Farm Credit of Northwest Florida, ACA

THIRD QUARTER 2014

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2014 quarterly report of Farm Credit of Northwest Florida, 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.

Ricky K. Bitner
Chief Executive Officer

John P. Mottice
Chief Financial Officer

Richard Terry
Chairman of the Board

November 7, 2014

Farm Credit of Northwest Florida, ACA

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel. This process provides reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2014. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

Ricky K. Bitner

Ricky Bitner
Chief Executive Officer

John P. Mottice
Chief Financial Officer

November 7, 2014

Farm Credit of Northwest Florida, 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 Farm Credit of Northwest Florida, ACA (the Association) for the period ending September 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.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for the financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including forestry, row crops, livestock, peanuts, horticulture, dairies and rural homes. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

The gross loan volume of the Association as of September 30, 2014, was $268,697, a decrease of $4,443 as compared to $273,140 at December 31, 2013. Net loans outstanding, gross loans net of the allowance for loan losses, at September 30, 2014, were $263,893 as compared to $267,300 at December 31, 2013. Net loans accounted for 94.14 percent of total assets at September 30, 2014, as compared to 91.93 percent of total assets at December 31, 2013. The reduction in loan volume was due primarily to the continued reduction in nonaccrual loans.

Portfolio credit quality has improved due to management efforts to work through problem loans and the general improvement in the overall economic environment. Nonaccrual loans were $8,326 at September 30, 2014, a decrease of $4,019 from $12,345 at December 31, 2013.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions.

The allowance for loan losses at September 30, 2014 was $4,804 as compared to $5,840 at December 31, 2013, a decrease of $1,036. This decrease reflected recoveries of $340, offset by charge-offs of $1,376. The allowance for loan losses at September 30, 2014 was considered by management to be adequate to cover possible losses. The allowance represented 1.79 percent of gross loan volume as of September 30, 2014.

Other property owned (OPO) was $5,456 as of September 30, 2014 as compared to $9,123 at December 31, 2013. This net decrease of $3,667 was due to acquisitions of $2,314, sales of $5,929, and write downs of $52.

Accounts receivable decreased to $1,807 as of September 30, 2014 as compared to $5,341 as of December 31, 2013. Accounts receivable consists of general receivables, as well as patronage receivables from AgFirst Farm Credit Bank (AgFirst) and other Farm Credit institutions. The decrease of $3,534 was due primarily to the fact that patronage receivables at December 31, 2013 included four quarters of accrued patronage and accrued special patronage from AgFirst, as compared to three quarters of accrued patronage at September 30, 2014.

RESULTS OF OPERATIONS

For the three months ending September 30, 2014

Net income for the three months ending September 30, 2014, totaled $926, as compared to net income of $664 for the same period in 2013, an increase of $262. Components of the increase in net income are discussed further in the following paragraphs.

For the three months ending September 30, 2014, interest income decreased by $44 or 1.38 percent compared to the period ending September 30, 2013. For the three months ending September 30, 2014 interest expense decreased by $160 or 13.26 percent, compared to the period ending September 30, 2013. The result was an increase in net interest income of $116 compared to the period ending September 30, 2013.

There was no provision for or reversal of allowance for loan losses for the three months ending September 30, 2014 or the three months ending September 30, 2013.

Noninterest income for the three months ending September 30, 2014 totaled $561, as compared to $576 for the same period of 2013, a decrease of $15. This decrease in noninterest income reflected a decrease in fee income of $26, a decrease in patronage from AgFirst and other Farm Credit institutions of $4, and an increase in gains on sales of rural home loans and fixed assets, and other income of $15.

Noninterest expense for the three months ending September 30, 2014 totaled $1,730, as compared to $1,965 for the same period of 2013, a decrease of $235. This decrease was due to decreases in salaries and benefits, occupancy and equipment expense, other operating expenses and losses on OPO, partially offset by an increase in insurance fund premiums.

For the nine months ending September 30, 2014

Net income for the nine months ending September 30, 2014, totaled $2,791 as compared to net income of $2,407 for the same period in 2013, an increase in net income of $384.

For the nine months ending September 30, 2014, interest income decreased by $145 or 1.53 percent compared to the same period ending September 30, 2013. For the nine months ending September 30, 2014, interest expense decreased by $488 or 13.73 percent compared to the period ending September 30, 2013. The result was an increase in net interest income before provision for loan loss of $343 compared to the period ending September 30, 2013. The net increase of $343 reflected an increase of $113 related to interest rates and an increase of $230 related to volume.

