ArborOne, ACA

SECOND QUARTER 2014

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 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

August 7, 2014

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 June 30, 2014. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of June 30, 2014, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2014.

Kathy S. Heustess

Kathy S. Heustess
President and Chief Executive Officer

Tammy G. Smith

Tammy G. Smith
Chief Financial Officer

August 7, 2014

ArborOne, 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 **ArborOne, ACA**, (the Association) for the period ended June 30, 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 cash grains, cotton, tobacco, forestry, poultry, and farm services. 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 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 eighteen percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of June 30, 2014, was $342,554, an increase of $36,355 as compared to $306,199 at December 31, 2013. Net loans outstanding at June 30, 2014, were $338,007 as compared to $301,710 at December 31, 2013. The increase in gross loan volume was mainly due to the continued concentration in our territory and available commitments on operating notes being drawn. In addition, during the six months ended June 30, 2014, the Association's sold participations to the Bank through the capitalized participation pools (CPP) program decreased by $14,133. As of June 30, 2014, the Association had $70,721 of such participations outstanding. The Association had investment securities classified as available-for-sale in the amount of $33,297 at June 30, 2014 compared to $41,286 at December 31, 2013. Other investments held by the Association as of June 30, 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 92.36 percent of total assets at June 30, 2014, as compared to 89.91 percent of total assets at December 31, 2013.

Net loans and investments increased by $4,904 during the reporting period. This was primarily due to an increase in originated loan volume, a decrease in participations sold loan volume, and an increase in nonaccrual loan volume, which was partially offset by a decrease in investments. The increase in originated loan volume is attributed to the strength of our customers in our 12 county territory as well as our customers drawing on their available commitments. The decrease in participations sold volume is mainly due to CPP loan payments in the normal course of business, and the payoff of one large participation sold loan. The increase of nonaccrual loan volume is mainly due to several core agricultural loans and one participation loan moving to nonaccrual status.

These increases to net loans and investments were partially offset by a decrease in other investments due to the final annual payment on the SIIC loan volume received in January, a decrease in participations purchased volume, and a decrease in the investment securities available-for-sale due to normal payments, a payoff, and a sale. The decrease in participations purchased volume is attributed to a payoff on one large participation purchased loan and normal payments, along with tightening lending policies, which has strengthened the Association's capital position.

Investment securities available-for-sale consist of mission related investments (Rural America Bonds) which decreased by $7,989 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, the payoff of another investment security in the amount of $4,543, along with normal payments in the amount of $475. This decrease was partially offset by the positive change in unrealized gain in the amount of $1,819, 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 five Rural America Bonds that are ineligible investments as of June 30, 2014. One ineligible investment was upgraded to an acceptable rating during the second quarter. During 2013, credit impairments totaling $3,049 were taken on three ineligible investments. No additional credit impairments were taken during the first six months of 2014.

The other investments for SIIC decreased by $23,404 in January 2014 due to the final annual payment on the contracts. As of June 30, 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 $4,799 at June 30, 2014. This was mainly due to the transfer of several core agricultural loans and one participation loan to nonaccrual status. This increase was partially offset by the transfer of two core agricultural loans from nonaccrual status into Other Property Owned (OPO).

As of June 30, 2014, the Association has eight properties classed as OPO totaling $5,522, a decrease of $701 as compared to $6,223 at December 31, 2013. The decrease was due to the sale of two participation accounts, one core account, and the partial sale of two participation accounts, as well as write downs taken on a few core and participation accounts during the year. 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, credit history, current conditions, and expected future conditions. The allowance for loan losses at June 30, 2014, was $4,547, compared to $4,489 at December 31, 2013. The $4,547 allowance for loan losses consisted of $4,027 in general reserves and $520 in specific reserves for one core agricultural loan and one Rural America Bond. The charge-offs for the six months ended June 30, 2014 were $70 which consisted of mainly one core agricultural loan. There were recoveries of $7 for the six months ended June 30, 2014 attributed to both core agricultural and participation loans. The allowance for loan losses for the period ending June 30, 2014 is considered by management to be adequate to cover any future possible losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2014

Net income for the three months ended June 30, 2014, totaled $1,760, an increase of $575, as compared to $1,185 for the same period in 2013.

