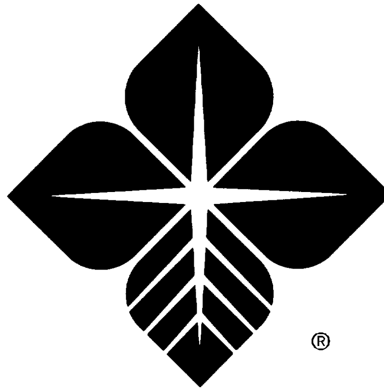
LOUISIANA LAND BANK, ACA

2013
Quarterly Report
Second Quarter



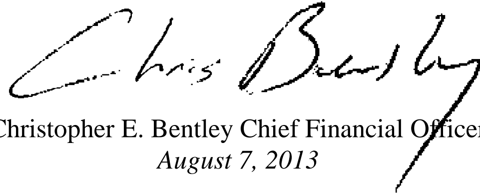
For the Quarter Ended June 30, 2013

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.

F. Stephen Austin, Chief Executive Officer
August 7, 2013

R. Ernest Girouard, Jr., Chairman, Board of Directors
August 7, 2013



Christopher E. Bentley Chief Financial Officer
August 7, 2013

LOUISIANA LAND BANK, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Louisiana Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended June 30, 2013. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2012 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's Audit Committee.

Significant Events:

The Association has a contractual relationship with the Farm Credit Bank of Texas (the bank) from which the Association borrows to fund its loan portfolio. The indebtedness is governed by a general financing agreement (GFA) which contains certain covenants. As of October 1, 2012, the Association was in full compliance with all covenants of the GFA and continues to be in full compliance as of June 30, 2013.

As of March 15, 2011, the Association entered into a written agreement (Agreement) with our regulator, the FCA. Per the Agreement, the Association is subject to various operational, financial, compliance and reporting requirements. The conditions which led to this Agreement were unsafe and unsound conditions, including excessive portfolio risk and asset quality weaknesses which stemmed from weaknesses in the credit underwriting function which became apparent with the downturn in the overall economy. The identification of these matters concluded that they resulted in violations of certain FCA regulations. The weaknesses as asserted by FCA are largely related to purchased loans and participations with the underlying collateral predominantly located in Florida. The Board of Directors (board) is committed to addressing these matters and instituted specific actions beginning in January 2010, including replacing certain members of management, strengthening controls over problem loan identification, and generally ensuring that all identified weaknesses are both in the process of remediation (if not already remediated) and otherwise accounted for via the allowance for loan losses. The board is also complying with the requirements of the March 15, 2011 Agreement with the FCA, which reiterated the FCA findings identified and communicated throughout 2010, and created new reporting requirements to the FCA. The board will continue to monitor the remediation of the underlying causes of the conditions which led to the need for the Agreement with the FCA.

In January 2013, the board elected to pay a patronage to stockholders for 2012. Since the Association is operating under an Agreement with our regulator, formal regulatory approval was needed. On January 14, 2013, the Association obtained conditional approval from our regulator to pay a $1.7 million patronage to stockholders. The Association met the conditions of the approval and paid a patronage of $1,699,904 in the 2nd quarter of 2013.

As of June 30, 2013, the Association has $14,322,007 in nonearning assets, including nonaccrual loans, formally restructured loans and other property owned compared to $43,470,887 as of June 30, 2012.

Between 2006 and 2008, the Association entered into $123.3 million of loan participations brokered by a third party originator. The Association suffered significant credit losses associated with that portfolio, which was a key driver in the net losses of $23.3 million during 2010 and 2011. As of June 30, 2013, total remaining recorded investment of that portfolio is $14,263,576.

The Association's total allowance for loan loss balance was $6,559,382 as of June 30, 2013. Of that balance, $4,067,960 or 62 percent relates to loans involving the third party originator, with collateral residing in North Carolina and Georgia.

Jesse A. Craft ceased to act as the Chief Executive Officer of the Association effective March 7, 2013 and left employment of the Association on March 31, 2013. F. Stephen Austin was named the interim Chief Executive Officer effective March 7, 2013. The board named Mr. Austin the Chief Executive Officer on July 23, 2013. Brian Turner was promoted to Chief Credit Officer on July 30, 2013.

Loan Portfolio:

Total loans outstanding at June 30, 2013, including nonaccrual loans and sales contracts, were $612,842,994 compared to $594,657,865 at December 31, 2012, reflecting an increase of 3.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 1.6 percent at June 30, 2013, compared to 2.7 percent at December 31, 2012.

The Association recorded $69,670 in recoveries and $3,786,129 in charge-offs for the quarter ended June 30, 2013, and $5,424 in recoveries and $216,985 in charge-offs for the same period in 2012. A significant portion of the charge-off total was related to one relationship that was part of the loan participations purchased from a third party originator in the period from 2006 to 2008. The Association had previously recognized the risk in that loan relationship through the establishment of reserves specific to the loan relationship. This charge-off resulted in the lowering of the Association's allowance for loan loss level from December 31, 2012 to June 30, 2013.

