Farm Credit of Northwest 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 Northwest Florida, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Ricky K. Bitner
Chief Executive Officer

John P. Mottice
Chief Financial Officer

Richard Terry
Chairman of the Board

August 7, 2014

Farm Credit of Northwest Florida, ACA

Report on Internal Control Over Financial Reporting

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

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

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

Ricky K Bitner

Ricky Bitner
Chief Executive Officer

John P. Mottice
Chief Financial Officer

August 7, 2014

Farm Credit of Northwest Florida, ACA

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Farm Credit of Northwest Florida, ACA (the Association) for the period ending June 30, 2014. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2013 Annual Report of the Association.

LOAN PORTFOLIO

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

The gross loan volume of the Association as of June 30, 2014, was $267,872, a decrease of $5,268 as compared to $273,140 at December 31, 2013. Net loans outstanding, gross loans net of the allowance for loan losses, at June 30, 2014, were $261,933 as compared to $267,300 at December 31, 2013. Net loans accounted for 94.35 percent of total assets at June 30, 2014, as compared to 91.93 percent of total assets at December 31, 2013. The reduction in loan volume was due to normal principal payments and seasonal pay downs on operating lines of credit, early prepayments of several large loans, and a further reduction in nonaccrual loans, partially offset by new loan activity.

Portfolio credit quality has improved due to management efforts to work through problem loans and the general improvement in the overall economic environment. Nonaccrual loans were $10,411 at June 30, 2014, a decrease of $1,934 from $12,345 at December 31, 2013.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2014 was $5,939 as compared to $5,840 at December 31, 2013, an increase of $99. This increase reflected recoveries of $224, offset by charge-offs of $125.The allowance for loan losses at June 30, 2014 was considered by management to be adequate to cover possible losses. The allowance represented 2.22 percent of gross loan volume as of June 30, 2014.

Other property owned (OPO) was $6,102 as of June 30, 2014 as compared to $9,123 at December 31, 2013. This net decrease of $3,021 was due to acquisitions of $507, sales of $3,476, and write downs of $52.

Accounts receivable decreased to $1,324 as of June 30, 2014 as compared to $5,341 as of December 31, 2013. Accounts receivable consists of general receivables, as well as patronage receivables from AgFirst Farm Credit Bank (AgFirst) and other Farm Credit institutions. The decrease of $4,017 was due primarily to the fact that patronage receivables at December 31, 2013 included four quarters of accrued patronage and accrued special patronage from AgFirst, as compared to two quarters of accrued patronage at June 30, 2014.

RESULTS OF OPERATIONS

For the three months ending June 30, 2014

Net income for the three months ending June 30, 2014, totaled $861, as compared to net income of $723 for the same period in 2013, an increase of $138. Components of the increase in net income are discussed further in the following paragraphs.

For the three months ending June 30, 2014, interest income decreased by $165 or 5.13 percent compared to the same period ending June 30, 2013. For the three months ending June 30, 2014 interest expense decreased by $152 or 13.09 percent, compared to the period ending June 30, 2013. The result was a decrease in net interest income of $13 compared to the period ending June 30, 2013.

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

Noninterest income for the three months ending June 30, 2014 totaled $595, as compared to $711 for the same period of 2013, a decrease of $116. This decrease in noninterest income reflected a decrease in patronage from AgFirst and other Farm Credit institutions of $190, an increase in fee income of $13 and an increase in gains on the sale of rural home loans and other income of $61.

Noninterest expense for the three months ending June 30, 2014 totaled $1,779, as compared to $2,046 for the same period of 2013, a decrease of $267. This decrease was due to decreases in salaries and benefits, occupancy and equipment, other operating expenses and losses on OPO, partially offset by an increase in insurance fund premiums.

For the six months ending June 30, 2014

Net income for the six months ending June 30, 2014, totaled $1,865 as compared to net income of $1,743 for the same period in 2013, an increase in net income of $122.

For the six months ending June 30, 2014, interest income decreased by $101 or 1.60 percent compared to the same period ending June 30, 2013. For the six months ending June 30, 2014 interest expense decreased by $328 or 13.98 percent, compared to the period ending June 30, 2013. The result was an increase in net interest income before provision for loan loss of $227 compared to the period ending June 30, 2013. The net increase of $227 reflected an increase of $43 related to interest rates and an increase of $184 related to volume.