Interest income on accruing loans decreased by $139 for the three months ended June 30, 2014 compared to $3,983 for the three months ended June 30, 2013, as a result of tightening yields due to competition. Nonaccrual interest income increased by $3 as compared to the same period in 2013, which was mainly due to payments received on several nonaccrual agricultural loans. Interest income on investment securities was $533 compared to $849 for the same period in 2013. There was no interest income on other investments (SIIC) for the three months ended June 30, 2014, as compared to $134 for the same period in 2013. The decrease in investment interest income is primarily due to the payoff of SIIC volume as well as a decrease in investment securities available-for-sale.

Interest expense decreased $651 for the three months ended June 30, 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, the reduction in investment securities available-for-sale, and lower rates. The decrease was partially offset by an increase of interest expense due to the increase in loan volume.

The Association recorded a provision for loan losses of $260 as compared to a provision for loan losses of $658 for the comparable period of 2013, resulting mainly from the reversal of the specific reserve on one large participation account that moved to OPO.

Noninterest income for the three months ended June 30, 2014, totaled $1,863 as compared to $1,919 for the same period of 2013, a decrease of $56. This decrease was mainly due to a decrease in loan fees of $149, a decrease in fees from financially related services of $12, a decrease in patronage refunds from other Farm Credit institutions of $135, a decrease in gains on other transactions of $6, and a decrease in other noninterest income of $46. The decrease was partially offset as a result of no impairment losses on investments during the second quarter of 2014 as compared to the impairment losses of $292 that were taken during this same period in 2013.

Noninterest expense for the three months ended June 30, 2014, decreased $40 compared to the same period of 2013. This decrease was mainly due to a decrease in losses on OPO of $223 and a decrease in other operating expenses of $11. This decrease was partially offset by an increase in salaries and employee benefits of $175, an increase in occupancy and equipment of $9, and an increase in insurance fund premiums of $10. The Association recorded a provision for income taxes in the amount of $6 for the three months ended June 30, 2014 as compared to no provision for the same period in 2013.

For the six months ended June 30, 2014

Net income for the six months ended June 30, 2014, totaled $4,148, as compared to $3,805 for the same period in 2013. This was mainly due to a decrease in the provision of $548.

Interest income on loans decreased by $200 primarily due to the tightening of yields due to competition. Interest income on investment securities and other investments (SIIC) decreased by $877 due to the final annual payment on the SIIC contracts as well as a normal payments, a payoff, and a sale on the investments available-for-sale. Interest expense decreased by $1,284 compared to the same period of 2013. This decrease in interest expense was attributed to a reduction in notes payable to the Bank as a result of the payoff in SIIC volume, the payoff of the subordinated debt in 2013, the reduction in investment securities available-for-sale, as well as a decrease in rates. The change in net interest income is mainly a result of these reductions in interest expense.

The Association recorded a provision for loan losses of $121 for the six months ended June 30, 2014, as compared to a provision for loan losses of $669 for the same period in 2013, resulting mainly from the reversal of the specific reserve on one large participation account that moved to OPO.

Noninterest income for the six months ended June 30, 2014, totaled $3,990 as compared to $4,234 for the same period of 2013, a decrease of $244. The decrease is mainly due to a decrease in loan fees of $382 and a decrease in patronage refunds from other Farm Credit institutions of $233, which is mainly a result of special patronage received from the Bank in 2013. In addition, there was also a decrease in gains on sales of premises and equipment of $9 and a decrease in gains on other transactions of $16. These decreases were partially offset by an increase in fees from financially related services of $7, an increase in gains on sales of investment securities of $96, and an increase in other noninterest income of $1.   Furthermore, no impairment losses on investments were taken during the period in 2014 as compared to the impairment losses of $292 that were taken during this same period in 2013.

Noninterest expense for the six months ended June 30, 2014, increased $157 compared to the same period of 2013. This increase is due to an increase in salaries and employee benefits of $314, an increase in occupancy and equipment of $7, and an increase in insurance fund premiums of $17. This increase was partially offset by a decrease in losses on OPO of $176 and a decrease in other operating expenses of $5. The Association did record a provision for income taxes of $11 for the six months ended June 30, 2014 as compared to no provision during 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 June 30, 2014, was $317,474 as compared to $321,897 at December 31, 2013. The decrease during the period is primarily attributable to 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 an increase in loan volume and a decrease in CPP loan 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 June 30, 2014, increased to $78,723 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 $1,292 on June 30, 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 $167 as of June 30, 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 $987 as of June 30, 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 $1,821 to Accumulated Other

Comprehensive Income for the six months ending June 30, 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 June 30, 2014, the Association's total surplus ratio and core surplus ratio were 20.78 percent and 20.27 percent, respectively, and the permanent capital ratio was 21.20 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

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

On May 8, 2014, the FCA approved a proposed rule to modify the regulatory capital requirements for System Banks and Associations. The stated objectives of the proposed rule are as follows:

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise.
- To ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System.
- To make System regulatory capital requirements more transparent.
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

Once the proposed rule is published in the Federal Register, the 120-day public comment period will commence.

