AgCarolina Farm Credit, ACA

THIRD QUARTER 2014

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2014 quarterly report of AgCarolina 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.

Audie M. Murphy
Chairman of the Board

David W. Corum
President
Chief Executive Officer

Matthew J. Currin
Senior Vice President
Chief Financial Officer

November 7, 2014

AgCarolina 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 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.

David W. Corum
President
Chief Executive Officer

Matthew J. Currin
Senior Vice President
Chief Financial Officer

November 7, 2014

AgCarolina 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 AgCarolina Farm Credit, ACA (Association) for the nine months ended September 30, 2014. Effective September 1, 2012, AgCarolina Financial, ACA, changed its name to AgCarolina Farm Credit, ACA. 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.

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. Predominant commodities in the portfolio are tobacco, soybeans, and forestry, which constitute $403,827 or 38.31 percent, of the loan portfolio as of September 30, 2014. Other major farm commodities include swine, poultry, cotton, corn, and field crops. 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, somewhat reduces the level of dependency on a given commodity.

The net loan volume of the Association as of September 30, 2014, was $1,015,114, an increase of $111,865 or 12.38 percent as compared to $903,250 at December 31, 2013. Net loans accounted for 95.27 percent of total assets at September 30, 2014 as compared to 92.04 percent of total assets at December 31, 2013. The increase in net loan volume during the reporting period is primarily attributed to seasonal lending and growth from new agricultural customers. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and declines in the fall and winter months as farm commodities are marketed and proceeds are applied to the operating loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans decreased from $20,182 at December 31, 2013 to $15,548 at September 30, 2014, a decrease of $4,634 or 22.96 percent. The decrease is due to liquidations of certain nonaccrual accounts throughout 2014.

Association management maintains an allowance for loan losses at a level considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2014 was $13,519 as compared to $13,697 at December 31, 2013, a decrease of $178. The main reason for this decrease was a reversal in the provision in the amount of $121 and net charge-offs of $153. The ratio of the allowance for loan losses to total loans at September 30, 2014 was 1.31 percent, which was slightly lower than the prior year end. The allowance was considered by management to be adequate to cover possible losses.

Other investments consists of tobacco buyout Successor-in-Interest Contracts (SIIC) which come under the FCA's Mission Related Investments. Under the SIIC, the tobacco quota holders and producers may assign their rights to receive tobacco buyout contract payments to a third party. The third party, or successor, purchases the entire contract and all related rights and obligations associated with the contract. All SIIC contracts were satisfied with the USDA's final payment in January 2014.

Other property owned was $56 as of September 30, 2014, which was a decrease of $347 from the December 31, 2013 balance of $403. This was the result of one property being sold in the first quarter of 2014. The Association is actively marketing all properties for resale.

RESULTS OF OPERATIONS

For the three months ended September 30, 2014

Net income for the three months ended September 30, 2014 totaled $5,436, an increase of $792 or 17.05 percent, as compared to the same period of 2013. The primary reason for the increase in net income as compared to the previous period is due to an increase in net interest income of $750 and a favorable variance in the provision for loan losses of $126. Noninterest income also increased by $41 and noninterest expense increased by $127.

For the three months ended September 30, 2014, total interest income increased by $998 compared to the same period of 2013. The increase in interest income is due primarily to growth in loan volume over the same period in 2013. Interest income from nonaccrual loans was $397 for the three months ended September 30, 2014, an increase of $263 from the same period of 2013. Interest expense increased $248 for the three months ended September 30, 2014, as compared to the same period of 2013. The increase in interest expense is attributed to growth in the direct note due to loan volume growth which was offset by an increase in earnings on loanable funds.

Noninterest income for the three months ended September 30, 2014 totaled $2,486 as compared to $2,445 for the same period of 2013, an increase of $41. The overall increase is primarily due to the increase in patronage income from other Farm Credit Institutions. . General patronage income from AgFirst and other sources actually increased in correlation with loan and direct note growth. Loan fees and fees for financially related services decreased $116 for the period.

