	12,005	11,988
Lease receivables	191	255
Other (including Mission Related)	3,676	3,948
Total loans	$ 1,511,318	$ 1,487,374

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	$ 4,102	$ 52,158	$ 9,611	$ –	$ –	$ –	$ 13,713	$ 52,158
Production and intermediate-term	27,810	44,623	63,939	4,156	8,342	–	100,091	48,779
Loans to cooperatives	6,080	–	19,571	–	–	–	25,651	–
Processing and marketing	30,838	–	36,761	–	38,647	–	106,246	–
Farm-related business	–	402	–	–	–	–	–	402
Communication	1,329	–	65,757	–	–	–	67,086	–
Energy and water/waste disposal	8,901	–	16,627	–	–	–	25,528	–
Rural residential real estate	–	600	–	–	–	–	–	600
Lease receivables	–	–	190	–	–	–	190	–
International	–	–	12,000	–	–	–	12,000	–
Total	$ 79,060	$ 97,783	$ 224,456	$ 4,156	$ 46,989	$ –	$ 350,505	$ 101,939

	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	$ 825	$ 57,975	$ 9,833	$ –	$ –	$ –	$ 10,658	$ 57,975
Production and intermediate-term	33,197	59,949	61,918	4,533	7,658	–	102,773	64,482
Loans to cooperatives	–	–	18,197	–	–	–	18,197	–
Processing and marketing	25,775	–	22,340	–	40,757	–	88,872	–
Farm-related business	–	817	–	–	–	–	–	817
Communication	1,329	–	62,454	–	–	–	63,783	–
Energy and water/waste disposal	8,917	–	17,728	–	–	–	26,645	–
Rural residential real estate	–	611	–	–	–	–	–	611
International	–	–	12,000	–	–	–	12,000	–
Lease receivables	–	–	467	–	–	–	467	–
Total	$ 70,043	$ 119,352	$ 204,937	$ 4,533	$ 48,415	$ –	$ 323,395	$ 123,885

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	$ 15,725	$ 131,248	$ 513,145	$ 660,118
Production and intermediate-term	166,378	253,723	142,400	562,501
Loans to cooperatives	18,825	6,456	462	25,743
Processing and marketing	64,230	28,926	15,021	108,177
Farm-related business	5,920	11,854	7,164	24,938
Communication	60,270	6,704	23	66,997
Energy and water/waste disposal	14,849	1,492	9,195	25,536
Rural residential real estate	576	4,120	16,740	21,436
International	7,005	5,000	–	12,005
Lease receivables	49	142	–	191
Other (including Mission Related)	–	515	3,161	3,676
Total Loans	$ 353,827	$ 450,180	$ 707,311	$ 1,511,318
Percentage	23.41%	29.79%	46.80%	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	95.68%	96.12%
OAEM	2.40	1.58
Substandard/doubtful/loss	1.92	2.30
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	91.77%	91.90%
OAEM	5.44	2.41
Substandard/doubtful/loss	2.79	5.69
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	99.82%
OAEM	–	0.18
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	96.03%	91.18%
OAEM	0.41	0.50
Substandard/doubtful/loss	3.56	8.32
	100.00%	100.00%
Farm-related business:		
Acceptable	96.79%	97.55%
OAEM	2.05	2.40
Substandard/doubtful/loss	1.16	0.05
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2014	December 31, 2013
Energy and water/waste disposal:		
Acceptable	98.31%	99.12%
OAEM	–	–
Substandard/doubtful/loss	1.69	0.88
	100.00%	100.00%
Rural residential real estate:		
Acceptable	91.28%	91.30%
OAEM	3.13	2.61
Substandard/doubtful/loss	5.59	6.09
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	15.89%	31.32%
OAEM	74.08	59.43
Substandard/doubtful/loss	10.03	9.25
	100.00%	100.00%
Other (including Mission Related)		
Acceptable	6.78%	6.96%
OAEM	–	–
Substandard/doubtful/loss	93.22	93.04
	100.00%	100.00%
Total loans:		
Acceptable	94.32%	94.16%
OAEM	3.19	1.75
Substandard/doubtful/loss	2.49	4.09
	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 and Accrued Interest	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 2,063	$ 715	$ 2,778	$ 660,888	$ 663,666	$ –
Production and intermediate-term	5,231	4,921	10,152	554,763	564,915	–
Loans to cooperatives	–	–	–	25,770	25,770	–
Processing and marketing	–	–	–	108,364	108,364	–
Farm-related business	36	–	36	24,987	25,023	–
Communication	–	–	–	67,054	67,054	–
Energy and water/waste disposal	–	–	–	25,572	25,572	–
Rural residential real estate	17	66	83	21,449	21,532	–
International	–	–	–	12,083	12,083	–
Lease receivables	–	19	19	173	192	–
Other (including Mission Related)	–	3,428	3,428	249	3,677	–
Total	$ 7,347	$ 9,149	$ 16,496	$ 1,501,352	$ 1,517,848	$ –