On June 12, 2014, the FCA approved a proposed rule to revise the requirements governing the eligibility of investments for System Banks and Associations. The stated objectives of the proposed rule are as follows:

- To strengthen the safety and soundness of System Banks and Associations.
- To ensure that System Banks hold sufficient liquidity to continue operations and pay maturing obligations in the event of market disruption.
- To enhance the ability of the System Banks to supply credit to agricultural and aquatic producers.
- To comply with the requirements of section 939A of the Dodd-Frank Act.
- To modernize the investment eligibility criteria for System Banks.
- To revise the investment regulation for System Associations to improve their investment management practices so they are more resilient to risk.

The public comment period ends on October 23, 2014.

For the six months ended June 30, 2014, the FCA took no enforcement action against the Association.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-741-7332, writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, ***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

(dollars in thousands)	June 30, 2014	December 31, 2013
	(unaudited)	(audited)
Assets		
Cash	$ 2	$ 28
Investment securities:		
Available for sale (amortized cost of $32,310 and $42,117, respectively)	33,297	41,286
Loans	342,554	306,199
Allowance for loan losses	(4,547)	(4,489)
Net loans	338,007	301,710
Other investments	70	23,474
Accrued interest receivable	4,114	4,408
Investments in other Farm Credit institutions	10,921	12,164
Premises and equipment, net	4,066	3,718
Other property owned	5,522	6,223
Accounts receivable	3,076	10,927
Other assets	3,019	3,654
Total assets	$ 402,094	$ 407,592
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 317,474	$ 321,897
Accrued interest payable	625	791
Patronage refunds payable	315	3,818
Accounts payable	355	460
Other liabilities	4,602	7,831
Total liabilities	323,371	334,797
Commitments and contingencies		
Members' Equity		
Protected borrower stock	78	91
Capital stock and participation certificates	1,214	1,238
Retained earnings		
Allocated	49,900	49,893
Unallocated	26,711	22,574
Accumulated other comprehensive income (loss)	820	(1,001)
Total members' equity	78,723	72,795
Total liabilities and members' equity	$ 402,094	$ 407,592

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

ArborOne, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Interest Income				
Loans	$ 3,851	$ 3,987	$ 7,499	$ 7,699
Investments	533	849	1,177	2,054
Total interest income	4,384	4,836	8,676	9,753
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	1,878	2,360	3,722	4,668
Subordinated debt payable to other Farm Credit institutions	—	169	—	338
Total interest expense	1,878	2,529	3,722	5,006
Net interest income	2,506	2,307	4,954	4,747
Provision for loan losses	260	658	121	669
Net interest income after provision for loan losses	2,246	1,649	4,833	4,078
Noninterest Income				
Loan fees	552	701	1,056	1,438
Fees for financially related services	10	22	82	75
Patronage refunds from other Farm Credit institutions	1,290	1,425	2,683	2,916
Gains (losses) on sales of premises and equipment, net	—	—	—	9
Gains (losses) on sales of investment securities	—	—	96	—
Gains (losses) on other transactions	9	15	22	38
Total other-than-temporary impairment losses on investment	—	(371)	—	(371)
Portion of loss recognized in other comprehensive income (loss)	—	79	—	79
Net impairment losses on investments	—	(292)	—	(292)
Other noninterest income	2	48	51	50
Total noninterest income	1,863	1,919	3,990	4,234
Noninterest Expense				
Salaries and employee benefits	1,521	1,346	3,060	2,746
Occupancy and equipment	108	99	228	221
Insurance Fund premiums	64	54	121	104
(Gains) losses on other property owned, net	158	381	227	403
Other operating expenses	492	503	1,028	1,033
Total noninterest expense	2,343	2,383	4,664	4,507
Income before income taxes	1,766	1,185	4,159	3,805
Provision for income taxes	6	—	11	—
Net income	$ 1,760	$ 1,185	$ 4,148	$ 3,805

