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ArborOne, ACA

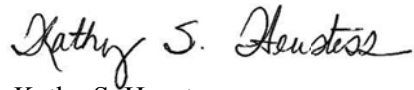
**FIRST QUARTER 2014**

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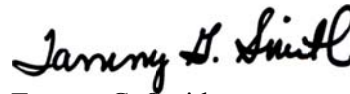
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**CERTIFICATION**

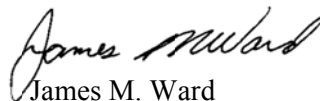
The undersigned certify that we have reviewed the March 31, 2014 quarterly report of **ArborOne, ACA**, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Kathy S. Heustess  
President and Chief Executive Officer



Tammy G. Smith  
Chief Financial Officer



James M. Ward  
Chairman of the Board

May 9, 2014

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ArborOne, ACA

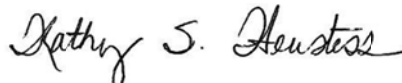
## Report on Internal Control Over Financial Reporting

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.



Kathy S. Heustess  
President and Chief Executive Officer



Tammy G. Smith  
Chief Financial Officer

May 9, 2014

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of **ArborOne, ACA**, (the Association) for the period ended March 31, 2014. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2013 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including cotton, cash grains, forestry, tobacco, farm services, and poultry. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, somewhat impact the level of dependency on a given commodity. Approximately twenty-three percent of the portfolio has significant outside income to diversify dependence on agriculture, consisting of lifestyle loans and loans to less than full-time farmers with retirement income, salaried income and non-agricultural business income. Further, approximately seventeen percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of March 31, 2014, was \$301,118, a decrease of \$5,081 as compared to \$306,199 at December 31, 2013. Net loans outstanding at March 31, 2014, were \$296,831 as compared to \$301,710 at December 31, 2013. The decrease in gross loan volume was due to paydowns on core loans and one large participations purchased loan. During the three months ended March 31, 2014, the Association's sold participations to the Bank through the capitalized participation pools (CPP) program decreased by \$8,963, partially offsetting this decrease in gross loan volume. As of March 31, 2014, the Association had \$75,890 of such participations outstanding. The Association had investment securities classified as available-for-sale in the amount of \$37,693 at March 31, 2014 compared to \$41,286 at December 31, 2013. Other investments held by the Association as of March 31, 2014 were \$70 compared to \$23,474 as of December 31, 2013. The other investments consisted of Successor-in-Interest Contracts (SIIC), and a Rural

Business Investment Company (RBIC) known as Meritus Ventures, L.P. (Meritus). The final payment to the Association under the SIIC arrangement occurred in January of 2014 in the amount of \$23,404. Net loans and investments accounted for 91.63 percent of total assets at March 31, 2014, as compared to 89.91 percent of total assets at December 31, 2013.

Net loans and investments decreased by \$31,876 during the reporting period. The decrease was primarily due to the final annual payment on the SIIC loan volume that was received in January, a decrease in originated loan volume, a decrease in participations purchased volume, and a decrease in the investment securities available-for-sale. The decrease in originated loan volume is attributed to the strength of our customers in our 12 county territory with approximately \$82,400 in available commitments which has yet to be drawn. The decrease in participations purchased volume is attributed to normal payments along with tightening lending policies, which has strengthened the Association's capital position. Additionally, a large participations purchased loan paid off in first quarter of 2014. This decrease in net loans and investments was partially offset by a decrease in participations sold volume, an increase in nonaccrual loan volume, and a decrease in allowance for loan loss. The decrease in participations sold volume is mainly due to the decrease in originated loans which were included in the CPP program. The increase of nonaccrual loan volume is mainly due to several core agricultural loans moving to nonaccrual status.

Investment securities available-for-sale consist of mission related investments (Rural America Bonds) which decreased by \$3,593 when compared to December 31, 2013. The decrease in the investment securities available-for-sale is mainly due to the sale of one guaranteed investment security in the amount of \$4,886 that resulted in a gain totaling \$96, along with normal paydowns in the amount of \$142. This decrease was partially offset by the positive change in unrealized gain in the amount of \$1,339, which is largely a result of realized credit impairments taken in the second and fourth quarters of 2013 as well as favorable market values.

The Association has six Rural America Bonds that are ineligible investments. During 2013, credit impairments totaling \$3,049 were taken on three ineligible investments. No additional credit impairments were taken during the first quarter of 2014.

The other investments for SIIC decreased by \$23,404 in January of 2014 due to the final annual payment on the contracts. As of March 31, 2014, other investments consisted only of Meritus in the amount of \$70. In 2011, the Association made a final capital

call for a total investment of \$250. However, during the fourth quarter of 2013, an evaluation of the RBIC was performed; and as a result, the Association recorded a credit impairment loss of \$180 on this investment.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans increased from \$3,159 at December 31, 2013, to \$3,682 at March 31, 2014. This was mainly due to the transfer of several core agricultural loans to nonaccrual status. This increase was partially offset by the transfer of a core agricultural loan from nonaccrual status into Other Property Owned (OPO).

