MidAtlantic Farm Credit, ACA

SECOND QUARTER 2014

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2014 quarterly report of MidAtlantic Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

J. Robert Frazee
Chief Executive Officer

John E. Wheeler, Jr.
Chief Financial Officer

M. Wayne Lambertson
Chairman of the Board

August 7, 2014

MidAtlantic Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of 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.

J. Robert Frazee
Chief Executive Officer

John E. Wheeler, Jr.
Chief Financial Officer

August 7, 2014

MidAtlantic Farm Credit, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of MidAtlantic Farm Credit, ACA (Association) for the period ended June 30, 2014. The comments contained in this report 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 the financing of short- and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio encompasses a well-diversified range of agricultural commodities, with cash grains, poultry and dairy representing the largest segments. In addition, the Association provides a significant amount of loans to lessors of agricultural real estate. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the opportunities for non-farm income, impacts the level of dependency on any particular commodity.

Gross loans at June 30, 2014 totaled $2,237,351 compared to $2,197,662 at December 31, 2013, increasing $39,689 (1.81 percent) during the first six months. The Association's allowance for loan losses of $25,787 increased $2,057 (8.67 percent) during the first six months of 2014 resulting in net loans (gross loans less allowance for loan losses) of $2,211,564 and $2,173,932 at June 30, 2014 and December 31, 2013, respectively. Nonaccrual loans increased $2,084 (7.80 percent) from $26,713 at December 31, 2013 to $28,797 at June 30, 2014 resulting in an increase in the ratio of nonaccrual loans to total loans from 1.22 percent to 1.29 percent. In addition, Other property owned increased from $841 at December 31, 2013 (7 properties) to $1,254 at June 30, 2014 (6 properties).

There is an inherent risk in the extension of any type of credit and, accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

Credit administration remains satisfactory and the overall credit quality of the Association's loan portfolio has remained acceptable. A provision for loan losses of $125 was recorded in the first half of 2014, that after giving effect to the net impact of recoveries in excess of charge-offs, increased the Association's allowance $2,057 as of June 30, 2014. The allowance for loan losses represented 1.15 percent and 1.08 percent of total loans, and 87.81 percent and 88.83 percent of Nonaccrual loans, at June 30, 2014 and December 31, 2013, respectively. See also Note 2 of "Notes to the Consolidated Financial Statements".

RESULTS OF OPERATIONS

For the three months ended June 30, 2014

Net income for the three months ended June 30, 2014 totaled $11,997, a decrease of $83 (0.69 percent) compared to the three months ended June 30, 2013. Major changes in the components of net income are identified as follows:

- Net interest income decreased $137 (0.80 percent) for the quarter ended June 30, 2014 compared to the same period in 2013. The decrease in net interest income is primarily attributable to (a) a $656 increase in the Association's earnings credit due to (i) a change in the index employed by AgFirst Farm Credit Bank in computing the credit and (ii) an increase in the Association's equity, (b) a $625 increase due to a $92 million increase in the average daily balance of accruing portfolio volume, and (c) a $99 reduction in net interest charged attributable to nonaccruing loans due to the significant reduction in Nonaccruing loan volume as compared to the second quarter of 2013. These increases were partially offset by a $1,218 decrease due to a decrease in the Association's portfolio margin primarily resulting from increased competition.

- The risks identified in the Association's loan portfolio required a provision for loan losses of $0 and $2,000 to be recorded in the second quarter of 2014 and 2013, respectively. The Association's Nonaccrual loans increased from 1.22 percent at December 31, 2013 to 1.29 percent of the portfolio at June 30, 2014 and are up $3,077 since March 31, 2014 primarily due to the transfer to Nonaccrual of a cash grain account. See also Note 2 of "Notes to the Consolidated Financial Statements".

- At June 30, 2014 and 2013, the Association accrued an estimated patronage receipt (reported as "Patronage refunds from other Farm Credit institutions" on the Consolidated Statements of Income) of $3,354 and

$3,366, respectively, which is based on second quarter operations only; management anticipates additional income for the remaining quarters in 2014. Since this income from AgFirst Farm Credit Bank (the Bank) is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. The decrease in the accrual in 2014 is due to the combined impact of an increase in loan volume offset by an increase in the Association's equity which reduced borrowings from the Bank. In addition, the Association received $1,182 which was declared and paid by the Bank as a Special Patronage payment in June 2013; no Special Patronage was received in 2014.

