Central Kentucky Agricultural Credit Association

FIRST QUARTER 2014

TABLE OF CONTENTS

CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2014 quarterly report of Central Kentucky Agricultural Credit Association, 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.

James W. Caldwell
Chief Executive Officer

Marcus G. Barnett
Chief Financial Officer

James A. Lyons
Chairman of the Board

May 9, 2014

Central Kentucky Agricultural Credit Association

Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2014. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of March 31, 2014, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2014.

James W. Caldwell
James W. Caldwell
Chief Executive Officer

M. G. Barnett
Marcus G. Barnett
Chief Financial Officer

May 9, 2014

Central Kentucky Agricultural Credit Association

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 Central Kentucky Agricultural Credit Association (the Association) for the period ended March 31, 2014. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2013 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region. The predominate enterprises are beef cattle and thoroughbred horses. Overall, the outlook for the beef cattle industry is positive due in large part to favorable cattle numbers and strong prices. Industry concerns are centered on the impact of high beef prices on consumer demand. The thoroughbred horse industry has shown signs of improvement at recent sales, but the outlook continues to be guarded, mirroring the general economic outlook. 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 employment in the area, significantly reduces the level of dependency on a given commodity.

The gross loan volume of the Association as of March 31, 2014 was $357,310, an increase of $6,633 as compared to $350,677 at December 31, 2013. Net loans outstanding at March 31, 2014 were $353,710 as compared to $347,084 at December 31, 2013. Net loans accounted for 95.22 percent of total assets at March 31, 2014, as compared to 91.47 percent of total assets at December 31, 2013.

The increase in gross and net loan volume during the reporting period is primarily due to growth in real estate and production loans.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased from $4,334 at December 31, 2013, to $3,715 at March 31, 2014. This decrease is primarily due to the liquidation of one larger loan that was in nonaccrual status.

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 $3,600 allowance for loan losses at March 31, 2014 reflected a $7 increase from December 31, 2013, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2014

Net income for the three months ended March 31, 2014 totaled $1,692, as compared to $1,549 for the same period in 2013. Net interest income increased $150 for the three months ended March 31, 2014 as compared to the same period in 2013. The Association recorded no provision for loan losses for the three months ended March 31, 2014, as compared to no provision for loan losses for the same period in 2013.

At March 31, 2014, interest income on accruing loans increased $295 compared to March 31, 2013. The Association recorded nonaccrual income of $0 for the three months ended March 31, 2014, as compared to $18 for the same period in 2013. Interest income from tobacco successor-in-interest contract (SIIC) investments was $12 for the three months ended March 31, 2014, as compared to $130 for the same period in 2013. Interest expense increased $27 for the three months ended March 31, 2014 as compared to the comparable period of 2013. Movement in interest income and expense is primarily attributed to an increase in loan volume, and an early-year reduction in the Association's direct note from receipt of patronage from the AgFirst Farm Credit Bank (Bank) and receipt of a final payoff on the tobacco SIIC investments. Noninterest income for the three months ended March 31, 2014 totaled $682 as compared to $764 for the same period of 2013, a decrease of $82. The primary factors in the decrease in Noninterest income were decreases in loan fees associated with mortgage loans sold into the secondary mortgage market, and increased fee sharing by the Association on certain federally guaranteed loans.

Noninterest expense for the three months ended March 31, 2014 decreased $63 compared to the same period of 2013. The decrease is due primarily to a $194 gain on the sale of other property owned, offset somewhat by an increase in employee salary and benefits, and an increase in occupancy and equipment repairs and Farm Credit Insurance Fund premiums. The Association recorded a provision for income taxes of $8 for the three months ended March 31, 2014, as compared to a provision for income taxes of $20 for the same period in 2013.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2014 was $309,500 as compared to $317,656 at December 31, 2013. The decrease during the period is primarily attributed to an increase in loan volume, offset by the receipt of patronage from the Bank and a final payoff received on SIIC investments.

