AgCarolina Farm Credit, ACA

FIRST QUARTER 2014

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 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

May 9, 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 March 31, 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 March 31, 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 March 31, 2014.

David W. Corum
President
Chief Executive Officer

Matthew J. Currin
Senior Vice President
Chief Financial Officer

May 9, 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 three months ended March 31, 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, cotton, and forestry, which constitute $335,609 or 36.02 percent, of the loan portfolio as of March 31, 2014. Other major farm commodities include swine, poultry, forestry, soybeans, 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 March 31, 2014, was $896,640, a decrease of $6,609 or 0.73 percent as compared to $903,250 at December 31, 2013. Net loans accounted for 95.70 percent of total assets at March 31, 2014 as compared to 92.04 percent of total assets at December 31, 2013. The decrease in net loan volume during the reporting period is primarily attributed to seasonal lending. 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. Loans were higher than normal at year end 2013 due to new loan growth and advances on lines of credit associated with year end planning.

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 $18,332 at March 31, 2014, a decrease of $1,850 or 9.17 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 March 31, 2014 was $13,791 as compared to $13,697 at December 31, 2013, for an increase of $93. The main reason for this increase was a result of an increase in the provision in the amount of $75 and net recoveries of $18. The ratio of the allowance for loan losses to loans at March 31, 2014 was 1.51 percent, which was consistent with 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 March 31, 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 March 31, 2014

Net income for the three months ended March 31, 2014 totaled $4,305, an increase of $50 or 1.19 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 $573 and a favorable variance in the provision for loan losses of $20. Noninterest income increased by $21 and noninterest expense increased by $526.

For the three months ended March 31, 2014, total interest income increased by $476 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 $356 for the three months ended March 31, 2014, an increase of $234 from the same period of 2013. Interest expense decreased $59 for the three months ended March 31, 2014, as compared to the same period of 2013. The decrease in interest expense is attributed to an increase in earnings on loanable funds, which offsets interest expense.

Noninterest income for the three months ended March 31, 2014 totaled $2,724 as compared to $2,703 for the same period of 2013, an increase of $21. The overall increase is primarily due to the increase in financially related service income of $46 and equity in earnings of other Farm Credit institutions of $100. These favorable variances were offset by decreases in loan fees of $51, decreases gains and losses on premises, equipment and other transactions of $28 and decreases in other noninterest income of $15.

Noninterest expense for the three months ended March 31, 2014 was $4,943, an increase of $526, or 11.90 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 $344, an increase in insurance fund premiums of $40 and an increase in other operating expenses of $127 for three months ended March 31, 2014. 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 data processing and nonaccrual loan expense.

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 March 31, 2014 was $689,218 as compared to $741,566 at December 31, 2013. The 7.06 percent decrease during the period was a result of a corresponding decrease in loan volume since December 31, 2013.

The Association has no lines of credit outstanding with third parties as of March 31, 2014.

CAPITAL RESOURCES

Total members' equity at March 31, 2014, increased 8.80 percent to $218,394 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 $35,450 as of March 31, 2014, as compared to $30,861 on December 31, 2013, for an increase of 14.87 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 March 31, 2014, the Association’s total surplus ratio and core surplus ratio were both 18.55 percent, and the permanent capital ratio was 22.84 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

For the three months ended March 31, 2014, the FCA took no enforcement action against the Association.

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. A final effective date for the rule has not yet been published.