- Noninterest income decrease in the second quarter of $1,060 (18.05 percent) included (a) an increase of $315 from fees for financially related services and (b) an increase of $108 in Other noninterest income, offset by (c) a $1,194 decrease in Patronage refunds, (d) a $171 decrease in net gain and sales of rural home loans, and (e) an $88 decrease in Gains on other transactions.

- Noninterest expense for the second quarter of 2014 was $9,468 as compared to $8,888 for the second quarter of 2013 or an increase of $580 (6.53 percent). The increase of $468 (7.55 percent) for Salaries and benefits is primarily comprised of a $389 increase in salaries expense resulting from a slight increase in staffing, salary and incentive compensation increases, and a $79 increase in employee benefits principally related to health plan and payroll related tax increases. See also Note 3 of "Notes to the Consolidated Financial Statements".

  Insurance fund premium expense increased $90 (21.53 percent) due to the increase in the Farm Credit System Insurance Corporation (FCSIC) premium from 0.10 percent of loans outstanding in 2013 to 0.12 percent in 2014.

  Occupancy and equipment and Other operating expenses increased $388 (19.14 percent) from $2,027 to $2,415. The increases were primarily related to director's expenses, travel, cost of space, equipment and technology, advertising, public and member, merger related expenses and other operating expenses offset by a decrease in training and purchased services related expenses.

- Gains on other property owned, net increased $366.

- The Association recorded a Provision for income taxes of $306 and $0, respectively, for the second quarters of 2014 and 2013.

For the six months ended June 30, 2014

Net income for the six months ended June 30, 2014 totaled $22,574 or $471 (2.13 percent) higher than the six months ended June 30, 2013. Major changes in the components of net income are identified as follows:

- While Net interest income for the six months was relatively flat up $278 (0.83 percent), there are several key factors impacting the results. The significant reduction in the nonaccrual loan volume as compared to the first half of 2013 resulted in a decrease of $393 in foregone interest income for nonaccruing loan volume. In addition, the Association realized a (a) $1,411 increase in the Association's earnings credit due to (i) a change in the index employed by AgFirst Farm Credit Bank in computing the credit and (ii) an increase in the Association's equity, and (b) a $1,160 increase due to the increase in accruing loan volume. These increases were substantially offset by a $2,442 decrease in the Association's portfolio margin and a decrease of $41 in the income recognized from nonaccruing volume.

- Charge-offs and risks identified in the Association's loan portfolio required a provision for loan losses of $125 to be recorded in the first six months of 2014 as compared to a $4,000 provision in the first half of 2013.

- At the period ended June 30, 2014, the Association accrued an estimated patronage receipt of $6,628 as compared to $7,945 at June 30, 2013. This accrual is based on first half operations only; management anticipates additional income for each successive quarter in 2014. Since this income from the Bank is reasonably estimable and because there is a history of these earnings, management is of the opinion that including this income in quarterly operations provides shareholders with a more accurate forecast of annualized net income. In addition, the Association received $1,182 for a Special Patronage which was declared and paid by the Bank in June 2013; no Special Patronage was received in 2014.

- Noninterest income included (a) an increase of $494 in Fees for financially related services primarily related to Farm Credit Express processing fees, (b) a $394 decrease in net Gains on sales of rural home loans and (c) a $173 decrease in Other noninterest income, (d) a $92 decrease in Gains on other transaction, and (e) a $52 decrease in Loans fees.

- Noninterest expense increased $1,446 (8.10 percent) for the first six months of 2014 as compared to 2013. The year-to-date increase for Salaries and employee benefits of $877 (6.94 percent) includes an increase of $178 (15.72 percent) for medical benefits. The remaining Salaries and employee benefits increase of $699 includes annual salary and incentive compensation increases, payroll related benefit expenses, and filling several open staff positions.

Insurance fund premium expense increased $171 (20.58 percent) resulting from the FCSIC premium increase for 2014.