The Association's allowance for loan losses was 1.1 percent and 1.7 percent of total loans outstanding as of June 30, 2013, and December 31, 2012, respectively.

The Association's portfolio contains repayment concentrations when analyzing the composition of the portfolio by primary repayment sources. The Association has reliance on row crops (22.7 percent), professional – non-farm (18.5 percent), retail – non-farm (15.0 percent) and timber (13.9 percent) as primary repayment sources for more than 70 percent of the portfolio.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	June 30, 2013		December 31, 2012	
	Amount	**%**	Amount	%
Nonaccrual	**$ 9,823,000**	**68.6%**	$ 15,778,287	60.1%
90 days past due and still accruing interest	**-**	**0.0%**	301,237	1.2%
Formally restructured	**2,441,926**	**17.0%**	3,083,217	11.7%
Other property owned, net	**2,057,081**	**14.4%**	7,096,725	27.0%
Total	**$ 14,322,007**	**100.0%**	$ 26,259,466	100.0%

The nonaccrual balance at June 30, 2013 has one loan, which was brokered by a third party and out of territory that accounts for 46 percent of the balance. 65 percent of the decline in nonaccrual loans from December 31, 2012 to June 30, 2013 is related to the charge-off activity of one out of territory loan brokered by a third party. Management ordered and received a new appraisal and determined the charge-off necessary as that balance is deemed to be uncollectable.

During the 2nd quarter, the Association sold two tracts of real estate classified as other property owned. These sales reduced other property owned by $2,277,500. The Association sold one tract of real estate classified as other property owned during the first quarter. That sale reduced other property owned by $2,762,144. As a result of these sales, the Association recovered $222,023 during the 2nd quarter and $276,096 for the year. These amounts had previously been determined to be uncollectable.

As of June 30, 2013, the Association has 6 properties that make up the balance of the other property owned. 26.7 percent of the balance is other property owned in the state of Louisiana. 73.3 percent of the balance is located in states outside of Louisiana.

The Association had $95,878,413 in high-risk assets at 2010 year end, $46,628,393 at 2011 year end, $26,259,466 at 2012 year end and $14,322,007 at June 30, 2013.

Results of Operations:

The Association had net income of $2,363,176 and $4,481,821 for the three and six months ended June 30, 2013, as compared to net income of $2,098,453 and $4,629,670 for the same period in 2012, reflecting an increase of 12.6 percent for the three months ended June 30, 2013 and a decrease of 3.2 percent for the six months ended June 30, 2013. Net interest income was $4,680,285 and $8,961,862 for the six months ended June 30, 2013, compared to $4,393,925 and $8,864,181 for the same period in 2012.

	June 30, 2013		June 30, 2012	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 595,452,030**	**$ 13,208,992**	$ 640,101,567	$14,560,043
Investments	**-**	**-**	-	-
Total interest-earning assets	**595,452,030**	**13,208,992**	640,101,567	14,560,043
Interest-bearing liabilities	**485,177,797**	**4,247,130**	547,054,812	5,695,862
Impact of capital	**$ 110,274,233**		$ 93,046,755	
Net interest income		**$ 8,961,862**		$ 8,864,181

	2013 Average Yield	2012 Average Yield
Yield on loans	**4.47%**	4.57%
Total yield on interest-earning assets	**4.47%**	4.57%
Cost of interest-bearing liabilities	**1.77%**	2.09%
Interest rate spread	**2.71%**	2.48%
Net interest income as a percentage of average earning assets	**3.04%**	2.78%

	June 30, 2013 vs. June 30, 2012		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ (1,012,808)**	**$ (338,243)**	**$ (1,351,051)**
Total interest income	**(1,012,808)**	**(338,243)**	**(1,351,051)**
Interest expense	**(642,466)**	**(806,266)**	**(1,448,732)**
Net interest income	**$ (370,342)**	**$ 468,023**	**$ 97,681**

Interest income for the three and six months ended June 30, 2013, decreased by $273,107 and $1,351,051, or 3.9 and 9.3 percent, respectively, from the same period of 2012, primarily due to a decrease in average loan volume. Interest expense for the three and six months ended June 30, 2013, decreased by $559,467 and $1,448,732, or 20.8 and 25.4 percent, respectively, from the same period of 2012 due to a decrease in average debt volume. Average loan volume for the second quarter of 2013 was $603,446,114, compared to $625,766,374 in the second quarter of 2012. The average net interest rate spread on the loan portfolio for the second quarter of 2013 was 2.79 percent, compared to 2.52 percent in the second quarter of 2012.

The Association received a payoff on a nonaccrual loan during the 2nd quarter that resulted in the collection of $403,769 in interest income on a nonaccrual loan. During the 2nd quarter, management determined that $352,000 in additional provision expense was needed to increase allowance for loan loss. Salary and benefit expense is higher at June 30, 2013 compared to the same six months for June 30, 2012. This is due primarily to severance packages paid during 2013 and less of a FAS 91 benefit to the Association during 2013.