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

ArborOne, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Net income	$ 1,760	$ 1,185	$ 4,148	$ 3,805
Other comprehensive income net of tax				
Unrealized gains (losses) on investments available for sale:				
Other-than-temporarily impaired	104	(1)	191	(1)
Not other-than-temporarily impaired	376	(3,253)	1,628	(5,121)
Employee benefit plans adjustments	1	1	2	3
Other comprehensive income (Note 5)	481	(3,253)	1,821	(5,119)
Comprehensive income	$ 2,241	$ (2,068)	$ 5,969	$ (1,314)

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

ArborOne, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2012	$ 118	$ 1,197	$ 43,392	$ 22,686	$ 5,629	$ 73,022
Comprehensive income (loss)				3,805	(5,119)	(1,314)
Protected borrower stock issued/(retired), net	(3)					(3)
Capital stock/participation certificates issued/(retired), net		13				13
Patronage distribution adjustment			478	(509)		(31)
Balance at June 30, 2013	$ 115	$ 1,210	$ 43,870	$ 25,982	$ 510	$ 71,687
Balance at December 31, 2013	$ 91	$ 1,238	$ 49,893	$ 22,574	$ (1,001)	$ 72,795
Comprehensive income				4,148	1,821	5,969
Protected borrower stock issued/(retired), net	(13)					(13)
Capital stock/participation certificates issued/(retired), net		(24)				(24)
Patronage distribution adjustment			7	(11)		(4)
Balance at June 30, 2014	$ 78	$ 1,214	$ 49,900	$ 26,711	$ 820	$ 78,723

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

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 May 2014 the Financial Accounting Standards Board (FASB), responsible for U.S. Generally Accepted Accounting Principles (U.S. GAAP), and the International Accounting Standards Board (IASB), responsible for International Financial Reporting Standards (IFRS), jointly issued converged standards on the recognition of revenue from contracts with customers. Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers (Topic 606)" and IFRS 15 "Revenue from Contracts with Customers" are intended to improve the financial reporting of revenue and comparability of the top line in financial statements globally and supersede substantially all previous revenue recognition guidance. The core principle of the new standards is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Because of the pervasive nature of the new guidance, the boards have established a joint transition resource group in order to aid transition to the new standard. For public entities reporting under U.S. GAAP, the amendments in the Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For nonpublic entities, the amendments are effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to adopt this guidance earlier under certain circumstances. The amendments are to be applied retrospectively. Because financial instruments are not within the scope of the guidance, it is expected that adoption will not have a material impact on the Association's financial condition or results of operations, but may result in additional disclosures.

In March 2014 the FASB issued ASU 2014-06, "Technical Corrections and Improvements Related to Glossary Terms (Master Glossary)." The amendments in this Update relate to glossary terms, cover a wide range of Topics in the Codification and are presented in four sections: Deletion of Master Glossary Terms, Addition of Master Glossary Term Links, Duplicate Master Glossary Terms, and Other Technical Corrections Related to Glossary Terms. These amendments did not have transition guidance and were effective upon issuance for both public entities and nonpublic entities.

In January 2014 the FASB issued ASU 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of the amendments in this Update is to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amendments are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. Early adoption is permitted.

Other recently issued accounting pronouncements are discussed in the 2013 Annual Report to Shareholders.

Note 2 — Loans and Allowance for Loan Losses

For a complete description of the Association's accounting for loans (including impaired loans and the allowance for loan losses) and definitions of loan types, see the 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:

	June 30, 2014	December 31, 2013
Real estate mortgage	$ 142,761	$ 135,843
Production and intermediate-term	178,115	152,478
Loans to cooperatives	234	201
Processing and marketing	14,130	11,154
Farm-related business	5,045	4,010
Energy and water/waste disposal	753	754
Rural residential real estate	1,357	1,437
Lease receivables	159	322
Total Loans	$ 342,554	$ 306,199

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present participation loan balances at periods ended:

June 30, 2014

	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 6,762	$ 57,951	$ 3,557	$ –	$ 2,214	$ –	$ 12,533	$ 57,951
Production and intermediate-term	23,660	23,114	700	–	–	–	24,360	23,114
Loans to cooperatives	234	–	–	–	–	–	234	–
Processing and marketing	13,820	58	333	–	–	–	14,153	58
Farm-related business	133	99	–	–	–	–	133	99
Total	$ 44,609	$ 81,222	$ 4,590	$ –	$ 2,214	$ –	$ 51,413	$ 81,222

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
Total	$ 43,500	$ 98,707	$ 10,394	$ 1,655	$ 2,412	$ –	$ 56,306	$ 100,362