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)	March 31, 2014 *(unaudited)*	December 31, 2013 *(audited)*
Assets		
Cash	$ 635	$ 4,040
Loans	910,431	916,947
Allowance for loan losses	(13,791)	(13,697)
Net loans	896,640	903,250
Other investments	—	16,156
Accrued interest receivable	8,920	12,116
Investments in other Farm Credit institutions	10,609	10,609
Premises and equipment, net	8,739	8,748
Other property owned	56	403
Accounts receivable	1,508	15,807
Other assets	9,807	10,134
Total assets	$ 936,914	$ 981,263
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 689,218	$ 741,566
Accrued interest payable	1,052	1,241
Patronage refunds payable	394	12,618
Accounts payable	699	840
Other liabilities	27,157	15,403
Total liabilities	718,520	771,668
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	38,675	34,109
Retained earnings		
Allocated	110,163	110,215
Unallocated	69,556	65,271
Total members' equity	218,394	209,595
Total liabilities and members' equity	$ 936,914	$ 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 March 31, 2014	2013
Interest Income		
Loans	$ 10,415	$ 9,659
Investment securities	30	310
Total interest income	10,445	9,969
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	3,846	3,905
Net interest income	6,599	6,064
Provision for loan losses	75	95
Net interest income after provision for loan losses	6,524	5,969
Noninterest Income		
Loan fees	981	1,032
Fees for financially related services	204	158
Patronage refunds from other Farm Credit institutions	1,430	1,330
Gains (losses) on sales of premises and equipment, net	19	28
Gains (losses) on other transactions	52	71
Other noninterest income	69	84
Total noninterest income	2,755	2,703
Noninterest Expense		
Salaries and employee benefits	3,514	3,170
Occupancy and equipment	233	218
Insurance Fund premiums	207	167
(Gains) losses on other property owned, net	31	—
Other operating expenses	989	862
Total noninterest expense	4,974	4,417
Net income	4,305	4,255
Other comprehensive income	—	—
Comprehensive income	$ 4,305	$ 4,255

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 Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2012	$ 30,556	$ 96,256	$ 64,135	$ 190,947
Comprehensive income			4,255	4,255
Capital stock/participation certificates issued/(retired), net	6,726			6,726
Dividends declared/paid	96		(96)	—
Patronage distribution adjustment		3	(6)	(3)
Balance at March 31, 2013	$ 37,378	$ 96,259	$ 68,288	$ 201,925
Balance at December 31, 2013	$ 34,109	$ 110,215	$ 65,271	$ 209,595
Comprehensive income			4,305	4,305
Capital stock/participation certificates issued/(retired), net	4,457			4,457
Dividends declared/paid	109		(109)	—
Patronage distribution adjustment		(52)	89	37
Balance at March 31, 2014	$ 38,675	$ 110,163	$ 69,556	$ 218,394

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 March 2014 The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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:

	March 31, 2014	December 31, 2013
Real estate mortgage	$ 394,931	$ 386,534
Production and intermediate-term	462,092	479,895
Loans to cooperatives	2,481	1,075
Processing and marketing	17,207	14,275
Farm-related business	6,610	8,028
Energy and water/waste disposal	335	335
Rural residential real estate	26,775	26,805
Total Loans	$ 910,431	$ 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:

March 31, 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	$ 6,970	$ 12,971	$ –	$ 1,110	$ –	$ –	$ 6,970	$ 14,081
Production and intermediate-term	22,303	77,452	2,249	142,205	182,494	–	207,046	219,657
Loans to cooperatives	2,441	–	–	–	–	–	2,441	–
Processing and marketing	16,426	4,122	801	–	4,122	–	21,349	4,122
Farm-related business	2,941	–	–	–	–	–	2,941	–
Energy and water/waste disposal	335	–	–	–	–	–	335	–
Total	$ 51,416	$ 94,545	$ 3,050	$ 143,315	$ 186,616	$ –	$ 241,082	$ 237,860

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:

March 31, 2014	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 34,901	$ 85,584	$ 274,446	$ 394,931
Production and intermediate-term	130,472	174,449	157,170	462,091
Loans to cooperatives	4	2,477	–	2,481
Processing and marketing	288	10,930	5,989	17,207
Farm-related business	99	3,256	3,255	6,610
Energy and water/waste disposal	–	335	–	335
Rural residential real estate	365	2,228	24,182	26,775
Total Loans	$ 166,129	$ 279,259	$ 465,042	$ 910,430
Percentage	$ 18.25%	$ 30.67%	$ 51.08%	$ 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:

	March 31, 2014	December 31, 2013
Real estate mortgage:		
Acceptable	86.94%	87.15%
OAEM	6.90	6.98
Substandard/doubtful/loss	6.16	5.87
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	92.87%	93.25%
OAEM	4.41	4.19
Substandard/doubtful/loss	2.72	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%

	March 31, 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	95.61%	96.13%
OAEM	2.88	1.40
Substandard/doubtful/loss	1.51	2.47
	100.00%	100.00%
Total Loans:		
Acceptable	90.58%	90.94%
OAEM	5.32	5.18
Substandard/doubtful/loss	4.10	3.88
	100.00%	100.00%