As of March 31, 2014, the Association has eight properties classed as OPO totaling \$5,868, a decrease of \$355 as compared to \$6,223 at December 31, 2013. The decrease was due to the sale of one core account and the partial sale of a large participation account, as well as writedowns taken on a few core accounts and a participation account during the first quarter. This decrease was offset by a core loan transferring out of nonaccrual status into OPO. Association staff is working diligently to market the OPO properties.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on credit quality, current conditions, and expected future conditions. The allowance for loan losses at March 31, 2014, was \$4,287, compared to \$4,489 at December 31, 2013. The \$4,287 allowance for loan losses consisted of \$3,713 in general reserves and \$574 in specific reserves for two core agricultural loans and one Rural America Bond. There were recoveries of \$4 for the three months ended March 31, 2014 attributed to both core agricultural and participation loans. The charge-offs for the three months ended March 31, 2014 were \$67 which consisted of mainly one core agricultural loan. The allowance for loan losses for the period ending March 31, 2014 is considered by management to be adequate to cover any future possible losses.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2014*

Net income for the three months ended March 31, 2014, totaled \$2,388, a decrease of \$232, as compared to \$2,620 for the same period in 2013.

Interest income on accruing loans decreased by \$56 for the three months ended March 31, 2014 compared to \$3,699 for the three months ended March 31, 2013, as a result of a reduction in loan volume. Nonaccrual interest income decreased by \$8 as compared to the same period in 2013, which was mainly due to interest income recognized on a nonaccrual agricultural loan that

was reinstated back into accruing status in 2013. Interest income on investment securities was \$604 compared to \$734 for the same period in 2013. Interest income on other investments (SIIC) was \$40 for the three months ended March 31, 2014, and \$471 for the same period in 2013. The decrease in investment interest income is primarily due to the decrease in SIIC volume as well as a decrease in investment securities available-for-sale.

Interest expense decreased \$633 for the three months ended March 31, 2014, as compared to the comparable period of 2013. The interest expense decrease was primarily due to the payoff of SIIC volume, the payoff of the subordinated debt in 2013, a decrease in loan volume, and the reduction in investment securities available-for-sale.

The Association recorded a reversal of allowance for loan losses of \$139 as compared to a provision for loan losses of \$11 for the comparable period of 2013.

Noninterest income for the three months ended March 31, 2014, totaled \$2,127 as compared to \$2,315 for the same period of 2013, a decrease of \$188. The decrease is mainly due to the decrease in loan fees of \$233, a decrease in patronage refunds from other Farm Credit institutions of \$98, a decrease in gains on sales of premises and equipment of \$9, and a decrease in other gains/loss of \$10. This decrease in income was partially offset by an increase in fees for financially related services of \$19, a gain on the sale of an investment security available-for-sale of \$96, and an increase in other noninterest income of \$47.

Noninterest expense for the three months ended March 31, 2014, increased \$197 compared to the same period of 2013. The increase was due to an increase in salaries and employee benefits of \$139, an increase of insurance funds premiums of \$7, an increase in losses on other property owned of \$47, and an increase in other operating expenses of \$6. This increase was partially offset by a decrease in occupancy and equipment of \$2. The Association recorded a provision for income taxes in the amount of \$5 for the three months ended March 31, 2014 as compared to no provision for the same period in 2013.

## 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 \$278,805 as compared to \$321,897 at December 31, 2013. The decrease during the period is primarily attributable to a decrease in loan volume, a decrease in SIIC volume, a decrease in participations purchased volume, and a decrease in investment securities available-for-sale. These decreases were partially offset by a decrease in participations sold volume.

In September 2008, the Association issued \$7,500 of fixed rate unsecured subordinated debt due in 2018, generating proceeds that were primarily used to increase the permanent capital of the Association pursuant to the Farm Credit Administration regulations, and for general corporate purposes. The debt is payable to another association in the Farm Credit System (System). It is subordinate to all other categories of creditors, including any claims of the Bank and general creditors, and is senior to all classes of shareholders. The subordinated debt is not considered System debt, and thus is not guaranteed by the System and not insured by the Farm Credit System Insurance Corporation.

On October 15, 2013, the Association redeemed in full its subordinated debt. Refer to Note 4 "Debt" for additional information.

## CAPITAL RESOURCES

Total members' equity at March 31, 2014, increased to \$76,480 from the December 31, 2013, total of \$72,795. The increase is primarily attributable to an increase in retained earnings and other comprehensive income.

Total capital stock and participation certificates were \$1,290 on March 31, 2014, compared to \$1,329 on December 31, 2013. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business and the annual retirement of B stock.

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association has an unrealized loss of \$168 as of March 31, 2014, as compared to an unrealized loss of \$169 as of December 31, 2013 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association also has an unrealized gain of \$507 as of March 31, 2014 as compared to an unrealized loss of \$832 as of December 31, 2013 on investments available-for-sale. The resulting effect was a net gain of \$1,340 to Accumulated Other Comprehensive Income for the three months ending March 31, 2014.