Noninterest expense for the three months ended September 30, 2014 was $4,473, an increase of $127, or 2.92 percent as compared to the same period of 2013. The reason for the overall increase is due primarily to an increase in salaries and employee benefits in the amount of $109, and an increase in insurance fund premiums of $58. The increase in salaries and employee benefits is primarily due to additional hiring and normal salary increases and increased benefit costs, most notably health insurance costs. The insurance fund premium increase was a result of increase premium factors in 2014 as well as growth in the portfolio. Increases in other operating expenses were a result of increases in nonaccrual loan expense.

For the nine months ended September 30, 2014

Net income for the nine months ended September 30, 2014 totaled $14,640, an increase of $1,078, or 7.95 percent, as compared to the same period of 2013. The primary reasons for the increase in net income were an increase in net interest income of $1,925 as well as a decrease in the provision for loan losses of $304 over the comparable period from last year. These favorable variances were offset by a $108 decrease in patronage refunds from AgFirst and an increase in operating expense of $928. At September 30, 2014, total interest income increased by $2,202 compared to the same period in 2013. The increase in interest income is due to growth in the portfolio in 2014.

Interest income from nonaccrual loans was $987 as of September 30, 2014, an increase of $654 from the same period of 2013. Interest expense increased $277 for the first nine months in 2014, as compared to the same period of 2013. The increase in interest expense is also attributed to the growth in the direct note as a result of loan growth.

Noninterest income for the nine months ended September 30, 2014 totaled $7,735 as compared to $7,959 for the same period of 2013, a decrease of $224. The decrease is primarily due to special patronage refund of $483 received in 2013 that was not received in 2014 as well as a decline in loan fees.

Noninterest expense for the nine months ended September 30, 2014 was $13,988, an increase of $928 as compared to the same period of 2013. Salaries and employee benefits totaled $9,976 for the nine months ended September 30, 2014, for an increase of $687 or 7.40 percent, as compared to the same period of 2013. The increase is primarily due to an increased salary base due to additional hiring of employees as well as increased health insurance costs.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with AgFirst Farm Credit Bank (Bank) and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

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 funds are advanced by the Bank 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 $820,851 as compared to $741,566 at December 31, 2013. The 10.69 percent increase during the period was a result of a corresponding increase in loan volume since December 31, 2013.

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

CAPITAL RESOURCES

Total members' equity at September 30, 2014, increased 8.99 percent to $221,759 from the December 31, 2013, total of $209,595. The increase is attributed to the increase in retained earnings related to net income as well as an increase in preferred stock. Preferred stock was $35,323 as of September 30, 2014, as compared to $30,861 on December 31, 2013, for an increase of 14.46 percent.

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 total surplus ratio and core surplus ratio were both 16.79 percent, and the permanent capital ratio was 20.40 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

On 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 1-919-250-9500, writing Linda Strickland, AgCarolina Farm Credit, ACA, P. O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.agcarolina.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.

AgCarolina Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2014	December 31, 2013
	(unaudited)	*(audited)*
Assets		
Cash	$ 1,676	$ 4,040
Loans	1,028,633	916,947
Allowance for loan losses	(13,519)	(13,697)
Net loans	1,015,114	903,250
Other investments	—	16,156
Accrued interest receivable	15,644	12,116
Investments in other Farm Credit institutions	10,609	10,609
Premises and equipment, net	9,437	8,748
Other property owned	56	403
Accounts receivable	4,750	15,807
Other assets	8,174	10,134
Total assets	$ 1,065,460	$ 981,263
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 820,851	$ 741,566
Accrued interest payable	1,248	1,241
Patronage refunds payable	109	12,618
Accounts payable	1,295	840
Other liabilities	13,509	15,403
Total liabilities	837,012	771,668
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	38,610	34,109
Retained earnings		
Allocated	110,163	110,215
Unallocated	79,675	65,271
Total members' equity	228,448	209,595
Total liabilities and members' equity	$ 1,065,460	$ 981,263

