
Farm Credit of Central Florida, ACA


SECOND QUARTER 2014

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CERTIFICATION

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


Reginald T. Holt
Chief Executive Officer


D. Scott Fontenot
Chief Financial Officer


John S. Langford
Chairman of the Audit committee

August 7, 2014

Farm Credit of Central Florida, ACA

Report on Internal Control Over Financial Reporting

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

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

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



Reginald T. Holt
Chief Executive Officer



D. Scott Fontenot
Chief Financial Officer

August 7, 2014

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Central Florida, ACA, (Association) for the period ended June 30, 2014. These comments should be read in conjunction with the accompanying financial statements, notes to the financial statements and the 2013 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including horticulture, fruits/vegetables, citrus, and cattle. 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, reduces the level of dependency on a given commodity.

June 30, 2014 compared to December 31, 2013

Loan volume of the Association as of June 30, 2014, was \$367,755, a decrease of \$7,209 as compared to \$374,964 at December 31, 2013. Net loans outstanding at June 30, 2014, were \$360,585 as compared to \$366,869 at December 31, 2013. The Association has investment securities that are classified as held to maturity in the amount of \$35,524 at June 30, 2014, as compared to \$39,511 at December 31, 2013. Net loans and investment securities accounted for 95.69 percent of total assets at June 30, 2014, as compared to 93.90 percent of total assets at December 31, 2013.

The Association's total servicing portfolio has decreased to \$841,763 as compared to \$872,008 at December 31, 2013, due in large part to the annual expiration of seasonal credit lines which should be reactivated over the next few months. The decrease in net loan volume is primarily due to seasonal lending. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between October and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result of this normal seasonal lending activity causes net loan volume to decrease on revolving credit lines.

June 30, 2014 compared to June 30, 2013

Loan volume of the Association as of June 30, 2014, was \$367,755, an increase of \$17,714 as compared to \$350,041 at June 30, 2013. Net loans outstanding at June 30, 2014, were \$360,585 as compared to \$341,022 at June 30, 2013. The Association has investment securities that are classified as held to maturity in the amount of \$35,524 at June 30, 2014, as compared to \$43,656 at June 30, 2013. Net loans and investment securities accounted for 95.69 percent of total assets at June 30, 2014, as compared to 95.46 percent of total assets at June 30, 2013.

The Association's total servicing portfolio has increased to \$841,763 as compared to \$824,251 at June 30, 2013, due to new money closings exceeding run-off and or liquidations. Even with a decrease in nonaccrual assets and investments, servicing volume has maintained positive growth throughout the year.

ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has improved as compared to year end as a result of recent reductions in Substandard-Viable assets. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 90.86% as of June 30, 2014, compared to 88.90% at December 31, 2013 and 86.99% at June 30, 2013. Substandard credit quality was 9.14% as of June 30, 2014, compared to 11.10% at December 31, 2013. The actual substandard asset volume has been reduced by \$8,009 from year-end December 31, 2013. Nonaccrual loan volume was \$7,358 at June 30, 2014, compared to \$8,157 at December 31, 2013 and \$12,084 at June 30, 2013, decreases of \$799 and \$4,726, respectively. The majority of the loan assets in nonaccrual are in the nursery, citrus and cattle industries.

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 June 30, 2014, was \$7,170 compared to \$8,095 at December 31, 2013, and \$9,019 at June 30, 2013, and is considered by management to be adequate to cover possible losses. The allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the possible losses within the entire portfolio. The current allowance for loan loss at June 30, 2014, contains \$3,917 in specific reserves and \$3,253 in general reserves. The following outlines the allowance for loan loss activity as of June 30, 2014.

Allowance for Loan Losses Activity:	YTD 2014
Balance at beginning of period	\$ 8,095
Charge-offs	(502)
Recoveries	37
Provisions/(Reversals)-General	(487)
Provisions/(Reversals)-Specifics	27
Balance at end of period	<u>\$ 7,170</u>

The decrease in allowance for loan losses compared to December 2013 was a direct result of allowance reversals and charge-offs during 2014 within the citrus, cattle and real estate portfolios. The reversals are due to improved asset quality since December 2013. Chargeoffs are funded through the allowance from previous and/or current increases in the provision for loan losses.

RESULTS OF OPERATIONS

For the three months ended June 30, 2014

Net income for the three months ended June 30, 2014, totaled \$2,274, as compared to \$2,312 for the same period in 2013. The decrease of \$38 for the period is associated directly with the decreased loan fees and decreased patronage refunds from other Farm Credit institutions.