Occupancy and equipment and Other operating expenses increased $759 (18.17 percent) from $4,178 to $4,937 which includes expense increases in travel, furniture and equipment expense, technology, purchased services, director expenses and other operating expenses which were somewhat offset by decreases in training and public and member expenses.

- Gains on other property owned, net increased $361.

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 Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sectors. The Association utilizes the variable rate note 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 $1,744,040 compared to $1,724,627 at December 31, 2013. This increase during the period of $19,413 (1.13 percent) corresponds to the receipt of prior year Bank patronage, current year net cash generated from operating activities reduced by the increase in the Association's loan volume and by patronage payments to stockholders.

CAPITAL RESOURCES

Members' equity at June 30, 2014 totaled $501,769, an increase of $12,480 (2.55 percent) compared to total members' equity of $489,289 at December 31, 2013; this is the first time members' equity has exceeded a half billion dollars. Net income of $22,574 for the six months ended June 30, 2014 and net member capital stock/participation certificates retired of $18, an estimated cash patronage distribution accrual for the first six months of 2014 totaling $9,500, and net patronage distribution adjustment and retained earnings retired of $644 account for the change.

FCA regulations require that all Farm Credit institutions maintain a minimum permanent capital ratio of 7.0 percent and total surplus and core surplus ratios equal to 3.5 percent. 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. At June 30, 2014, the Association exceeded the minimum regulatory standard for all of the ratios as permanent capital, total surplus and core surplus ratios equaled 20.51 percent, 20.14 percent and 20.14 percent, respectively.

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.

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' annual and quarterly reports are also available upon request free of charge by calling 1-800-333-7950, or writing John E. Wheeler, Jr., Chief Financial Officer, MidAtlantic Farm Credit, ACA, 45 Aileron Court, Westminster, MD 21157-3022, or accessing the website, www.mafc.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.

MidAtlantic Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2014 (unaudited)	December 31, 2013 (audited)
Assets		
Cash	$ 2,554	$ 2,540
Loans	2,237,351	2,197,662
Allowance for loan losses	(25,787)	(23,730)
Net loans	2,211,564	2,173,932
Loans held for sale	1,076	68
Accrued interest receivable	15,752	11,769
Investments in other Farm Credit institutions	24,900	24,840
Premises and equipment, net	12,342	12,399
Other property owned	1,254	841
Accounts receivable	7,282	37,339
Other assets	6,143	8,439
Total assets	$ 2,282,867	$ 2,272,167
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,744,040	$ 1,724,627
Accrued interest payable	3,317	3,428
Patronage refunds payable	9,557	13,079
Accounts payable	1,850	5,208
Other liabilities	22,334	36,536
Total liabilities	1,781,098	1,782,878
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	9,674	9,656
Retained earnings		
Allocated	268,841	271,212
Unallocated	223,599	208,798
Accumulated other comprehensive income (loss)	(345)	(377)
Total members' equity	501,769	489,289
Total liabilities and members' equity	$ 2,282,867	$ 2,272,167

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2014	2013	For the six months ended June 30, 2014	2013
Interest Income				
Loans	$ 26,866	$ 26,999	$ 53,338	$ 53,416
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	9,907	9,903	19,509	19,865
Net interest income	16,959	17,096	33,829	33,551
Provision for loan losses	—	2,000	125	4,000
Net interest income after provision for loan losses	16,959	15,096	33,704	29,551
Noninterest Income				
Loan fees	333	372	620	672
Fees for financially related services	650	335	916	422
Patronage refunds from other Farm Credit institutions	3,354	4,548	6,628	7,945
Gains (losses) on sales of rural home loans, net	183	354	317	711
Gains (losses) on sales of premises and equipment, net	60	51	60	71
Gains (losses) on other transactions	26	114	64	156
Other noninterest income	206	98	243	416
Total noninterest income	4,812	5,872	8,848	10,393
Noninterest Expense				
Salaries and employee benefits	6,668	6,200	13,518	12,641
Occupancy and equipment	577	564	1,172	1,121
Insurance Fund premiums	508	418	1,002	831
(Gains) losses on other property owned, net	(123)	243	(170)	191
Other operating expenses	1,838	1,463	3,765	3,057
Total noninterest expense	9,468	8,888	19,287	17,841
Income before income taxes	12,303	12,080	23,265	22,103
Provision for income taxes	306	—	691	—
Net income	$ 11,997	$ 12,080	$ 22,574	$ 22,103