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

March 31, 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	$ 1,052	$ 2,862	$ 3,914	$ 394,931	$ 398,845	$ –
Production and intermediate-term	1,118	2,710	3,828	463,066	466,894	–
Loans to cooperatives	–	–	–	2,484	2,484	–
Processing and marketing	–	–	–	17,233	17,233	–
Farm-related business	–	–	–	6,638	6,638	–
Communication	–	–	–	–	–	–
Energy and water/waste disposal	–	–	–	335	335	–
Rural residential real estate	387	–	387	26,535	26,922	–
Total	$ 2,557	$ 5,572	$ 8,129	$ 911,222	$ 919,351	$ –

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:

	March 31, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	$ 12,891	$ 13,416
Production and intermediate-term	5,314	6,630
Rural residential real estate	127	136
Total nonaccrual loans	$ 18,332	$ 20,182
Accruing restructured loans:		
Real estate mortgage	$ 2,545	$ 2,608
Production and intermediate-term	133	135
Total accruing restructured loans	$ 2,678	$ 2,743
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	200
Total accruing loans 90 days or more past due	$ –	$ 200
Total nonperforming loans	$ 21,010	$ 23,125
Other property owned	56	403
Nonperforming assets	$ 21,066	$ 23,528
Nonaccrual loans as a percentage of total loans	2.01%	2.20%
Nonperforming assets as a percentage of total loans and other property owned	2.31%	2.56%
Nonperforming assets as a percentage of capital	9.65%	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.

	March 31, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	$ 12,453	$ 13,736
Past due	5,879	6,446
Total impaired nonaccrual loans	18,332	20,182
Impaired accrual loans:		
Restructured	2,678	2,743
90 days or more past due	–	200
Total impaired accrual loans	2,678	2,943
Total impaired loans	$ 21,010	$ 23,125

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

	March 31, 2014			Quarter Ended March 31, 2014	
	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	$ 8,852	$ 10,347	$ 4,363	$ 9,353	$ 164
Production and intermediate-term	537	770	339	567	10
Rural residential real estate	–	–	–	–	–
Total	$ 9,389	$ 11,117	$ 4,702	$ 9,920	$ 174
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 6,584	$ 8,223	$ –	$ 6,956	$ 122
Production and intermediate-term	4,910	7,773	–	5,187	91
Rural residential real estate	127	295	–	134	2
Total	$ 11,621	$ 16,291	$ –	$ 12,277	$ 215
Total impaired loans:					
Real estate mortgage	$ 15,436	$ 18,570	$ 4,363	$ 16,309	$ 286
Production and intermediate-term	5,447	8,543	339	5,754	101
Rural residential real estate	127	295	–	134	2
Total	$ 21,010	$ 27,408	$ 4,702	$ 22,197	$ 389

	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
Allowance for credit losses:							
Balance at December 31, 2013	$ 8,311	$ 4,882	$ 233	$ –	$ 3	$ 268	$ 13,697
Charge-offs	–	(11)	–	–	–	–	(11)
Recoveries	23	7	–	–	–	–	30
Provision for loan losses	(28)	77	28	–	–	(2)	75
Balance at March 31, 2014	$ 8,306	$ 4,955	$ 261	$ –	$ 3	$ 266	$ 13,791
Balance at December 31, 2012	$ 8,505	$ 5,727	$ 182	$ 13	$ –	$ 242	$ 14,669
Charge-offs	(217)	(229)	–	–	–	–	(446)
Recoveries	25	(21)	–	–	–	–	4
Provision for loan losses	(140)	216	(9)	1	–	27	95
Balance at March 31, 2013	$ 8,173	$ 5,693	$ 173	$ 14	$ –	$ 269	$ 14,322
Loans individually evaluated for impairment	$ 4,363	$ 339	$ –	$ –	$ –	$ –	$ 4,702
Loans collectively evaluated for impairment	3,943	4,616	261	–	3	266	9,089
Balance at March 31, 2014	$ 8,306	$ 4,955	$ 261	$ –	$ 3	$ 266	$ 13,791
Loans individually evaluated for impairment	$ 4,450	$ 90	$ –	$ –	$ –	$ –	$ 4,540
Loans collectively evaluated for impairment	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 outstanding:							
Loans individually evaluated for impairment	$ 14,343	$ 5,313	$ –	$ –	$ –	$ 127	$ 19,783
Loans collectively evaluated for impairment	384,502	461,581	26,355	–	335	26,795	899,568
Ending balance at March 31, 2014	$ 398,845	$ 466,894	$ 26,355	$ –	$ 335	$ 26,922	$ 919,353
Loans individually evaluated for impairment	$ 16,024	$ 6,765	$ –	$ –	$ –	$ 136	$ 22,925
Loans collectively evaluated for impairment	375,347	480,095	23,580	–	335	26,781	906,138
Ending 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. The following tables present additional information about activity that occurred during the periods presented related to TDRs. There were no TDRs for the three months ended March 31, 2014 and March 31, 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	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Real estate mortgage	$ 10,708	$ 10,862	$ 8,163	$ 8,254
Production and intermediate-term	684	732	551	597
Total Loans	$ 11,392	$ 11,594	$ 8,714	$ 8,851
Additional commitments to lend	$ –	$ –		

