
AgChoice Farm Credit, ACA
THIRD QUARTER 2014

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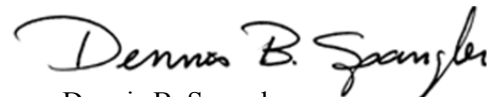
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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2014 quarterly report of **AgChoice** 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


Mark F. Kerstetter
Chief Financial Officer


Dennis B. Spangler
Chairman of the Board

November 7, 2014

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 September 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 September 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 September 30, 2014.



Darrell L. Curtis
Chief Executive Officer



Mark F. Kerstetter
Chief Financial Officer

November 7, 2014

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 September 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 September 30, 2014, was \$1,526,256, an increase of \$38,882 as compared to \$1,487,374 at December 31, 2013. Net loans outstanding at September 30, 2014, were \$1,515,647 as compared to \$1,475,666 at December 31, 2013. Net loans accounted for 96.9 percent of total assets at September 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 \$22,695 at September 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 \$10,609 and \$11,708 at September 30, 2014 and December 31, 2013, respectively. Also at September 30, 2014, the Association maintained a reserve for unfunded commitments of \$380 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 September 30, 2014, the Association had loans amounting to \$14,287 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 September 30, 2014

Net income for the three months ended September 30, 2014, totaled \$9,761, an increase of \$2,153 compared to \$7,608 for the same period in 2013. This increase resulted primarily from increased net interest income, a reversal of provision for allowance for loan losses in 2014 and increased patronage refunds from other Farm Credit institutions, offset by increased noninterest expense.

Net interest income increased by \$288 for the three months ended September 30, 2014 compared to the same period in 2013. This increase resulted from an increase of \$138 in interest income on nonaccruing loans and an increase of \$631 in interest income on accruing loans and investment securities as a result of volume growth compared to the prior year, offset by an increase of \$481 in interest expense.

The provision for allowance for loan losses was a reversal of \$674 in the second quarter of 2014 as compared to expense of \$814 in the same period for 2013, largely due to decreases in specific reserves.

Noninterest income for the three months ended September 30, 2014 increased by \$676 to \$4,342, compared to \$3,666 for the same period of 2013. This increase resulted primarily from a reduction in the reserve for unfunded commitments and increased patronage refunds from other Farm Credit institutions.

Noninterest expense for the three months ended September 30, 2014, increased \$328, 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 a benefit of \$46 and \$18 for the third quarters of 2014 and 2013, respectively.

For the nine months ended September 30, 2014

Net income for the nine months ended September 30, 2014, totaled \$26,356, as compared to \$24,217 for the same period in 2013, an increase of \$2,139. This increase resulted primarily from increased net interest income and a reversal of provision for allowance for loan losses, offset by increased noninterest expense and decreased noninterest income.

As of September 30, 2014, net interest income increased by \$933 compared to the same period in 2013. Interest income on accruing loans and investment securities increased \$1,507 compared to a year ago. Nonaccrual interest income was \$974 for the nine months ended September 30, 2014, as compared to \$687 for the same period in 2013. Interest expense increased \$861 for the nine months ended September 30, 2014, as compared to the same period in 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 as well as decreases in some specific reserves resulted in a \$1,029 reversal of provision for allowance for loan losses in the first nine months of 2014 as compared to expense of \$1,955 in 2013.

Noninterest income for the nine months ended September 30, 2014, totaled \$12,048, as compared to \$12,612 for the same period of 2013, a decrease of \$564. 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 and a decrease in loan fee income of \$165, offset by an increase of \$155 in patronage refunds partially due to larger loan volume and an increase in net gains of \$253 related to a reducing the reserve for unfunded commitments in 2014 as compared to 2013.

Noninterest expense for the nine months ended September 30, 2014, increased \$1,233, or 6.7 percent, compared to the same period of 2013. This increase was primarily due to higher personnel, FCSIC, travel, purchased services, and expenses on nonaccrual accounts.

The provision for income taxes was \$129 for the nine months ended September 30, 2014 as compared to \$148 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 September 30, 2014, was \$1,232,903 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 September 30, 2014 increased by \$17,617 to \$308,359 from the December 31, 2013 total of \$290,742. The increase is primarily attributed to year-to-date 2014 net income, offset by retired surplus.