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 and Accrued Interest	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,514	$ 2,766	$ 4,280	$ 640,162	$ 644,442	$ –
Production and intermediate-term	1,825	5,984	7,809	578,154	585,963	–
Loans to cooperatives	–	–	–	18,340	18,340	–
Processing and marketing	–	–	–	90,843	90,843	–
Farm-related business	56	–	56	23,562	23,618	–
Communication	–	–	–	63,645	63,645	–
Energy and water/waste disposal	–	–	–	26,618	26,618	–
Rural residential real estate	241	–	241	22,364	22,605	–
International	–	–	–	12,067	12,067	–
Lease receivables	–	24	24	233	257	–
Other (including Mission Related)	–	3,675	3,675	276	3,951	–
Total	$ 3,636	$ 12,449	$ 16,085	$ 1,476,264	$ 1,492,349	$ –

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	$ 5,820	$ 8,821
Production and intermediate-term	14,211	17,750
Processing and marketing	40	45
Energy and water/waste disposal	432	234
Rural residential real estate	96	108
Lease receivables	19	24
Other (including Mission Related)	3,404	3,648
Total nonaccrual loans	$ 24,022	$ 30,630
Accruing restructured loans:		
Real estate mortgage	$ 2,107	$ 2,390
Production and intermediate-term	6,034	6,471
Total accruing restructured loans	$ 8,141	$ 8,861
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	–
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 32,163	$ 39,491
Other property owned	–	83
Total nonperforming assets	$ 32,163	$ 39,574
Nonaccrual loans as a percentage of total loans	1.59%	2.06%
Nonperforming assets as a percentage of total loans and other property owned	2.13%	2.66%
Nonperforming assets as a percentage of capital	10.47%	13.61%

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	$ 10,109	$ 16,529
Past due	13,913	14,101
Total	24,022	30,630
Impaired accrual loans:		
Restructured	8,141	8,861
90 days or more past due	–	–
Total	8,141	8,861
Total impaired loans	$ 32,163	$ 39,491

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	6,778	8,352	3,191	6,981	35	7,465	149
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Energy and water/waste disposal	432	443	432	445	2	475	10
Rural residential real estate	–	–	–	–	–	–	–
Lease receivables	–	–	–	–	–	–	–
Other (including Mission Related)	3,158	3,252	151	3,253	16	3,479	70
Total	$ 10,368	$ 12,047	$ 3,774	$ 10,679	$ 53	$ 11,419	$ 229
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 7,927	$ 9,125	$ –	$ 8,164	$ 40	$ 8,730	$ 175
Production and intermediate-term	13,467	15,803	–	13,869	68	14,831	298
Processing and marketing	40	38	–	42	–	45	1
Farm-related business	–	–	–	–	–	–	–
Energy and water/waste disposal	–	–	–	–	–	–	–
Rural residential real estate	96	192	–	99	1	106	2
Lease receivables	19	72	–	20	–	21	–
Other (including Mission Related)	246	319	–	253	1	270	5
Total	$ 21,795	$ 25,549	$ –	$ 22,447	$ 110	$ 24,003	$ 481
Total impaired loans:							
Real estate mortgage	$ 7,927	$ 9,125	$ –	$ 8,164	$ 40	$ 8,730	$ 175
Production and intermediate-term	20,245	24,155	3,191	20,850	103	22,296	447
Processing and marketing	40	38	–	42	–	45	1
Farm-related business	–	–	–	–	–	–	–
Energy and water/waste disposal	432	443	432	445	2	475	10
Rural residential real estate	96	192	–	99	1	106	2
Lease receivables	19	72	–	20	–	21	–
Other (including Mission Related)	3,404	3,571	151	3,506	17	3,749	75
Total	$ 32,163	$ 37,596	$ 3,774	$ 33,126	$ 163	$ 35,422	$ 710