Net interest income increased \$87 or 3.24% for the three months ended June 30, 2014, as compared to the same period in 2013. The primary reason for the increase in net interest income is the increase in net loan assets as compared to the same time last year. Net interest income for the three months ending June 30, 2014, is shown in the following table:

Net Interest Income	For the three months ended June 30,			
	2014	2013	\$ change	% change
Investment Interest Income	\$ 171	\$ 216	\$ (45)	(20.83) %
Loan Interest Income	4,176	4,012	164	4.09
Total Interest Income	4,347	4,228	119	2.81
Total Interest Expense	1,578	1,546	32	2.07
Net Interest Income	<u>\$ 2,769</u>	<u>\$ 2,682</u>	<u>\$ 87</u>	<u>3.24 %</u>

Allowance for loan loss activity for the quarter consisted of a \$460 reversal, as compared to a \$434 reversal for the same period last year. Provisions for loan losses for the three months ending June 30, 2014 are shown in the following table:

Provisions/(Reversals) for Loan Losses	For the three months ended June 30,			
	2014	2013	\$ change	% change
General Reserves	\$ (434)	\$ (817)	\$ 383	46.88 %
Specific Reserves	(26)	383	(409)	(106.79)
Total Provisions/(Reversals)	<u>\$ (460)</u>	<u>\$ (434)</u>	<u>\$ (26)</u>	<u>(5.99) %</u>

Noninterest income for the three months ended June 30, 2014, totaled \$1,372, as compared to \$1,869 for the same period of 2013, a decrease of \$497. The decrease is primarily the result of fewer loan fees collected as well as decreased patronage refunds from other Farm Credit institutions. Loan fees decreased from the same period last year due to fewer fees collected on purchased loans as well as large fees generated on lines of credit renewals in 2013 that were not up for renewal in 2014. Patronage refunds from other Farm Credit institutions decreased from the prior year due to lower patronage earnings from the Capitalized Participation Pools as a result of decrease loan volume within the pool. The Association also received a \$257 special patronage payment from AgFirst during the second quarter of 2013, as compared to no special distribution in the second quarter of 2014. Noninterest income for the three months ending June 30, 2014, is shown in the following table:

Noninterest Income	For the three months ended June 30,			
	2014	2013	\$ change	% change
Loan fees	\$ 56	\$ 263	\$ (207)	(78.71)%
Fees for financially related services	45	61	(16)	(26.23)
Patronage refunds from				
other Farm Credit Institutions	1,231	1,516	(285)	(18.80)
Gains (losses) on sales of rural home loans, net	34	27	7	25.93
Gains (losses) on other transactions	5	2	3	150.00
Other noninterest income	1	-	1	100.00
Total noninterest income	<u>\$ 1,372</u>	<u>\$ 1,869</u>	<u>\$ (497)</u>	<u>(26.59)%</u>

Noninterest expense for the three months ended June 30, 2014, decreased \$348 compared to the same period of 2013. The Association booked a \$256 gain on other property owned as opposed to a \$372 loss during the same period in 2013. The gain on sale of other property owned offsets increases in salary and employee benefits, other operating expenses and insurance fund premiums from the same period last year. Salary and employee benefits increased 8.95% due to an increase in employees since the same period last year as well as increased health insurance and retirement costs. Other operating expenses increased \$120 or 31.25% as a result of expenses on nonaccrual loans being expensed as an operating expense during the period as compared to the nonaccrual charges being added back to the actual loan balance during the same period of 2013. Insurance Fund Premium expenses increased due to higher loan volumes coupled with an increase in the premium rate which result in higher premium expenses. The Farm Credit System Insurance Corporation (FCSIC) has set the premium to 12 basis points (compared to 10 basis points during 2013) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. Noninterest expense for the three months ending June 30, 2014 is shown in the following table:

Noninterest Expense	For the three months ended June 30,			
	2014	2013	\$ change	% change
Salary and employee benefits	\$ 1,838	\$ 1,687	\$ 151	8.95 %
Occupancy and equipment	153	158	(5)	(3.16)
Insurance Fund Premium	86	72	14	19.44
(Gains) losses on other				
property owned, net	(256)	372	(628)	(168.82)
Other operating expenses	504	384	120	31.25
Total noninterest expense	\$ 2,325	\$ 2,673	\$ (348)	(13.02) %

For the six months ended June 30, 2014

Net income for the six months ended June 30, 2014, totaled \$4,130 as compared to \$4,426 for the same period in 2013. The decrease of \$296 for the period is associated with decreased non interest income from the same period prior year.