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 21.68 percent and 21.35 percent, respectively, and the permanent capital ratio was 22.13 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.

## 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.

## 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.

**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](http://www.agfirst.com). Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-741-7332, writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, [www.arborone.com](http://www.arborone.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.

# ArborOne, ACA

## Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 54	\$ 28
Investment securities:		
Available for sale (amortized cost of \$37,186 and \$42,117, respectively)	37,693	41,286
Loans	301,118	306,199
Allowance for loan losses	(4,287)	(4,489)
Net loans	296,831	301,710
Other investments	70	23,474
Accrued interest receivable	3,813	4,408
Investments in other Farm Credit institutions	11,358	12,164
Premises and equipment, net	3,962	3,718
Other property owned	5,868	6,223
Accounts receivable	2,089	10,927
Other assets	3,438	3,654
Total assets	<u>\$ 365,176</u>	<u>\$ 407,592</u>
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 278,805	\$ 321,897
Accrued interest payable	597	791
Patronage refunds payable	454	3,818
Accounts payable	194	460
Other liabilities	8,646	7,831
Total liabilities	<u>288,696</u>	<u>334,797</u>
Commitments and contingencies		
<b>Members' Equity</b>		
Protected borrower stock	78	91
Capital stock and participation certificates	1,212	1,238
Retained earnings		
Allocated	49,900	49,893
Unallocated	24,951	22,574
Accumulated other comprehensive income (loss)	339	(1,001)
Total members' equity	<u>76,480</u>	<u>72,795</u>
Total liabilities and members' equity	<u>\$ 365,176</u>	<u>\$ 407,592</u>

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

**ArborOne, ACA**  
**Consolidated Statements of Income**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Interest Income</b>		
Loans	\$ 3,648	\$ 3,712
Investments	644	1,205
	4,292	4,917
<b>Interest Expense</b>		
Notes payable to AgFirst Farm Credit Bank	1,844	2,308
Subordinated debt payable to other Farm Credit institutions	—	169
	1,844	2,477
Net interest income	2,448	2,440
Provision for (reversal of allowance for) loan losses	(139)	11
	2,587	2,429
<b>Noninterest Income</b>		
Loan fees	504	737
Fees for financially related services	72	53
Patronage refunds from other Farm Credit institutions	1,393	1,491
Gains (losses) on sales of premises and equipment, net	—	9
Gains (losses) on sales of investment securities	96	—
Gains (losses) on other transactions	13	23
Other noninterest income	49	2
	2,127	2,315
<b>Noninterest Expense</b>		
Salaries and employee benefits	1,539	1,400
Occupancy and equipment	120	122
Insurance Fund premiums	57	50
(Gains) losses on other property owned, net	69	22
Other operating expenses	536	530
	2,321	2,124
Income before income taxes	2,393	2,620
Provision for income taxes	5	—
	2,388	2,620
Net income	\$ 2,388	\$ 2,620

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

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ArborOne, ACA

# Consolidated Statements of Comprehensive Income

*(unaudited)*

<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2014	2013
Net income	\$ 2,388	\$ 2,620
<b>Other comprehensive income net of tax</b>		
Unrealized gains (losses) on investments available for sale:		
Other-than-temporarily impaired	87	—
Not other-than-temporarily impaired	1,252	(1,868)
Employee benefit plans adjustments	1	2
Other comprehensive income (Note 5)	<u>1,340</u>	<u>(1,866)</u>
Comprehensive income	<u>\$ 3,728</u>	<u>\$ 754</u>

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



**ArborOne, ACA**  
**Consolidated Statements of Changes in**  
**Members' Equity**

*(unaudited)*

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	<u>Retained Earnings</u>		Accumulated Other Comprehensive Income	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2012	\$ 118	\$ 1,197	\$ 43,392	\$ 22,686	\$ 5,629	\$ 73,022
Comprehensive income				2,620	(1,866)	754
Protected borrower stock issued/(retired), net	(1)					(1)
Patronage distribution adjustment			158	(113)		45
<b>Balance at March 31, 2013</b>	<b>\$ 117</b>	<b>\$ 1,197</b>	<b>\$ 43,550</b>	<b>\$ 25,193</b>	<b>\$ 3,763</b>	<b>\$ 73,820</b>
Balance at December 31, 2013	\$ 91	\$ 1,238	\$ 49,893	\$ 22,574	\$ (1,001)	\$ 72,795
Comprehensive income				2,388	1,340	3,728
Protected borrower stock issued/(retired), net	(13)					(13)
Capital stock/participation certificates issued/(retired), net		(26)				(26)
Patronage distribution adjustment			7	(11)		(4)
<b>Balance at March 31, 2014</b>	<b>\$ 78</b>	<b>\$ 1,212</b>	<b>\$ 49,900</b>	<b>\$ 24,951</b>	<b>\$ 339</b>	<b>\$ 76,480</b>

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

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## ArborOne, 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 **ArborOne, ACA** (the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2013, are contained in the 2013 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

#### Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The results of any interim period are not necessarily indicative of the results to be expected for a full year.