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

AgCarolina Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2014	For the three months ended September 30, 2013	For the nine months ended September 30, 2014	For the nine months ended September 30, 2013
Interest Income				
Loans	$ 12,010	$ 10,825	$ 33,371	$ 30,553
Investments	—	187	30	646
Total interest income	12,010	11,012	33,401	31,199
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	4,627	4,379	12,631	12,354
Net interest income	7,383	6,633	20,770	18,845
Provision for (reversal of allowance for) loan losses	(38)	87	(121)	182
Net interest income after provision for (reversal of allowance for) loan losses	7,421	6,546	20,891	18,663
Noninterest Income				
Loan fees	397	494	2,131	2,304
Fees for financially related services	349	299	620	563
Patronage refunds from other Farm Credit institutions	1,723	1,568	4,697	4,806
Gains (losses) on sales of premises and equipment, net	10	2	34	42
Gains (losses) on other transactions	12	83	181	158
Other noninterest income	3	2	72	87
Total noninterest income	2,494	2,448	7,735	7,960
Noninterest Expense				
Salaries and employee benefits	3,184	3,076	9,976	9,289
Occupancy and equipment	253	253	717	713
Insurance Fund premiums	252	194	684	539
(Gains) losses on other property owned, net	8	3	47	(2)
Other operating expenses	783	823	2,564	2,522
Total noninterest expense	4,480	4,349	13,988	13,061
Income before income taxes	5,435	4,645	14,638	13,562
Provision (benefit) for income taxes	(2)	—	(2)	—
Net income	5,437	4,645	14,640	13,562
Other comprehensive income	—	—	—	—
Comprehensive income	$ 5,437	$ 4,645	$ 14,640	$ 13,562

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

AgCarolina Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings		Total Members' Equity
		Allocated	Unallocated	
Balance at December 31, 2012	$ 30,556	$ 96,256	$ 64,135	$ 190,947
Comprehensive income			13,562	13,562
Capital stock/participation certificates issued/(retired), net	9,783			9,783
Dividends declared/paid	303		(303)	—
Patronage distribution adjustment		(1)	1	—
Balance at September 30, 2013	$ 40,642	$ 96,255	$ 77,395	$ 214,292
Balance at December 31, 2013	$ 34,109	$ 110,215	$ 65,271	$ 209,595
Comprehensive income			14,640	14,640
Capital stock/participation certificates issued/(retired), net	4,176			4,176
Dividends declared/paid	325		(325)	—
Patronage distribution adjustment		(52)	89	37
Balance at September 30, 2014	$ 38,610	$ 110,163	$ 79,675	$ 228,448

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

AgCarolina Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

The accompanying financial statements include the accounts of AgCarolina Farm Credit, ACA (the Association). A full 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	$ 405,428	$ 386,534
Production and intermediate-term	565,984	479,895
Loans to cooperatives	1,508	1,075
Processing and marketing	18,457	14,275
Farm-related business	8,864	8,028
Energy and water/waste disposal	133	335
Rural residential real estate	28,259	26,805
Total Loans	$ 1,028,633	$ 916,947

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:

	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	$ 6,872	$ 19,576	$ –	$ 1,043	$ –	$ –	$ 6,872	$ 20,619
Production and intermediate-term	19,451	72,094	2,876	140,655	177,088	–	199,415	212,749
Loans to cooperatives	1,441	–	–	–	–	–	1,441	–
Processing and marketing	17,846	4,767	641	–	4,767	–	23,254	4,767
Farm-related business	3,820	–	–	–	–	–	3,820	–
Energy and water/waste disposal	18	–	–	–	–	–	18	–
Total	$ 49,448	$ 96,437	$ 3,517	$ 141,698	$ 181,855	$ –	$ 234,820	$ 238,135

	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	$ 7,042	$ 13,402	$ –	$ 1,143	$ –	$ –	$ 7,042	$ 14,545
Production and intermediate-term	20,564	64,632	2,556	139,445	164,049	–	187,169	204,077
Loans to cooperatives	1,017	–	–	–	–	–	1,017	–
Processing and marketing	13,504	5,116	801	–	5,116	–	19,421	5,116
Farm-related business	2,246	–	–	–	–	–	2,246	–
Energy and water/waste disposal	335	–	–	–	–	–	335	–
Total	$ 44,708	$ 83,150	$ 3,357	$ 140,588	$ 169,165	$ –	$ 217,230	$ 223,738