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

MidAtlantic Farm Credit, 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	$ 11,997	$ 12,080	$ 22,574	$ 22,103
Other comprehensive income net of tax				
Employee benefit plans adjustments	16	23	32	47
Comprehensive income	$ 12,013	$ 12,103	$ 22,606	$ 22,150

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

MidAtlantic Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2012	$ 9,498	$ 239,421	$ 202,563	$ (601)	$ 450,881
Comprehensive income			22,103	47	22,150
Capital stock/participation certificates issued/(retired), net	63				63
Patronage distribution					
Cash			(5,050)		(5,050)
Retained earnings retired		(324)	111		(213)
Patronage distribution adjustment		(1,693)	1,440		(253)
Balance at June 30, 2013	$ 9,561	$ 237,404	$ 221,167	$ (554)	$ 467,578
Balance at December 31, 2013	$ 9,656	$ 271,212	$ 208,798	$ (377)	$ 489,289
Comprehensive income			22,574	32	22,606
Capital stock/participation certificates issued/(retired), net	18				18
Patronage distribution					
Cash			(9,500)		(9,500)
Retained earnings retired		(280)	50		(230)
Patronage distribution adjustment		(2,091)	1,677		(414)
Balance at June 30, 2014	$ 9,674	$ 268,841	$ 223,599	$ (345)	$ 501,769

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

MidAtlantic Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

The accompanying financial statements include the accounts of MidAtlantic Farm Credit, 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 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:

	June 30, 2014	December 31, 2013
Real estate mortgage	$ 1,322,162	$ 1,297,403
Production and intermediate-term	723,920	732,767
Loans to cooperatives	7,561	38
Processing and marketing	51,463	41,127
Farm-related business	62,722	60,095
Communication	36,618	34,208
Energy and water/waste disposal	3,406	3,539
Rural residential real estate	29,499	28,485
Total Loans	$ 2,237,351	$ 2,197,662

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	$ 13,920	$ 600	$ –	$ –	$ –	$ –	$ 13,920	$ 600
Production and intermediate-term	39,241	69,534	549	20,859	49,726	–	89,516	90,393
Loans to cooperatives	–	–	7,539	–	–	–	7,539	–
Processing and marketing	33,012	–	6,305	–	8,811	–	48,128	–
Farm-related business	–	–	23,581	–	2,940	–	26,521	–
Communication	–	–	36,689	–	–	–	36,689	–
Energy and water/waste disposal	–	–	3,413	–	–	–	3,413	–
Total	$ 86,173	$ 70,134	$ 78,076	$ 20,859	$ 61,477	$ –	$ 225,726	$ 90,993

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	$ 11,077	$ 900	$ –	$ –	$ –	$ –	$ 11,077	$ 900
Production and intermediate-term	48,817	62,364	4,172	22,130	39,316	–	92,305	84,494
Loans to cooperatives	–	–	52	–	–	–	52	–
Processing and marketing	21,123	–	6,078	–	9,418	–	36,619	–
Farm-related business	3,162	–	23,657	–	3,036	–	29,855	–
Communication	–	–	34,284	–	–	–	34,284	–
Energy and water/waste disposal	–	–	3,547	–	–	–	3,547	–
Total	$ 84,179	$ 63,264	$ 71,790	$ 22,130	$ 51,770	$ –	$ 207,739	$ 85,394