Total capital stock and participation certificates were \$10,912 on September 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 September 30, 2014, the Association's permanent capital and total surplus ratios were 17.83 percent and 17.15 percent, respectively, and the core surplus ratio was 16.30 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 July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. 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.

On September 4, 2014, the FCA published a proposed rule in the Federal Register to modify the regulatory capital requirements for System banks and associations. The public comment period ends on January 2, 2015. 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).

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 AgChoice 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.

Ag Choice Farm Credit, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	September 30, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(audited)</i>
Assets		
Cash	\$ 44	\$ 228
Investment securities:		
Held to maturity (fair value of \$2,403 and \$2,253, respectively)	2,311	2,342
Loans	1,526,256	1,487,374
Allowance for loan losses	(10,609)	(11,708)
Net loans	1,515,647	1,475,666
Accrued interest receivable	7,034	4,987
Investments in other Farm Credit institutions	21,169	22,210
Premises and equipment, net	5,952	3,846
Other property owned	98	83
Accounts receivable	9,470	29,435
Other assets	2,641	4,993
Total assets	<u>\$ 1,564,366</u>	<u>\$ 1,543,790</u>
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,232,903	\$ 1,221,761
Accrued interest payable	1,678	1,741
Patronage refunds payable	662	15,413
Accounts payable	2,946	2,999
Other liabilities	17,818	11,134
Total liabilities	<u>1,256,007</u>	<u>1,253,048</u>
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	10,912	10,878
Surplus		
Allocated	143,695	152,204
Unallocated	153,777	127,685
Accumulated other comprehensive income (loss)	(25)	(25)
Total members' equity	<u>308,359</u>	<u>290,742</u>
Total liabilities and members' equity	<u>\$ 1,564,366</u>	<u>\$ 1,543,790</u>

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

Ag Choice Farm Credit, ACA
Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Interest Income				
Loans	\$ 17,673	\$ 16,903	\$ 52,575	\$ 50,779
Investments	36	37	109	111
Total interest income	17,709	16,940	52,684	50,890
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,729	6,248	19,552	18,691
Net interest income	10,980	10,692	33,132	32,199
Provision for (reversal of allowance for) loan losses	(674)	815	(1,029)	1,955
Net interest income after provision for (reversal of allowance for) loan losses	11,654	9,877	34,161	30,244
Noninterest Income				
Loan fees	258	422	973	1,138
Fees for financially related services	465	372	1,060	1,034
Patronage refunds from other Farm Credit institutions	3,229	2,931	9,128	9,835
Gains (losses) on sales of rural home loans, net	20	12	43	102
Gains (losses) on sales of premises and equipment, net	40	2	161	38
Gains (losses) on other transactions	324	(81)	538	285
Other noninterest income	6	8	145	180
Total noninterest income	4,342	3,666	12,048	12,612
Noninterest Expense				
Salaries and employee benefits	4,151	4,120	12,826	12,578
Occupancy and equipment	313	292	825	797
Insurance Fund premiums	356	285	1,051	831
(Gains) losses on other property owned, net	2	4	4	121
Other operating expenses	1,459	1,252	5,018	4,164
Total noninterest expense	6,281	5,953	19,724	18,491
Income before income taxes	9,715	7,590	26,485	24,365
Provision (benefit) for income taxes	(46)	(18)	129	148
Net income	\$ 9,761	\$ 7,608	\$ 26,356	\$ 24,217

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

Ag Choice Farm Credit, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$ 9,761	\$ 7,608	\$ 26,356	\$ 24,217
Other comprehensive income net of tax				
Employee benefit plans adjustments	—	1	—	1
Comprehensive income	\$ 9,761	\$ 7,609	\$ 26,356	\$ 24,218