The Association's return on average assets for the six months ended June 30, 2013, was 1.48 percent compared to 1.67 percent for the same period in 2012. The Association's return on average equity for the six months ended June 30, 2013, was 7.43 percent, compared to 9.95 percent for the same period in 2012.

Liquidity and Funding Sources:

The Association has a contractual relationship with the bank from which the Association borrows to fund its loan portfolio. The indebtedness is governed by a GFA which contains certain covenants. Beginning in the third quarter of 2009 and continuing through September 30, 2012, with the exception of the months of July and August 2010, the Association violated the earnings covenant as defined in the Agreement, which requires a rolling one-year average return on assets of 1.00 percent or greater.

This default was a result of substantial provision for loan loss expense incurred during 2009, 2010 and 2011, as well as substantial provision for other property owned during 2011. This expense has resulted in a return on assets below the 1.00 percent threshold. The bank issued a limited waiver of the covenant default through September 30, 2012, subject to the Association taking certain actions to correct the deficiency. As of October 1, 2012, the Association was in full compliance with all covenants of the GFA and continues to be in full compliance as of June 30, 2013.

The Association secures the majority of its lendable funds from the bank, which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

		June 30, 2013		December 31, 2012
Note payable to the bank	**$**	**503,767,131**	$	489,740,488
Accrued interest on note payable		**707,534**		760,539
Total	**$**	**504,474,665**	$	490,501,027

The Association operates under a GFA with the bank. The current GFA is effective through September 30, 2015. The primary source of liquidity and funding for the Association is a direct loan from the bank. The outstanding balance of $503,767,131 as of June 30, 2013, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.77 percent at June 30, 2013. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the bank and is governed by a GFA financing agreement. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $108,553,511 at June 30, 2013. The maximum amount the Association may borrow from the bank as of June 30, 2013 was $609,108,070 as defined by the GFA financing agreement. The indebtedness continues in effect until the expiration date of the GFA financing agreement, which is September 30, 2015, unless sooner terminated by the bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this Agreement by the bank, upon giving the bank 30 calendar days prior written notices, or in all other circumstances, upon giving the bank 120 days prior written notice.

Capital Resources:

The Association's capital position increased by $2,818,738 at June 30, 2013, compared to December 31, 2012. The Association's debt as a percentage of members' equity was 4.13:1 as of June 30, 2013, compared to 4.11:1 as of December 31, 2012.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at June 30, 2013, was 18.4 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at June 30, 2013, were 17.8 and 17.8 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Significant Recent Accounting Pronouncements:

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance did not impact financial condition or results of operations, but resulted in additional disclosures.

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for nonpublic entities for annual periods beginning after December 15, 2013. The Association has adopted this guidance, which did not impact the financial condition or results of operations, but resulted in additional disclosures which are included in Note 6 – Employee Benefit Plans.

Relationship With the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2012 Annual Report of Louisiana Land Bank, ACA more fully describe the Association's relationship with the bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports, as well as those of the bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports for the bank and the district are also available on its website at *www.farmcreditbank.com.*

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Louisiana Land Bank, ACA, 2413 Tower Drive, Monroe, Louisiana 71201 or calling (318) 387-7535. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *debbie.bond@louisianalandbank.com*.

LOUISIANA LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

	June 30, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash	**$ 167,251**	$ 1,056,223
Loans	**612,842,994**	594,657,865
Less: allowance for loan losses	**6,559,382**	9,892,023
Net loans	**606,283,612**	584,765,842
Accrued interest receivable	**5,768,417**	5,048,700
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**10,743,310**	10,743,310
Other	**2,512,108**	1,700,104
Deferred taxes, net	**16,661**	16,661
Other property owned, net	**2,057,081**	7,096,725
Premises and equipment	**3,217,855**	3,135,995
Other assets	**609,119**	539,693
Total assets	**$ 631,375,414**	$ 614,103,253
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 503,767,131**	$ 489,740,488
Accrued interest payable	**707,534**	760,539
Drafts outstanding	**324,695**	5,288
Dividends payable	**(198)**	32
Other liabilities	**3,591,662**	3,431,054
Total liabilities	**508,390,824**	493,937,401
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,885,930**	2,853,915
Unallocated retained earnings	**120,783,714**	118,001,797
Accumulated other comprehensive income (loss)	**(685,054)**	(689,860)
Total members' equity	**122,984,590**	120,165,852
Total liabilities and members' equity	**$ 631,375,414**	$ 614,103,253