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	$ 24,192	$ 458,570	$ 839,400	$ 1,322,162
Production and intermediate-term	167,547	368,907	187,466	723,920
Loans to cooperatives	7,535	(4)	30	7,561
Processing and marketing	6,133	17,647	27,683	51,463
Farm-related business	9,311	40,156	13,255	62,722
Communication	32,194	4,430	(6)	36,618
Energy and water/waste disposal	–	–	3,406	3,406
Rural residential real estate	2,696	11,846	14,957	29,499
Total Loans	$ 249,608	$ 901,552	$ 1,086,191	$ 2,237,351
Percentage	11.16%	40.29%	48.55%	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	92.84%	93.19%
OAEM	4.18	4.13
Substandard/doubtful/loss	2.98	2.68
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	88.05%	89.49%
OAEM	8.12	7.01
Substandard/doubtful/loss	3.83	3.50
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	99.47%	(3.34)%
OAEM	0.53	103.34
Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%
Processing and marketing:		
Acceptable	99.53%	98.67%
OAEM	0.47	0.60
Substandard/doubtful/loss	0.00	0.73
	100.00%	100.00%
Farm-related business:		
Acceptable	97.68%	99.72%
OAEM	0.14	0.26
Substandard/doubtful/loss	2.18	0.02
	100.00%	100.00%

	June 30, 2014	December 31, 2013
Communication:		
Acceptable	100.00%	100.00%
OAEM	0.00	0.00
Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	0.00	0.00
Substandard/doubtful/loss	0.00	0.00
	100.00%	100.00%
Rural residential real estate:		
Acceptable	87.17%	85.72%
OAEM	6.40	5.34
Substandard/doubtful/loss	6.43	8.94
	100.00%	100.00%
Total Loans:		
Acceptable	91.65%	92.26%
OAEM	5.20	4.86
Substandard/doubtful/loss	3.15	2.88
	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	$ 8,088	$ 9,533	$ 17,621	$ 1,314,242	$ 1,331,863	$ –
Production and intermediate-term	5,667	6,299	11,966	717,242	729,208	2
Loans to cooperatives	–	–	–	7,576	7,576	–
Processing and marketing	1	348	349	51,155	51,504	–
Farm-related business	194	–	194	63,070	63,264	–
Communication	–	–	–	36,624	36,624	–
Energy and water/waste disposal	–	–	–	3,443	3,443	–
Rural residential real estate	570	508	1,078	28,543	29,621	–
Total	$ 14,520	$ 16,688	$ 31,208	$ 2,221,895	$ 2,253,103	$ 2

	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	$ 4,749	$ 6,690	$ 11,439	$ 1,292,960	$ 1,304,399	$ –
Production and intermediate-term	8,747	5,206	13,953	722,883	736,836	–
Loans to cooperatives	–	–	–	48	48	–
Processing and marketing	–	299	299	40,860	41,159	–
Farm-related business	77	10	87	60,522	60,609	–
Communication	–	–	–	34,218	34,218	–
Energy and water/waste disposal	–	–	–	3,577	3,577	–
Rural residential real estate	656	573	1,229	27,356	28,585	–
Total	$ 14,229	$ 12,778	$ 27,007	$ 2,182,424	$ 2,209,431	$ –

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	$ 13,429	$ 11,542
Production and intermediate-term	14,509	13,628
Processing and marketing	–	299
Farm-related business	(1)	9
Rural residential real estate	860	1,235
Total nonaccrual loans	$ 28,797	$ 26,713
Accruing restructured loans:		
Real estate mortgage	$ 5,958	$ 6,557
Production and intermediate-term	10,981	11,082
Rural residential real estate	783	389
Total accruing restructured loans	$ 17,722	$ 18,028
Accruing loans 90 days or more past due:		
Production and intermediate-term	$ 2	$ –
Total accruing loans 90 days or more past due	$ 2	$ –
Total nonperforming loans	$ 46,521	$ 44,741
Other property owned	1,254	841
Total nonperforming assets	$ 47,775	$ 45,582
Nonaccrual loans as a percentage of total loans	1.29%	1.22%
Nonperforming assets as a percentage of total loans and other property owned	2.13%	2.07%
Nonperforming assets as a percentage of capital	9.52%	9.32%

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	$ 9,035	$ 6,774
Past due	19,762	19,939
Total	28,797	26,713
Impaired accrual loans:		
Restructured	17,722	18,028
90 days or more past due	2	–
Total	17,724	18,028
Total impaired loans	$ 46,521	$ 44,741