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

Ag Choice Farm Credit, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Capital Stock and Participation Certificates	Surplus		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2012	\$ 10,895	\$ 137,817	\$ 115,558	\$ (41)	\$ 264,229
Comprehensive income			24,217	1	24,218
Capital stock/participation certificates issued/(retired), net	(59)				(59)
Dividends declared/paid	14		(14)		—
Surplus retired		(8,571)			(8,571)
Patronage distribution adjustment		95	(98)		(3)
Balance at September 30, 2013	\$ 10,850	\$ 129,341	\$ 139,663	\$ (40)	\$ 279,814
Balance at December 31, 2013	\$ 10,878	\$ 152,204	\$ 127,685	\$ (25)	\$ 290,742
Comprehensive income			26,356		26,356
Capital stock/participation certificates issued/(retired), net	21				21
Dividends declared/paid	13		(13)		—
Surplus retired		(8,761)			(8,761)
Patronage distribution adjustment		252	(251)		1
Balance at September 30, 2014	\$ 10,912	\$ 143,695	\$ 153,777	\$ (25)	\$ 308,359

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 AgChoice 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 August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, "Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an

Entity's Ability to Continue as a Going Concern." The Update is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under Generally Accepted Accounting Principles (GAAP), financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. The Update provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments in this Update apply to all companies and not-for-profit organizations and become effective in the annual period ending after December 15, 2016, with early application permitted.

In August 2014, the FASB issued ASU 2014-14, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." Currently, there is diversity in practice related to how creditors classify certain government-guaranteed mortgage loans upon foreclosure. The amendments in this Update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: 1. The loan has a government guarantee that is not separable from the loan before foreclosure; 2. At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim; 3. At the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For all other entities, the amendments in this Update are effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015.

In June 2014, the FASB issued ASU 2014-11, “Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures,” which changes the accounting for repurchase-to-maturity transactions and repurchase financing arrangements. It also requires enhanced disclosures about repurchase agreements and other similar transactions. The new guidance aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements such that, these transactions would all be accounted for as secured borrowings. The accounting changes in this Update are effective for public companies for the first interim or annual period beginning after December 15, 2014. In addition, for public companies, the disclosure for certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. For all other entities, all changes are effective for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. Earlier application for a public company is prohibited, but all other companies and organizations may elect to apply the requirements for interim periods beginning after December 15, 2014.

In May 2014, the 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. 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. The Association has identified ancillary revenues that will be subject to this guidance. However, 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 April 2014, the FASB issued ASU 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” The amendments in this Update change the requirements for reporting discontinued operations in Subtopic 205-20. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations only if the disposal represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. A public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market should apply the amendments in this Update prospectively to both of the following: (1) All disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years and (2) All businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years.

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:

	September 30, 2014	December 31, 2013
Real estate mortgage	\$ 667,639	\$ 642,117
Production and intermediate-term	564,234	583,862
Loans to cooperatives	26,930	18,309
Processing and marketing	105,755	90,613
Farm-related business	33,284	23,562
Communication	65,249	63,583
Energy and water/waste disposal	18,031	26,609
Rural residential real estate	29,375	22,528
International	12,003	11,988
Lease receivables	178	255
Other (including Mission Related)	3,578	3,948
Total loans	\$ 1,526,256	\$ 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 and syndication loan balances at periods ended:

	September 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	\$ 8,411	\$ 50,983	\$ 10,317	\$ —	\$ —	\$ —	\$ 18,728	\$ 50,983
Production and intermediate-term	24,192	42,917	66,505	3,844	7,454	—	98,151	46,761
Loans to cooperatives	8,545	—	18,295	—	—	—	26,840	—
Processing and marketing	27,654	338	53,233	—	32,328	—	113,215	338
Farm-related business	—	250	—	—	—	—	—	250
Communication	—	—	65,330	—	—	—	65,330	—
Energy and water/waste disposal	3,865	—	14,187	—	—	—	18,052	—
Rural residential real estate	—	595	—	—	—	—	—	595
Lease receivables	—	—	453	—	—	—	453	—
International	—	—	12,000	—	—	—	12,000	—
Other (including Mission Related)	1,261	—	—	—	—	—	1,261	—
Total	\$ 73,928	\$ 95,083	\$ 240,320	\$ 3,844	\$ 39,782	\$ —	\$ 354,030	\$ 98,927

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:

	September 30, 2014			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 12,886	\$ 139,102	\$ 515,651	\$ 667,639
Production and intermediate-term	91,546	298,099	174,589	564,234
Loans to cooperatives	1,426	19,429	6,075	26,930
Processing and marketing	6,634	65,008	34,113	105,755
Farm-related business	5,642	19,763	7,879	33,284
Communication	12,070	37,845	15,334	65,249
Energy and water/waste disposal	425	7,799	9,807	18,031
Rural residential real estate	524	6,476	22,375	29,375
International	-	5,003	7,000	12,003
Lease receivables	42	136	-	178
Other (including Mission Related)	270	229	3,079	3,578
Total Loans	\$ 131,465	\$ 598,889	\$ 795,902	\$ 1,526,256
Percentage	8.61%	39.24%	52.15%	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:

	September 30, 2014	December 31, 2013		September 30, 2014	December 31, 2013
Real estate mortgage:			Energy and water/waste disposal:		
Acceptable	95.72%	96.12%	Acceptable	97.65%	99.12%
OAEM	1.87	1.58	OAEM	-	-
Substandard/doubtful/loss	2.41	2.30	Substandard/doubtful/loss	2.35	0.88
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Rural residential real estate:		
Acceptable	93.20%	91.90%	Acceptable	93.73%	91.30%
OAEM	4.00	2.41	OAEM	2.25	2.61
Substandard/doubtful/loss	2.80	5.69	Substandard/doubtful/loss	4.02	6.09
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			International:		
Acceptable	100.00%	99.82%	Acceptable	100.00%	100.00%
OAEM	-	0.18	OAEM	-	-
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Lease receivables:		
Acceptable	95.53%	91.18%	Acceptable	14.15%	31.32%
OAEM	0.54	0.50	OAEM	76.37	59.43
Substandard/doubtful/loss	3.93	8.32	Substandard/doubtful/loss	9.48	9.25
	100.00%	100.00%		100.00%	100.00%
Farm-related business:			Other (including Mission Related)		
Acceptable	98.19%	97.55%	Acceptable	6.51%	6.96%
OAEM	0.96	2.40	OAEM	-	-
Substandard/doubtful/loss	0.85	0.05	Substandard/doubtful/loss	93.49	93.04
	100.00%	100.00%		100.00%	100.00%
Communication:			Total loans:		
Acceptable	96.27%	100.00%	Acceptable	94.72%	94.16%
OAEM	3.73	-	OAEM	2.57	1.75
Substandard/doubtful/loss	-	-	Substandard/doubtful/loss	2.71	4.09
	100.00%	100.00%		100.00%	100.00%

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

September 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	\$ 2,647	\$ 848	\$ 3,495	\$ 667,871	\$ 671,366	\$ -
Production and intermediate-term	3,563	7,915	11,478	555,351	566,829	-
Loans to cooperatives	-	-	-	26,955	26,955	-
Processing and marketing	-	-	-	105,954	105,954	-
Farm-related business	26	-	26	33,371	33,397	-
Communication	-	-	-	65,305	65,305	-
Energy and water/waste disposal	-	-	-	18,065	18,065	-
Rural residential real estate	423	66	489	29,082	29,571	-
International	-	-	-	12,042	12,042	-
Lease receivables	-	17	17	162	179	-
Other (including Mission Related)	-	3,346	3,346	233	3,579	-
Total	\$ 6,659	\$ 12,192	\$ 18,851	\$ 1,514,391	\$ 1,533,242	\$ -

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:

	September 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	\$ 5,621	\$ 8,821
Production and intermediate-term	13,187	17,750
Processing and marketing	36	45
Energy and water/waste disposal	424	234
Rural residential real estate	89	108
Lease receivables	17	24
Other (including Mission Related)	3,321	3,648
Total	\$ 22,695	\$ 30,630
Accruing restructured loans:		
Real estate mortgage	\$ 2,707	\$ 2,390
Production and intermediate-term	5,972	6,471
Total	\$ 8,679	\$ 8,861
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ -	\$ -
Production and intermediate-term	-	-
Total	\$ -	\$ -
Total nonperforming loans	\$ 31,374	\$ 39,491
Other property owned	98	83
Total nonperforming assets	\$ 31,472	\$ 39,574
Nonaccrual loans as a percentage of total loans	1.49%	2.06%
Nonperforming assets as a percentage of total loans and other property owned	2.06%	2.66%
Nonperforming assets as a percentage of capital	10.21%	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.