There was no provision for or reversal of the allowance for loan losses for the nine months ending September 30, 2014 compared to a reversal of $350 for the period ending September 30, 2013.

Noninterest income for the nine months ending September 30, 2014, totaled $1,732, as compared to $1,797 for the same period of 2013, a decrease of $65. This decrease in noninterest income was due to a decrease in patronage refunds from other Farm Credit institutions, partially offset by increases in gains on sales of rural home loans and fixed assets, and other income.

CAPITAL RESOURCES

Total members' equity at September 30, 2014 increased $771 to $81,374 from the December 31, 2013 total of $80,603. Total capital stock and participation certificates were $835 as of September 30, 2014, a decrease of $15 compared to $850 at December 31, 2013.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2014 the Association's permanent capital ratio was 27.45 percent and the total surplus ratio and core surplus ratios were 27.16 percent and 25.54 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for the permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

On April 20, 2011 the Farm Credit Administration entered into a supervisory agreement with the Board of Directors (the Board) of the Association. The previous supervisory agreement between the FCA and the Association, dated April 6, 2010, was replaced by the April 20, 2011 agreement. The supervisory agreement dated April 20, 2011 required the Association to take corrective actions with respect to certain areas of its operations. On September 26, 2014, due to positive actions taken by the Board and management to improve operations and reduce the risk profile of the Association, the April 20, 2011 supervisory agreement was terminated by the FCA.

Other Matters

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

On July 25, 2014, the FCA published a proposed rule in the Federal Register to revise the requirements governing the eligibility of investments for System banks and associations. The public comment period ended on October 23, 2014. The stated objectives of the proposed rule are as follows:

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

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

- To modernize capital requirements while ensuring that institutions continue to hold sufficient regulatory capital to fulfill their mission as a government-sponsored enterprise.
- To ensure that the System's capital requirements are comparable to the Basel III framework and the

standardized approach that the federal banking regulatory agencies have adopted, but also to ensure that the rules recognize the cooperative structure and the organization of the System.
- To make System regulatory capital requirements more transparent.
- To meet the requirements of section 939A of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act).

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *"Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements",* in the Notes to the Financial Statements, and the 2013 Annual Report to Shareholders for recently issued accounting pronouncements.

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 850-526-4910 ext. 118, or writing John P. Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, ACA, P.O. Box 7000, Marianna, FL 32447, or accessing the website, *www.farmcredit-fl.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.

Farm Credit of Northwest Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2014	December 31, 2013
	(unaudited)	*(audited)*
Assets		
Cash	$ 6	$ —
Loans	268,697	273,140
Allowance for loan losses	(4,804)	(5,840)
Net loans	263,893	267,300
Accrued interest receivable	1,982	1,879
Investments in other Farm Credit institutions	3,850	4,148
Premises and equipment, net	2,105	1,361
Other property owned	5,456	9,123
Accounts receivable	1,807	5,341
Other assets	1,206	1,627
Total assets	$ 280,305	$ 290,779
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 195,617	$ 205,163
Accrued interest payable	353	405
Patronage refunds payable	49	2,023
Accounts payable	479	647
Other liabilities	2,433	1,938
Total liabilities	198,931	210,176
Commitments and contingencies		
Members' Equity		
Protected borrower stock	1	2
Capital stock and participation certificates	834	848
Retained earnings		
Allocated	54,238	56,243
Unallocated	26,301	23,510
Total members' equity	81,374	80,603
Total liabilities and members' equity	$ 280,305	$ 290,779