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	$ 6,866	$ 7,989	$ 1,361	$ 6,691	$ 65	$ 6,637	$ 129
Production and intermediate-term	7,404	8,429	2,697	7,214	70	7,157	138
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	856	1,054	256	834	8	828	16
Total	$ 15,126	$ 17,472	$ 4,314	$ 14,739	$ 143	$ 14,622	$ 283
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 12,521	$ 14,133	$ –	$ 12,200	$ 118	$ 12,104	$ 234
Production and intermediate-term	18,088	22,503	–	17,626	171	17,485	340
Processing and marketing	–	3,047	–	–	–	–	–
Farm-related business	(1)	4	–	(1)	–	(1)	–
Rural residential real estate	787	905	–	767	8	760	15
Total	$ 31,395	$ 40,592	$ –	$ 30,592	$ 297	$ 30,348	$ 589
Total impaired loans:							
Real estate mortgage	$ 19,387	$ 22,122	$ 1,361	$ 18,891	$ 183	$ 18,741	$ 363
Production and intermediate-term	25,492	30,932	2,697	24,840	241	24,642	478
Processing and marketing	–	3,047	–	–	–	–	–
Farm-related business	(1)	4	–	(1)	–	(1)	–
Rural residential real estate	1,643	1,959	256	1,601	16	1,588	31
Total	$ 46,521	$ 58,064	$ 4,314	$ 45,331	$ 440	$ 44,970	$ 872

	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	$ 4,605	$ 5,569	$ 562	$ 5,328	$ 266
Production and intermediate-term	5,123	6,064	1,527	5,927	296
Processing and marketing	–	–	–	–	–
Farm-related business	9	11	3	11	1
Rural residential real estate	940	1,185	175	1,087	54
Total	$ 10,677	$ 12,829	$ 2,267	$ 12,353	$ 617
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 13,494	$ 15,966	$ –	$ 15,613	$ 780
Production and intermediate-term	19,587	24,202	–	22,663	1,131
Processing and marketing	299	4,155	–	346	17
Farm-related business	–	4	–	–	–
Rural residential real estate	684	794	–	793	40
Total	$ 34,064	$ 45,121	$ –	$ 39,415	$ 1,968
Total impaired loans:					
Real estate mortgage	$ 18,099	$ 21,535	$ 562	$ 20,941	$ 1,046
Production and intermediate-term	24,710	30,266	1,527	28,590	1,427
Processing and marketing	299	4,155	–	346	17
Farm-related business	9	15	3	11	1
Rural residential real estate	1,624	1,979	175	1,880	94
Total	$ 44,741	$ 57,950	$ 2,267	$ 51,768	$ 2,585

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

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at March 31, 2014	$ 6,334	$ 16,427	$ 1,571	$ 136	$ 13	$ 817	$ 25,298
Charge-offs	(91)	(96)	–	–	–	–	(187)
Recoveries	1	103	569	–	–	3	676
Provision for loan losses	(338)	1,450	(908)	(42)	(5)	(157)	–
Balance at June 30, 2014	$ 5,906	$ 17,884	$ 1,232	$ 94	$ 8	$ 663	$ 25,787
Balance at December 31, 2013	$ 5,894	$ 15,797	$ 1,219	$ 119	$ 11	$ 690	$ 23,730
Charge-offs	(159)	(102)	–	–	–	–	(261)
Recoveries	18	135	2,034	–	–	6	2,193
Provision for loan losses	153	2,054	(2,021)	(25)	(3)	(33)	125
Balance at June 30, 2014	$ 5,906	$ 17,884	$ 1,232	$ 94	$ 8	$ 663	$ 25,787
Balance at March 31, 2013	$ 3,394	$ 15,658	$ 303	$ 42	$ 6	$ 367	$ 19,770
Charge-offs	–	(146)	–	–	–	(32)	(178)
Recoveries	201	423	–	–	–	6	630
Provision for loan losses	822	1,082	(8)	3	2	99	2,000
Balance at June 30, 2013	$ 4,417	$ 17,017	$ 295	$ 45	$ 8	$ 440	$ 22,222
Balance at December 31, 2012	$ 4,854	$ 11,867	$ 725	$ 62	$ 31	$ 314	$ 17,853
Charge-offs	(264)	(146)	–	–	–	(32)	(442)
Recoveries	240	562	–	–	–	9	811
Provision for loan losses	(413)	4,734	(430)	(17)	(23)	149	4,000
Balance at June 30, 2013	$ 4,417	$ 17,017	$ 295	$ 45	$ 8	$ 440	$ 22,222
Loans individually evaluated for impairment	$ 1,361	$ 2,697	$ –	$ –	$ –	$ 256	$ 4,314
Loans collectively evaluated for impairment	4,545	15,187	1,232	94	8	407	21,473
Balance at June 30, 2014	$ 5,906	$ 17,884	$ 1,232	$ 94	$ 8	$ 663	$ 25,787
Loans individually evaluated for impairment	$ 562	$ 1,527	$ 3	$ –	$ –	$ 175	$ 2,267
Loans collectively evaluated for impairment	5,332	14,270	1,216	119	11	515	21,463
Balance at December 31, 2013	$ 5,894	$ 15,797	$ 1,219	$ 119	$ 11	$ 690	$ 23,730
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 13,429	$ 14,509	$ (1)	$ –	$ –	$ 860	$ 28,797
Loans collectively evaluated for impairment	1,318,434	714,699	122,345	36,624	3,443	28,761	2,224,306
Ending balance at June 30, 2014	$ 1,331,863	$ 729,208	$ 122,344	$ 36,624	$ 3,443	$ 29,621	$ 2,253,103
Loans individually evaluated for impairment	$ 11,542	$ 13,628	$ 308	$ –	$ –	$ 1,235	$ 26,713
Loans collectively evaluated for impairment	1,292,857	723,208	101,508	34,218	3,577	27,350	2,182,718
Ending balance at December 31, 2013	$ 1,304,399	$ 736,836	$ 101,816	$ 34,218	$ 3,577	$ 28,585	$ 2,209,431