Note 3 — 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 4 — Fair Value Measurement

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 4.10 percent of the issued stock of the Bank as of March 31, 2014 net of any reciprocal investment. As of that date, the Bank's assets totaled $27.6 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $88 million for the first three months of 2014. In addition, the Association has an investment of $107 related to other Farm Credit institutions.

The classifications within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2

Level 2 inputs to the valuation methodology 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

Level 3 inputs to the valuation methodology 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.

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

	Standby Letters Of Credit	
	For the three months ended March 31,	
	2014	2013
Balance at January 1, 2014	$ 10	$ 15
Issuances	–	–
Settlements	(2)	(5)
Transfers in and/or out of level 3	–	–
Balance at March 31, 2014	$ 8	$ 10

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.

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

Quoted market prices are generally not available for the instuments 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	$ 4,749	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 Three Months Ended March 31, 2014

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<u>Recurring Measurements</u>						
Assets:						
Assets held in Mutual funds	$ 2,230	$ 2,230	$ –	$ –	$ 2,230	
Recurring Assets	$ 2,230	$ 2,230	$ –	$ –	$ 2,230	
Liabilities:						
Standby letters of credit	$ 8	$ –	$ –	$ 8	$ 8	
Recurring Liabilities	$ 8	$ –	$ –	$ 8	$ 8	
<u>Nonrecurring Measurements</u>						
Assets:						
Impaired loans*	$ 4,687	$ –	$ –	$ 4,687	$ 4,687	$ (142)
Other property owned	56	–	–	62	62	(29)
Nonrecurring Assets	$ 4,743	$ –	$ –	$ 4,749	$ 4,749	$ (171)
<u>Other Financial Instruments</u>						
Assets:						
Cash	$ 635	$ 635	$ –	$ –	$ 635	
Loans	891,953	–	–	872,630	872,630	
Other Financial Assets	$ 892,588	$ 635	$	$ 872,630	$ 873,265	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 689,218	$ –	$ –	$ 677,463	$ 677,463	
Other Financial Liabilities	$ 689,218	$ –	$ –	$ 677,463	$ 677,463	

	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:						
Standby letters of credit	$ 10	$ –	$ –	$ 10	$ 10	
Recurring Liabilities	$ 10	$ –	$ –	$ 10	$ 10	
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 ($9,389) less related specific reserves ($4,702) 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 5 — Employee Benefit Plans

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

	For the three months ended March 31, 2014	2013
Pension	$ 662	$ 675
401(k)	138	111
Other postretirement benefits	115	113
Total	$ 915	$ 899

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

	Actual YTD Through 3/31/14	Projected Contributions For Remainder of 2014	Projected Total Contributions 2014
Pension	$ –	$ 2,065	$ 2,065
Other postretirement benefits	88	281	369
Total	$ 88	$ 2,346	$ 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.

Note 6 — Commitments and Contingent Liablilities

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 7 — Subsequent Events

The Association has evaluated subsequent events and has determined there are none requiring disclosure through May 9, 2014, which is the date the financial statements were issued.