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

Noninterest income for the six months ending June 30, 2014, totaled $1,171, as compared to $1,221 for the same period of 2013, a decrease of $50. This decrease in noninterest income was due to a decrease in patronage refunds from other Farm Credit institutions, partially offset by increases in loan fees, gains on sales, and other income.

CAPITAL RESOURCES

Total members' equity at June 30, 2014 increased $1,824 to $82,427 from the December 31, 2013 total of $80,603. Total capital stock and participation certificates were $817 as of June 30, 2014, a decrease of $33 compared to $850 at December 31, 2013.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2014 the Association's permanent capital ratio was 28.22 percent and the total surplus ratio and core surplus ratio were 27.92 percent and 26.47 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for the permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

On April 20, 2011 the Farm Credit Administration (FCA) entered into a supervisory agreement with the Board of Directors (the Board) of the Association. The previous supervisory agreement between the FCA and the Association, dated April 6, 2010, was terminated by the April 20, 2011 agreement. The supervisory agreement dated April 20, 2011 requires the Association to take corrective actions with respect to certain areas of its operations, including board operations, director fiduciary duties, board consultant functions, nominating committee assistance, strategic and business planning, staffing, internal controls, asset quality, loan portfolio management, allowance for loan loss, collateral risk, capital, earnings and liquidity.

Conditions and events that led to the need for this agreement include rapid growth between 2003-2007, deterioration of loan quality, liberal loan structures, lack of oversight to credit policies and procedures, lack of sufficient staff training, high staff turnover and lack of diversification in the portfolio (concentration in real estate lending).

On June 19, 2014, FCA communicated to the Board its conclusions from onsite examination activity during the week of April 21, 2014. FCA noted the Association was in full or substantial compliance with each of the articles of the supervisory agreement. FCA stated that Board and management actions have led to overall improved Association performance, although continued progress is needed, particularly in the area of asset quality, which remained unsatisfactory due to the high level of adversely classified and nonearning assets.

As required by the supervisory agreement, the Board has engaged and will continue to engage an independent board consultant to advise and counsel the Board in fulfilling its fiduciary responsibilities and to perform other functions as specified in the agreement. The Board has worked closely with the board consultant to improve board operations and governance by updating board committee charters, implementing regular training for directors, strengthening the standards of conduct program, and overseeing the director nominating committee process. Under the direction of the Board, the Association has revised the standards of conduct policy and procedures and appointed a member of senior management to serve as the standards of conduct official. Asset quality is improving as the Association builds new loan volume and continues to decrease levels of nonaccrual loans and net acquired property. All new loan volume is of "Acceptable" quality in accordance with the supervisory agreement. Both the Board and senior management are committed to achieving full compliance with the supervisory agreement and ensuring that the Association remains compliant with all FCA regulations.

The Association has made progress in complying with the supervisory agreement as noted above. However, the Association remains under special supervision as of the date of this report.

Other Matters

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

On 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 850-526-4910 ext. 118, or writing John P. Mottice, Chief Financial Officer, Farm Credit of Northwest Florida, ACA, P.O. Box 7000, Marianna, FL 32447, or accessing the website, *www.farmcredit-fl.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of Northwest Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	June 30, 2014	December 31, 2013
	(unaudited)	*(audited)*
Assets		
Loans	267,872	273,140
Allowance for loan losses	(5,939)	(5,840)
Net loans	261,933	267,300
Loans held for sale	240	—
Accrued interest receivable	1,489	1,879
Investments in other Farm Credit institutions	3,851	4,148
Premises and equipment, net	1,292	1,361
Other property owned	6,102	9,123
Accounts receivable	1,324	5,341
Other assets	1,378	1,627
Total assets	$ 277,609	$ 290,779
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 192,380	$ 205,163
Accrued interest payable	343	405
Patronage refunds payable	25	2,023
Accounts payable	409	647
Other liabilities	2,025	1,938
Total liabilities	195,182	210,176
Commitments and contingencies		
Members' Equity		
Protected borrower stock	1	2
Capital stock and participation certificates	816	848
Retained earnings		
Allocated	56,235	56,243
Unallocated	25,375	23,510
Total members' equity	82,427	80,603
Total liabilities and members' equity	$ 277,609	$ 290,779