**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.

Three months ended June 30, 2014	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Production and intermediate-term	$ –	$ 6,901	$ –	$ 6,901	
Rural residential real estate	–	13	–	13	
Total	$ –	$ 6,914	$ –	$ 6,914	
Post-modification Outstanding Recorded Investment					
Production and intermediate-term	$ –	$ 6,894	$ –	$ 6,894	–
Rural residential real estate	–	14	–	14	–
Total	$ –	$ 6,908	$ –	$ 6,908	$ –

Six months ended June 30, 2014	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	$ 195	$ –	$ –	$ 195	
Production and intermediate-term	–	8,129	–	8,129	
Rural residential real estate	255	13	–	268	
Total	$ 450	$ 8,142	$ –	$ 8,592	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	$ 879	$ –	$ –	$ 879	$ –
Production and intermediate-term	–	8,123	–	8,123	–
Rural residential real estate	254	14	–	268	–
Total	$ 1,133	$ 8,137	$ –	$ 9,270	$ –

Three months ended June 30, 2013	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Production and intermediate-term	$ 45	$ 3,965	$ –	$ 4,010	
Total	$ 45	$ 3,965	$ –	$ 4,010	
Post-modification Outstanding Recorded Investment					
Production and intermediate-term	$ 45	$ 3,963	$ –	$ 4,008	$ –
Total	$ 45	$ 3,963	$ –	$ 4,008	$ –

Six months ended June 30, 2013	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	$ –	$ 351	$ –	$ 351	
Production and intermediate-term	45	6,415	–	6,460	
Rural residential real estate	130	–	–	130	
Total	$ 175	$ 6,766	$ –	$ 6,941	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	$ –	$ 341	$ –	$ 341	$ –
Production and intermediate-term	45	6,413	–	6,458	–
Rural residential real estate	130	–	–	130	–
Total	$ 175	$ 6,754	$ –	$ 6,929	$ –

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.