Net interest income increased \$166 or 3.08% for the six months ended June 30, 2014, as compared to the same period in 2013. The primary reason for the increase in net interest income is the increase in net loan assets as compared to the same time last year. Net interest income for the six months ending June 30, 2014 is shown in the following table:

Net Interest Income	For the six months ended June 30,			
	2014	2013	\$ change	% change
Investment Interest Income	\$ 373	\$ 458	\$ (85)	(18.56)%
Loan Interest Income	8,345	8,071	274	3.39
Total Interest Income	8,718	8,529	189	2.22
Total Interest Expense	3,155	3,132	23	0.73
Net Interest Income	\$ 5,563	\$ 5,397	\$ 166	3.08%

The effects of changes in average volume and interest rates on net interest income over the past six months are presented in the following table:

Change in Net Interest Income:

Change in NII	Volume	Rate	Non-accrual	Amortization	Total
	<i>(dollars in thousands)</i>				
	\$ 228	\$ (152)	57	\$ 57	\$ 190

Allowance for loan loss activity consisted of a \$460 reversal, as compared to a \$567 reversal for the same period last year. The reversal was due mostly to the decrease in nonaccrual loan volumes coupled with improved credit quality. Provisions for loan losses for the six months ending June 30, 2013 are shown in the following table:

Provisions for Loan Losses	For the six months ended June 30,			
	2014	2013	\$ change	% change
General Reserves	\$ (487)	\$ (998)	\$ 511	51.20 %
Specific Reserves	27	431	(404)	(93.74)
Total Provisions/(Reversals)	\$ (460)	\$ (567)	\$ 107	18.87 %

Noninterest income for the six months ended June 30, 2014, totaled \$2,849, as compared to \$3,426 for the same period of 2013, a decrease of \$577. The decrease is primarily the result of decreased loan fees as well as decreased patronage refunds from other Farm Credit Institutions. Loan fees decreased from the same period last year due to fewer fees collected on purchased loans as well as large fees generated on lines of credit renewals in 2013 that were not up for renewal in 2014. Patronage refunds from other Farm Credit Institutions decreased from the prior year due to lower patronage earnings from the Capitalized Participation Pools (CPP) as a result of decreased loan volume within the pool. The Association also received a \$257 special patronage payment from AgFirst during the second quarter of 2013, as compared to no special distribution in the second quarter of 2014. Noninterest income for the six months ending June 30, 2014 is shown in the following table:

Noninterest Income	For the six months ended June 30,			
	2014	2013	\$ change	% change
Loan fees	\$ 121	\$ 364	\$ (243)	(66.76) %
Fees for financially related services	45	61	(16)	(26.22)
Patronage refunds from other				
Farm Credit institutions	2,597	2,870	(273)	(9.51)
Gains (losses) on sales of				
rural home loans, net	34	67	(33)	(49.25)
Gains (losses) on other				
transactions	9	7	2	28.57
Other noninterest income	43	57	(14)	(24.56)
Total noninterest income	\$ 2,849	\$ 3,426	\$ (577)	(16.84) %

Noninterest expense for the six months ended June 30, 2014, decreased \$224 compared to the same period of 2013. The primary reason for the decrease was due to a \$256 gain on sale of other property owned as opposed to a \$372 loss in the same period last year. This gain offsets increases to salary and employee benefits, other operating expenses and insurance fund premiums. Salaries and employee benefits increased \$214 during the period due to an increase in employees since the same period last year. Increases of \$76 for health insurance and \$38 for retirement costs also contributed to the increase in salaries and employee benefits. Other operating expenses increased \$165 from the same period last year as a result of expenses on nonaccrual loans being expensed as an operating expense during the period as compared to the nonaccrual charges being added back to the actual loan balance during the same period of 2013. Insurance Fund Premium expenses increased due to the Farm Credit System Insurance Corporation (FCSIC) adjusting the

premium to 12 basis points (compared to 10 basis points during 2013) on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. Noninterest expense for the six months ending June 30, 2014 is shown in the following table:

Noninterest Expense	For the six months ended June 30,			
	2014	2013	\$ change	% change
Salary and employee benefits	\$ 3,446	\$ 3,232	\$ 214	6.62%
Occupancy and equipment	315	320	(5)	(1.56)
Insurance Fund Premium	172	144	28	19.44
(Gains) losses on other				
property owned, net	(205)	421	(626)	(148.69)
Other operating expenses	1,012	847	165	19.48
Total noninterest expense	\$ 4,740	\$ 4,964	\$ (224)	(4.51)%

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2014, was \$319,908 as compared to \$337,140 at December 31, 2013. The decrease is attributable to pay downs on loans received during the normal course of business being greater than borrowings to fund new loan advances.

CAPITAL RESOURCES

Total members' equity at June 30, 2014, increased to \$88,545 from the December 31, 2013, total of \$84,417. The increase is primarily attributed to the increase in unallocated surplus resulting from net income.

Total capital stock and participation certificates were \$879 on June 30, 2014, compared to \$902 on December 31, 2013. This decrease is attributed to the retirement of stock and participation certificates on loans liquidated in the normal course of business.

Farm Credit Administration regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2014, the Association's total surplus ratio and core surplus ratio were 21.62 percent and 18.47 percent, respectively, and the permanent capital ratio was 21.86 percent.