#### Significant Accounting Policies

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified.

#### Recently Issued Accounting Pronouncements

In 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 2014 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	\$	132,549	\$	135,843
Production and intermediate-term		152,434		152,478
Loans to cooperatives		516		201
Processing and marketing		12,222		11,154
Farm-related business		928		4,010
Energy and water/waste disposal		753		754
Rural residential real estate		1,399		1,437
Lease receivables		317		322
<b>Total Loans</b>	<b>\$</b>	<b>301,118</b>	<b>\$</b>	<b>306,199</b>

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	\$ 7,002	\$ 63,647	\$ 3,582	\$ —	\$ 2,307	\$ —	\$ 12,891	\$ 63,647
Production and intermediate-term	23,035	22,698	750	—	—	—	23,785	22,698
Loans to cooperatives	517	—	—	—	—	—	517	—
Processing and marketing	11,739	58	497	—	—	—	12,236	58
Farm-related business	234	101	—	—	—	—	234	101
<b>Total</b>	<b>\$ 42,527</b>	<b>\$ 86,504</b>	<b>\$ 4,829</b>	<b>\$ —</b>	<b>\$ 2,307</b>	<b>\$ —</b>	<b>\$ 49,663</b>	<b>\$ 86,504</b>

	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	\$ 7,210	\$ 68,943	\$ 8,979	\$ 1,655	\$ 2,412	\$ —	\$ 18,601	\$ 70,598
Production and intermediate-term	25,281	29,574	800	—	—	—	26,081	29,574
Loans to cooperatives	202	—	—	—	—	—	202	—
Processing and marketing	10,551	86	615	—	—	—	11,166	86
Farm-related business	256	104	—	—	—	—	256	104
<b>Total</b>	<b>\$ 43,500</b>	<b>\$ 98,707</b>	<b>\$ 10,394</b>	<b>\$ 1,655</b>	<b>\$ 2,412</b>	<b>\$ —</b>	<b>\$ 56,306</b>	<b>\$ 100,362</b>

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	\$ 5,617	\$ 35,865	\$ 91,067	\$ 132,549
Production and intermediate-term	53,420	56,049	42,965	152,434
Loans to cooperatives	516	—	—	516
Processing and marketing	993	6,643	4,586	12,222
Farm-related business	27	457	444	928
Energy and water/waste disposal	753	—	—	753
Rural residential real estate	3	289	1,107	1,399
Lease receivables	—	317	—	317
<b>Total Loans</b>	<b>\$ 61,329</b>	<b>\$ 99,620</b>	<b>\$ 140,169</b>	<b>\$ 301,118</b>
<b>Percentage</b>	<b>20.37%</b>	<b>33.08%</b>	<b>46.55%</b>	<b>100.00%</b>

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		March 31, 2014	December 31, 2013
<b>Real estate mortgage:</b>			<b>Farm-related business:</b>		
Acceptable	95.22%	93.40%	Acceptable	100.00%	100.00%
OAEM	2.72	4.77	OAEM	—	—
Substandard/doubtful/loss	2.06	1.83	Substandard/doubtful/loss	—	—
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Energy and water/waste disposal:</b>		
Acceptable	91.36%	93.35%	Acceptable	—%	0.02%
OAEM	3.39	1.54	OAEM	—	—
Substandard/doubtful/loss	5.25	5.11	Substandard/doubtful/loss	100.00	99.98
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Loans to cooperatives:</b>			<b>Rural residential real estate:</b>		
Acceptable	100.00%	100.00%	Acceptable	93.74%	93.55%
OAEM	—	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	6.26	6.45
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Processing and marketing:</b>			<b>Lease receivables:</b>		
Acceptable	78.10%	100.00%	Acceptable	—%	0.02%
OAEM	21.90	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	100.00	99.98
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
			<b>Total Loans:</b>		
			Acceptable	92.26%	93.38%
			OAEM	3.79	2.88
			Substandard/doubtful/loss	3.95	3.74
				<u>100.00%</u>	<u>100.00%</u>

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

	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	\$ 1,478	\$ 966	\$ 2,444	\$ 131,663	\$ 134,107	\$ —
Production and intermediate-term	395	1,939	2,334	151,703	154,037	—
Loans to cooperatives	—	—	—	518	518	—
Processing and marketing	—	—	—	12,242	12,242	—
Farm-related business	—	—	—	937	937	—
Energy and water/waste disposal	—	—	—	760	760	—
Rural residential real estate	215	—	215	1,191	1,406	—
Lease receivables	—	—	—	318	318	—
Total	<u>\$ 2,088</u>	<u>\$ 2,905</u>	<u>\$ 4,993</u>	<u>\$ 299,332</u>	<u>\$ 304,325</u>	<u>\$ —</u>
	December 31, 2013					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 557	\$ 950	\$ 1,507	\$ 136,003	\$ 137,510	\$ —
Production and intermediate-term	205	1,717	1,922	152,780	154,702	—
Loans to cooperatives	—	—	—	201	201	—
Processing and marketing	—	—	—	11,184	11,184	—
Farm-related business	—	—	—	4,028	4,028	—
Energy and water/waste disposal	—	—	—	754	754	—
Rural residential real estate	93	—	93	1,349	1,442	—
Lease receivables	—	—	—	323	323	—
Total	<u>\$ 855</u>	<u>\$ 2,667</u>	<u>\$ 3,522</u>	<u>\$ 306,622</u>	<u>\$ 310,144</u>	<u>\$ —</u>