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	$ 27,749	$ 96,049	$ 281,630	$ 405,428
Production and intermediate-term	223,443	171,249	171,292	565,984
Loans to cooperatives	4	1,504	–	1,508
Processing and marketing	810	12,640	5,007	18,457
Farm-related business	2,075	3,581	3,208	8,864
Energy and water/waste disposal	–	133	–	133
Rural residential real estate	79	3,046	25,134	28,259
Total Loans	$ 254,160	$ 288,202	$ 486,271	$ 1,028,633
Percentage	24.71%	28.02%	47.27%	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
Real estate mortgage:		
Acceptable	90.40%	87.15%
OAEM	4.38	6.98
Substandard/doubtful/loss	5.22	5.87
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	91.95%	93.25%
OAEM	5.14	4.19
Substandard/doubtful/loss	2.91	2.56
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	98.53%
OAEM	–	1.47
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2014	December 31, 2013
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	95.73%	96.13%
OAEM	3.34	1.40
Substandard/doubtful/loss	0.93	2.47
	100.00%	100.00%
Total Loans:		
Acceptable	91.67%	90.94%
OAEM	4.65	5.18
Substandard/doubtful/loss	3.68	3.88
	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	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 472	$ 9,097	$ 9,569	$ 401,964	$ 411,533	$ –
Production and intermediate-term	42	2,541	2,583	572,643	575,226	300
Loans to cooperatives	–	–	–	1,511	1,511	–
Processing and marketing	–	–	–	18,482	18,482	–
Farm-related business	–	–	–	8,970	8,970	–
Energy and water/waste disposal	–	–	–	133	133	–
Rural residential real estate	163	–	163	28,259	28,422	–
Total	$ 677	$ 11,638	$ 12,315	$ 1,031,962	$ 1,044,277	$ 300

	December 31, 2013					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,375	$ 2,786	$ 4,161	$ 387,210	$ 391,371	$ –
Production and intermediate-term	1,294	3,326	4,620	482,240	486,860	200
Loans to cooperatives	–	–	–	1,076	1,076	–
Processing and marketing	–	–	–	14,333	14,333	–
Farm-related business	–	–	–	8,171	8,171	–
Energy and water/waste disposal	–	–	–	335	335	–
Rural residential real estate	77	–	77	26,840	26,917	–
Total	$ 2,746	$ 6,112	$ 8,858	$ 920,205	$ 929,063	$ 200

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	$ 12,115	$ 13,416
Production and intermediate-term	3,427	6,630
Rural residential real estate	6	136
Total	$ 15,548	$ 20,182
Accruing restructured loans:		
Real estate mortgage	$ 2,473	$ 2,608
Production and intermediate-term	129	135
Total	$ 2,602	$ 2,743
Accruing loans 90 days or more past due:		
Production and intermediate-term	$ 300	$ 200
Total	$ 300	$ 200
Total nonperforming loans	$ 18,450	$ 23,125
Other property owned	56	403
Nonperforming assets	$ 18,506	$ 23,528
Nonaccrual loans as a percentage of total loans	1.51%	2.20%
Nonperforming assets as a percentage of total loans and other property owned	1.80%	2.56%
Nonperforming assets as a percentage of capital	8.10%	11.23%

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

	September 30, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	$ 4,210	$ 13,736
Past due	11,338	6,446
Total	15,548	20,182
Impaired accrual loans:		
Restructured	2,602	2,743
90 days or more past due	300	200
Total	2,902	2,943
Total impaired loans	$ 18,450	$ 23,125

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	$ 8,270	$ 9,879	$ 4,120	$ 8,286	$ 192	$ 9,058	$ 486
Production and intermediate-term	198	631	82	198	5	217	12
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 8,468	$ 10,510	$ 4,202	$ 8,484	$ 197	$ 9,275	$ 498
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 6,318	$ 7,883	$ –	$ 6,329	$ 148	$ 6,922	$ 372
Production and intermediate-term	3,658	6,608	–	3,666	85	4,007	215
Rural residential real estate	6	133	–	6	–	6	–
Total	$ 9,982	$ 14,624	$ –	$ 10,001	$ 233	$ 10,935	$ 587
Total impaired loans:							
Real estate mortgage	$ 14,588	$ 17,762	$ 4,120	$ 14,615	$ 340	$ 15,980	$ 858
Production and intermediate-term	3,856	7,239	82	3,864	90	4,224	227
Rural residential real estate	6	133	–	6	–	6	–
Total	$ 18,450	$ 25,134	$ 4,202	$ 18,485	$ 430	$ 20,210	$ 1,085