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended June 30, 2014	For the three months ended June 30, 2013	For the six months ended June 30, 2014	For the six months ended June 30, 2013
Interest Income				
Loans	$ 3,054	$ 3,219	$ 6,208	$ 6,309
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	1,009	1,161	2,018	2,346
Net interest income	2,045	2,058	4,190	3,963
Provision for (reversal of allowance for) loan losses	—	—	—	(350)
Net interest income after provision for (reversal of allowance for) loan losses	2,045	2,058	4,190	4,313
Noninterest Income				
Loan fees	57	44	109	83
Patronage refunds from other Farm Credit institutions	474	664	975	1,128
Gains (losses) on sales of rural home loans, net	27	3	34	10
Gains (losses) on sales of premises and equipment, net	—	—	16	—
Other noninterest income	37	—	37	—
Total noninterest income	595	711	1,171	1,221
Noninterest Expense				
Salaries and employee benefits	1,010	1,121	2,079	2,216
Occupancy and equipment	65	75	141	153
Insurance Fund premiums	59	55	118	109
(Gains) losses on other property owned, net	225	288	285	403
Other operating expenses	420	507	873	910
Total noninterest expense	1,779	2,046	3,496	3,791
Net income	861	723	1,865	1,743
Other comprehensive income	—	—	—	—
Comprehensive income	$ 861	$ 723	$ 1,865	$ 1,743

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

Farm Credit of Northwest Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2012	$ 4	$ 897	$ 51,622	$ 25,290	$ 77,813
Comprehensive income				1,743	1,743
Protected borrower stock issued/(retired), net	(1)				(1)
Capital stock/participation certificates issued/(retired), net		(82)			(82)
Nonqualified allocated retained earnings			5,980	(5,980)	—
Retained earnings retired			(1,316)		(1,316)
Balance at June 30, 2013	$ 3	$ 815	$ 56,286	$ 21,053	$ 78,157
Balance at December 31, 2013	$ 2	$ 848	$ 56,243	$ 23,510	$ 80,603
Comprehensive income				1,865	1,865
Protected borrower stock issued/(retired), net	(1)				(1)
Capital stock/participation certificates issued/(retired), net		(32)			(32)
Retained earnings retired			(8)		(8)
Balance at June 30, 2014	$ 1	$ 816	$ 56,235	$ 25,375	$ 82,427

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

Farm Credit of Northwest Florida, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

The accompanying financial statements include the accounts of Farm Credit of Northwest Florida, ACA (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	$ 174,333	$ 183,600
Production and intermediate-term	77,070	76,402
Loans to cooperatives	10	11
Processing and marketing	11,632	8,493
Farm-related business	64	72
Communication	1,343	1,381
Rural residential real estate	3,420	3,181
Total Loans	$ 267,872	$ 273,140

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

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

	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	$ 478	$ 62,440	$ –	$ 2,554	$ 248	$ –	$ 726	$ 64,994
Production and intermediate-term	2,293	12,130	–	–	3,000	2,186	5,293	14,316
Processing and marketing	11,608	–	–	–	–	–	11,608	–
Communication	1,343	–	–	–	–	–	1,343	–
Total	$ 15,722	$ 74,570	$ –	$ 2,554	$ 3,248	$ 2,186	$ 18,970	$ 79,310

	December 31, 2013							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 71,951	$ –	$ 3,715	$ 252	$ –	$ 252	$ 75,666
Production and intermediate-term	844	9,296	–	–	3,001	2,224	3,845	11,520
Processing and marketing	8,459	–	–	–	–	–	8,459	–
Farm-related business	–	–	–	–	–	–	–	–
Communication	1,380	–	–	–	–	–	1,380	–
Total	$ 10,683	$ 81,247	$ –	$ 3,715	$ 3,253	$ 2,224	$ 13,936	$ 87,186

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

	June 30, 2014			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 6,759	$ 57,393	$ 110,181	$ 174,333
Production and intermediate-term	24,748	42,369	9,953	77,070
Loans to cooperatives	–	10	–	10
Processing and marketing	(10)	8,644	2,998	11,632
Farm-related business	–	(2)	66	64
Communication	–	1,343	–	1,343
Rural residential real estate	726	719	1,975	3,420
Total Loans	$ 32,223	$ 110,476	$ 125,173	$ 267,872
Percentage	12.03%	41.24%	46.73%	100.00%