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

	June 30, 2014			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 7,107	$ 37,874	$ 97,780	$ 142,761
Production and intermediate-term	78,071	58,002	42,042	178,115
Loans to cooperatives	234	–	–	234
Processing and marketing	–	10,371	3,759	14,130
Farm-related business	4,293	311	441	5,045
Energy and water/waste disposal	753	–	–	753
Rural residential real estate	16	272	1,069	1,357
Lease receivables	–	159	–	159
Total Loans	$ 90,474	$ 106,989	$ 145,091	$ 342,554
Percentage	26.41%	31.23%	42.36%	100.00%

The following table shows loans and related accrued interest, classified under the FCA Uniform Loan Classification System, as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2014	December 31, 2013
Real estate mortgage:		
Acceptable	93.86%	93.40%
OAEM	2.73	4.77
Substandard/doubtful/loss	3.41	1.83
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	90.86%	93.35%
OAEM	3.00	1.54
Substandard/doubtful/loss	6.14	5.11
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	88.31%	100.00%
OAEM	11.69	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2014	December 31, 2013
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	–%	0.02%
OAEM	–	–
Substandard/doubtful/loss	100.00	99.98
	100.00%	100.00%
Rural residential real estate:		
Acceptable	93.64%	93.55%
OAEM	–	–
Substandard/doubtful/loss	6.36	6.45
	100.00%	100.00%
Lease receivables:		
Acceptable	–%	0.02%
OAEM	–	–
Substandard/doubtful/loss	100.00	99.98
	100.00%	100.00%
Total Loans:		
Acceptable	91.91%	93.38%
OAEM	3.18	2.88
Substandard/doubtful/loss	4.91	3.74
	100.00%	100.00%

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

	June 30, 2014					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,537	$ 747	$ 2,284	$ 142,015	$ 144,299	$ –
Production and intermediate-term	1,578	1,879	3,457	176,807	180,264	–
Loans to cooperatives	–	–	–	234	234	–
Processing and marketing	–	–	–	14,152	14,152	–
Farm-related business	–	–	–	5,060	5,060	–
Energy and water/waste disposal	–	–	–	766	766	–
Rural residential real estate	87	–	87	1,277	1,364	–
Lease receivables	–	–	–	160	160	–
Total	$ 3,202	$ 2,626	$ 5,828	$ 340,471	$ 346,299	$ –

	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	$ 855	$ 2,667	$ 3,522	$ 306,622	$ 310,144	$ –

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

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

	June 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	$ 1,680	$ 1,324
Production and intermediate-term	3,032	1,742
Rural residential real estate	87	93
Total nonaccrual loans	$ 4,799	$ 3,159
Accruing restructured loans:		
Real estate mortgage	$ 5,673	$ 4,277
Production and intermediate-term	677	698
Lease receivables	160	323
Total accruing restructured loans	$ 6,510	$ 5,298
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 11,309	$ 8,457
Other property owned	5,522	6,223
Total nonperforming assets	$ 16,831	$ 14,680
Nonaccrual loans as a percentage of total loans	1.40%	1.03%
Nonperforming assets as a percentage of total loans and other property owned	4.84%	4.70%
Nonperforming assets as a percentage of capital	21.38%	20.17%

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.

	June 30, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,289	$ 325
Past due	3,510	2,834
Total impaired nonaccrual loans	4,799	3,159
Impaired accrual loans:		
Restructured	6,510	5,298
90 days or more past due	–	–
Total impaired accrual loans	6,510	5,298
Total impaired loans	$ 11,309	$ 8,457

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

	June 30, 2014			Quarter Ended June 30, 2014		Six Months Ended June 30, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 3,551	$ 3,512	$ 250	$ 3,031	$ 40	$ 2,913	$ 76
Production and intermediate-term	367	367	158	313	4	301	8
Rural residential real estate	–	–	–	–	–	–	–
Lease receivables	160	160	112	137	2	131	3
Total	$ 4,078	$ 4,039	$ 520	$ 3,481	$ 46	$ 3,345	$ 87
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 3,802	$ 4,013	$ –	$ 3,247	$ 42	$ 3,121	$ 80
Production and intermediate-term	3,342	4,148	–	2,853	37	2,742	71
Rural residential real estate	87	146	–	74	1	71	2
Lease receivables	–	–	–	–	–	–	–
Total	$ 7,231	$ 8,307	$ –	$ 6,174	$ 80	$ 5,934	$ 153
Total impaired loans:							
Real estate mortgage	$ 7,353	$ 7,525	$ 250	$ 6,278	$ 82	$ 6,034	$ 156
Production and intermediate-term	3,709	4,515	158	3,166	41	3,043	79
Rural residential real estate	87	146	–	74	1	71	2
Lease receivables	160	160	112	137	2	131	3
Total	$ 11,309	$ 12,346	$ 520	$ 9,655	$ 126	$ 9,279	$ 240