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2014	2013	For the nine months ended September 30, 2014	2013
Interest Income				
Loans	$ 3,142	$ 3,186	$ 9,350	$ 9,495
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	1,047	1,207	3,065	3,553
Net interest income	2,095	1,979	6,285	5,942
Provision for (reversal of allowance for) loan losses	—	—	—	(350)
Net interest income after provision for (reversal of allowance for) loan losses	2,095	1,979	6,285	6,292
Noninterest Income				
Loan fees	31	57	140	140
Patronage refunds from other Farm Credit institutions	485	489	1,460	1,617
Gains (losses) on sales of rural home loans, net	31	30	65	40
Gains (losses) on sales of premises and equipment, net	7	—	23	—
Other noninterest income	7	—	44	—
Total noninterest income	561	576	1,732	1,797
Noninterest Expense				
Salaries and employee benefits	1,047	1,102	3,126	3,318
Occupancy and equipment	68	74	209	227
Insurance Fund premiums	61	55	179	164
(Gains) losses on other property owned, net	148	173	433	576
Other operating expenses	406	561	1,279	1,471
Total noninterest expense	1,730	1,965	5,226	5,756
Income before income taxes	926	590	2,791	2,333
Provision (benefit) for income taxes	—	(74)	—	(74)
Net income	926	664	2,791	2,407
Other comprehensive income	—	—	—	—
Comprehensive income	$ 926	$ 664	$ 2,791	$ 2,407

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

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	Total Members' Equity
Balance at December 31, 2012	$ 4	$ 897	$ 51,622	$ 25,290	$ 77,813
Comprehensive income				2,407	2,407
Protected borrower stock issued/(retired), net	(1)				(1)
Capital stock/participation certificates issued/(retired), net		(66)			(66)
Patronage distribution					
Nonqualified allocated retained earnings			5,980	(5,980)	—
Retained earnings retired			(1,359)		(1,359)
Balance at September 30, 2013	$ 3	$ 831	$ 56,243	$ 21,717	$ 78,794
Balance at December 31, 2013	$ 2	$ 848	$ 56,243	$ 23,510	$ 80,603
Comprehensive income				2,791	2,791
Protected borrower stock issued/(retired), net	(1)				(1)
Capital stock/participation certificates issued/(retired), net		(14)			(14)
Retained earnings retired			(2,005)		(2,005)
Balance at September 30, 2014	$ 1	$ 834	$ 54,238	$ 26,301	$ 81,374

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

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Recently Issued Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15, "Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." The Update is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under Generally Accepted Accounting Principles (GAAP), financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. The Update provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments in this Update apply to all companies and not-for-profit organizations and become effective in the annual period ending after December 15, 2016, with early application permitted.

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

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

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

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

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

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

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

Note 2 — Loans and Allowance for Loan Losses

For a complete description of the Association's accounting for loans (including impaired loans and the allowance for loan losses) and definitions of loan types, see the 2013 Annual Report to Shareholders.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors.

A summary of loans outstanding at period end follows:

	September 30, 2014	December 31, 2013
Real estate mortgage	$ 170,542	$ 183,600
Production and intermediate-term	81,141	76,402
Loans to cooperatives	9	11
Processing and marketing	12,755	8,493
Farm-related business	61	72
Communication	1,324	1,381
Rural residential real estate	2,865	3,181
Total Loans	$ 268,697	$ 273,140

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

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

	September 30, 2014							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 478	$ 59,700	$ –	$ 2,502	$ 246	$ –	$ 724	$ 62,202
Production and intermediate-term	2,262	10,767	–	–	3,000	2,175	5,262	12,942
Processing and marketing	12,743	–	–	–	–	–	12,743	–
Communication	1,324	–	–	–	–	–	1,324	–
Total	$ 16,807	$ 70,467	$ –	$ 2,502	$ 3,246	$ 2,175	$ 20,053	$ 75,144

	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	$ –	$ 71,951	$ –	$ 3,715	$ 252	$ –	$ 252	$ 75,666
Production and intermediate-term	844	9,296	–	–	3,001	2,224	3,845	11,520
Processing and marketing	8,459	–	–	–	–	–	8,459	–
Farm-related business	–	–	–	–	–	–	–	–
Communication	1,380	–	–	–	–	–	1,380	–
Total	$ 10,683	$ 81,247	$ –	$ 3,715	$ 3,253	$ 2,224	$ 13,936	$ 87,186

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

	September 30, 2014			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 8,364	$ 54,734	$ 107,444	$ 170,542
Production and intermediate-term	25,410	45,548	10,183	81,141
Loans to cooperatives	–	9	–	9
Processing and marketing	267	7,465	5,023	12,755
Farm-related business	–	(2)	63	61
Communication	–	1,324	–	1,324
Rural residential real estate	293	615	1,957	2,865
Total Loans	$ 34,334	$ 109,693	$ 124,670	$ 268,697
Percentage	12.78%	40.82%	46.40%	100.00%