	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	$ 8,989	$ 10,430	$ 4,450	$ 10,881	$ 323
Production and intermediate-term	290	537	90	351	11
Rural residential real estate	–	–	–	–	–
Total	$ 9,279	$ 10,967	$ 4,540	$ 11,232	$ 334
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 7,035	$ 8,719	$ –	$ 8,517	$ 253
Production and intermediate-term	6,675	9,494	–	8,081	240
Rural residential real estate	136	298	–	164	5
Total	$ 13,846	$ 18,511	$ –	$ 16,762	$ 498
Total impaired loans:					
Real estate mortgage	$ 16,024	$ 19,149	$ 4,450	$ 19,398	$ 576
Production and intermediate-term	6,965	10,031	90	8,432	251
Rural residential real estate	136	298	–	164	5
Total	$ 23,125	$ 29,478	$ 4,540	$ 27,994	$ 832

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	Total
Activity related to the allowance for credit losses:							
Balance at June 30, 2014	$ 7,814	$ 5,155	$ 250	$ –	$ –	$ 251	$ 13,470
Charge-offs	–	–	–	–	–	–	–
Recoveries	6	81	–	–	–	–	87
Provision for loan losses	(28)	(22)	8	–	1	3	(38)
Balance at September 30, 2014	$ 7,792	$ 5,214	$ 258	$ –	$ 1	$ 254	$ 13,519
Balance at December 31, 2013	$ 8,311	$ 4,882	$ 233	$ –	$ 3	$ 268	$ 13,697
Charge-offs	–	(199)	–	–	–	–	(199)
Recoveries	34	108	–	–	–	–	142
Provision for loan losses	(553)	423	25	–	(2)	(14)	(121)
Balance at September 30, 2014	$ 7,792	$ 5,214	$ 258	$ –	$ 1	$ 254	$ 13,519
Balance at June 30, 2013	$ 7,874	$ 5,744	$ 157	$ 13	$ –	$ 243	$ 14,031
Charge-offs	(65)	(303)	–	–	–	–	(368)
Recoveries	13	31	–	–	–	4	48
Provision for loan losses	359	(211)	(65)	(13)	3	14	87
Loan type reclassification	–	(176)	176	–	–	–	–
Balance at September 30, 2013	$ 8,181	$ 5,085	$ 268	$ –	$ 3	$ 261	$ 13,798
Balance at December 31, 2012	$ 8,505	$ 5,727	$ 182	$ 13	$ –	$ 242	$ 14,669
Charge-offs	(293)	(835)	–	–	–	–	(1,128)
Recoveries	43	26	–	–	–	6	75
Provision for loan losses	(74)	343	(90)	(13)	3	13	182
Loan type reclassification	–	(176)	176	–	–	–	–
Balance at September 30, 2013	$ 8,181	$ 5,085	$ 268	$ –	$ 3	$ 261	$ 13,798
Allowance on loans evaluated for impairment:							
Individually	$ 4,120	$ 82	$ –	$ –	$ –	$ –	$ 4,202
Collectively	3,672	5,132	258	–	1	254	9,317
Balance at September 30, 2014	$ 7,792	$ 5,214	$ 258	$ –	$ 1	$ 254	$ 13,519
Individually	$ 4,450	$ 90	$ –	$ –	$ –	$ –	$ 4,540
Collectively	3,861	4,792	233	–	3	268	9,157
Balance at December 31, 2013	$ 8,311	$ 4,882	$ 233	$ –	$ 3	$ 268	$ 13,697
Recorded investment in loans evaluated for impairment:							
Individually	$ 13,527	$ 3,629	$ –	$ –	$ –	$ 6	$ 17,162
Collectively	398,006	571,597	28,963	–	133	28,416	1,027,115
Balance at September 30, 2014	$ 411,533	$ 575,226	$ 28,963	$ –	$ 133	$ 28,422	$ 1,044,277
Individually	$ 16,024	$ 6,765	$ –	$ –	$ –	$ 136	$ 22,925
Collectively	375,347	480,095	23,580	–	335	26,781	906,138
Balance at December 31, 2013	$ 391,371	$ 486,860	$ 23,580	$ –	$ 335	$ 26,917	$ 929,063