CAPITAL RESOURCES

Total members' equity at March 31, 2014 increased to $56,229 from the December 31, 2013 total of $54,510. The increase is primarily attributed to the Association's increase in retained earnings as a result of income recorded for the three months ended March 31, 2014. Total capital stock and participation certificates were $6,705 on March 31, 2014, compared to $6,676 on December 31, 2013. This increase is attributed to member purchases of equities in relation to increases in loan volume.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2014, the Association's permanent capital ratio was 16.50 percent and the total surplus ratio and core surplus ratio were 15.12 percent and 15.12 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

On March 31, 2014, the FCA published an interim final rule rescinding all requirements for nonbinding advisory votes on senior officer compensation at System banks and associations. The comment period for the interim rule ended on April 30, 2014. A final effective date for the rule has not yet been published.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or by writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com.* Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-859-253-3249, or writing Marcus Barnett, Chief Financial Officer, Central Kentucky Agricultural Credit Association, P.O. Box 1290, Lexington, KY 40588-1290, or accessing the website *www.agcreditonline.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.

Central Kentucky Agricultural Credit Association

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2014 *(unaudited)*	December 31, 2013 *(audited)*
Assets		
Cash	$ 680	$ 1,223
Loans	357,310	350,677
Allowance for loan losses	(3,600)	(3,593)
Net loans	353,710	347,084
Loans held for sale	698	335
Other investments	—	6,782
Accrued interest receivable	3,428	4,213
Investments in other Farm Credit institutions	6,913	6,913
Premises and equipment, net	3,103	3,086
Other property owned	1,199	1,713
Accounts receivable	653	6,859
Other assets	1,098	1,254
Total assets	$ 371,482	$ 379,462
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 309,500	$ 317,656
Accrued interest payable	627	673
Patronage refunds payable	280	3,069
Accounts payable	199	366
Other liabilities	4,647	3,188
Total liabilities	315,253	324,952
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	6,705	6,676
Retained earnings		
Allocated	31,341	31,503
Unallocated	18,183	16,331
Total members' equity	56,229	54,510
Total liabilities and members' equity	$ 371,482	$ 379,462

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

Central Kentucky Agricultural Credit Association

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2014	2013
Interest Income		
Loans	$ 4,244	$ 3,949
Investment securities	12	130
Total interest income	4,256	4,079
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	1,831	1,804
Net interest income	2,425	2,275
Provision for loan losses	—	—
Net interest income after provision for loan losses	2,425	2,275
Noninterest Income		
Loan fees	35	114
Lease income	1	4
Patronage refunds from other Farm Credit institutions	617	618
Gains (losses) on sales of rural home loans, net	3	2
Gains (losses) on sales of premises and equipment, net	4	—
Other noninterest income	22	26
Total noninterest income	682	764
Noninterest Expense		
Salaries and employee benefits	1,127	1,048
Occupancy and equipment	96	79
Insurance Fund premiums	79	64
(Gains) losses on other property owned, net	(169)	—
Other operating expenses	274	279
Total noninterest expense	1,407	1,470
Income before income taxes	1,700	1,569
Provision for income taxes	8	20
Net income	1,692	1,549
Other comprehensive income	—	—
Comprehensive income	$ 1,692	$ 1,549

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

Central Kentucky Agricultural Credit Association

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2012	$ 6,590	$ 24,424	$ 15,997	$ 47,011
Comprehensive income			1,549	1,549
Capital stock/participation certificates issued/(retired), net	67			67
Patronage distribution adjustment		152	(222)	(70)
Balance at March 31, 2013	$ 6,657	$ 24,576	$ 17,324	$ 48,557
Balance at December 31, 2013	$ 6,676	$ 31,503	$ 16,331	$ 54,510
Comprehensive income			1,692	1,692
Capital stock/participation certificates issued/(retired), net	29			29
Patronage distribution adjustment		(162)	160	(2)
Balance at March 31, 2014	$ 6,705	$ 31,341	$ 18,183	$ 56,229

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

Central Kentucky Agricultural Credit Association

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Recently Issued Accounting Pronouncements