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

	September 30, 2014	December 31, 2013
Real estate mortgage:		
Acceptable	87.93%	85.69%
OAEM	5.75	5.11
Substandard/doubtful/loss	6.32	9.20
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	71.07%	61.43%
OAEM	7.64	4.13
Substandard/doubtful/loss	21.29	34.44
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	–%	–%
OAEM	–	–
Substandard/doubtful/loss	100.00	100.00
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2014	December 31, 2013
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	93.19%	80.03%
OAEM	1.99	0.53
Substandard/doubtful/loss	4.82	19.44
	100.00%	100.00%
Total Loans:		
Acceptable	83.52%	79.36%
OAEM	5.98	4.60
Substandard/doubtful/loss	10.50	16.04
	100.00%	100.00%

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

	September 30, 2014					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 736	$ 576	$ 1,312	$ 170,511	$ 171,823	$ –
Production and intermediate-term	510	7,112	7,622	74,180	81,802	–
Loans to cooperatives	–	–	–	9	9	–
Processing and marketing	–	(10)	(10)	12,792	12,782	–
Farm-related business	–	–	–	61	61	–
Communication	–	–	–	1,324	1,324	–
Rural residential real estate	37	51	88	2,790	2,878	–
Total	$ 1,283	$ 7,729	$ 9,012	$ 261,667	$ 270,679	$ –

	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	$ 443	$ 699	$ 1,142	$ 183,825	$ 184,967	$ –
Production and intermediate-term	2,216	8,247	10,463	66,405	76,868	186
Loans to cooperatives	–	–	–	11	11	–
Processing and marketing	–	(10)	(10)	8,539	8,529	–
Farm-related business	–	–	–	73	73	–
Communication	–	–	–	1,381	1,381	–
Rural residential real estate	43	606	649	2,541	3,190	–
Total	$ 2,702	$ 9,542	$ 12,244	$ 262,775	$ 275,019	$ 186

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

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

	September 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	$ 975	$ 2,248
Production and intermediate-term	7,234	9,502
Processing and marketing	(10)	(10)
Rural residential real estate	127	605
Total	$ 8,326	$ 12,345
Accruing restructured loans:		
Real estate mortgage	$ 190	$ 583
Production and intermediate-term	4,263	4,365
Total	$ 4,453	$ 4,948
Accruing loans 90 days or more past due:		
Production and intermediate-term	$ –	$ 186
Total	$ –	$ 186
Total nonperforming loans	$ 12,779	$ 17,479
Other property owned	5,456	9,123
Total nonperforming assets	$ 18,235	$ 26,602
Nonaccrual loans as a percentage of total loans	3.10%	4.52%
Nonperforming assets as a percentage of total loans and other property owned	6.65%	9.42%
Nonperforming assets as a percentage of capital	22.41%	33.00%

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

	September 30, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	$ 413	$ 2,739
Past due	7,913	9,606
Total	8,326	12,345
Impaired accrual loans:		
Restructured	4,453	4,948
90 days or more past due	–	186
Total	4,453	5,134
Total impaired loans	$ 12,779	$ 17,479

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

	September 30, 2014			Quarter Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 327	$ 503	$ 32	$ 389	$ 1	$ 403	$ 4
Production and intermediate-term	3,037	3,534	30	3,611	14	3,745	39
Processing and marketing	–	–	–	–	–	–	–
Rural residential real estate	127	553	42	151	1	157	2
Total	$ 3,491	$ 4,590	$ 104	$ 4,151	$ 16	$ 4,305	$ 45
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 838	$ 866	$ –	$ 996	$ 4	$ 1,034	$ 11
Production and intermediate-term	8,460	8,916	–	10,058	37	10,431	107
Processing and marketing	(10)	1,228	–	(12)	–	(12)	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 9,288	$ 11,010	$ –	$ 11,042	$ 41	$ 11,453	$ 118
Total impaired loans:							
Real estate mortgage	$ 1,165	$ 1,369	$ 32	$ 1,385	$ 5	$ 1,437	$ 15
Production and intermediate-term	11,497	12,450	30	13,669	51	14,176	146
Processing and marketing	(10)	1,228	–	(12)	–	(12)	–
Rural residential real estate	127	553	42	151	1	157	2
Total	$ 12,779	$ 15,600	$ 104	$ 15,193	$ 57	$ 15,758	$ 163