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

	June 30, 2014	December 31, 2013
Real estate mortgage:		
Acceptable	86.42%	85.69%
OAEM	7.00	5.11
Substandard/doubtful/loss	6.58	9.20
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	68.21%	61.43%
OAEM	7.67	4.13
Substandard/doubtful/loss	24.12	34.44
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	–%	–%
OAEM	–	–
Substandard/doubtful/loss	100.00	100.00
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	June 30, 2014	December 31, 2013
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	80.43%	80.03%
OAEM	1.69	0.53
Substandard/doubtful/loss	17.88	19.44
	100.00%	100.00%
Total Loans:		
Acceptable	81.77%	79.36%
OAEM	6.78	4.60
Substandard/doubtful/loss	11.45	16.04
	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	$ 1,257	$ 627	$ 1,884	$ 173,494	$ 175,378	$ –
Production and intermediate-term	167	8,001	8,168	69,303	77,471	–
Loans to cooperatives	–	–	–	10	10	–
Processing and marketing	–	(10)	(10)	11,673	11,663	–
Farm-related business	–	–	–	64	64	–
Communication	–	–	–	1,343	1,343	–
Rural residential real estate	52	522	574	2,858	3,432	–
Total	$ 1,476	$ 9,140	$ 10,616	$ 258,745	$ 269,361	$ –

	December 31, 2013					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 443	$ 699	$ 1,142	$ 183,825	$ 184,967	$ –
Production and intermediate-term	2,216	8,247	10,463	66,405	76,868	186
Loans to cooperatives	–	–	–	11	11	–
Processing and marketing	–	(10)	(10)	8,539	8,529	–
Farm-related business	–	–	–	73	73	–
Communication	–	–	–	1,381	1,381	–
Rural residential real estate	43	606	649	2,541	3,190	–
Total	$ 2,702	$ 9,542	$ 12,244	$ 262,775	$ 275,019	$ 186

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

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

	June 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	$ 1,141	$ 2,248
Production and intermediate-term	8,680	9,502
Processing and marketing	(10)	(10)
Farm-related business	–	–
Rural residential real estate	600	605
Total nonaccrual loans	$ 10,411	$ 12,345
Accruing restructured loans:		
Real estate mortgage	$ 191	$ 583
Production and intermediate-term	4,281	4,365
Rural residential real estate	-	–
Total accruing restructured loans	$ 4,472	$ 4,948
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	186
Total accruing loans 90 days or more past due	$ –	$ 186
Total nonperforming loans	$ 14,883	$ 17,479
Other property owned	6,102	9,123
Total nonperforming assets	$ 20,985	$ 26,602
Nonaccrual loans as a percentage of total loans	3.89%	4.52%
Nonperforming assets as a percentage of total loans and other property owned	7.66%	9.42%
Nonperforming assets as a percentage of capital	25.46%	33.00%

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

	June 30, 2014	December 31, 2013
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,271	$ 2,739
Past due	9,140	9,606
Total impaired nonaccrual loans	10,411	12,345
Impaired accrual loans:		
Restructured	4,472	4,948
90 days or more past due	–	186
Total impaired accrual loans	4,472	5,134
Total impaired loans	$ 14,883	$ 17,479

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	$ 777	$ 938	$ 44	$ 795	$ –	$ 837	$ 5
Production and intermediate-term	4,190	4,689	595	4,286	3	4,517	30
Processing and marketing	–	–	–	–	–	–	–
Rural residential real estate	554	553	450	567	–	598	4
Total	$ 5,521	$ 6,180	$ 1,089	$ 5,648	$ 3	$ 5,952	$ 39
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 555	$ 563	$ –	$ 568	$ 1	$ 599	$ 5
Production and intermediate-term	8,771	9,186	–	8,972	4	9,454	62
Processing and marketing	(10)	1,228	–	(10)	–	(11)	–
Rural residential real estate	46	46	–	47	–	49	–
Total	$ 9,362	$ 11,023	$ –	$ 9,577	$ 5	$ 10,091	$ 67
Total impaired loans:							
Real estate mortgage	$ 1,332	$ 1,501	$ 44	$ 1,363	$ 1	$ 1,436	$ 10
Production and intermediate-term	12,961	13,875	595	13,258	7	13,971	92
Processing and marketing	(10)	1,228	–	(10)	–	(11)	–
Rural residential real estate	600	599	450	614	–	647	4
Total	$ 14,883	$ 17,203	$ 1,089	$ 15,225	$ 8	$ 16,043	$ 106