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

LOUISIANA LAND BANK, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2013	2012	**2013**	2012
INTEREST INCOME				
Loans	**$ 6,817,457**	$ 7,090,564	**$ 13,208,992**	$ 14,560,043
Total interest income	**6,817,457**	7,090,564	**13,208,992**	14,560,043
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**2,137,172**	2,696,639	**4,247,130**	5,695,862
Total interest expense	**2,137,172**	2,696,639	**4,247,130**	5,695,862
Net interest income	**4,680,285**	4,393,925	**8,961,862**	8,864,181
PROVISION FOR LOAN LOSSES	**351,945**	422,450	351,945	422,450
Net interest income after provision for loan losses	**4,328,340**	3,971,475	**8,609,917**	8,441,731
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**455,719**	541,230	**917,748**	1,027,610
Loan fees	**76,959**	91,612	**156,459**	193,712
Financially related services income	**1,064**	1,128	**1,846**	1,871
Gain (loss) on other property owned, net	**222,023**	-	**276,096**	-
Gain (loss) on sale of premises and equipment, net	**61,880**	58,500	**188,760**	57,092
Other noninterest income	**1,000**	782,335	**23,000**	783,336
Total noninterest income	**818,645**	**1,474,805**	**1,563,909**	**2,063,621**
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,728,949**	1,466,616	**3,509,353**	2,884,374
Directors' expense	**88,390**	70,679	**183,966**	144,703
Purchased services	**207,276**	189,378	**352,771**	392,130
Travel	**142,746**	159,153	**286,395**	277,246
Occupancy and equipment	**114,813**	124,756	**244,694**	244,105
Communications	**40,748**	44,093	**78,292**	86,060
Advertising	**86,577**	86,626	**176,927**	161,575
Public and member relations	**55,270**	74,705	**133,420**	121,245
Supervisory and exam expense	**79,629**	105,657	**193,369**	254,782
Insurance Fund premiums	**111,698**	69,553	**224,306**	145,293
Loss on other property owned, net	**-**	24,314	**-**	66,781
Provision for other property owned	**-**	699,351	**-**	815,943
Other noninterest expense	**114,452**	232,946	**265,226**	263,204
Total noninterest expenses	**2,770,548**	3,347,827	**5,648,719**	5,857,441
Income before income taxes	**2,376,437**	2,098,453	**4,525,107**	4,647,911
Provision for (benefit from) income taxes	**13,261**	-	**43,286**	18,241
NET INCOME	**2,363,176**	2,098,453	**4,481,821**	**4,629,670**
Other comprehensive income:				
Change in postretirement benefit plans	**2,403**	-	**4,806**	-
Other comprehensive income, net of tax	**2,403**	-	**4,806**	**-**
COMPREHENSIVE INCOME	**$ 2,365,579**	$ 2,098,453	**$ 4,486,627**	**$ 4,629,670**

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

LOUISIANA LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2011	$ 3,025,360	$ 108,852,692	$ (401,894)	$ 111,476,158
Net income	-	4,629,670	-	4,629,670
Other comprehensive income	-	-	(7,530)	(7,530)
Comprehensive income	-	4,629,670	(7,530)	4,622,140
Capital stock/participation certificates and allocated retained earnings issued	175,315	-	-	175,315
Capital stock/participation certificates and allocated retained earnings retired	(283,755)	-	-	(283,755)
Balance at June 30, 2012	$ 2,916,920	$ 113,482,362	$ (409,424)	$ 115,989,858
Balance at December 31, 2012	$ 2,853,915	$ 118,001,797	$ (689,860)	$ 120,165,852
Net income	-	4,481,821	-	4,481,821
Other comprehensive income	-	-	4,806	4,806
Comprehensive income	-	4,481,821	4,806	4,486,627
Capital stock/participation certificates and allocated retained earnings issued	260,900	-	-	260,900
Capital stock/participation certificates and allocated retained earnings retired	(228,885)	-	-	(228,885)
Patronage refunds:				
Cash	-	(1,699,904)	-	(1,699,904)
Balance at June 30, 2013	**$ 2,885,930**	**$ 120,783,714**	**$ (685,054)**	**$ 122,984,590**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Association is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the Acadia, Allen, Ascension, Assumption, Avoyelles, Beauregard, Bienville, Bossier, Caddo, Calcasieu, Caldwell, Cameron, Catahoula, Claiborne, Concordia, DeSoto, East Baton Rouge, East Carroll, East Feliciana, Evangeline, Franklin, Grant, Iberia, Iberville, Jackson, Jefferson, Jefferson Davis, Lafayette, Lafourche, LaSalle, Lincoln, Livingston, Madison, Morehouse, Natchitoches, Orleans, Ouachita, Plaquemines, Pointe Coupee, Rapides, Red River, Richland, Sabine, St. Bernard, St. Charles, St. Helena, St. James, St. John the Baptist, St. Landry, St. Martin, St. Mary, St. Tammany, Tangipahoa, Tensas, Terrebonne, Union, Vermillion, Vernon, Washington, Webster, West Baton Rouge, West Carroll, West Feliciana, and Winn in the state of Louisiana. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the Association as of and for the year ended December 31, 2012, are contained in the 2012 Annual Report to Stockholders. These unaudited second quarter 2013 financial statements should be read in conjunction with the 2012 Annual Report to Stockholders.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet – Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of offset associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact financial condition or results of operations, but will result in additional disclosures.

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for nonpublic entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures (See Note 6 – Employee Benefit Plans.