All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

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’s annual and quarterly reports are also available upon request free of charge by calling 1-800-533-2773, or writing D. Scott Fontenot, CFO, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802, or accessing the website, www.farmcreditfl.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit Of Central Florida, ACA

Consolidated Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(audited)</i>
Assets		
Cash	\$ 710	\$ 277
Investment securities:		
Held to maturity (fair value of \$36,317 and \$40,417, respectively)	35,524	39,511
Loans	367,755	374,964
Allowance for loan losses	(7,170)	(8,095)
Net loans	360,585	366,869
Loans held for sale	213	245
Accrued interest receivable	1,899	1,665
Investments in other Farm Credit institutions	7,038	7,303
Premises and equipment, net	764	747
Other property owned	340	1,108
Accounts receivable	3,607	11,381
Other assets	3,274	3,696
Total assets	\$ 413,954	\$ 432,802
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 319,908	\$ 337,140
Accrued interest payable	518	574
Patronage refunds payable	54	3,539
Accounts payable	676	1,508
Other liabilities	4,253	5,624
Total liabilities	325,409	348,385
Members' Equity		
Capital stock and participation certificates	879	902
Retained earnings		
Allocated	34,167	34,167
Unallocated	53,897	49,767
Accumulated other comprehensive income (loss)	(398)	(419)
Total members' equity	88,545	84,417
Total liabilities and members' equity	\$ 413,954	\$ 432,802

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

Farm Credit Of Central Florida, ACA

Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Interest Income				
Loans	\$ 4,176	\$ 4,012	\$ 8,345	\$ 8,071
Investments	171	216	373	458
Total interest income	4,347	4,228	8,718	8,529
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	1,578	1,546	3,155	3,132
Net interest income	2,769	2,682	5,563	5,397
Provision for (reversal of allowance for) loan losses	(460)	(434)	(460)	(567)
Net interest income after provision for (reversal of allowance for) loan losses	3,229	3,116	6,023	5,964
Noninterest Income				
Loan fees	56	263	121	364
Fees for financially related services	45	61	45	61
Patronage refunds from other Farm Credit institutions	1,231	1,516	2,597	2,870
Gains (losses) on sales of rural home loans, net	34	27	34	67
Gains (losses) on other transactions	5	2	9	7
Other noninterest income	1	—	43	57
Total noninterest income	1,372	1,869	2,849	3,426
Noninterest Expense				
Salaries and employee benefits	1,838	1,687	3,446	3,232
Occupancy and equipment	153	158	315	320
Insurance Fund premiums	86	72	172	144
(Gains) losses on other property owned, net	(256)	372	(205)	421
Other operating expenses	504	384	1,012	847
Total noninterest expense	2,325	2,673	4,740	4,964
Income before income taxes	2,276	2,312	4,132	4,426
Provision for income taxes	2	—	2	—
Net income	\$ 2,274	\$ 2,312	\$ 4,130	\$ 4,426

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

Farm Credit Of Central Florida, ACA
Consolidated Statements of
Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Net income	\$ 2,274	\$ 2,312	\$ 4,130	\$ 4,426
Other comprehensive income net of tax				
Employee benefit plans adjustments	11	—	21	—
Comprehensive income	\$ 2,285	\$ 2,312	\$ 4,151	\$ 4,426

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

Farm Credit Of Central Florida, ACA
Consolidated Statements of Changes in
Members' Equity

(unaudited)

<i>(dollars in thousands)</i>	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2012	\$ 1	\$ 952	\$ 34,202	\$ 39,813	\$ (18)	\$ 74,950
Comprehensive income				4,426		4,426
Protected borrower stock issued/(retired), net	(1)					(1)
Capital stock/participation certificates issued/(retired), net		(29)				(29)
Patronage distribution adjustment			(35)	88		53
Balance at June 30, 2013	\$ —	\$ 923	\$ 34,167	\$ 44,327	\$ (18)	\$ 79,399
Balance at December 31, 2013	\$ —	\$ 902	\$ 34,167	\$ 49,767	\$ (419)	\$ 84,417
Comprehensive income				4,130	21	4,151
Capital stock/participation certificates issued/(retired), net		(23)				(23)
Balance at June 30, 2014	\$ —	\$ 879	\$ 34,167	\$ 53,897	\$ (398)	\$ 88,545

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

Farm Credit of Central Florida, ACA

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

(unaudited)

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Recently Issued Accounting Pronouncements

In 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	\$ 154,450	\$ 153,346
Production and intermediate-term	144,531	160,984
Loans to cooperatives	7,462	8,020
Processing and marketing	33,087	26,174
Farm-related business	11,535	9,169
Communication	1,057	734
Energy and water/waste disposal	2,203	2,204
Rural residential real estate	13,430	14,333
Total Loans	\$ 367,755	\$ 374,964