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest, unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

Nonperforming assets (including related accrued interest) and related credit quality statistics at period end were as follows:

	March 31, 2014	December 31, 2013
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 1,491	\$ 1,324
Production and intermediate-term	2,103	1,742
Processing and marketing	—	—
Farm-related business	—	—
Rural residential real estate	88	93
Total nonaccrual loans	<u>\$ 3,682</u>	<u>\$ 3,159</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 3,935	\$ 4,277
Production and intermediate-term	1,025	698
Lease receivables	318	323
Total accruing restructured loans	<u>\$ 5,278</u>	<u>\$ 5,298</u>
<b>Accruing loans 90 days or more past due:</b>		
Total accruing loans 90 days or more past due	<u>\$ —</u>	<u>\$ —</u>
Total nonperforming loans	\$ 8,960	\$ 8,457
Other property owned	5,868	6,223
Total nonperforming assets	<u>\$ 14,828</u>	<u>\$ 14,680</u>
Nonaccrual loans as a percentage of total loans	1.22%	1.03%
Nonperforming assets as a percentage of total loans and other property owned	4.83%	4.70%
Nonperforming assets as a percentage of capital	<u>19.39%</u>	<u>20.17%</u>

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
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 144	\$ 325
Past due	3,538	2,834
Total impaired nonaccrual loans	<u>3,682</u>	<u>3,159</u>
<b>Impaired accrual loans:</b>		
Restructured	5,278	5,298
90 days or more past due	—	—
Total impaired accrual loans	<u>5,278</u>	<u>5,298</u>
Total impaired loans	<u>\$ 8,960</u>	<u>\$ 8,457</u>

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
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,738	\$ 3,655	\$ 286	\$ 3,714	\$ 48
Production and intermediate-term	122	367	175	121	2
Rural residential real estate	—	—	—	—	—
Lease receivables	318	317	113	315	4
Total	<u>\$ 4,178</u>	<u>\$ 4,339</u>	<u>\$ 574</u>	<u>\$ 4,150</u>	<u>\$ 54</u>
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,688	\$ 1,856	\$ —	\$ 1,676	\$ 21
Production and intermediate-term	3,006	3,826	—	2,986	38
Rural residential real estate	88	149	—	87	1
Total	<u>\$ 4,782</u>	<u>\$ 5,831</u>	<u>\$ —</u>	<u>\$ 4,749</u>	<u>\$ 60</u>
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 5,426	\$ 5,511	\$ 286	\$ 5,390	\$ 69
Production and intermediate-term	3,128	4,193	175	3,107	40
Rural residential real estate	88	149	—	87	1
Lease receivables	318	317	113	315	4
Total	<u>\$ 8,960</u>	<u>\$ 10,170</u>	<u>\$ 574</u>	<u>\$ 8,899</u>	<u>\$ 114</u>

	December 31, 2013			Year Ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 4,082	\$ 4,055	\$ 351	\$ 3,868	\$ 246
Production and intermediate-term	122	372	203	116	7
Processing and marketing	—	—	—	—	—
Lease receivables	323	322	114	306	20
Total	<u>\$ 4,527</u>	<u>\$ 4,749</u>	<u>\$ 668</u>	<u>\$ 4,290</u>	<u>\$ 273</u>
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 1,519	\$ 1,676	\$ —	\$ 1,441	\$ 92
Production and intermediate-term	2,318	3,152	—	2,197	140
Processing and marketing	—	—	—	—	—
Farm-related business	—	—	—	—	—
Rural residential real estate	93	151	—	88	5
Total	<u>\$ 3,930</u>	<u>\$ 4,979</u>	<u>\$ —</u>	<u>\$ 3,726</u>	<u>\$ 237</u>
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 5,601	\$ 5,731	\$ 351	\$ 5,309	\$ 338
Production and intermediate-term	2,440	3,524	203	2,313	147
Processing and marketing	—	—	—	—	—
Farm-related business	—	—	—	—	—
Rural residential real estate	93	151	—	88	5
Lease receivables	323	322	114	306	20
Total	<u>\$ 8,457</u>	<u>\$ 9,728</u>	<u>\$ 668</u>	<u>\$ 8,016</u>	<u>\$ 510</u>