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, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, Associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended June 30, 2013, are not necessarily indicative of the results to be expected for the year ended December 31, 2013. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses includes components for loans individually evaluated for impairment and loans collectively evaluated for impairment. Generally, for loans individually evaluated the allowance for loan losses represents the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected discounted at the loan's effective

interest rate, or at the fair value of the collateral, less estimated costs to sell, if the loan is collateral-dependent. For those loans collectively evaluated for impairment, the allowance for loan losses is determined using the risk-rating model.

A summary of loans follows:

Loan Type	**June 30, 2013 Amount**	December 31, 2012 Amount
Production agriculture:		
Real estate mortgage	**$ 522,455,151**	$ 510,052,015
Production and intermediate term	**32,710,740**	27,022,303
Agribusiness:		
Loans to cooperatives	**11,411,199**	6,319,347
Processing and marketing	**13,132,795**	11,127,631
Farm-related business	**9,944,656**	16,484,456
Communication	**7,206,777**	7,503,917
Energy	**2,770,180**	2,812,624
Rural residential real estate	**13,106,553**	13,226,081
Lease receivables	**104,943**	109,491
Total	**$ 612,842,994**	$ 594,657,865

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2013:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 3,580,257	$ 16,653,507	$ 6,486,815	$ -	$ 10,067,072	$ 16,653,507
Production and intermediate term	7,561,125	-	-	-	7,561,125	-
Agribusiness	7,369,896	-	9,486,115	-	16,856,011	-
Communication	7,206,777	-	-	-	7,206,777	-
Energy	2,770,180	-	-	-	2,770,180	-
Total	$ 28,488,235	$ 16,653,507	$ 15,972,930	$ -	$ 44,461,165	$ 16,653,507

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	June 30, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	**$ 4,685,977**	$ 6,749,296
Agribusiness	**4,772,427**	8,345,344
Communication	**335,038**	651,117
Rural residential real estate	**29,558**	32,530
Total nonaccrual loans	**9,823,000**	15,778,287
Accruing restructured loans:		
Real estate mortgage	**2,375,369**	2,785,300
Agribusiness	**-**	297,917
Rural residential real estate	**66,557**	-
Total accruing restructured loans	**2,441,926**	3,083,217
Accruing loans 90 days or more past due:		
Communication	**-**	301,237
Total accruing loans 90 days or more	**-**	301,237
Total nonperforming loans	**12,264,926**	19,162,741
Other property owned	**2,057,081**	7,096,725
Total nonperforming assets	**$ 14,322,007**	$26,259,466

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	June 30, 2013	December 31, 2012
Real estate mortgage		
Acceptable	**96.7** %	95.6 %
OAEM	**1.4**	1.8
Substandard/doubtful	**1.9**	2.6
	100.0	100.0
Production and intermediate term		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Loans to cooperatives		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Processing and marketing		
Acceptable	**96.5**	81.3
OAEM	**1.3**	18.7
Substandard/doubtful	**2.2**	-
	100.0	100.0
Farm-related business		
Acceptable	**32.4**	6.5
OAEM	**-**	10.6
Substandard/doubtful	**67.6**	82.9
	100.0	100.0
Communication		
Acceptable	**92.6**	91.3
OAEM	**2.8**	-
Substandard/doubtful	**4.6**	8.7
	100.0	100.0
Energy and water/waste water		
Acceptable	**85.9**	86.0
OAEM	**-**	-
Substandard/doubtful	**14.1**	14.0
	100.0	100.0
Rural residential real estate		
Acceptable	**95.9**	96.4
OAEM	**0.9**	-
Substandard/doubtful	**3.2**	3.6
	100.0	100.0
Lease receivables		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**95.7**	93.0
OAEM	**1.3**	2.2
Substandard/doubtful	**3.0**	4.8
	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of:

June 30, 2013	**30-89 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 and Accruing**
Real estate mortgage	**$ 2,665,147**	**$ 1,793,906**	**$ 4,459,053**	**$ 523,461,873**	**$ 527,920,926**	**$ -**
Production and intermediate term	**140,849**	**-**	**140,849**	**32,712,232**	**32,853,081**	**-**
Loans to cooperatives	**-**	**-**	**-**	**11,461,851**	**11,461,851**	**-**
Processing and marketing	**-**	**-**	**-**	**13,155,654**	**13,155,654**	**-**
Farm-related business	**-**	**-**	**-**	**9,945,966**	**9,945,966**	**-**
Communication	**-**	**-**	**-**	**7,208,895**	**7,208,895**	**-**
Energy	**-**	**-**	**-**	**2,770,803**	**2,770,803**	**-**
Rural residential real estate	**354,771**	**-**	**354,771**	**12,832,328**	**13,187,099**	**-**
Lease receivables	**-**	**-**	**-**	**107,137**	**107,137**	**-**
Total	**$ 3,160,767**	**$ 1,793,906**	**$ 4,954,673**	**$ 613,656,739**	**$ 618,611,412**	**$ -**