	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	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	8,300	9,768	2,391	8,542	177
Energy and water/waste disposal	234	241	234	241	5
Rural residential real estate	–	–	–	–	–
Other (including Mission Related)	3,168	3,262	298	3,261	67
Total	$ 11,702	$ 13,271	$ 2,923	$ 12,044	$ 249
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 11,211	$ 12,352	$ –	$ 11,538	$ 239
Production and intermediate-term	15,921	18,012	–	16,386	339
Processing and marketing	45	42	–	46	1
Energy and water/waste disposal	–	–	–	–	–
Rural residential real estate	108	199	–	112	2
Lease receivables	24	76	–	24	1
Other (including Mission Related)	480	555	–	494	11
Total	$ 27,789	$ 31,236	$ –	$ 28,600	593
Total impaired loans:					
Real estate mortgage	$ 11,211	$ 12,352	$ –	$ 11,538	$ 239
Production and intermediate-term	24,221	27,780	2,391	24,928	516
Processing and marketing	45	42	–	46	1
Energy and water/waste disposal	234	241	234	241	5
Rural residential real estate	108	199	–	112	2
Lease receivables	24	76	–	24	1
Other (including Mission Related)	3,648	3,817	298	3,755	78
Total	$ 39,491	$ 44,507	$ 2,923	$ 40,644	$ 842