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

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

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

Note 2 — Loans and Allowance for Loan Losses

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

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

A summary of loans outstanding at period end follows:

	March 31, 2014	December 31, 2013
Real estate mortgage	$ 228,072	$ 219,455
Production and intermediate-term	119,121	120,608
Loans to cooperatives	43	43
Processing and marketing	842	703
Farm-related business	427	513
Rural residential real estate	8,805	9,355
Lease receivables	–	–
Total Loans	$ 357,310	$ 350,677

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 Administrations (FCA) regulations. The following tables present participation loan balances at periods ended:

	March 31, 2014							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 19,173	$ –	$ –	$ –	$ 1,388	$ –	$ 20,561
Production and intermediate-term	–	11,001	310	–	–	671	310	11,672
Processing and marketing	844	–	–	–	–	–	844	–
Farm-related business	–	2,017	–	–	–	–	–	2,017
Total	$ 844	$ 32,191	$ 310	$ –	$ –	$ 2,059	$ 1,154	$ 34,250

	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	$ –	$ 26,403	$ –	$ –	$ –	$ 1,363	$ –	$ 27,766
Production and intermediate-term	–	11,024	218	–	–	677	218	11,701
Processing and marketing	753	–	–	–	–	–	753	–
Farm-related business	–	2,031	–	–	–	–	–	2,031
Total	$ 753	$ 39,458	$ 218	$ –	$ –	$ 2,040	$ 971	$ 41,498

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

	March 31, 2014			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 20,258	$ 54,254	$ 153,560	$ 228,072
Production and intermediate-term	29,126	55,866	34,129	119,121
Loans to cooperatives	43	–	–	43
Processing and marketing	21	821	–	842
Farm-related business	–	337	90	427
Rural residential real estate	805	677	7,323	8,805
Total Loans	$ 50,253	$ 111,955	$ 195,102	$ 357,310
Percentage	14.06%	31.33%	54.61%	100.00%

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

	March 31, 2014	December 31, 2013
Real estate mortgage:		
Acceptable	94.85%	94.54%
OAEM	2.39	2.55
Substandard/doubtful/loss	2.76	2.91
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	96.44%	96.33%
OAEM	1.96	1.74
Substandard/doubtful/loss	1.60	1.93
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2014	December 31, 2013
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	96.68%	96.85%
OAEM	0.77	–
Substandard/doubtful/loss	2.55	3.15
	100.00%	100.00%
Total Loans:		
Acceptable	95.45%	95.24%
OAEM	2.20	2.19
Substandard/doubtful/loss	2.35	2.57
	100.00%	100.00%

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

	March 31, 2014					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 682	$ 2,440	$ 3,122	$ 226,841	$ 229,963	$ 743
Production and intermediate-term	117	1,181	1,298	119,335	120,633	183
Loans to cooperatives	–	–	–	44	44	–
Processing and marketing	–	–	–	844	844	–
Farm-related business	–	–	–	430	430	–
Rural residential real estate	97	71	168	8,656	8,824	–
Total	$ 896	$ 3,692	$ 4,588	$ 356,150	$ 360,738	$ 926

	December 31, 2013					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,127	$ 2,530	$ 3,657	$ 218,068	$ 221,725	$ 742
Production and intermediate-term	496	1,464	1,960	120,567	122,527	2
Loans to cooperatives	–	–	–	44	44	–
Processing and marketing	–	–	–	705	705	–
Farm-related business	–	–	–	514	514	–
Rural residential real estate	262	72	334	9,041	9,375	–
Total	$ 1,885	$ 4,066	$ 5,951	$ 348,939	$ 354,890	$ 744

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

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

	March 31, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	$ 1,867	$ 2,305
Production and intermediate-term	1,680	1,859
Rural residential real estate	168	170
Total nonaccrual loans	$ 3,715	$ 4,334
Accruing restructured loans:		
Total accruing restructured loans	$ –	$ –
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 743	$ 742
Production and intermediate-term	183	2
Total accruing loans 90 days or more past due	$ 926	$ 744
Total nonperforming loans	$ 4,641	$ 5,078
Other property owned	1,199	1,713
Total nonperforming assets	$ 5,840	$ 6,791
Nonaccrual loans as a percentage of total loans	1.04%	1.24%
Nonperforming assets as a percentage of total loans and other property owned	1.63%	1.93%
Nonperforming assets as a percentage of capital	10.39%	12.46%

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.

