First South Farm Credit, ACA

FIRST QUARTER 2014

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2014 quarterly report of First South 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.

Shepherd Morris
Chairman of the Board

Roger F. Chappell
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

May 9, 2014

First South 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 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.

Roger F. Chappell
Chief Executive Officer

Bryan Applewhite
Chief Financial Officer

May 9, 2014

First South 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 *First South Farm Credit, ACA* (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 including poultry, cotton, livestock and forestry. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on any single commodity.

Comparison of March 31, 2014 to December 31, 2013

The gross loan volume of the Association as of March 31, 2014, was $1,317,709, an increase of $397, as compared to $1,317,312 at December 31, 2013. Net loans outstanding at March 31, 2014, were $1,308,255 as compared to $1,308,132 at December 31, 2013. Net loans accounted for 91.98 percent of total assets at March 31, 2014, as compared to 89.83 percent of total assets at December 31, 2013.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased to $3,740 at March 31, 2014 from $5,956 at December 31, 2013, a decrease of $2,216.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at March 31, 2014, was $9,454 compared to $9,180 at 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 $5,051, as compared to $5,885 for the same period in 2013. This decrease in net income relates to primarily a reduction of net interest income after provision for loan losses of $196. In addition earnings were further pressured by increases in the noninterest expense categories, offset by increases in the noninterest income categories, both of which will be further explained below.

Noninterest income for the three months ended March 31, 2014 totaled $4,603, as compared to $4,220 for the same period of 2013, an increase of $383. The increase is primarily the result of increased patronage refunds from other farm credit institutions of $458, offset by decreases in other noninterest income, loan fees, and fees for financially related services of $36, $21, and $19, respectively.

Noninterest expense for the three months ended March 31, 2014 increased $1,002 compared to the same period of 2013. The increase is attributable to an increase in salaries and employee benefits of $456, an increase in losses on other property owned of $274, an increase in other operating expenses of $186, an increase in occupancy and equipment of $47 and an increase Insurance Fund premiums of $39.

The Association recorded a provision for loan losses of $287 for the three months ended March 31, 2014, compared to a reversal of the allowance for loan losses of $1 for the same period in 2013. The Association also recorded a provision for income taxes of $4 for the three months ended March 31, 2014, compared to a benefit of $15 for the same period of 2013.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the AgFirst Farm Credit Bank (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 funds 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 $1,061,052 as compared to $1,091,863 at December 31, 2013, a decrease of $30,811. The decrease in notes payable from December 31, 2013 to March 31, 2014 is primarily related seasonal paydowns of loans and favorable crop conditions in 2013 which have reduced the need for crop advances thus far in 2014.

CAPITAL RESOURCES

Total members' equity at March 31, 2014 and December 31, 2013 was $311,898 and $308,876, respectively. The increase of $3,022 from December 31, 2013 to March 31, 2014 is primarily attributable to an increase in allocated and unallocated retained earnings of $3,116, a reduction in the amortization of accumulated other comprehensive loss of $249, partially offset by a decrease in capital stock and participation certificates of $343. The decrease in capital stock and participation certificates is mainly related to the January 2013 reduction in the stock requirement on loans from the lessor of 2% of the loan or $5,000 to the lessor of 2% of the loan or $1,000.

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, total surplus ratio and core surplus ratio were 18.93, 18.11 and 17.20 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.

STOCKHOLDER INVESTMENT

Stockholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank's Quarterly and Annual Reports are on the AgFirst website, *www.agfirst.com*, or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also on the Association's website, *www.firstsouthland.com*, or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Bryan Applewhite, First South Farm Credit, ACA, 574 Highland Colony Parkway, Suite 100, Ridgeland, MS 39157. 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.