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	\$ —	\$ 39,973	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 39,973
Production and intermediate-term	7,186	174,305	—	—	—	—	7,186	174,305
Loans to cooperatives	—	750	—	—	—	—	—	750
Processing and marketing	30,064	3,154	—	—	—	—	30,064	3,154
Farm-related business	—	4,762	—	—	—	—	—	4,762
Communication	1,060	—	—	—	—	—	1,060	—
Energy and water/waste disposal	2,204	—	—	—	—	—	2,204	—
Total	\$ 40,514	\$ 222,944	\$ —	\$ —	\$ —	\$ —	\$ 40,514	\$ 222,944

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	\$ —	\$ 45,071	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 45,071
Production and intermediate-term	8,441	188,990	—	—	—	—	8,441	188,990
Loans to cooperatives	—	1,285	—	—	—	—	—	1,285
Processing and marketing	19,573	47,459	—	—	—	—	19,573	47,459
Farm-related business	—	4,358	—	—	—	—	—	4,358
Communication	734	—	—	—	—	—	734	—
Energy and water/waste disposal	2,204	—	—	—	—	—	2,204	—
Total	\$ 30,952	\$ 287,163	\$ —	\$ —	\$ —	\$ —	\$ 30,952	\$ 287,163

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	\$ 12,359	\$ 41,199	\$ 100,892	\$ 154,450	
Production and intermediate-term	28,385	70,445	45,701	144,531	
Loans to cooperatives	587	3,538	3,337	7,462	
Processing and marketing	208	18,336	14,543	33,087	
Farm-related business	1,429	6,184	3,922	11,535	
Communication	(3)	1,060	—	1,057	
Energy and water/waste disposal	—	—	2,203	2,203	
Rural residential real estate	1,732	4,874	6,824	13,430	
Total Loans	\$ 44,697	\$ 145,636	\$ 177,422	\$ 367,755	
Percentage	12.15%	39.60%	48.25%	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		June 30, 2014	December 31, 2013
Real estate mortgage:			Farm-related business:		
Acceptable	87.17%	85.05%	Acceptable	85.75%	91.07%
OAEM	2.86	4.32	OAEM	14.25	8.93
Substandard/doubtful/loss	9.97	10.63	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Communication:		
Acceptable	77.99%	75.54%	Acceptable	100.00%	100.00%
OAEM	10.86	10.40	OAEM	—	—
Substandard/doubtful/loss	11.15	14.06	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Loans to cooperatives:			Energy and water/waste disposal:		
Acceptable	96.46%	100.00%	Acceptable	100.00%	100.00%
OAEM	3.54	—	OAEM	—	—
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	—	—
	100.00%	100.00%		100.00%	100.00%
Processing and marketing:			Rural residential real estate:		
Acceptable	92.52%	100.00%	Acceptable	82.04%	76.93%
OAEM	7.48	—	OAEM	2.44	4.37
Substandard/doubtful/loss	—	—	Substandard/doubtful/loss	15.52	18.70
	100.00%	100.00%		100.00%	100.00%
			Total Loans:		
			Acceptable	84.11%	82.28%
			OAEM	6.75	6.62
			Substandard/doubtful/loss	9.14	11.10
				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	\$ 428	\$ 760	\$ 1,188	154,016	\$ 155,204	\$ —
Production and intermediate-term	874	694	1,568	143,638	145,206	—
Loans to cooperatives	—	—	—	7,504	7,504	—
Processing and marketing	—	—	—	33,200	33,200	—
Farm-related business	—	—	—	11,570	11,570	—
Communication	—	—	—	1,058	1,058	—
Energy and water/waste disposal	—	—	—	2,204	2,204	—
Rural residential real estate	240	—	240	13,255	13,495	—
Total	\$ 1,542	\$ 1,454	\$ 2,996	\$ 366,445	\$ 369,441	\$ —

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	\$ 1,095	\$ 3,195	\$ 4,290	\$ 149,676	\$ 153,966	\$ -
Production and intermediate-term	280	776	1,056	160,542	161,598	-
Loans to cooperatives	-	-	-	8,066	8,066	-
Processing and marketing	-	-	-	26,226	26,226	-
Farm-related business	-	-	-	9,217	9,217	-
Communication	-	-	-	734	734	-
Energy and water/waste disposal	-	-	-	2,204	2,204	-
Rural residential real estate	777	346	1,123	13,259	14,382	-
Total	<u>\$ 2,152</u>	<u>\$ 4,317</u>	<u>\$ 6,469</u>	<u>\$ 369,924</u>	<u>\$ 376,393</u>	<u>\$ -</u>

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	\$ 3,416	\$ 4,106
Production and intermediate-term	3,148	3,452
Rural residential real estate	794	599
Total nonaccrual loans	<u>\$ 7,358</u>	<u>\$ 8,157</u>
Accruing restructured loans:		
Real estate mortgage	\$ 6,988	\$ 7,363
Production and intermediate-term	6,362	7,061
Rural residential real estate	702	1,200
Total accruing restructured loans	<u>\$ 14,052</u>	<u>\$ 15,624</u>
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more past due	<u>\$ -</u>	<u>\$ -</u>
Total nonperforming loans	\$ 21,410	\$ 23,781
Other property owned	340	1,108
Total nonperforming assets	<u>\$ 21,750</u>	<u>\$ 24,889</u>
Nonaccrual loans as a percentage of total loans	2.00%	2.18%
Nonperforming assets as a percentage of total loans and other property owned	5.91%	6.62%
Nonperforming assets as a percentage of capital	<u>24.56%</u>	<u>29.48%</u>

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.