	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	$ 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	$ 4,527	$ 4,749	$ 668	$ 4,290	$ 273
Impaired loans with no related allowance for credit losses:					
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	$ 3,930	$ 4,979	$ –	$ 3,726	$ 237
Total impaired loans:					
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	$ 8,457	$ 9,728	$ 668	$ 8,016	$ 510

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
Allowance for credit losses:							
Balance at March 31, 2014	$ 957	$ 2,493	$ 427	$ 293	$ 3	$ 114	$ 4,287
Charge-offs	(3)	–	–	–	–	–	(3)
Recoveries	2	1	–	–	–	–	3
Provision for loan losses	(136)	352	44	2	–	(2)	260
Balance at June 30, 2014	$ 820	$ 2,846	$ 471	$ 295	$ 3	$ 112	$ 4,547
Balance at December 31, 2013	$ 1,162	$ 2,622	$ 286	$ 302	$ 3	$ 114	$ 4,489
Charge-offs	(70)	–	–	–	–	–	(70)
Recoveries	4	3	–	–	–	–	7
Provision for loan losses	(276)	221	185	(7)	–	(2)	121
Balance at June 30, 2014	$ 820	$ 2,846	$ 471	$ 295	$ 3	$ 112	$ 4,547
Balance at March 31, 2013	$ 1,262	$ 3,080	$ 86	$ 294	$ 3	$ –	$ 4,725
Charge-offs	–	(81)	–	–	–	–	(81)
Recoveries	1	21	–	–	–	–	22
Provision for loan losses	(17)	704	(32)	3	–	–	658
Balance at June 30, 2013	$ 1,246	$ 3,724	$ 54	$ 297	$ 3	$ –	$ 5,324
Balance at December 31, 2012	$ 1,621	$ 2,860	$ 167	$ 61	$ 3	$ –	$ 4,712
Charge-offs	(2)	(81)	–	–	–	–	(83)
Recoveries	3	23	–	–	–	–	26
Provision for loan losses	(376)	922	(113)	236	–	–	669
Balance at June 30, 2013	$ 1,246	$ 3,724	$ 54	$ 297	$ 3	$ –	$ 5,324
Loans individually evaluated for impairment	$ 250	$ 158	$ –	$ –	$ –	$ 112	$ 520
Loans collectively evaluated for impairment	570	2,688	471	295	3	–	4,027
Balance at June 30, 2014	$ 820	$ 2,846	$ 471	$ 295	$ 3	$ 112	$ 4,547
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
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 7,353	$ 3,451	$ –	$ –	$ 87	$ 160	$ 11,051
Loans collectively evaluated for impairment	136,946	176,813	19,446	766	1,277	–	335,248
Ending balance at June 30, 2014	$ 144,299	$ 180,264	$ 19,446	$ 766	$ 1,364	$ 160	$ 346,299
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 pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no TDRs that occurred during the three month period ended June 30, 2013.

	Three months ended June 30, 2014				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	$ –	$ 1,949	$ –	$ 1,949	
Production and intermediate-term	–	613	–	613	
Total	$ –	$ 2,562	$ –	$ 2,562	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	$ –	$ 1,949	$ –	$ 1,949	$ –
Production and intermediate-term	–	613	–	613	–
Total	$ –	$ 2,562	$ –	$ 2,562	$ –

	Six months ended June 30, 2014				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	$ –	$ 1,949	$ –	$ 1,949	
Production and intermediate-term	885	630	–	1,515	
Total	$ 885	$ 2,579	$ –	$ 3,464	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	$ –	$ 1,949	$ –	$ 1,949	$ –
Production and intermediate-term	885	630	–	1,515	–
Total	$ 885	$ 2,579	$ –	$ 3,464	$ –