First South Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2014	December 31, 2013
	(unaudited)	*(audited)*
Assets		
Cash	$ 4,041	$ 7,757
Loans	1,317,709	1,317,312
Allowance for loan losses	(9,454)	(9,180)
Net loans	1,308,255	1,308,132
Accrued interest receivable	10,822	12,131
Investments in other Farm Credit institutions	81,921	82,964
Premises and equipment, net	9,494	9,257
Other property owned	2,319	1,187
Accounts receivable	3,838	33,447
Other assets	1,590	1,313
Total assets	$ 1,422,280	$ 1,456,188
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,061,052	$ 1,091,863
Accrued interest payable	2,043	2,243
Patronage refunds payable	22	11,064
Accounts payable	1,692	4,213
Other liabilities	45,573	37,929
Total liabilities	1,110,382	1,147,312
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	61,170	61,513
Retained earnings		
Allocated	161,070	161,836
Unallocated	106,821	102,939
Accumulated other comprehensive income (loss)	(17,163)	(17,412)
Total members' equity	311,898	308,876
Total liabilities and members' equity	$ 1,422,280	$ 1,456,188

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

First South Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2014	2013
Interest Income		
Loans	$ 15,602	$ 15,955
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	5,838	6,283
Net interest income	9,764	9,672
Provision for (reversal of allowance for) loan losses	287	(1)
Net interest income after provision for (reversal of allowance for) loan losses	9,477	9,673
Noninterest Income		
Loan fees	812	832
Fees for financially related services	4	23
Patronage refunds from other Farm Credit institutions	3,634	3,176
Other noninterest income	153	189
Total noninterest income	4,603	4,220
Noninterest Expense		
Salaries and employee benefits	6,101	5,645
Occupancy and equipment	428	381
Insurance Fund premiums	277	238
(Gains) losses on other property owned, net	301	27
Other operating expenses	1,918	1,732
Total noninterest expense	9,025	8,023
Income before income taxes	5,055	5,870
Provision (benefit) for income taxes	4	(15)
Net income	$ 5,051	$ 5,885

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

First South Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2014	2013
Net income	$ 5,051	$ 5,885
Other comprehensive income net of tax		
Employee benefit plans adjustments	249	650
Comprehensive income	$ 5,300	$ 6,535

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

First South 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	$ 67,706	$ 140,146	$ 98,204	$ (33,354)	$ 272,702
Comprehensive income			5,885	650	6,535
Capital stock/participation certificates issued/(retired), net	(3,758)				(3,758)
Retained earnings retired		(3,661)			(3,661)
Patronage distribution adjustment		137	(51)		86
Balance at March 31, 2013	$ 63,948	$ 136,622	$ 104,038	$ (32,704)	$ 271,904
Balance at December 31, 2013	$ 61,513	$ 161,836	$ 102,939	$ (17,412)	$ 308,876
Comprehensive income			5,051	249	5,300
Capital stock/participation certificates issued/(retired), net	(343)				(343)
Retained earnings retired		(2,336)			(2,336)
Patronage distribution adjustment		1,570	(1,169)		401
Balance at March 31, 2014	$ 61,170	$ 161,070	$ 106,821	$ (17,163)	$ 311,898

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

First South 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 First South 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 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	$ 502,353	$ 476,869
Production and intermediate-term	751,112	776,200
Loans to cooperatives	5,600	4,129
Processing and marketing	37,704	38,538
Farm-related business	6,473	7,253
Communication	12,205	12,040
Rural residential real estate	2,262	2,283
Total Loans	$ 1,317,709	$ 1,317,312

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

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

March 31, 2014	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 2,221	$ 75,362	$ –	$ –	$ 50,239	$ –	$ 52,460	$ 75,362
Production and intermediate-term	2,100	154,838	13,276	–	22,356	–	37,732	154,838
Loans to cooperatives	331	427	1,983	–	3,116	–	5,430	427
Processing and marketing	19,372	292	–	6,781	5,123	–	24,495	7,073
Farm-related business	–	177	–	–	144	–	144	177
Communication	12,209	–	–	–	–	–	12,209	–
Rural residential real estate	–	–	–	–	48	–	48	–
Total	$ 36,233	$ 231,096	$ 15,259	$ 6,781	$ 81,026	$ –	$ 132,518	$ 237,877