	June 30, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 4,735	\$ 3,140
Past due	2,623	5,017
Total	<u>7,358</u>	<u>8,157</u>
Impaired accrual loans:		
Restructured	14,052	15,624
90 days or more past due	-	-
Total	<u>14,052</u>	<u>15,624</u>
Total impaired loans	<u>\$ 21,410</u>	<u>\$ 23,781</u>

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	\$ 8,540	\$ 9,208	\$ 2,165	\$ 8,871	\$ 41	\$ 9,168	\$ 61
Production and intermediate-term	4,958	5,071	1,270	5,150	23	5,323	36
Rural residential real estate	1,495	1,516	482	1,553	7	1,605	11
Total	\$ 14,993	\$ 15,795	\$ 3,917	\$ 15,574	\$ 71	\$ 16,096	\$ 108
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 1,864	\$ 2,059	\$ -	\$ 1,935	\$ 8	\$ 2,000	\$ 14
Production and intermediate-term	4,552	6,017	-	4,728	22	4,887	32
Rural residential real estate	1	74	-	1	-	1	-
Total	\$ 6,417	\$ 8,150	\$ -	\$ 6,664	\$ 30	\$ 6,888	\$ 46
Total impaired loans:							
Real estate mortgage	\$ 10,404	\$ 11,267	\$ 2,165	\$ 10,806	\$ 49	\$ 11,168	\$ 75
Production and intermediate-term	9,510	11,088	1,270	9,878	45	10,210	68
Rural residential real estate	1,496	1,590	482	1,554	7	1,606	11
Total	\$ 21,410	\$ 23,945	\$ 3,917	\$ 22,238	\$ 101	\$ 22,984	\$ 154

	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	\$ 9,731	\$ 10,347	\$ 2,742	\$ 11,505	\$ 102
Production and intermediate-term	4,454	4,594	1,156	5,266	46
Rural residential real estate	1,516	1,538	457	1,793	16
Total	\$ 15,701	\$ 16,479	\$ 4,355	\$ 18,564	\$ 164
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 1,738	\$ 1,854	\$ -	\$ 2,055	\$ 17
Production and intermediate-term	6,059	8,329	-	7,164	64
Rural residential real estate	283	353	-	334	3
Total	\$ 8,080	\$ 10,536	\$ -	\$ 9,553	\$ 84
Total impaired loans:					
Real estate mortgage	\$ 11,469	\$ 12,201	\$ 2,742	\$ 13,560	\$ 119
Production and intermediate-term	10,513	12,923	1,156	12,430	110
Rural residential real estate	1,799	1,891	457	2,127	19
Total	\$ 23,781	\$ 27,015	\$ 4,355	\$ 28,117	\$ 248