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 for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	International	Lease receivables	Other (Including Mission Related)	Total
Allowance for credit losses:										
Balance at March 31, 2014	$ 1,392	$ 6,515	$ 1,290	$ 267	$ 760	$ 385	$ 18	$ 64	$ –	$ 10,691
Charge-offs	(1)	(98)	–	–	–	–	–	–	–	(99)
Recoveries	11	–	–	–	–	–	–	–	–	11
Provision for loan losses	152	449	(212)	98	–	23	1	(2)	154	663
Balance at June 30, 2014	$ 1,554	$ 6,866	$ 1,078	$ 365	$ 760	$ 408	$ 19	$ 62	$ 154	$ 11,266
Balance at December 31, 2013	$ 1,546	$ 7,304	$ 1,206	$ 282	$ 563	$ 414	$ 19	$ 74	$ 300	$ 11,708
Charge-offs	(1)	(98)	–	–	–	–	–	–	–	(99)
Recoveries	11	–	–	–	–	–	–	–	–	11
Provision for loan losses	(2)	(341)	(128)	83	197	(6)	1	(12)	(146)	(354)
Balance at June 30, 2014	$ 1,554	$ 6,865	$ 1,078	$ 365	$ 760	$ 408	$ 20	$ 62	$ 154	$ 11,266
Balance at March 31, 2013	$ 1,868	$ 6,625	$ 803	$ 346	$ 886	$ 441	$ 26	$ 34	$ 181	$ 11,210
Charge-offs	–	(62)	–	–	–	–	–	(5)	–	(67)
Recoveries	73	20	309	–	–	–	–	–	–	402
Provision for loan losses	(267)	1,760	(592)	(97)	(233)	10	(1)	47	–	627
Balance at June 30, 2013	$ 1,674	$ 8,343	$ 520	$ 249	$ 653	$ 451	$ 25	$ 76	$ 181	$ 12,172
Balance at December 31, 2012	$ 1,926	$ 6,533	$ 810	$ 288	$ 487	$ 417	$ 25	$ 37	$ 181	$ 10,704
Charge-offs	(11)	(77)	–	–	–	–	–	(5)	–	(93)
Recoveries	78	34	309	–	–	–	–	–	–	421
Provision for loan losses	(319)	1,853	(599)	(39)	166	34	–	44	–	1,140
Balance at June 30, 2013	$ 1,674	$ 8,343	$ 520	$ 249	$ 653	$ 451	$ 25	$ 76	$ 181	$ 12,172
Loans individually evaluated for impairment	$ –	$ 3,191	$ –	$ –	$ 432	$ –	$ –	$ –	$ 151	$ 3,774
Loans collectively evaluated for impairment	1,554	3,674	1,078	365	328	408	20	62	3	7,492
Balance at June 30, 2014	$ 1,554	$ 6,865	$ 1,078	$ 365	$ 760	$ 408	$ 20	$ 62	$ 154	$ 11,266
Loans individually evaluated for impairment	$ –	$ 2,391	$ –	$ –	$ 234	$ –	$ –	$ –	$ 298	$ 2,923
Loans collectively evaluated for impairment	1,546	4,913	1,206	282	329	414	19	74	2	8,785
Balance at December 31, 2013	$ 1,546	$ 7,304	$ 1,206	$ 282	$ 563	$ 414	$ 19	$ 74	$ 300	$ 11,708
Recorded investment in loans outstanding:										
Loans individually evaluated for impairment	$ 4,241	$ 12,853	$ –	$ –	$ 432	$ –	$ –	$ –	$ 3,428	$ 20,954
Loans collectively evaluated for impairment	659,425	552,062	159,157	67,054	25,140	21,532	12,083	192	249	1,496,894
Ending balance at June 30, 2014	$ 663,666	$ 564,915	$ 159,157	$ 67,054	$ 25,572	$ 21,532	$ 12,083	$ 192	$ 3,677	$ 1,517,848
Loans individually evaluated for impairment	$ 6,213	$ 15,493	$ –	$ –	$ 234	$ –	$ –	$ –	$ 3,675	$ 25,615
Loans collectively evaluated for impairment	638,229	570,470	132,801	63,645	26,384	22,605	12,068	257	275	1,466,734
Ending balance at December 31, 2013	$ 644,442	$ 585,963	$ 132,801	$ 63,645	$ 26,618	$ 22,605	$ 12,068	$ 257	$ 3,950	$ 1,492,349

**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	$ –	$ 173	$ –	$ 173	
Production and intermediate-term	–	178	–	178	
Total	$ –	$ 351	$ –	$ 351	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	$ –	$ 159	$ –	$ 159	$ –
Production and intermediate-term	–	164	–	164	–
Total	$ –	$ 323	$ –	$ 323	$ –

	Three months ended June 30, 2013				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	$ 120	$ –	$ –	$ 120	
Production and intermediate-term	–	355	–	355	
Total	$ 120	$ 355	$ –	$ 475	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	$ 116	$ –	$ –	$ 116	$ (11)
Production and intermediate-term	–	355	–	355	–
Total	$ 116	$ 355	$ –	$ 471	$ (11)

	Six months ended June 30, 2013				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	$ 120	$ –	$ –	$ 120	
Production and intermediate-term	–	355	–	355	
Total	$ 120	$ 355	$ –	$ 475	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	$ 116	$ –	$ –	$ 116	$ (11)
Production and intermediate-term	–	355	–	355	–
Total	$ 116	$ 355	$ –	$ 471	$ (11)

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	2014
Real estate mortgage	$ 268	$ –	$ 268	$ –
Production and intermediate-term	254	158	254	219
Rural residential real estate	66	–	66	–
Total	$ 588	$ 158	$ 588	$ 219

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	$ 3,084	$ 4,276	$ 977	$ 1,886
Production and intermediate-term	12,613	15,066	6,579	8,595
Rural residential real estate	66	67	66	67
Total Loans	$ 15,763	$ 19,409	$ 7,622	$ 10,548
Additional commitments to lend	$ 934	$ 864		

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 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.