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	$ 2,391	$ 78,879	$ –	$ –	$ 52,359	$ –	$ 54,750	$ 78,879
Production and intermediate-term	1,790	172,406	13,038	–	16,888	–	31,716	172,406
Loans to cooperatives	–	429	833	–	3,156	–	3,989	429
Processing and marketing	16,870	293	–	7,581	5,123	–	21,993	7,874
Farm-related business	–	177	–	–	146	–	146	177
Communication	12,044	–	–	–	–	–	12,044	–
Rural residential real estate	–	–	–	–	49	–	49	–
Total	$ 33,095	$ 252,184	$ 13,871	$ 7,581	$ 77,721	$ –	$ 124,687	$ 259,765

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	$ 29,167	$ 154,676	$ 318,510	$ 502,353
Production and intermediate-term	125,085	300,561	325,466	751,112
Loans to cooperatives	2,291	2,532	777	5,600
Processing and marketing	17,163	13,897	6,644	37,704
Farm-related business	2,177	2,019	2,277	6,473
Communication	–	10,464	1,741	12,205
Rural residential real estate	332	573	1,357	2,262
Total Loans	$ 176,215	$ 484,722	$ 656,772	$ 1,317,709
Percentage	13.37%	36.79%	49.84%	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	93.60%	92.89%
OAEM	2.98	3.28
Substandard/doubtful/loss	3.42	3.83
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	92.72%	93.10%
OAEM	3.72	3.41
Substandard/doubtful/loss	3.56	3.49
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	86.42%	86.67%
OAEM	13.58	13.33
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2014	December 31, 2013
Farm-related business:		
Acceptable	100.00%	92.62%
OAEM	–	7.38
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	79.76%	79.84%
OAEM	13.08	3.92
Substandard/doubtful/loss	7.16	16.24
	100.00%	100.00%
Total Loans:		
Acceptable	92.99%	92.90%
OAEM	3.66	3.63
Substandard/doubtful/loss	3.35	3.47
	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	$ 1,272	$ 637	$ 1,909	$ 504,263	$ 506,172	$ –
Production and intermediate-term	2,563	1,147	3,710	754,081	757,791	–
Loans to cooperatives	–	–	–	5,666	5,666	–
Processing and marketing	–	–	–	37,787	37,787	–
Farm-related business	–	–	–	6,606	6,606	–
Communication	–	–	–	12,229	12,229	–
Rural residential real estate	–	163	163	2,117	2,280	–
Total	$ 3,835	$ 1,947	$ 5,782	$ 1,322,749	$ 1,328,531	$ –

	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	$ 1,950	$ 632	$ 2,582	$ 478,455	$ 481,037	$ –
Production and intermediate-term	3,818	3,054	6,872	777,038	783,910	–
Loans to cooperatives	–	–	–	4,181	4,181	–
Processing and marketing	–	–	–	38,600	38,600	–
Farm-related business	–	–	–	7,361	7,361	–
Communication	–	–	–	12,064	12,064	–
Rural residential real estate	27	164	191	2,099	2,290	–
Total	$ 5,795	$ 3,850	$ 9,645	$ 1,319,798	$ 1,329,443	$ –

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	$ 1,042	$ 1,330
Production and intermediate-term	2,535	4,463
Loans to cooperatives	–	–
Rural residential real estate	163	163
Total nonaccrual loans	$ 3,740	$ 5,956
Accruing restructured loans:		
Real estate mortgage	$ 4,739	$ 4,743
Production and intermediate-term	7,422	7,510
Total accruing restructured loans	$ 12,161	$ 12,253
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 15,901	$ 18,209
Other property owned	2,319	1,187
Total nonperforming assets	$ 18,220	$ 19,396
Nonaccrual loans as a percentage of total loans	0.28%	0.45%
Nonperforming assets as a percentage of total loans and other property owned	1.38%	1.47%
Nonperforming assets as a percentage of capital	5.84%	6.28%

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	$ 1,644	$ 2,107
Past due	2,096	3,849
Total impaired nonaccrual loans	3,740	5,956
Impaired accrual loans:		
Restructured	12,161	12,253
90 days or more past due	–	–
Total impaired accrual loans	12,161	12,253
Total impaired loans	$ 15,901	$ 18,209