	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	$ 913	$ 1,168	$ 178	$ 1,065	$ 76
Production and intermediate-term	4,064	4,573	436	4,739	341
Rural residential real estate	559	554	426	653	47
Total	$ 5,536	$ 6,295	$ 1,040	6,457	464
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,919	$ 2,059	$ –	$ 2,238	$ 161
Production and intermediate-term	9,988	10,667	–	11,654	838
Processing and marketing	(10)	1,228	–	(12)	(1)
Farm-related business	–	–	–	–	–
Rural residential real estate	46	299	–	53	4
Total	$ 11,943	$ 14,253	–	$ 13,933	1,002
Total impaired loans:					
Real estate mortgage	$ 2,832	$ 3,227	$ 178	$ 3,303	$ 237
Production and intermediate-term	14,052	15,240	436	16,393	1,179
Processing and marketing	(10)	1,228	–	(12)	(1)
Farm-related business	–	–	–	–	–
Rural residential real estate	605	853	426	706	51
Total	$ 17,479	$ 20,548	$ 1,040	20,390	1,466

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at each reporting period.

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Rural Residential Real Estate	Total
Activity related to the allowance for credit losses:						
Balance at June 30, 2014	$ 3,254	$ 1,942	$ 216	$ 25	$ 502	$ 5,939
Charge-offs	(14)	(811)	–	–	(426)	(1,251)
Recoveries	101	5	–	–	10	116
Provision for loan losses	(292)	280	10	(2)	4	–
Balance at September 30, 2014	$ 3,049	$ 1,416	$ 226	$ 23	$ 90	$ 4,804
Balance at December 31, 2013	$ 3,457	$ 1,732	$ 153	$ 25	$ 473	$ 5,840
Charge-offs	(14)	(936)	–	–	(426)	(1,376)
Recoveries	244	22	33	–	41	340
Provision for loan losses	(638)	598	40	(2)	2	–
Balance at September 30, 2014	$ 3,049	$ 1,416	$ 226	$ 23	$ 90	$ 4,804
Balance at June 30, 2013	$ 2,625	$ 1,784	$ 119	$ 18	$ 463	$ 5,009
Charge-offs	(221)	(59)	–	–	–	(280)
Recoveries	111	137	–	–	4	252
Provision for loan losses	223	(235)	9	1	2	–
Balance at September 30, 2013	$ 2,738	$ 1,627	$ 128	$ 19	$ 469	$ 4,981
Balance at December 31, 2012	$ 2,853	$ 1,564	$ 54	$ 20	$ 58	$ 4,549
Charge-offs	(442)	(486)	(3)	–	(28)	(959)
Recoveries	1,141	448	–	–	152	1,741
Provision for loan losses	(814)	101	77	(1)	287	(350)
Balance at September 30, 2013	$ 2,738	$ 1,627	$ 128	$ 19	$ 469	$ 4,981
Allowance on loans evaluated for impairment:						
Individually	$ 32	$ 30	$ –	$ –	$ 42	$ 104
Collectively	3,017	1,386	226	23	48	4,700
Balance at September 30, 2014	$ 3,049	$ 1,416	$ 226	$ 23	$ 90	$ 4,804
Individually	$ 178	$ 436	$ –	$ –	$ 426	$ 1,040
Collectively	3,279	1,296	153	25	47	4,800
Balance at December 31, 2013	$ 3,457	$ 1,732	$ 153	$ 25	$ 473	$ 5,840
Recorded investment in loans evaluated for impairment:						
Individually	$ 975	$ 7,234	$ (10)	$ –	$ 127	$ 8,326
Collectively	170,848	74,568	12,862	1,324	2,751	262,353
Balance at September 30, 2014	$ 171,823	$ 81,802	$ 12,852	$ 1,324	$ 2,878	$ 270,679
Individually	$ 2,248	$ 9,502	$ (10)	$ –	$ 605	$ 12,345
Collectively	182,719	67,366	8,623	1,381	2,585	262,674
Balance at December 31, 2013	$ 184,967	$ 76,868	$ 8,613	$ 1,381	$ 3,190	$ 275,019

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

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

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

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

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

	Total TDRs		Nonaccrual TDRs	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Real estate mortgage	$ 190	$ 584	$ –	$ –
Production and intermediate-term	4,865	4,987	602	623
Rural residential real estate	51	477	51	477
Total Loans	$ 5,106	$ 6,048	$ 653	$ 1,100
Additional commitments to lend	$ –	$ –		