	Six months ended June 30, 2013				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Production and intermediate-term	$ –	$ –	$ 371	$ 371	
Total	$ –	$ –	$ 371	$ 371	
Post-modification Outstanding Recorded Investment					
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	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Real estate mortgage	$ 5,714	$ 4,351	$ 41	$ 74
Production and intermediate-term	1,588	801	911	103
Lease receivables	160	323	–	–
Total Loans	$ 7,462	$ 5,475	$ 952	$ 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. However, one ineligible investment in the amount of $237 was upgraded to an acceptable rating during the second quarter. As a result, the Association held five ineligible investments as of June 30, 2014 totaling $2,848. 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:

	June 30, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission Related Investments (a)	$ 32,310	$ 1,936	$ (949)	$ 33,297	6.11%

	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 $156 for Mission Related Investments.*
(b) *Gross unrealized losses include non-credit related other-than-temporary impairment included in AOCI of $347 for Mission Related Investments.*

The Association had no investment securities held-to-maturity at either reporting date. As of June 30, 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:

	June 30, 2014		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	930	923	5.00
After five years through ten years	–	–	–
After ten years	31,380	32,374	6.14
Total	$ 32,310	$ 33,297	6.11%

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. Another investment security in the amount of $4,543 paid off in June of 2014.

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.

	June 30, 2014			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission Related Investments	$ 391	$ (1)	$11,759	$ (948)

	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 June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Amount related to credit loss-beginning balance	$ 3,049	$ –	$ 3,049	$ –
Additions for initial credit impairments	–	292	–	292
Additions for subsequent credit impairments	–	–	–	–
Reductions for increases in expected cash flows	–	–	–	–
Reductions for securities sold, settled, or matured	–	–	–	–
Amount related to credit loss-ending balance	3,049	292	3,049	292
Life to date incurred credit losses	–	–	–	–
Remaining unrealized credit losses	$ 3,049	$ 292	$ 3,049	$ 292

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 (AOCI)

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

Changes in Accumulated Other Comprehensive income by Component *(a)*

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Unrealized gains (losses) on Investments				
Balance at beginning of period	$ 507	$ 3,980	$ (832)	$ 5,848
Other comprehensive income before reclassifications	480	(3,546)	1,915	(5,414)
Amounts reclassified from AOCI	–	292	(96)	292
Net current period other comprehensive income	480	(3,254)	1,819	(5,122)
Balance at end of period	$ 987	$ 726	$ 987	$ 726
Employee Benefit Plans:				
Balance at beginning of period	$ (168)	$ (217)	$ (169)	$ (219)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	1	1	2	3
Net current period other comprehensive income	1	1	2	3
Balance at end of period	$ (167)	$ (216)	$ (167)	$ (216)
Accumulated Other Comprehensive Income				
Balance at beginning of period	$ 339	$ 3,763	$ (1,001)	$ 5,629
Other comprehensive income before reclassifications	480	(3,546)	1,915	(5,414)
Amounts reclassified from AOCI	1	293	(94)	295
Net current period other comprehensive income	481	(3,253)	1,821	(5,119)
Balance at end of period	$ 820	$ 510	$ 820	$ 510

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

(dollars in thousands)	For the three months ended 2014	For the three months ended 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013	Income Statement Line Item
Investment Securities:					
Sales gains & losses	$ –	$ –	$ 96	$ –	Gains (losses) on investments, net
Holding gains & losses	–	(292)	–	(292)	Net other-than-temporary impairment
Net amounts reclassified	–	(292)	96	(292)	
Defined Benefit Pension Plans:					
Periodic pension costs	(1)	(1)	(2)	(3)	See Note 7.
Net amounts reclassified	(1)	(1)	(2)	(3)	
Total reclassifications for period	$ (1)	$ (293)	$ (94)	$ (295)	

(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 4.08 percent of the issued stock of the Bank as of June 30, 2014 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.2 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $183 million for the first six months of 2014. In addition, the Association has an investment of $657 related to other Farm Credit institutions.

The classifications within the fair value hierarchy are as follows:

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

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation.

Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

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

The following 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.