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	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	1,358	1,443	148	1,495	11
Rural residential real estate	–	–	–	–	–
Total	$ 1,358	$ 1,443	$ 148	$ 1,495	$ 11
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 5,781	$ 6,132	$ –	$ 6,365	$ 45
Production and intermediate-term	8,599	11,357	–	9,468	68
Farm-related business	–	4	–	–	–
Rural residential real estate	163	165	–	180	1
Total	$ 14,543	$ 17,658	$ –	$ 16,013	$ 114
Total Impaired Loans					
Real estate mortgage	$ 5,781	$ 6,132	$ –	$ 6,365	$ 45
Production and intermediate-term	9,957	12,800	148	10,963	79
Farm-related business	–	4	–	–	–
Rural residential real estate	163	165	–	180	1
Total	$ 15,901	$ 19,101	$ 148	$ 17,508	$ 125

	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	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	3,197	3,738	232	3,438	152
Total	$ 3,197	$ 3,738	$ 232	$ 3,438	$ 152
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 6,073	$ 6,410	$ –	$ 6,533	$ 290
Production and intermediate-term	8,776	11,619	–	9,440	419
Farm-related business	–	4	–	–	–
Rural residential real estate	163	165	–	176	8
Total	$ 15,012	$ 18,198	$ –	$ 16,149	$ 717
Total Impaired Loans					
Real estate mortgage	$ 6,073	$ 6,410	$ –	$ 6,533	$ 290
Production and intermediate-term	11,973	15,357	232	12,878	571
Farm-related business	–	4	–	–	–
Rural residential real estate	163	165	–	176	8
Total	$ 18,209	$ 21,936	$ 232	$ 19,587	$ 869

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

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at December 31, 2013	$ 3,338	$ 5,471	$ 294	$ 39	$ 38	$ 9,180
Charge-offs	–	(17)	–	–	–	(17)
Recoveries	–	4	–	–	–	4
Provision for loan losses	147	127	18	5	(10)	287
Balance at March 31, 2014	$ 3,485	$ 5,585	$ 312	$ 44	$ 28	$ 9,454
Balance at December 31, 2012	$ 4,168	$ 3,162	$ 167	$ 18	$ 24	$ 7,539
Charge-offs	(1)	(246)	–	–	–	(247)
Recoveries	–	7	–	–	–	7
Provision for loan losses	(613)	566	36	4	6	(1)
Balance at March 31, 2013	$ 3,554	$ 3,489	$ 203	$ 22	$ 30	$ 7,298
Loans individually evaluated for impairment	$ –	$ 148	$ –	$ –	$ –	$ 148
Loans collectively evaluated for impairment	3,485	5,437	312	44	28	9,306
Balance at March 31, 2014	$ 3,485	$ 5,585	$ 312	$ 44	$ 28	$ 9,454
Loans individually evaluated for impairment	$ –	$ 232	$ –	$ –	$ –	$ 232
Loans collectively evaluated for impairment	3,338	5,239	294	39	38	8,948
Balance at December 31, 2013	$ 3,338	$ 5,471	$ 294	$ 39	$ 38	$ 9,180
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 1,042	$ 2,535	$ –	$ –	$ 163	$ 3,740
Loans collectively evaluated for impairment	505,130	755,256	50,059	12,229	2,117	1,324,791
Ending balance at March 31, 2014	$ 506,172	$ 757,791	$ 50,059	$ 12,229	$ 2,280	$ 1,328,531
Loans individually evaluated for impairment	$ 1,330	$ 4,463	$ –	$ –	$ 163	$ 5,956
Loans collectively evaluated for impairment	479,707	779,447	50,142	12,064	2,127	1,323,487
Ending balance at December 31,	$ 481,037	$ 783,910	$ 50,142	$ 12,064	$ 2,290	$ 1,329,443

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about activity that occurred during the periods presented related to TDRs.