December 31, 2012	30-89 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 and Accruing
Real estate mortgage	$ 381,863	$ 4,983,941	$ 5,365,804	$ 509,439,008	$ 514,804,812	$ -
Production and intermediate term	-	-	-	27,110,348	27,110,348	-
Loans to cooperatives	-	-	-	6,344,239	6,344,239	-
Processing and marketing	-	-	-	11,165,746	11,165,746	-
Farm-related business	-	5,232	5,232	16,511,410	16,516,642	-
Communication	-	301,236	301,236	7,203,202	7,504,438	301,236
Energy	-	-	-	2,812,856	2,812,856	-
Rural residential real estate	406,207	-	406,207	12,927,165	13,333,372	-
Lease receivables	-	-	-	114,112	114,112	-
Total	$ 788,070	$ 5,290,409	$ 6,078,479	$ 593,628,086	$ 599,706,565	$ 301,236

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

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of June 30, 2013, the total recorded investment of troubled debt restructured loans was $2,728,960, including $287,034 classified as nonaccrual and $2,441,926 classified as accrual, with specific allowance for loan losses of $140,576. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring as of June 30, 2013 and December 31, 2012.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the six months ended June 30, 2013. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The postmodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred. Loans formally restructured prior to January 1, 2013, were $2,677,684.

For the Six Months Ended June 30, 2013	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ -	$ -
Rural residential real estate	59,048	66,557
Total	$ 59,048	$ 66,557

For the Six Months Ended June 30, 2012	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 381,960	$ 361,341
Total	$ 381,960	$ 361,341

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). Charge-offs recorded at the modification date were $0 for the quarter ending June 30, 2013.

The predominant form of concession granted for troubled debt restructuring includes rate reduction and term extension. Other types of modifications include extension of the term, principal or accrued interest reductions, interest rate decreases and delayed payments, among others. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table presents information regarding loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Troubled debt restructurings that subsequently defaulted:	Recorded Investment at June 30, 2013	Recorded Investment at December 31, 2012
Real estate mortgage	$ 6,567	$ -
Rural residential real estate	66,557	-
Total	$ 73,124	$ -

Additional impaired loan information is as follows:

	June 30, 2013			At December 31, 2012		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 2,155,523**	**$ 2,161,834**	**$ 918,835**	$ 1,381,758	$ 1,384,766	$ 807,607
Processing and marketing	**287,034**	**335,178**	**128,526**	-	-	-
Farm-related business	**-**	**-**	**-**	8,340,113	8,424,589	3,009,790
Communication	**335,038**	**335,038**	**93,846**	651,117	651,117	329,846
Total	**$ 2,777,595**	**$ 2,832,050**	**$ 1,141,207**	$ 10,372,988	$ 10,460,472	$ 4,147,243
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 4,905,823**	**$ 4,899,401**	**$ -**	$ 8,100,902	$ 8,158,613	$ -
Processing and marketing	**-**	**-**	**-**	297,885	346,029	-
Farm-related business	**4,485,393**	**8,571,837**	**-**	5,232	342,585	-
Communication	**-**	**-**	**-**	301,205	301,205	-
Rural residential real estate	**96,116**	**95,870**	**-**	32,530	32,530	-
Total	**$ 9,487,331**	**$ 13,567,108**	**$ -**	$ 8,737,754	$ 9,180,962	$ -
Total impaired loans:						
Real estate mortgage	$ 7,061,346	$ 7,061,235	$ 918,835	$ 9,482,660	$ 9,543,379	$ 807,607
Processing and marketing	287,034	335,178	128,526	297,885	346,029	-
Farm-related business	4,485,393	8,571,837	-	8,345,345	8,767,174	3,009,790
Communication	335,038	335,038	93,846	952,322	952,322	329,846
Rural residential real estate	96,116	95,870	-	32,530	32,530	-
Total	**$ 12,264,926**	**$ 16,399,158**	**$ 1,141,207**	$ 19,110,742	$ 19,641,434	$ 4,147,243

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Quarter Ended June 30, 2013		For the Quarter Ended June 30, 2012	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	**$ 2,050,949**	**$ 4,488**	$ 2,538,483	$ 3,762
Processing and marketing	**294,234**	**-**	-	-
Farm-related business	**-**	**-**	14,837,392	-
Communication	**357,864**	**13,440**	260,206	-
Total	**$ 2,703,047**	**$ 17,928**	$ 17,636,081	$ 3,762
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	**$ 4,624,807**	**$ 29,237**	$ 11,842,944	$ 31,649
Processing and marketing	**-**	**-**	299,951	2,413
Farm-related business	**8,112,085**	**-**	272,748	-
Communication	**78,690**	**-**	-	-
Rural residential real estate	**94,924**	**752**	34,720	-
Total	**$ 12,910,506**	**$ 29,989**	$ 12,450,363	$ 34,062
Total impaired loans:				
Real estate mortgage	$ 6,675,756	$ 33,725	$ 14,381,427	$ 35,411
Processing and marketing	294,234	-	299,951	2,413
Farm-related business	8,112,085	-	15,110,140	-
Communication	436,554	13,440	260,206	-
Rural residential real estate	94,924	752	34,720	-
Total	$ 15,613,553	$ 47,917	$ 30,086,444	$ 37,824