	March 31, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	$ 841	$ 870
Past due	2,874	3,464
Total impaired nonaccrual loans	3,715	4,334
Impaired accrual loans:		
Restructured	–	–
90 days or more past due	926	744
Total impaired accrual loans	926	744
Total impaired loans	$ 4,641	$ 5,078

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

	March 31, 2014			Quarter Ended March 31, 2014	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 450	$ 425	$ 40	$ 459	$ 1
Production and intermediate-term	1,191	1,268	223	1,216	3
Rural residential real estate	–	–	–	–	–
Total	$ 1,641	$ 1,693	$ 263	$ 1,675	$ 4
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,160	$ 2,102	$ –	$ 2,208	$ 6
Production and intermediate-term	672	586	–	686	2
Rural residential real estate	168	178	–	171	–
Total	$ 3,000	$ 2,866	$ –	$ 3,065	$ 8
Total impaired loans:					
Real estate mortgage	$ 2,610	$ 2,527	$ 40	$ 2,667	$ 7
Production and intermediate-term	1,863	1,854	223	1,902	5
Rural residential real estate	168	178	–	171	–
Total	$ 4,641	$ 4,559	$ 263	$ 4,740	$ 12

	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	$ 460	$ 427	$ 46	$ 596	$ 17
Production and intermediate-term	1,194	1,269	240	1,545	45
Total	$ 1,654	$ 1,696	$ 286	$ 2,141	$ 62
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,587	$ 2,892	$ –	$ 3,347	$ 98
Production and intermediate-term	667	575	–	864	25
Rural residential real estate	170	178	–	220	7
Total	$ 3,424	$ 3,645	$ –	$ 4,431	$ 130
Total impaired loans:					
Real estate mortgage	$ 3,047	$ 3,319	$ 46	$ 3,943	$ 115
Production and intermediate-term	1,861	1,844	240	2,409	70
Rural residential real estate	170	178	–	220	7
Total	$ 5,078	$ 5,341	$ 286	$ 6,572	$ 192

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*	Rural Residential Real Estate	Lease Receivables	Total
Allowance for credit losses:						
Balance at December 31, 2013	$ 2,152	$ 1,350	$ 12	$ 79	$ –	$ 3,593
Charge-offs	(5)	–	–	–	–	(5)
Recoveries	12	–	–	–	–	12
Provision for loan losses	35	(32)	1	(4)	–	–
Balance at March 31, 2014	$ 2,194	$ 1,318	$ 13	$ 75	$ –	$ 3,600
Balance at December 31, 2012	$ 1,900	$ 1,797	$ 5	$ 58	$ –	$ 3,760
Charge-offs	–	–	–	–	–	–
Recoveries	1	31	–	–	–	32
Provision for loan losses	68	(77)	–	9	–	–
Balance at March 31, 2013	$ 1,969	$ 1,751	$ 5	$ 67	$ –	$ 3,792
Loans individually evaluated for impairment	$ 40	$ 223	$ –	$ –	$ –	$ 263
Loans collectively evaluated for impairment	2,154	1,095	13	75	–	3,337
Balance at March 31, 2014	$ 2,194	$ 1,318	$ 13	$ 75	$ –	$ 3,600
Loans individually evaluated for impairment	$ 46	$ 240	$ –	$ –	$ –	$ 286
Loans collectively evaluated for impairment	2,106	1,110	12	79	–	3,307
Balance at December 31, 2013	$ 2,152	$ 1,350	$ 12	$ 79	$ –	$ 3,593
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 4,825	$ 2,447	$ –	$ 168	$ –	$ 7,440
Loans collectively evaluated for impairment	225,138	118,186	1,318	8,656	–	353,298
Ending balance at March 31, 2014	$ 229,963	$ 120,633	$ 1,318	$ 8,824	$ –	$ 360,738
Loans individually evaluated for impairment	$ 4,400	$ 1,621	$ –	$ 170	$ –	$ 6,191
Loans collectively evaluated for impairment	217,325	120,906	1,263	9,205	–	348,699
Ending balance at December 31, 2013	$ 221,725	$ 122,527	$ 1,263	$ 9,375	$ –	$ 354,890

**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 for the three month periods ended March 31, 2014 and March 31, 2013.