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*	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Total
<b>Allowance for credit losses:</b>							
Balance at December 31, 2013	\$ 1,162	\$ 2,622	\$ 286	\$ 302	\$ 3	\$ 114	\$ 4,489
Charge-offs	(67)	—	—	—	—	—	(67)
Recoveries	2	2	—	—	—	—	4
Provision for loan losses	(140)	(131)	141	(9)	—	—	(139)
Balance at March 31, 2014	\$ 957	\$ 2,493	\$ 427	\$ 293	\$ 3	\$ 114	\$ 4,287
Balance at December 31, 2012	\$ 1,621	\$ 2,860	\$ 167	\$ 61	\$ 3	\$ —	\$ 4,712
Charge-offs	(2)	—	—	—	—	—	(2)
Recoveries	1	3	—	—	—	—	4
Provision for loan losses	(358)	217	(81)	233	—	—	11
Balance at March 31, 2013	\$ 1,262	\$ 3,080	\$ 86	\$ 294	\$ 3	\$ —	\$ 4,725
Loans individually evaluated for impairment	\$ 286	\$ 175	\$ —	\$ —	\$ —	\$ 113	\$ 574
Loans collectively evaluated for impairment	671	2,319	427	293	3	—	3,713
Balance at March 31, 2014	\$ 957	\$ 2,494	\$ 427	\$ 293	\$ 3	\$ 113	\$ 4,287
Loans individually evaluated for impairment	\$ 351	\$ 203	\$ —	\$ —	\$ —	\$ 114	\$ 668
Loans collectively evaluated for impairment	811	2,419	286	302	3	—	3,821
Balance at December 31, 2013	\$ 1,162	\$ 2,622	\$ 286	\$ 302	\$ 3	\$ 114	\$ 4,489
<b>Recorded investment in loans outstanding:</b>							
Loans individually evaluated for impairment	\$ 5,480	\$ 6,076	\$ —	\$ —	\$ 88	\$ 318	\$ 11,962
Loans collectively evaluated for impairment	128,627	147,961	13,697	760	1,318	—	292,363
Ending balance at March 31, 2014	\$ 134,107	\$ 154,037	\$ 13,697	\$ 760	\$ 1,406	\$ 318	\$ 304,325
Loans individually evaluated for impairment	\$ 5,601	\$ 2,440	\$ —	\$ —	\$ 93	\$ 323	\$ 8,457
Loans collectively evaluated for impairment	131,909	152,262	15,413	754	1,349	—	301,687
Ending balance at December 31, 2013	\$ 137,510	\$ 154,702	\$ 15,413	\$ 754	\$ 1,442	\$ 323	\$ 310,144

\*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.

	Three months ended March 31, 2014			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
<b>Troubled debt restructurings:</b>				
Production and intermediate-term	\$ 885	\$ 17	\$ —	\$ 902
Total	\$ 885	\$ 17	\$ —	\$ 902

	Three months ended March 31, 2014				Effects of Modification Charge-offs
	Post-modification Outstanding Recorded Investment				
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Troubled debt restructurings:</b>					
Production and intermediate-term	\$ 885	\$ 17	\$ —	\$ 902	\$ —
Total	\$ 885	\$ 17	\$ —	\$ 902	\$ —

Three months ended March 31, 2013					
Pre-modification Outstanding Recorded Investment					
	Interest Concessions	Principal Concessions	Other Concessions	Total	
<b>Troubled debt restructurings:</b>					
Production and intermediate-term	\$ -	\$ -	\$ 371	\$	371
Total	\$ -	\$ -	\$ 371	\$	371

Three months ended March 31, 2013						Effects of Modification
Post-modification Outstanding Recorded Investment						Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
<b>Troubled debt restructurings:</b>						
Production and intermediate-term	\$ -	\$ -	\$ 371	\$	371	\$ -
Total	\$ -	\$ -	\$ 371	\$	371	\$ -

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	\$ 4,003	\$ 4,351	\$ 67	\$ 74
Production and intermediate-term	1,127	801	103	103
Lease receivables	318	323	-	-
Total Loans	\$ 5,448	\$ 5,475	\$ 170	\$ 177
Additional commitments to lend	\$ -	\$ -		

### Note 3 — Investment Securities

The Association's available-for-sale investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment program approved by the FCA. In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible. As of March 2014, the Association held six Rural America Bonds totaling \$3,211 that were considered ineligible investments. The Association has obtained permission from FCA to hold these investments until maturity.

A summary of the amortized cost and fair value of investment securities available-for-sale follows:

	March 31, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments (a)	\$ 37,186	\$ 1,875	\$ (1,368)	\$ 37,693	6.12%

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments (b)	\$ 42,117	\$ 1,189	\$ (2,020)	\$ 41,286	6.04%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment included in AOCI of \$284 for Mission Related Investments.

(b) Gross unrealized losses include non-credit related other-than-temporary impairment included in AOCI of \$363 for Mission Related Investments.

The Association had no investment securities held-to-maturity at either reporting date. As of March 31, 2014, the Association's available-for-sale portfolio consisted solely of Mission Related Investments.