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Lease Receivables	Total
Allowance for Credit Losses:								
Balance at March 31, 2013	$ 4,202,806	$ (122,313)	$ 5,441,208	$ 291,702	$ 49,830	$ 39,550	$ 21,112	$ 9,923,895
Charge-offs	-	-	(3,786,129)	-	-	-	-	(3,786,129)
Recoveries	10,431	-	59,240	-	-	-	-	69,671
Provision for loan losses	351,945	-	-	-	-	-	-	351,945
Balance at June 30, 2013	$ 4,565,182	$ (122,313)	$ 1,714,319	$ 291,702	$ 49,830	$ 39,550	$ 21,112	$ 6,559,382
Balance at December 31, 2012	$ 4,167,972	$ (122,313)	$ 5,444,170	$ 291,702	$ 49,830	$ 39,550	$ 21,112	$ 9,892,023
Charge-offs	-	-	(3,789,091)	-	-	-	-	(3,789,091)
Recoveries	45,265	-	59,240	-	-	-	-	104,505
Provision for loan losses	351,945	-	-	-	-	-	-	351,945
Balance at June 30, 2013	$ 4,565,182	$ (122,313)	$ 1,714,319	$ 291,702	$ 49,830	$ 39,550	$ 21,112	$ 6,559,382
Ending Balance:								
Individually evaluated for impairment	$ 948,086	$ 128,526	$ 924,931	$ 93,846	$ -	$ 1,208	$ -	$ 2,096,597
Collectively evaluated for impairment	3,617,096	(250,839)	789,388	197,856	49,830	38,342	21,112	4,462,785
Balance at June 30, 2013	$ 4,565,182	$ (122,313)	$ 1,714,319	$ 291,702	$ 49,830	$ 39,550	$ 21,112	$ 6,559,382
Balance at March 31, 2012	$ 3,808,574	$ 650,539	$ 5,136,077	$ 286,872	$ 49,176	$ 49,660	$ 18,523	$ 9,999,421
Charge-offs	193,676	105,654	(516,315)	-	-	-	-	(216,985)
Recoveries	282,996	(282,996)	5,425	-	-	-	-	5,425
Provision for loan losses	(40,744)	(255,793)	721,023	4,830	654	(10,110)	2,589	422,449
June 30, 2012	$ 4,244,502	$ 217,404	$ 5,346,210	$ 291,702	$ 49,830	$ 39,550	$ 21,112	$ 10,210,310
Balance at December 31, 2011	$ 4,284,145	$ 217,404	$ 5,444,170	$ 291,702	$ 49,830	$ 39,550	$ 21,112	$ 10,347,913
Charge-offs	(322,639)	-	(529,411)	-	-	-	-	(852,050)
Recoveries	282,996	-	9,001	-	-	-	-	291,997
Provision for loan losses	-	-	422,450	-	-	-	-	422,450
June 30, 2012	$ 4,244,502	$ 217,404	$ 5,346,210	$ 291,702	$ 49,830	$ 39,550	$ 21,112	$ 10,210,310
Ending Balance:								
Individually evaluated for impairment	$ 1,057,863	$ -	$ 4,438,130	$ 236,000	$ -	$ -	$ -	$ 5,731,993
Collectively evaluated for impairment	3,353,801	213,325	654,721	138,430	49,176	50,048	18,817	4,478,317
June 30, 2012	$ 4,411,664	$ 213,325	$ 5,092,851	$ 374,430	$ 49,176	$ 50,048	$ 18,817	$ 10,210,310

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Lease Receivables	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at June 30, 2013	$ 527,920,926	$ 32,853,082	$34,563,471	$ 7,208,895	$ 2,770,802	$ 13,187,099	$ 107,137	$ 618,611,412
Individually evaluated for impairment	$ 10,159,123	$ -	$ 7,013,299	$ 335,038	$ 389,847	$ 414,393	$ -	$ 18,311,699
Collectively evaluated for impairment	$ 517,761,803	$ 32,853,082	$27,550,172	$ 6,873,857	$ 2,380,955	$ 12,772,706	$ 107,137	$ 600,299,712
Ending Balance at June 30, 2012	$ 526,248,656	$ 19,454,308	$43,442,187	$ 8,237,285	$ 2,846,533	$ 12,386,099	$ 4,379,670	$ 616,994,738
Individually evaluated for impairment	$ 14,510,914	$ -	$17,799,506	$ 258,325	$ -	$ 33,705	$ -	$ 32,602,450
Collectively evaluated for impairment	$ 511,737,742	$ 19,454,308	$25,642,681	$ 7,978,960	$ 2,846,533	$ 12,352,394	$ 4,379,670	$ 584,392,288

NOTE 3 — CAPITAL:

The Association’s board has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association’s permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

NOTE 4 — INCOME TAXES:

Louisiana Land Bank, ACA and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the six months ended June 30, 2013, the Association did participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management’s estimate, that they will not be realized. For the six months ended June 30, 2013, and 2012, net income for tax purposes $4,481,821 and $4,629,670.