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. There were no TDRs for the three or nine month periods ended September 30, 2014 and September 30, 2013.

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

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

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Real estate mortgage	$ 10,484	$ 10,862	$ 8,011	$ 8,254
Production and intermediate-term	642	732	513	597
Total Loans	$ 11,126	$ 11,594	$ 8,524	$ 8,851
Additional commitments to lend	$ –	$ –		

Note 3 — Investments

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 4.21 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 $107 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 — 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 could also 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.

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	$	4,328	Appraisal	Income and expense	*
				Comparable sales	*
				Replacement costs	*
				Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Other investments	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

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

At or for the 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 Mutual funds	$ 1,889	$ –	$ –	$ 1,889	$ 1,889	
Recurring Assets	$ 1,889	$ –	$ –	$ 1,889	$ 1,889	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans*	$ 4,266	$ –	$ –	$ 4,266	$ 4,266	$ 281
Other property owned	56	–	–	62	62	(29)
Nonrecurring Assets	$ 4,322	$ –	$ –	$ 4,328	$ 4,328	$ 252
Other Financial Instruments						
Assets:						
Cash	$ 1,676	$ 1,676	$ –	$ –	$ 1,676	
Loans	1,010,848	–	–	996,115	996,115	
Other Financial Assets	$ 1,012,524	$ 1,676	$ –	$ 996,115	$ 997,791	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 820,851	$ –	$ –	$ 810,654	$ 810,654	
Other Financial Liabilities	$ 820,851	$ –	$ –	$ 810,654	$ 810,654	

	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 Mutual funds	$ 2,025	$ 2,025	$ –	$ –	$ 2,025	
Recurring Assets	$ 2,025	$ 2,025	$ –	$ –	$ 2,025	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans**	$ 6,100	$ –	$ –	$ 6,100	$ 6,100	$ 599
Other property owned	403	–	–	449	449	(31)
Nonrecurring Assets	$ 6,503	$ –	$ –	$ 6,549	$ 6,549	$ 568
Other Financial Instruments						
Assets:						
Cash	$ 4,040	$ 4,040	$ –	$ –	$ 4,040	
Loans	897,150	–	–	880,104	880,104	
Other investments***	16,156	–	–	16,177	16,177	
Other Financial Assets	$ 917,346	$ 4,040	$ –	$ 896,281	$ 900,321	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 741,566	$ –	$ –	$ 727,496	$ 727,496	
Other Financial Liabilities	$ 741,566	$ –	$ –	$ 727,496	$ 727,496	

**Carrying value of impaired loans is the balance of loans with a related specific reserve ($8,468) less related specific reserves ($4,202) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($0).*

***Carrying value of impaired loans is the balance of loans with a related specific reserve ($9,279) less related specific reserves ($4,540) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($1,361).*

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

Note 6 — Employee Benefit Plans

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

	For the three months ended September 30, 2014	For the three months ended September 30, 2013	For the nine months ended September 30, 2014	For the nine months ended September 30, 2013
Pension	$ 662	$ 676	$ 1,986	$ 2,027
401(k)	97	94	330	294
Other postretirement benefits	115	112	346	338
Total	$ 874	$ 882	$ 2,662	$ 2,659

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	$ –	$ 2,065	$ 2,065
Other postretirement benefits	252	117	369
Total	$ 252	$ 2,182	$ 2,434

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 7 — Commitments and Contingent Liabilities

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable 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 8 — 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 $9,123 which will be recorded in October 2014 as patronage refunds from other Farm Credit institutions.