The following table presents outstanding recorded investment for 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Production and intermediate-term	$ –	$ 526	$ –	$ 526
Total	$ –	$ 526	$ –	$ 526

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. 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	$ 8,350	$ 7,873	$ 2,392	$ 1,316
Production and intermediate-term	18,822	13,335	7,841	2,253
Processing and marketing	–	24	–	24
Rural residential real estate	852	546	69	157
Total Loans	$ 28,024	$ 21,778	$ 10,302	$ 3,750
Additional commitments to lend	$ 77	$ 70		

Note 3 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 4 — 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,		Six Months Ended June 30,	
	2014	2013	2014	2013
Employee Benefit Plans:				
Balance at beginning of period	$ (361)	$ (577)	$ (377)	$ (601)
Other comprehensive income before reclassifications	–	–	–	–
Amounts reclassified from AOCI	16	23	32	47
Net current period other comprehensive income	16	23	32	47
Balance at end of period	$ (345)	$ (554)	$ (345)	$ (554)

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

	For the three months ended June 30,		For the six months ended June 30,		
	2014	2013	2014	2013	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (16)	$ (23)	$ (32)	$ (47)	See Note 6.
Net amounts reclassified	$ (16)	$ (23)	$ (32)	$ (47)	

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

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 Association owns 9.48 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 $1,022 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. The Association has no Level 2 assets or liabilities measured at fair value.

Level 3 inputs are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities 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 table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

	Standby Letters of Credit	
	For the six months ended June 30,	
	2014	2013
Balance at beginning of period	$ 111	$ 162
Issuances	–	–
Settlements	(13)	(70)
Balance at end of period	$ 98	$ 92

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

Quoted market prices are generally not available for the 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	$ 43,631	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			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 Six Months Ended June 30, 2014					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,425	$ 1,425	$ –	$ –	$ 1,425	
Recurring Assets	$ 1,425	$ 1,425	$ –	$ –	$ 1,425	
Liabilities:						
Standby letters of credit	$ 98	$ –	$ –	$ 98	$ 98	
Recurring Liabilities	$ 98	$ –	$ –	$ 98	$ 98	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 42,207	$ –	$ –	$ 42,207	$ 42,207	$ (115)
Other property owned	1,254	–	–	1,424	1,424	306
Nonrecurring Assets	$ 43,461	$ –	$ –	$ 43,631	$ 43,631	$ 191
Other Financial Instruments						
Assets:						
Cash	$ 2,554	$ 2,554	$ –	$ –	$ 2,554	
Loans	2,170,433	–	–	2,152,571	2,152,571	
Other Financial Assets	$ 2,172,987	$ 2,554	$ –	$ 2,152,571	$ 2,155,125	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,744,040	$ –	$ –	$ 1,733,280	$ 1,733,280	
Other Financial Liabilities	$ 1,744,040	$ –	$ –	$ 1,733,280	$ 1,733,280	

	At or for the Year Ended December 31, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,375	$ 1,375	$ –	$ –	$ 1,375	
Recurring Assets	$ 1,375	$ 1,375	$ –	$ –	$ 1,375	
Liabilities:						
Standby letters of credit	$ 111	$ –	$ –	$ 111	$ 111	
Recurring Liabilities	$ 111	$ –	$ –	$ 111	$ 111	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 42,474	$ –	$ –	$ 42,474	$ 42,474	$ (46)
Other property owned	841	–	–	936	936	(609)
Nonrecurring Assets	$ 43,315	$ –	$ –	$ 43,410	$ 43,410	$ (655)
Other Financial Instruments						
Assets:						
Cash	$ 2,540	$ 2,540	$ –	$ –	$ 2,540	
Loans	2,131,458	–	–	2,108,809	2,108,809	
Other Financial Assets	$ 2,133,998	$ 2,540	$ –	$ 2,108,809	$ 2,111,349	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,724,627	$ –	$ –	$ 1,699,411	$ 1,699,411	
Other Financial Liabilities	$ 1,724,627	$ –	$ –	$ 1,699,411	$ 1,699,411	

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 June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Pension	$ 1,501	$ 1,509	$ 3,003	$ 3,018
401(k)	154	140	298	275
Other postretirement benefits	237	227	474	455
Total	$ 1,892	$ 1,876	$ 3,775	$ 3,748

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	$ 6	$ 4,546	$ 4,552
Other postretirement benefits	254	277	531
Total	$ 260	$ 4,823	$ 5,083

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 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 — Business Combination

In February 2014, the Board of Directors of MidAtlantic Farm Credit, ACA and AgChoice Farm Credit, ACA signed a Letter of Intent to proceed with a process to explore the benefits of a merger. In May 2014, both Boards agreed to rescind the Letter of Intent and to terminate merger discussions at the present time.

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.