	September 30, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 9,097	\$ 16,529
Past due	13,598	14,101
Total	<u>22,695</u>	<u>30,630</u>
Impaired accrual loans:		
Restructured	8,679	8,861
90 days or more past due	-	-
Total	<u>8,679</u>	<u>8,861</u>
Total impaired loans	<u>\$ 31,374</u>	<u>\$ 39,491</u>

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

	September 30, 2014			Quarter Ended September 30, 2014		Nine Months Ended September 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	\$ 2	\$ 319	\$ 1	\$ 2	\$ -	\$ 2	\$ -
Production and intermediate-term	5,892	7,458	2,240	6,022	49	6,440	183
Processing and marketing	-	-	-	-	-	-	-
Farm-related business	-	-	-	-	-	-	-
Energy and water/waste disposal	425	443	425	434	4	464	13
Rural residential real estate	-	-	-	-	-	-	-
Lease receivables	-	-	-	-	-	-	-
Other (including Mission Related)	3,077	3,171	146	3,144	26	3,363	96
Total	<u>\$ 9,396</u>	<u>\$ 11,391</u>	<u>\$ 2,812</u>	<u>\$ 9,602</u>	<u>\$ 79</u>	<u>\$ 10,269</u>	<u>\$ 292</u>
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 8,326	\$ 9,104	\$ -	\$ 8,509	\$ 70	\$ 9,100	\$ 259
Production and intermediate-term	13,266	15,686	-	13,557	112	14,500	412
Processing and marketing	36	33	-	37	-	40	1
Farm-related business	-	-	-	-	-	-	-
Energy and water/waste disposal	-	-	-	-	-	-	-
Rural residential real estate	89	189	-	91	1	98	3
Lease receivables	17	70	-	17	-	18	1
Other (including Mission Related)	244	318	-	250	2	266	7
Total	<u>\$ 21,978</u>	<u>\$ 25,400</u>	<u>\$ -</u>	<u>\$ 22,461</u>	<u>\$ 185</u>	<u>\$ 24,022</u>	<u>\$ 683</u>
Total impaired loans:							
Real estate mortgage	\$ 8,328	\$ 9,423	\$ 1	\$ 8,511	\$ 70	\$ 9,102	\$ 259
Production and intermediate-term	19,158	23,144	2,240	19,579	161	20,940	595
Processing and marketing	36	33	-	37	-	40	1
Farm-related business	-	-	-	-	-	-	-
Energy and water/waste disposal	425	443	425	434	4	464	13
Rural residential real estate	89	189	-	91	1	98	3
Lease receivables	17	70	-	17	-	18	1
Other (including Mission Related)	3,321	3,489	146	3,394	28	3,629	103
Total	<u>\$ 31,374</u>	<u>\$ 36,791</u>	<u>\$ 2,812</u>	<u>\$ 32,063</u>	<u>\$ 264</u>	<u>\$ 34,291</u>	<u>\$ 975</u>