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	$ 2,311	$ 72	$ –	$ 2,383	6.23%

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments	$ 2,342	$ –	$ (89)	$ 2,253	6.23%

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	–	–	–
After ten years	2,311	2,383	6.23
Total	$ 2,311	$ 2,383	6.23%

All of these investments have 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 table shows 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 based on the date the impairment was first identified. The Association had no investments that have been in a continuous unrealized loss position at June 30, 2014.

December 31, 2013	Less than 12 Months		Greater than 12 Months	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission Related Investments	$ 2,253	$ (89)	$ –	$ –

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 tables present 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	$ (25)	$ (41)	$ (25)	$ (41)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	–	–	–	–
Net current period other comprehensive income	–	–	–	–
Balance at end of period	$ (25)	$ (41)	$ (25)	$ (41)

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	$ –	$ –	$ –	$ –	See Note 7.
Net amounts reclassified	$ –	$ –	$ –	$ –	

(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 8.43 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 $132 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 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	$ 133	$ 228
Issuances	–	–
Settlements	(34)	(104)
Balance at end of period	$ 99	$ 124

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	$ 28,389	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/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Prepayment forecasts 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
<u>Recurring Measurements</u>						
Assets:						
Assets held in Trust funds	$ 489	$ 489	$ –	$ –	$ 489	
Recurring Assets	$ 489	$ 489	$ –	$ –	$ 489	
Liabilities:						
Standby letters of credit	$ 99	$ –	$ –	$ 99	$ 99	
Recurring Liabilities	$ 99	$ –	$ –	$ 99	$ 99	
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans	$ 28,389	$ –	$ –	$ 28,389	$ 28,389	$ (937)
Other property owned	–	–	–	–	–	21
Nonrecurring Assets	$ 28,389	$ –	$ –	$ 28,389	$ 28,389	$ (916)
<u>Other Financial Instruments</u>						
Assets:						
Cash	$ 261	$ 261	$ –	$ –	$ 261	
Investment securities, held-to-maturity	2,311	–	–	2,383	2,383	
Loans	1,471,663	–	–	1,466,521	1,466,521	
Other Financial Assets	$ 1,474,235	$ 261	$ –	$ 1,468,904	$ 1,469,165	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,221,888	$ –	$ –	$ 1,215,527	$ 1,215,527	
Other Financial Liabilities	$ 1,221,888	$ –	$ –	$ 1,215,527	$ 1,215,527	

	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	$ 453	$ 453	$ –	$ –	$ 453	
Recurring Assets	$ 453	$ 453	$ –	$ –	$ 453	
Liabilities:						
Standby letters of credit	$ 133	$ –	$ –	$ 133	$ 133	
Recurring Liabilities	$ 133	$ –	$ –	$ 133	$ 133	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 36,568	$ –	$ –	$ 36,568	$ 36,568	$ (1,800)
Other property owned	83	–	–	94	94	(59)
Nonrecurring Assets	$ 36,651	$ –	$ –	$ 36,662	$ 36,662	$ (1,859)
Other Financial Instruments						
Assets:						
Cash	$ 228	$ 228	$ –	$ –	$ 228	
Investment securities, held-to-maturity	2,342	–	–	2,253	2,253	
Loans	1,439,098	–	–	1,429,842	1,429,842	
Other Financial Assets	$ 1,441,668	$ 228	$ –	$ 1,432,095	$ 1,432,323	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,221,761	$ –	$ –	$ 1,205,290	$ 1,205,290	
Other Financial Liabilities	$ 1,221,761	$ –	$ –	$ 1,205,290	$ 1,205,290	

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	$ 816	$ 804	$ 1,632	$ 1,608
401(k)	128	126	260	251
Other postretirement benefits	133	125	266	250
Total	$ 1,077	$ 1,055	$ 2,158	$ 2,109

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	$ 10	$ 2,562	$ 2,572
Other postretirement benefits	212	238	450
Total	$ 222	$ 2,800	$ 3,022

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 — Business Combination

In February 2014, the Boards of Directors of AgChoice Farm Credit, ACA and MidAtlantic Farm Credit, ACA signed a Letter of Intent to proceed with a process to explore the benefits of a merger. In May 2014, both Boards agreed to rescind the Letter of Intent and to terminate merger discussions at this time.

Note 10 — 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.