	December 31, 2013			Year Ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 913	$ 1,168	$ 178	$ 1,065	$ 76
Production and intermediate-term	4,064	4,573	436	4,739	341
Rural residential real estate	559	554	426	653	47
Total	$ 5,536	$ 6,295	$ 1,040	6,457	464
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 1,919	$ 2,059	$ –	$ 2,238	$ 161
Production and intermediate-term	9,988	10,667	–	11,654	838
Processing and marketing	(10)	1,228	–	(12)	(1)
Farm-related business	–	–	–	–	–
Rural residential real estate	46	299	–	53	4
Total	$ 11,943	$ 14,253	–	$ 13,933	1,002
Total impaired loans:					
Real estate mortgage	$ 2,832	$ 3,227	$ 178	$ 3,303	$ 237
Production and intermediate-term	14,052	15,240	436	16,393	1,179
Processing and marketing	(10)	1,228	–	(12)	(1)
Farm-related business	–	–	–	–	–
Rural residential real estate	605	853	426	706	51
Total	$ 17,479	$ 20,548	$ 1,040	20,390	1,466

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

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

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at March 31, 2014	$ 3,545	$ 1,600	$ 175	$ 26	$ 476	$ 5,822
Charge-offs	–	–	–	–	–	–
Recoveries	74	17	–	–	26	117
Provision for loan losses	(365)	325	41	(1)	–	–
Balance at June 30, 2014	$ 3,254	$ 1,942	$ 216	$ 25	$ 502	$ 5,939
Balance at December 31, 2013	$ 3,457	$ 1,732	$ 153	$ 25	$ 473	$ 5,840
Charge-offs	–	(125)	–	–	–	(125)
Recoveries	143	17	33	–	31	224
Provision for loan losses	(346)	318	30	–	(2)	–
Balance at June 30, 2014	$ 3,254	$ 1,942	$ 216	$ 25	$ 502	$ 5,939
Balance at March 31, 2013	$ 3,003	$ 1,389	$ 84	$ 20	$ 63	$ 4,559
Charge-offs	(118)	(106)	(3)	–	(13)	(240)
Recoveries	382	308	–	–	–	690
Provision for loan losses	(642)	193	38	(2)	413	–
Balance at June 30, 2013	$ 2,625	$ 1,784	$ 119	$ 18	$ 463	$ 5,009
Balance at December 31, 2012	$ 2,853	$ 1,564	$ 54	$ 20	$ 58	$ 4,549
Charge-offs	(221)	(427)	(3)	–	(28)	(679)
Recoveries	1,030	311	–	–	148	1,489
Provision for loan losses	(1,037)	336	68	(2)	285	(350)
Balance at June 30, 2013	$ 2,625	$ 1,784	$ 119	$ 18	$ 463	$ 5,009
Loans individually evaluated for impairment	$ 44	$ 595	$ –	$ –	$ 450	$ 1,089
Loans collectively evaluated for impairment	3,210	1,347	216	25	52	4,850
Balance at June 30, 2014	$ 3,254	$ 1,942	$ 216	$ 25	$ 502	$ 5,939
Loans individually evaluated for impairment	$ 178	$ 436	$ –	$ –	$ 426	$ 1,040
Loans collectively evaluated for impairment	3,279	1,296	153	25	47	4,800
Balance at December 31, 2013	$ 3,457	$ 1,732	$ 153	$ 25	$ 473	$ 5,840
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 1,141	$ 8,680	$ (10)	$ –	$ 600	$ 10,411
Loans collectively evaluated for impairment	174,237	68,791	11,747	1,343	2,832	258,950
Ending balance at June 30, 2014	$ 175,378	$ 77,471	$ 11,737	$ 1,343	$ 3,432	$ 269,361
Loans individually evaluated for impairment	$ 2,248	$ 9,502	$ (10)	$ –	$ 605	$ 12,345
Loans collectively evaluated for impairment	182,719	67,366	8,623	1,381	2,585	262,674
Ending balance at December 31, 2013	$ 184,967	$ 76,868	$ 8,613	$ 1,381	$ 3,190	$ 275,019