	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
Activity related to the allowance for credit losses:										
Balance at June 30, 2014	\$ 1,554	\$ 6,865	\$ 1,078	\$ 365	\$ 760	\$ 408	\$ 20	\$ 62	\$ 154	\$ 11,266
Charge-offs	–	–	–	–	–	–	–	–	–	–
Recoveries	–	17	–	–	–	–	–	–	–	17
Provision for loan losses	61	(741)	68	47	(128)	29	1	(3)	(8)	(674)
Balance at September 30, 2014	\$ 1,615	\$ 6,141	\$ 1,146	\$ 412	\$ 632	\$ 437	\$ 21	\$ 59	\$ 146	\$ 10,609
Balance at December 31, 2013	\$ 1,546	\$ 7,304	\$ 1,206	\$ 282	\$ 563	\$ 414	\$ 19	\$ 74	\$ 300	\$ 11,708
Charge-offs	–	(97)	–	–	–	–	–	–	–	(97)
Recoveries	10	17	–	–	–	–	–	–	–	27
Provision for loan losses	59	(1,083)	(60)	130	69	23	2	(15)	(154)	(1,029)
Balance at September 30, 2014	\$ 1,615	\$ 6,141	\$ 1,146	\$ 412	\$ 632	\$ 437	\$ 21	\$ 59	\$ 146	\$ 10,609
Balance at June 30, 2013	\$ 1,674	\$ 8,343	\$ 520	\$ 249	\$ 653	\$ 451	\$ 25	76	\$ 181	\$ 12,172
Charge-offs	–	(42)	–	–	–	–	–	–	–	(42)
Recoveries	–	12	–	–	–	–	–	–	–	12
Provision for loan losses	124	397	347	59	(43)	31	(9)	9	(100)	815
Balance at September 30, 2013	\$ 1,798	\$ 8,710	\$ 867	\$ 308	\$ 610	\$ 482	\$ 16	\$ 85	\$ 81	\$ 12,957
Balance at December 31, 2012	\$ 1,926	\$ 6,533	\$ 810	\$ 288	\$ 487	\$ 417	\$ 25	\$ 37	\$ 181	\$ 10,704
Charge-offs	(11)	(119)	–	–	–	–	–	(5)	–	(135)
Recoveries	78	46	309	–	–	–	–	–	–	433
Provision for loan losses	(195)	2,250	(252)	20	123	65	(9)	53	(100)	1,955
Balance at September 30, 2013	\$ 1,798	\$ 8,710	\$ 867	\$ 308	\$ 610	\$ 482	\$ 16	\$ 85	\$ 81	\$ 12,957
Allowance on loans evaluated for impairment:										
Individually	\$ 1	\$ 2,240	\$ –	\$ –	\$ 425	\$ –	\$ –	\$ –	\$ 146	\$ 2,812
Collectively	1,614	3,901	1,146	412	207	437	21	59	–	7,797
Balance at September 30, 2014	\$ 1,615	\$ 6,141	\$ 1,146	\$ 412	\$ 632	\$ 437	\$ 21	\$ 59	\$ 146	\$ 10,609
Individually	\$ –	\$ 2,391	\$ –	\$ –	\$ 234	\$ –	\$ –	\$ –	\$ 298	\$ 2,923
Collectively	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 evaluated for impairment:										
Individually	\$ 3,661	\$ 11,929	\$ –	\$ –	\$ 425	\$ –	\$ –	\$ –	\$ 3,346	\$ 19,361
Collectively	667,641	554,965	166,305	65,305	17,640	29,571	12,042	179	233	1,513,881
Balance at September 30, 2014	\$ 671,302	\$ 566,894	\$ 166,305	\$ 65,305	\$ 18,065	\$ 29,571	\$ 12,042	\$ 179	\$ 3,579	\$ 1,533,242
Individually	\$ 6,213	\$ 15,493	\$ –	\$ –	\$ 234	\$ –	\$ –	\$ –	\$ 3,675	\$ 25,615
Collectively	638,229	570,470	132,801	63,645	26,384	22,605	12,068	257	275	1,466,734
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.

	Three months ended September 30, 2014				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding					
Recorded Investment					
Real estate mortgage	\$ –	\$ –	\$ –	\$ –	–
Production and intermediate-term	185	488	–	673	–
Total	\$ 185	\$ 488	\$ –	\$ 673	–
Post-modification Outstanding					
Recorded Investment					
Real estate mortgage	\$ 185	\$ –	\$ –	\$ 185	\$ –
Production and intermediate-term	–	370	–	370	–
Total	\$ 185	\$ 370	\$ –	\$ 555	\$ –

Nine months ended September 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	185	666	–	851	
Total	\$ 185	\$ 839	\$ –	\$ 1,024	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	\$ 185	\$ 159	\$ –	\$ 344	\$ –
Production and intermediate-term	–	534	–	534	–
Total	\$ 185	\$ 693	\$ –	\$ 878	\$ –

Three months ended September 30, 2013					
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	\$ 204	\$ 220	\$ –	\$ 424	
Production and intermediate-term	–	701	–	701	
Total	\$ 204	\$ 921	\$ –	\$ 1,125	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	\$ 204	\$ 220	\$ –	\$ 424	\$ –
Production and intermediate-term	–	696	–	696	–
Total	\$ 204	\$ 916	\$ –	\$ 1,120	\$ –