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	\$ 3,332	\$ 3,490	\$ 194	\$ 2	\$ –	\$ 689	\$ 7,707
Charge-offs	(114)	–	–	–	–	–	(114)
Recoveries	–	37	–	–	–	–	37
Provision for loan losses	(63)	(300)	4	1	–	(102)	(460)
Balance at June 30, 2014	\$ 3,155	\$ 3,227	\$ 198	\$ 3	\$ –	\$ 587	\$ 7,170
Balance at December 31, 2013	\$ 3,924	\$ 3,398	\$ 154	\$ 2	\$ –	\$ 617	\$ 8,095
Charge-offs	(455)	–	–	–	–	(47)	(502)
Recoveries	–	37	–	–	–	–	37
Provision for loan losses	(314)	(208)	44	1	–	17	(460)
Balance at June 30, 2014	\$ 3,155	\$ 3,227	\$ 198	\$ 3	\$ –	\$ 587	\$ 7,170
Balance at March 31, 2013	\$ 4,796	\$ 4,445	\$ 27	\$ –	\$ –	\$ 1,110	\$ 10,378
Charge-offs	(50)	(888)	–	–	–	–	(938)
Recoveries	–	13	–	–	–	–	13
Provision for loan losses	231	(244)	(15)	–	–	(406)	(434)
Balance at June 30, 2013	\$ 4,977	\$ 3,326	\$ 12	\$ –	\$ –	\$ 704	\$ 9,019
Balance at December 31, 2012	\$ 6,418	\$ 4,016	\$ 18	\$ –	\$ 3	\$ 1,171	\$ 11,626
Charge-offs	(1,058)	(995)	–	–	–	(1)	(2,054)
Recoveries	–	14	–	–	–	–	14
Provision for loan losses	(383)	291	(6)	–	(3)	(466)	(567)
Balance at June 30, 2013	\$ 4,977	\$ 3,326	\$ 12	\$ –	\$ –	\$ 704	\$ 9,019
Loans individually evaluated for impairment	\$ 2,165	\$ 1,270	\$ –	\$ –	\$ –	\$ 482	\$ 3,917
Loans collectively evaluated for impairment	990	1,957	198	3	–	105	3,253
Balance at June 30, 2014	\$ 3,155	\$ 3,227	\$ 198	\$ 3	\$ –	\$ 587	\$ 7,170
Loans individually evaluated for impairment	\$ 2,742	\$ 1,156	\$ –	\$ –	\$ –	\$ 457	\$ 4,355
Loans collectively evaluated for impairment	1,182	2,242	154	2	–	160	3,740
Balance at December 31, 2013	\$ 3,924	\$ 3,398	\$ 154	\$ 2	\$ –	\$ 617	\$ 8,095
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	\$ 10,429	\$ 10,042	\$ –	\$ –	\$ –	\$ 1,498	\$ 21,969
Loans collectively evaluated for impairment	144,775	135,164	52,274	1,058	2,204	11,997	347,472
Ending balance at June 30, 2014	\$ 155,204	\$ 145,206	\$ 52,274	\$ 1,058	\$ 2,204	\$ 13,495	\$ 369,441
Loans individually evaluated for impairment	\$ 11,481	\$ 11,157	\$ –	\$ –	\$ –	\$ 1,799	\$ 24,437
Loans collectively evaluated for impairment	142,485	150,441	43,509	734	2,204	12,583	351,956
Ending balance at December 31, 2013	\$ 153,966	\$ 161,598	\$ 43,509	\$ 734	\$ 2,204	\$ 14,382	\$ 376,393

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no TDRs that occurred during the three or six month periods ended June 30, 2014.

	Three months ended June 30, 2013				
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding					
Recorded Investment					
Real estate mortgage	\$ –	\$ 138	\$ 649	\$ 787	
Production and intermediate-term	–	1,873	–	1,873	
Total	\$ –	\$ 2,011	\$ 649	\$ 2,660	
Post-modification Outstanding					
Recorded Investment					
Real estate mortgage	\$ –	\$ 138	\$ 647	\$ 785	\$ –
Production and intermediate-term	–	1,888	–	1,888	(887)
Total	\$ –	\$ 2,026	\$ 647	\$ 2,673	\$ (887)

Six months ended June 30, 2013					
	Interest Concessions	Principal Concessions	Other Concessions	Total	Charge-offs
Pre-modification Outstanding Recorded Investment					
Real estate mortgage	\$ -	\$ 138	\$ 649	\$ 787	
Production and intermediate-term	-	1,873	-	1,873	
Total	\$ -	\$ 2,011	\$ 649	\$ 2,660	
Post-modification Outstanding Recorded Investment					
Real estate mortgage	\$ -	\$ 138	\$ 647	\$ 785	\$ -
Production and intermediate-term	-	1,888	-	1,888	(887)
Total	\$ -	\$ 2,026	\$ 647	\$ 2,673	\$ (887)

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
Real estate mortgage	\$ 40	\$ -	\$ 80	\$ -
Production and intermediate-term	-	-	191	-
Total	\$ 40	\$ -	\$ 271	\$ -

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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Real estate mortgage	\$ 9,715	\$ 10,375	\$ 2,727	\$ 3,012
Production and intermediate-term	8,353	9,316	1,991	2,255
Rural residential real estate	1,377	1,376	675	176
Total Loans	\$ 19,445	\$ 21,067	\$ 5,393	\$ 5,443
Additional commitments to lend	\$ -	\$ -		

Note 3 — Investment Securities

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	June 30, 2014				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset-backed securities	\$ 35,524	\$ 829	\$ (36)	\$ 36,317	2.04%

	December 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset-backed securities	\$ 39,511	\$ 954	\$ (48)	\$ 40,417	2.07%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

	June 30, 2014		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	\$ 127	\$ 126	4.34%
After one year through five years	25,365	25,888	2.04
After five years through ten years	4,026	4,113	1.91
After ten years	6,006	6,190	2.08
Total	\$ 35,524	\$ 36,317	2.04%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for

an investment is measured from the date the impairment was first identified.