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities available-for-sale follows:

	March 31, 2014		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ -	\$ -	-%
After one year through five years	934	920	5.00
After five years through ten years	-	-	-
After ten years	36,252	36,773	6.15
Total	\$ 37,186	\$ 37,693	6.12%



A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

During March of 2014, the Association sold one guaranteed investment security in the amount of \$4,886 resulting in a realized gain of \$96.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	March 31, 2014			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission Related Investments	\$ 7,612	\$ (388)	\$ 4,780	\$ (980)

	December 31, 2013			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission Related Investments	\$ 13,582	\$ (1,259)	\$ 3,519	\$ (761)

FASB guidance contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association owns three Rural America Bonds that are considered other-than-temporarily impaired. Based on the results of all analyses, the Association has recognized no credit-related other-than-temporary impairment for 2014 in Impairment Losses on Investments in the Statements of Income. Since the Association does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total other-than temporary impairment is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

For all other impaired investments, the Association has not recognized any credit losses as the impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings.

	For the Three Months Ended March 31,	
	2014	2013
<b>Amount related to credit loss-beginning balance</b>	\$ 3,049	\$ —
Additions for initial credit impairments	—	—
Additions for subsequent credit impairments	—	—
Reductions for increases in expected cash flows	—	—
Reductions for securities sold, settled, or matured	—	—
<b>Amount related to credit loss-ending balance</b>	<u>3,049</u>	<u>—</u>
Life to date incurred credit losses	—	—
<b>Remaining unrealized credit losses</b>	<u>\$ 3,049</u>	<u>\$ —</u>

#### 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.

##### *Subordinated Debt*

In September 2008, the Association issued \$7,500 of fixed rate unsecured subordinated debt due in 2018, generating proceeds that were primarily used to increase the permanent capital of the Association pursuant to the FCA regulations, and for general corporate purposes. On October 15, 2013, the Association redeemed the subordinated debt in full.

The debt was payable to another association in the AgFirst District. It was subordinate to all other categories of creditors, including any claims of the Bank and general creditors, and was senior to all classes of shareholders. The subordinated debt was not considered System debt, and thus was not guaranteed by the System and not insured by the Farm Credit System Insurance Corporation. The subordinated debt bore interest at an annual fixed rate of 9 percent, payable on the fifteenth day of each month, beginning on October 15, 2008, and was eligible to be redeemed on October 15, 2013.

#### Note 5 — Members' Equity

##### *Accumulated Other Comprehensive Income*

The following tables present activity related to AOCI for the periods presented:

	Changes in Accumulated Other Comprehensive income by Component (a)	
	Three Months Ended March 31,	
	2014	2013
<b>Unrealized gains (losses) on Investments</b>		
Balance at beginning of period	\$ (832)	\$ 5,848
Other comprehensive income before reclassifications	1,435	(1,868)
Amounts reclassified from AOCI	(96)	—
Net current period other comprehensive income	<u>1,339</u>	<u>(1,868)</u>
Balance at end of period	<u>\$ 507</u>	<u>\$ 3,980</u>
<b>Employee Benefit Plans:</b>		
Balance at beginning of period	\$ (169)	\$ (219)
Other comprehensive income before reclassifications	—	—
Amounts reclassified from AOCI	1	2
Net current period other comprehensive income	<u>1</u>	<u>2</u>
Balance at end of period	<u>\$ (168)</u>	<u>\$ (217)</u>
<b>Accumulated Other Comprehensive Income</b>		
Balance at beginning of period	\$ (1,001)	\$ 5,629
Other comprehensive income before reclassifications	1,435	(1,868)
Amounts reclassified from AOCI	(95)	2
Net current period other comprehensive income	<u>1,340</u>	<u>(1,866)</u>
Balance at end of period	<u>\$ 339</u>	<u>\$ 3,763</u>

Reclassifications Out of Accumulated Other Comprehensive Income (b)				
Three Months Ended March 31,				
	2014	2013	Income Statement Line Item	
<b>Investment Securities:</b>				
Sales gains & losses	\$ 96	\$ —	Gains (losses) on investments, net	
Holding gains & losses	—	—	Net other-than-temporary impairment	
Net amounts reclassified	\$ 96	\$ —		
<b>Defined Benefit Pension Plans:</b>				
Periodic pension costs	\$ (1)	\$ (2)	See Note 7.	
Net amounts reclassified	\$ (1)	\$ (2)		
Total reclassifications for period	\$ 95	\$ (2)		

(a) Amounts in parentheses indicate debits to AOCI.

(b) Amounts in parentheses indicate debits to profit/loss.

## Note 6 — Fair Value Measurement

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 4.17 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 \$670 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.

### 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 also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

For a complete discussion of the inputs and other assumptions considered in assigning various assets and liabilities to the fair value hierarchy levels, see the latest Annual Report to Shareholders.

The following 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, Level 2, or Level 3 during the periods presented.