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

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

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

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

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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Real estate mortgage	$ 191	$ 584	$ –	$ –
Production and intermediate-term	4,892	4,987	611	623
Processing and marketing	–	–	–	–
Farm-related business	–	–	–	–
Rural residential real estate	477	477	477	477
Total Loans	$ 5,560	$ 6,048	$ 1,088	$ 1,100
Additional commitments to lend	$ –	$ –		

Note 3 — Debt

Notes Payable to AgFirst Farm Credit Bank

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

Note 4 — Fair Value Measurement

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 1.38 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 $386 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	$ 2	$ –
Issuances	3	–
Settlements	–	–
Balance at end of period	$ 5	$ –

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

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	$ 20,264	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 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:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Standby letters of credit	$ 5	$ –	$ –	$ 5	$ 5	
Recurring Liabilities	$ 5	$ –	$ –	$ 5	$ 5	
Non recurring Measurements						
Assets:						
Impaired loans	$ 13,794	$ –	$ –	$ 13,794	$ 13,794	$ 50
Other property owned	6,102	–	$ –	6,470	6,470	(340)
Nonrecurring Assets	$ 19,896	$ –	$ –	$ 20,264	$ 20,264	$ (290)
Other Financial Instruments						
Assets:						
Cash	$ –	$ –	$ –	$ –	$ –	
Loans	248,379	–	–	246,675	246,675	
Other Financial Assets	$ 248,379	$ –	$ –	$ 246,675	$ 246,675	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 192,380	$ –	$ –	$ 190,990	$ 190,990	
Other Financial Liabilities	$ 192,380	$ –	$ –	$ 190,990	$ 190,990	

	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	$ 2	$ –	$ –	$ 2	$ 2	
Recurring Liabilities	$ 2	$ –	$ –	$ 2	$ 2	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 16,439	$ –	$ –	$ 16,439	$ 16,439	$ 1,064
Other property owned	9,123	–	–	10,673	10,673	(1,089)
Nonrecurring Assets	$ 25,562	$ –	$ –	$ 27,112	$ 27,112	$ (25)
Other Financial Instruments						
Assets:						
Cash	$ –	$ –	$ –	$ –	$ –	
Loans	250,861	–	–	248,774	248,774	
Other Financial Assets	$ 250,861	$ –	$ –	$ 248,774	$ 248,774	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 205,163	$ –	$ –	$ 202,744	$ 202,744	
Other Financial Liabilities	$ 205,163	$ –	$ –	$ 202,744	$ 202,744	

Note 5 — 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	$ 165	$ 166	$ 330	$ 333
401(k)	38	36	68	65
Other postretirement benefits	27	28	55	55
Total	$ 230	$ 230	$ 453	$ 453

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	$ –	$ 522	$ 522
Other postretirement benefits	63	71	134
Total	$ 63	$ 593	$ 656

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's

Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2014.

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

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

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

The above changes are expected to become officially executed plan amendments in November 2014. The Cash Balance Plan will not be terminated on January 1, 2015, but is expected to be terminated in 2015 or 2016 once all necessary actions have been performed and approvals obtained. Participants in the Cash Balance Plan will continue to receive employer contributions to their hypothetical cash balance accounts through the end of 2014, at which time contributions will cease. Participants will continue receiving interest credits on the same basis as currently being provided until the Cash Balance Plan is terminated. Participants who are not already fully vested in their accounts will automatically become 100% 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 6 — Commitments and Contingent Liabilities

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

Note 7 — Regulatory Enforcement Matters

On April 20, 2011 the Farm Credit Administration (FCA) entered into a supervisory agreement with the Board of Directors of the Association. The previous supervisory agreement between the FCA and the Association, dated April 6, 2010, was terminated by the April 20, 2011 agreement. The supervisory agreement dated April 20, 2011 requires the Association to take corrective actions with respect to certain areas of its operations, including board operations, director fiduciary duties, board consultant functions, nominating committee assistance, strategic and business planning, staffing, internal controls, asset quality, loan portfolio management, allowance for loan loss, collateral risk, capital, earnings and liquidity.

See further discussion of the supervisory agreement in the "Regulatory Matters" section of Management's Discussion and Analysis of Financial Condition and Results of Operation contained in this Quarterly Report.

Note 8 — 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.