	Three months ended March 31, 2014			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Production and intermediate-term	$ –	$ 482	$ –	$ 482
Total	$ –	$ 482	$ –	$ 482

	Three months ended March 31, 2014				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Production and intermediate-term	$ –	$ 482	$ –	$ 482	$ –
Total	$ –	$ 482	$ –	$ 482	$ –

	Three months ended March 31, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Production and intermediate-term	$ –	463	–	463
Total	$ –	$ 463	$ –	$ 463

	Three months ended March 31, 2013				
	Post-modification Outstanding Recorded Investment				Effects of Modification
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Troubled debt restructurings:					
Production and intermediate-term	$ –	$ 463	$ –	$ 463	$ –
Total	$ –	$ 463	$ –	$ 463	$ –

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

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

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Real estate mortgage	$ 4,739	$ 4,743	$ –	$ –
Production and intermediate-term	7,422	7,612	–	102
Total Loans	$ 12,161	$ 12,355	$ –	$ 102
Additional commitments to lend	$ 30	$ 55		

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

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

	Changes in Accumulated Other Comprehensive income by Component *(a)*			
	Three Months Ended March 31,			
	2014		2013	
Employee Benefit Plans:				
Balance at beginning of period	$	(17,412)	$	(33,354)
Other comprehensive income before reclassifications		–		–
Amounts reclassified from AOCI		249		650
Net current period other comprehensive income		249		650
Balance at end of period	$	(17,163)	$	(32,704)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*				
	Three Months Ended March 31,				
	2014		2013		Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$	(249)	$	(650)	See footnote 6.
Net amounts reclassified	$	(249)	$	(650)	

(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 12.22 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 $66 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. The Association had no Level 2 assets or liabilities measured at fair value.

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	$ 126	$ 239
Issuances	–	–
Settlements	(47)	(21)
Balance at end of period	$ 79	$ 218

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	$ 18,420	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

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

	At or for the 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	$ 79	$ –	$ –	$ 79	$ 79	
Recurring Liabilities	$ 79	$ –	$ –	$ 79	$ 79	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 15,753	$ –	$ –	$ 15,753	$ 15,753	$ 71
Other property owned	2,319	–	–	2,667	2,667	(260)
Nonrecurring Assets	$ 18,072	$ –	$ –	$ 18,420	$ 18,420	$ (189)
Other Financial Instruments						
Assets:						
Cash	$ 4,041	$ 4,041	$ –	$ –	$ 4,041	
Loans	1,292,502	–	–	1,277,458	1,277,458	
Other Financial Assets	$ 1,296,543	$ 4,041	$ –	$ 1,277,458	$ 1,281,499	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,061,052	$ –	$ –	$ 1,048,747	$ 1,048,747	
Other Financial Liabilities	$ 1,061,052	$ –	$ –	$ 1,048,747	$ 1,048,747	

	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	$ 126	$ –	$ –	$ 126	$ 126	
Recurring Liabilities	$ 126	$ –	$ –	$ 126	$ 126	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 17,977	$ –	$ –	$ 17,977	$ 17,977	$ 1,475
Other property owned	1,187	–	–	1,365	1,365	(68)
Nonrecurring Assets	$ 19,164	$ –	$ –	$ 19,342	$ 19,342	$ 1,407
Other Financial Instruments						
Assets:						
Cash	$ 7,757	$ 7,757	$ –	$ –	$ 7,757	
Loans	1,290,155	–	–	1,277,951	1,277,951	
Other Financial Assets	$ 1,297,912	$ 7,757	$ –	$ 1,277,951	$ 1,285,708	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,091,863	$ –	$ –	$ 1,078,880	$ 1,078,880	
Other Financial Liabilities	$ 1,091,863	$ –	$ –	$ 1,078,880	$ 1,078,880	

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 March 31,	
	2014	2013
Pension	$ 560	$ 1,100
401(k)	120	104
Other postretirement benefits	273	266
Total	$ 953	$ 1,470

The following is a table of pension 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	$ –	$ 3,052	$ 3,052
Other postretirement benefits	126	400	526
Total	$ 126	$ 3,452	$ 3,578

Other postretirement benefit contributions in the above table include allocated estimates of funding for a multi-employer plan 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 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 — 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.