Nine months ended September 30, 2013					
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	\$ 324	\$ 220	\$ –	\$ 544	
Production and intermediate-term	–	1,056	–	1,056	
Total	\$ 324	\$ 1,276	\$ –	\$ 1,600	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	\$ 320	\$ 220	\$ –	\$ 540	\$ (11)
Production and intermediate-term	–	1,051	–	1,051	–
Total	\$ 320	\$ 1,271	\$ –	\$ 1,591	\$ (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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Defaulted troubled debt restructurings:				
Real estate mortgage	\$ 259	\$ –	\$ 527	\$ –
Production and intermediate-term	444	–	698	–
Rural residential real estate	66	–	132	–
Total	\$ 769	\$ –	\$ 1,357	\$ –

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	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Real estate mortgage	\$ 3,334	\$ 4,276	\$ 627	\$ 1,886
Production and intermediate-term	12,569	15,066	6,597	8,595
Rural residential real estate	66	67	66	67
Total Loans	\$ 15,969	\$ 19,409	\$ 7,290	\$ 10,548
Additional commitments to lend	\$ 1,067	\$ 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:

	September 30, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments	\$ 2,311	\$ 92	\$ -	\$ 2,403	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:

	September 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	2,403	6.23
Total	\$ 2,311	\$ 2,403	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 September 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)	\$ -	\$ -

FRB 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.

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in the Bank of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owns 8.43 percent of the issued stock of the Bank as of September 30, 2014 net of any reciprocal investment. As of that date, the Bank's assets totaled \$29.0 billion and shareholders' equity totaled \$2.4 billion. The Bank's earnings were \$282 million for the first nine months of 2014. In addition, the Association has an investment of \$132 related to other Farm Credit institutions.

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		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Employee Benefit Plans:				
Balance at beginning of period	\$ (25)	\$ (41)	\$ (25)	\$ (41)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	—	1	—	1
Net current period other comprehensive income	—	1	—	1
Balance at end of period	\$ (25)	\$ (40)	\$ (25)	\$ (40)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				
	For the three months ended		For the nine months ended		Income Statement Line Item
	September 30,		September 30,		
2014	2013	2014	2013		
Defined Benefit Pension Plans:					
Periodic pension costs	\$ —	\$ (1)	\$ —	\$ (1)	See Note 7.
Net amounts reclassified	\$ —	\$ (1)	\$ —	\$ (1)	

(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 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.

There were no 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.

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.

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	\$ 28,680	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 Nine Months Ended September 30, 2014

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	\$ 500	\$ 500	\$ -	\$ -	\$ 500	
Recurring Assets	\$ 500	\$ 500	\$ -	\$ -	\$ 500	
Liabilities:						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 28,562	\$ -	\$ -	\$ 28,562	\$ 28,562	\$ 42
Other property owned	98	-	-	118	118	21
Nonrecurring Assets	\$ 28,660	\$ -	\$ -	\$ 28,680	\$ 28,680	\$ 63
Other Financial Instruments						
Assets:						
Cash	\$ 44	\$ 44	\$ -	\$ -	\$ 44	
Investment securities, held-to-maturity	2,311	-	-	2,403	2,403	
Loans	1,487,085	-	-	1,488,341	1,488,341	
Other Financial Assets	\$ 1,489,440	\$ 44	\$ -	\$ 1,490,744	\$ 1,490,788	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	\$ 1,232,903	\$ -	\$ -	\$ 1,224,137	\$ 1,224,137	
Other Financial Liabilities	\$ 1,232,903	\$ -	\$ -	\$ 1,224,137	\$ 1,224,137	

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:						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
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 September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Pension	\$ 817	\$ 804	\$ 2,449	\$ 2,412
401(k)	130	124	390	375
Other postretirement benefits	132	125	398	375
Total	\$ 1,079	\$ 1,053	\$ 3,237	\$ 3,162

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

	Actual YTD Through 9/30/14	Projected Contributions For Remainder of 2014	Projected Total Contributions 2014
	Pension	\$ 15	\$ 2,557
Other postretirement benefits	309	141	450
Total	\$ 324	\$ 2,698	\$ 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 percent 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 percent 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 that, except as described below, there are none requiring disclosure through November 7, 2014, which is the date the financial statements were issued.

On October 20, 2014, AgFirst’s Board of Directors declared a special patronage distribution to be paid on January 1, 2015. The Association will receive approximately \$15,472 which will be recorded in October 2014 as patronage refunds from other Farm Credit institutions.