The subsidiary, Louisiana FLBA, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2012 Annual Report to Stockholders for a more complete description.

There were no assets and liabilities measured at fair value on a recurring basis on June 30, 2013 or December 31, 2012:

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

June 30, 2013	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$ 13,642,819**	**$ 13,642,819**	**$ -**
Other property owned	**-**	**-**	**2,057,081**	**2,057,081**	**-**

December 31, 2012	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ -	$ -	$ 6,216,034	$ 6,216,034	$ -
Other property owned	-	-	7,096,725	7,096,725	-

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 2 to the 2012 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2012 Annual Report to Stockholders.

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended June 30:

	Other Benefits	
	2013	2012
Service cost	**$ 18,557**	$ 16,405
Interest cost	**30,013**	29,761
Amortization of prior service (credits) costs	**(13,185)**	(14,443)
Amortizations of net actuarial (gain) loss	**15,588**	10,679
Net periodic benefit cost	**$ 50,973**	$ 42,402

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the six months ended June 30:

	Other Benefits	
	2013	2012
Service cost	**$ 37,114**	$ 32,811
Interest cost	**60,026**	59,523
Amortization of prior service (credits) costs	**(26,369)**	(28,887)
Amortizations of net actuarial (gain) loss	**31,176**	21,357
Net periodic benefit cost	**$ 101,947**	$ 84,804

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2013, was $2,821,660 and is included in "Other Liabilities" in the balance sheet.

The structure of the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (bank and Associations). The Association recognizes its amortized annual contributions to the plan as an expense. As of June 30, 2013, $229,858 of contributions have been made. The Association presently anticipates contributing an additional $229,858 to fund the defined benefit pension plan in 2013 for a total of $459,715.

The Association's accumulated other comprehensive income (loss) relates entirely to its nonpension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statement of Comprehensive Income. The following table summarizes the changes in accumulated other comprehensive income (loss) for the six months ended June 30:

	2013	2012
Accumulated other comprehensive income (loss) at January 1	**$ (689,860)**	$ (401,894)
Amortization of prior service (credit) costs included in net periodic postretirement benefit cost	**(26,370)**	(28,887)
Amortization of actuarial (gain) loss included in net periodic postretirement benefit cost	**31,176**	21,357
Income tax expense related to items of other comprehensive income	**-**	-
Other comprehensive income (loss), net of tax	**4,806**	(7,530)
Accumulated other comprehensive income at June 30	**$ (685,054)**	$ (409,424)

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 8 — REGULATORY MATTERS:

As of March 15, 2011, the Association entered into an Agreement with the regulator, the FCA. Per the Agreement, the Association is subject to various operational, financial, compliance and reporting requirements. The conditions which led to this Agreement were unsafe and unsound conditions including excessive portfolio risk and asset quality weaknesses which stemmed from weaknesses in the credit underwriting function which became more apparent with the downturn in the overall economy. The identification of these matters concluded that they result in violations of certain FCA regulations. The weaknesses as asserted by FCA are largely related to purchased loans and participations with the underlying collateral predominantly located in Florida. The board is committed to addressing these matters and instituted specific actions throughout 2010, 2011, 2012 and 2013 including replacing certain members of management, strengthening controls over problem loan identification, and generally ensuring that all identified weaknesses are both in the process of remediation (if not already remediated) and otherwise accounted for via the allowance for loan losses.

The board assertively directed management to identify the full extent of the problems and to conduct immediate remedial actions over the course of 2010, 2011, 2012 and 2013. The actions taken to date by the board include:

- Strengthening the competencies of Association management and engaging external expertise where necessary;
- Attending relevant board training sessions;
- Increasing the allowance for loan losses to address the incurred credit losses;
- Overseeing the implementation of stronger controls related to credit decisions and administration;
- Monitoring the status and progress of management's corrective action plans, which cover the range of requirements identified above;
- Ensuring that the remedial actions taken to date consider all recommendations made by the FCA;
- Implementing procedures to comply with FCA requests, including communications and data requirements mandated by the Agreements with the FCA; and
- Choosing not to declare a patronage refund for 2010 or 2011 to preserve capital in respect of the identified potential portfolio credit weaknesses.

Although the Association's management and board initiated and monitored corrective actions, the excessive portfolio risk and material weaknesses in the Association's financial condition and performance were exacerbated by the stresses caused by the general weakening of the US economy throughout 2010. The resulting impact of the economic environment has created a pronounced and significant devaluation in real estate values in certain segments of the Association's portfolio. The Association has adequately provided for the inherent and probable losses associated with these exposures at June 30, 2013.

The board will continue to identify necessary actions to address the Association's financial weaknesses, and is committed to complying with the requirements of all Agreements with the FCA.

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through August 7, 2013, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of August 7, 2013.