	<b>Standby Letters Of Credit</b>	<b>Mission Related Investments</b>
Balance at January 1, 2014	\$ 4	\$ 41,286
<b>Total gains or (losses) realized/unrealized:</b>		
Included in earnings	-	96
Included in other comprehensive income (loss)	-	1,339
Purchases	-	-
Sales	-	(4,886)
Issuances	-	-
Settlements	(1)	(142)
Transfers in and/or out of level 3	-	-
Balance at March 31, 2014	<u>\$ 3</u>	<u>\$ 37,693</u>

	<b>Standby Letters Of Credit</b>	<b>Mission Related Investments</b>
Balance at January 1, 2013	\$ 12	\$ 53,492
<b>Total gains or (losses) realized/unrealized:</b>		
Included in earnings	-	-
Included in other comprehensive income (loss)	-	(1,868)
Purchases	-	116
Sales	-	-
Issuances	-	-
Settlements	-	(45)
Transfers in and/or out of level 3	-	-
Balance at March 31, 2013	<u>\$ 12</u>	<u>\$ 51,695</u>

### Sensitivity to Changes in Significant Unobservable Inputs

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

### INVESTMENT SECURITIES

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant

unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these level 3 assets.

### OTHER PROPERTY OWNED/IMPAIRED LOANS

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

## Inputs to Valuation Techniques

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

Quoted market prices are generally not available for the instruments presented 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	\$ 14,743	Appraisal	Income and expense Comparable sales Replacement cost Comparability adjustments	* * * *
Mission Related Investments	\$ 37,693	Discounted cash flow	Risk adjusted discount rate	0.01% - 91.61%
Other Investments-RBIC	\$ 70	Third party evaluation	Income, expense, capital	Not applicable

\* 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
Assets held in trust funds	Quoted prices	Price for identical security
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
Subordinated debt payable	Discounted cash flow	Prepayment rates Risk adjusted discount rate

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
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 549	\$ 549	\$ -	\$ -	\$ 549	
Investment securities, available-for-sale	37,693	-	-	37,693	37,693	
Recurring Assets	\$ 38,242	\$ 549	\$ -	\$ 37,693	\$ 38,242	
<b>Liabilities:</b>						
Standby letters of credit	\$ 3	\$ -	\$ -	\$ 3	\$ 3	
Recurring Liabilities	\$ 3	\$ -	\$ -	\$ 3	\$ 3	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 8,386	\$ -	\$ -	\$ 8,386	\$ 8,386	\$ 31
Other property owned	5,868	-	-	6,357	6,357	(31)
Other investments	70	-	-	70	70	-
Nonrecurring Assets	\$ 14,324	\$ -	\$ -	\$ 14,813	\$ 14,813	\$ -
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 54	\$ 54	\$ -	\$ -	\$ 54	
Loans	288,445	-	-	286,772	286,772	
Other Financial Assets	\$ 288,499	\$ 54	\$ -	\$ 286,772	\$ 286,826	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 278,805	\$ -	\$ -	\$ 275,897	\$ 275,897	
Other Financial Liabilities	\$ 278,805	\$ -	\$ -	\$ 275,897	\$ 275,897	

**At or for the Year ended December 31, 2013**

	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Fair Value Effects On Earnings</b>
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Assets held in Trust funds	\$ 536	\$ 536	\$ -	\$ -	\$ 536	\$
Investment securities, available-for-sale	41,286	-	-	41,286	41,286	
Recurring Assets	\$ 41,822	\$ 536	\$ -	\$ 41,286	\$ 41,822	\$
<b>Liabilities:</b>						
Standby letters of credit	\$ 4	\$ -	\$ -	\$ 4	\$ 4	\$
Recurring Liabilities	\$ 4	\$ -	\$ -	\$ 4	\$ 4	\$
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 7,789	\$ -	\$ -	\$ 7,789	\$ 7,789	\$ 178
Other property owned	6,223	-	-	6,701	6,701	(390)
Other investments	70	-	-	70	70	(180)
Nonrecurring Assets	\$ 14,082	\$ -	\$ -	\$ 14,560	\$ 14,560	\$ (392)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 28	\$ 28	\$ -	\$ -	\$ 28	\$
Loans	293,921	-	-	292,422	292,422	
Other investments *	23,404	-	-	23,431	23,431	
Other Financial Assets	\$ 317,353	\$ 28	\$ -	\$ 315,853	\$ 315,881	\$
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 321,897	\$ -	\$ -	\$ 318,006	\$ 318,006	\$
Other Financial Liabilities	\$ 321,897	\$ -	\$ -	\$ 318,006	\$ 318,006	\$

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

**Note 7 — Employee Benefit Plans**

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

	For the three months ended March 31,	
	2014	2013
Pension	\$ 359	\$ 346
401(k)	33	25
Other postretirement benefits	47	47
Total	\$ 439	\$ 418

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	\$ 13	\$ 1,130	\$ 1,143
Other postretirement benefits	47	149	196
Total	\$ 60	\$ 1,279	\$ 1,339

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 8 — Commitments and Contingent Liabilities**

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

**Note 9 — 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.