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

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

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Real estate mortgage	$ –	$ 483	$ –	$ 483
Production and intermediate-term	–	170	–	170
Total Loans	$ –	$ 653	$ –	$ 653
Additional commitments to lend	$ –	$ –		

Note 3 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 4 — Fair Value Measurement

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 1.68 percent of the issued stock of the Bank as of March 31, 2014 net of any reciprocal investment. As of that date, the Bank's assets totaled $27.6 billion and shareholders' equity totaled $2.2 billion. The Bank's earnings were $88 million for the first three months of 2014. In addition, the Association has an investment of $5 related to other Farm Credit institutions.

The classifications within the fair value hierarchy are as follows:

Level 1

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

Level 2

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

Level 3

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

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

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

	Standby Letters of Credit	
	For the three months ended March 31,	
	2014	2013
Balance at beginning of period	$ 3	$ 5
Issuances	1	–
Settlements	–	–
Balance at end of period	$ 4	$ 5

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.

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	$ 5,655	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

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

At or for the Three Months Ended March 31, 2014

	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Standby letters of credit	$ 4	$ –	$ –	$ 4	$ 4	
Recurring Liabilities	$ 4	$ –	$ –	$ 4	$ 4	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 4,378	$ –	$ –	$ 4,378	$ 4,378	$ 30
Other property owned	1,199			1,277	1,277	194
Nonrecurring Assets	$ 5,577	$	$	$ 5,655	$ 5,655	$ 224
Other Financial Instruments						
Assets:						
Cash	$ 680	$ 680	$ –	$ –	$ 680	
Loans	350,030	–	–	344,904	344,904	
Other investments	–	–	–	–	–	
Other Financial Assets	$ 350,710	$ 680	$ –	$ 344,904	$ 345,584	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 309,500	$ –	$ –	$ 305,149	$ 305,149	
Other Financial Liabilities	$ 309,500	$ –	$ –	$ 305,149	$ 305,149	

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:						
Standby letters of credit	$ 3	$ –	$ –	$ 3	$ 3	
Recurring Liabilities	$ 3	$ –	$ –	$ 3	$ 3	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 4,792	$ –	$ –	$ 4,792	$ 4,792	$ (90)
Other property owned	1,713	–	–	1,859	1,859	(105)
Nonrecurring Assets	$ 6,505	$ –	$ –	$ 6,651	$ 6,651	$ (195)
Other Financial Instruments						
Assets:						
Cash	$ 1,223	$ 1,223	$ –	$ –	$ 1,223	
Loans	342,627	–	–	338,385	338,385	
Other investments*	6,782	–	–	6,790	6,790	
Other Financial Assets	$ 350,632	$ 1,223	$ –	$ 345,175	$ 346,398	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 317,656	$ –	$ –	$ 313,017	$ 313,017	
Other Financial Liabilities	$ 317,656	$ –	$ –	$ 313,017	$ 313,017	

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

Note 5 — Employee Benefit Plans

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

	For the three months ended March 31, 2014	For the three months ended March 31, 2013
Pension	$ 189	$ 181
401(k)	36	35
Other postretirement benefits	28	28
Total	$ 253	$ 244

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

	Actual YTD Through 3/31/14	Projected Contributions For Remainder of 2014	Projected Total Contributions 2014
Pension	$ –	$ 404	$ 404
Other postretirement benefits	18	56	74
Total	$ 18	$ 460	$ 478

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

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

Note 6 — Commitments and Contingent 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 7 — Subsequent Events

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