	June 30, 2014			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ 649	\$ (4)	\$ 1,356	\$ (32)

	December 31, 2013			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	\$ 932	\$ (11)	\$ 1,231	\$ (37)

FASB guidance contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

Note 4 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 5 — Members' Equity

Accumulated Other Comprehensive Income (AOCI)

The following tables present activity related to AOCI for 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	\$ (409)	\$ (18)	\$ (419)	\$ (18)
Other comprehensive income before reclassifications	—	—	—	—
Amounts reclassified from AOCI	11	—	21	—
Net current period other comprehensive income	11	—	21	—
Balance at end of period	\$ (398)	\$ (18)	\$ (398)	\$ (18)

	Reclassifications Out of Accumulated Other Comprehensive Income (b)				Income Statement Line Item
	For the three months ended June 30,		For the six months ended June 30,		
	2014	2013	2014	2013	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ (11)	\$ —	\$ (21)	\$ —	See Note 7.
Net amounts reclassified	\$ (11)	\$ —	\$ (21)	\$ —	

(a) Amounts in parentheses indicate debits to AOCI.

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

Note 6 — Fair Value Measurement

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 2.67 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 \$308 related to other Farm Credit institutions.

The classifications within the fair value hierarchy are as follows:

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

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

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

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

The following 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	\$ 40	\$ 48
Issuances	—	13
Settlements	(10)	—
Balance at end of period	\$ 30	\$ 61

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

The fair values of predominantly all Level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These Level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these Level 3 assets.

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

Quoted market prices are generally not available for the instruments presented below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	\$ 17,874	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
Investment securities, held-to-maturity	Vendor priced	
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.

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	\$ 260	\$ 260	\$ -	\$ -	\$ 260		
Recurring Assets	\$ 260	\$ 260	\$ -	\$ -	\$ 260		
Liabilities:							
Standby letters of credit	\$ 30	\$ -	\$ -	\$ 30	\$ 30		
Recurring Liabilities	\$ 30	\$ -	\$ -	\$ 30	\$ 30		
Nonrecurring Measurements							
Assets:							
Impaired loans	\$ 17,493	\$ -	\$ -	\$ 17,493	\$ 17,493	\$	(27)
Other property owned	340	-	-	381	381		273
Nonrecurring Assets	\$ 17,833	\$ -	\$ -	\$ 17,874	\$ 17,874	\$	246
Other Financial Instruments							
Assets:							
Cash	\$ 710	\$ 710	\$ -	\$ -	\$ 710		
Investment securities, held-to-maturity	35,524	-	36,317	-	36,317		
Loans	343,305	-	-	341,327	341,327		
Other Financial Assets	\$ 379,539	\$ 710	\$ 36,317	\$ 341,327	\$ 378,354		
Liabilities:							
Notes payable to AgFirst Farm Credit Bank	\$ 319,908	\$ -	\$ -	\$ 317,384	\$ 317,384		
Other Financial Liabilities	\$ 319,908	\$ -	\$ -	\$ 317,384	\$ 317,384		

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	\$ 175	\$ 175	\$ -	\$ -	\$ 175		
Recurring Assets	\$ 175	\$ 175	\$ -	\$ -	\$ 175		
Liabilities:							
Standby letters of credit	\$ 40	\$ -	\$ -	\$ 40	\$ 40		
Recurring Liabilities	\$ 40	\$ -	\$ -	\$ 40	\$ 40		
Nonrecurring Measurements							
Assets:							
Impaired loans	\$ 19,426	\$ -	\$ -	\$ 19,426	\$ 19,426	\$	217
Other property owned	1,108	-	-	1,219	1,219		(429)
Nonrecurring Assets	\$ 20,534	\$ -	\$ -	\$ 20,645	\$ 20,645	\$	(212)
Other Financial Instruments							
Assets:							
Cash	\$ 277	\$ 277	\$ -	\$ -	\$ 277		
Investment securities, held-to-maturity	39,511	-	40,417	-	40,417		
Loans	347,688	-	-	345,246	345,246		
Other Financial Assets	\$ 387,476	\$ 277	\$ 40,417	\$ 345,246	\$ 385,940		
Liabilities:							
Notes payable to AgFirst Farm Credit Bank	\$ 337,140	\$ -	\$ -	\$ 332,272	\$ 332,272		
Other Financial Liabilities	\$ 337,140	\$ -	\$ -	\$ 332,272	\$ 332,272		

Note 7 — Employee Benefit Plans

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

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
Pension	\$ 303	\$ 285	\$ 606	\$ 571
401(k)	45	43	115	101
Other postretirement benefits	50	46	100	91
Total	\$ 398	\$ 374	\$ 821	\$ 763

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	\$ 11	\$ 896	\$ 907
Other postretirement benefits	81	91	172
Total	\$ 92	\$ 987	\$ 1,079

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

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

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

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

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

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

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

Note 8 — Commitments and Contingent Liabilities

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

Note 9 — Subsequent Events

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