Note 3 — Investments

Investments in other Farm Credit Institutions

The Association is required to maintain ownership in AgFirst Farm Credit Bank (the Bank) of Class B and Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association owns 1.39 percent of the issued stock of the Bank as of September 30, 2014 net of any reciprocal investment. As of that date, the Bank's assets totaled $29.0 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $282 million for the first nine months of 2014. In addition, the Association has an investment of $386 related to other Farm Credit institutions.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

The Association's indebtedness to the Bank represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

Note 5 — Fair Value Measurement

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

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

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

The classifications within the fair value hierarchy are as follows:

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

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

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

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

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

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

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	$ 18,559	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

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

	At or for the Nine Months Ended September 30, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Non recurring Measurements						
Assets:						
Impaired loans	$ 12,675	$ –	$ –	$ 12,675	$ 12,675	$ (100)
Other property owned	5,456	–	–	5,884	5,884	(469)
Nonrecurring Assets	$ 18,131	$ –	$ –	$ 18,559	$ 18,559	$ (569)
Other Financial Instruments						
Assets:						
Cash	$ 6	$ 6	$ –	$ –	$ 6	
Loans	251,218	–	–	249,465	249,465	
Other Financial Assets	$ 251,224	$ 6	$ –	$ 249,465	$ 249,471	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 195,617	$ –	$ –	$ 193,748	$ 193,748	
Other Financial Liabilities	$ 195,617	$ –	$ –	$ 193,748	$ 193,748	

	At or for the Year ended December 31, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 16,439	$ –	$ –	$ 16,439	$ 16,439	$ 1,064
Other property owned	9,123	–	–	10,673	10,673	(1,089)
Nonrecurring Assets	$ 25,562	$ –	$ –	$ 27,112	$ 27,112	$ (25)
Other Financial Instruments						
Assets:						
Cash	$ –	$ –	$ –	$ –	$ –	
Loans	250,861	–	–	248,774	248,774	
Other Financial Assets	$ 250,861	$ –	$ –	$ 248,774	$ 248,774	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 205,163	$ –	$ –	$ 202,744	$ 202,744	
Other Financial Liabilities	$ 205,163	$ –	$ –	$ 202,744	$ 202,744	

Note 6 — Employee Benefit Plans

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Pension	$ 164	$ 167	$ 494	$ 500
401(k)	36	36	104	101
Other postretirement benefits	28	27	83	82
Total	$ 228	$ 230	$ 681	$ 683

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

	Actual YTD Through 9/30/14	Projected Contributions For Remainder Of 2014	Projected Total Contributions 2014
Pension	$ –	$ 522	$ 522
Other postretirement benefits	91	43	134
Total	$ 91	$ 565	$ 656

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2014.

Further details regarding employee benefit plans are contained in the 2013 Annual Report to Shareholders.

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

(1) On January 1, 2015, the AgFirst Farm Credit Cash Balance Retirement Plan (Cash Balance Plan) will be frozen, employer contributions will cease, and the Cash Balance Plan will be closed to new entrants.

(2) In lieu of participation in and contributions to the Cash Balance Plan, additional employer contributions will be made to the Farm Credit Benefits Alliance 401(k) Plan.

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

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

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

Note 7 — Commitments and Contingent Liabilities

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

Note 8 — Regulatory Enforcement Matters

On April 20, 2011 the Farm Credit Administration entered into a supervisory agreement with the Board of Directors (the Board) of the Association. The previous supervisory agreement between the FCA and the Association, dated April 6, 2010, was replaced by the April 20, 2011 agreement. The supervisory agreement dated April 20, 2011 required the Association to take corrective actions with respect to certain areas of its operations. On September 26, 2014, due to positive actions taken by the Board and management to improve operations and reduce the risk profile of the Association, the April 20, 2011 supervisory agreement was terminated by the FCA.

Note 9 — Subsequent Events

The Association has evaluated subsequent events and has determined that, except as described below, there are none requiring disclosure through November 7, 2014, which is the date the financial statements were issued.

On October 20, 2014, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2015. The Association will receive approximately $2,422 which will be recorded in October 2014 as patronage refunds from other Farm Credit institutions.