	Standby Letters Of Credit	Mission Related Investments
Balance at January 1, 2014	$ 4	$ 41,286
Total gains or (losses) realized/unrealized:		
Included in earnings	–	96
Included in other comprehensive income (loss)	–	1,819
Purchases	–	–
Sales	–	(4,886)
Issuances	–	–
Settlements	(1)	(5,018)
Transfers in and/or out of level 3	–	–
Balance at June 30, 2014	$ 3	$ 33,297

	Standby Letters Of Credit	Mission Related Investments
Balance at January 1, 2013	$ 12	$ 53,492
Total gains or (losses) realized/unrealized:		
Included in earnings	–	(292)
Included in other comprehensive income (loss)	–	(5,122)
Purchases	–	123
Sales	–	–
Issuances	–	–
Settlements	(5)	(2,286)
Transfers in and/or out of level 3	–	–
Balance at June 30, 2013	$ 7	$ 45,915

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	$ 16,746	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*
Mission Related Investments	$ 33,297	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 six Months Ended June 30, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
<u>**Recurring Measurements**</u>						
Assets:						
Assets held in Trust funds	$ 545	$ 545	$ –	$ –	$ 545	
Investment securities, available-for-sale	33,297	–	–	33,297	33,297	
Recurring Assets	$ 33,842	$ 545	$ –	$ 33,297	$ 33,842	
Liabilities:						
Standby letters of credit	$ 3	$ –	$ –	$ 3	$ 3	
Recurring Liabilities	$ 3	$ –	$ –	$ 3	$ 3	
<u>**Nonrecurring Measurements**</u>						
Assets:						
Impaired loans	$ 10,789	$ –	$ –	$ 10,789	$ 10,789	$ 85
Other property owned	5,522	–	–	5,957	5,957	(116)
Other investments	70	–	–	70	70	–
Nonrecurring Assets	$ 16,381	$ –	$ –	$ 16,816	$ 16,816	$ (31)
<u>**Other Financial Instruments**</u>						
Assets:						
Cash	$ 2	$ 2	$ –	$ –	$ 2	
Loans	327,218	–	–	325,863	325,863	
Other Financial Assets	$ 327,220	$ 2	$ –	$ 325,863	$ 325,865	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 317,474	$ –	$ –	$ 316,132	$ 316,132	
Other Financial Liabilities	$ 317,474	$ –	$ –	$ 316,132	$ 316,132	

	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
<u>**Recurring Measurements**</u>						
Assets:						
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	
Liabilities:						
Standby letters of credit	$ 4	$ –	$ –	$ 4	$ 4	
Recurring Liabilities	$ 4	$ –	$ –	$ 4	$ 4	
<u>**Nonrecurring Measurements**</u>						
Assets:						
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)
<u>**Other Financial Instruments**</u>						
Assets:						
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	$
Liabilities:						
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 June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Pension	$ 358	$ 346	$ 717	$ 692
401(k)	39	32	72	57
Other postretirement benefits	47	46	94	93
Total	$ 444	$ 424	$ 883	$ 842

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

	Actual YTD Through 6/30/14	Projected Contributions For Remainder of 2014	Projected Total Contributions 2014
Pension	$ 26	$ 1,117	$ 1,143
Other postretirement benefits	93	103	196
Total	$ 119	$ 1,220	$ 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.

In May 2014, the AgFirst Plan Sponsor Committee voted to approve changes to certain employee benefit plans as follows:

(1) On January 1, 2015, the AgFirst Farm Credit Cash Balance Retirement Plan (Cash Balance Plan) will be frozen, employer contributions will cease, and the Cash Balance Plan will be closed to new entrants.
(2) In lieu of participation in and contributions to the Cash Balance Plan, additional employer contributions will be made to the Farm Credit Benefits Alliance 401(k) Plan.

The above changes are expected to become officially executed plan amendments in November 2014. The Cash Balance Plan will not be terminated on January 1, 2015, but is expected to be terminated in 2015 or 2016 once all necessary actions have been performed and approvals obtained. Participants in the Cash Balance Plan will continue to receive employer contributions to their hypothetical cash balance accounts through the end of 2014, at which time contributions will cease. Participants will continue receiving interest credits on the same basis as currently being provided until the Cash Balance Plan is terminated. Participants who are not already fully vested in their accounts will automatically become 100% vested on December 31, 2014. Following the termination of the Cash Balance Plan, vested benefits will be distributed to participants.

Beginning on January 1, 2015, for participants in the Cash Balance Plan and eligible employees hired on or after this date, an additional employer contribution will be made to the Farm Credit Benefits Alliance 401(k) Plan equal to 3% of the participants' eligible compensation.

Accounting related to the curtailment of future benefit service under the Cash Balance Plan, as prescribed in ASC 715 "Compensation – Retirement Benefits", is expected to be triggered in November 2014 when the plan amendments are officially executed. This accounting is not expected to have a material impact on the Association's financial condition or results of operations.

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

The Association has evaluated subsequent events and has determined there are none requiring disclosure through August 7, 2014, which is the date the financial statements were issued.