LOUISIANA LAND BANK, ACA

2014
Quarterly Report
Second Quarter

For the Quarter Ended June 30, 2014

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 our knowledge and belief.

F. Stephen Austin, Chief Executive Officer
August 8, 2014

R. Ernest Girouard, Jr., Chairman, Board of Directors
August 8, 2014

Christopher E. Bentley, Chief Financial Officer
August 8, 2014

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, 2014. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2013 Annual Report to Stockholders. The disclosure information and index section of the online version of the 2013 annual report was updated to reflect corrected information pertaining to directors.

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 entered into a written agreement (Agreement) with our regulator, the FCA, on March 15, 2011. Per the Agreement, the Association was subject to various operational, financial, compliance and reporting requirements. The Association's Board of Directors (Board) and management worked to remedy the underlying causes which led to the need for the Agreement with FCA. Effective January 23, 2014, the FCA terminated the Agreement with the Association.

In December of 2013, the Board declared a patronage of $3,000,000 to stockholders for 2013. Patronage checks were issued in April 2014.

On July 25th, 2014, the Association's stockholders approved an amendment to the Association's capitalization bylaws addressing the amount of stock a borrower must purchase as a condition of borrowing from the Association. Further details are discussed in Note 3, "Capital" to the financial statements included in this quarterly report.

Loan Portfolio:

Total loans outstanding at June 30, 2014, including nonaccrual loans and sales contracts, were $611,236,567 compared to $611,195,331 at December 31, 2013, reflecting an increase of less than 0.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 0.6 percent at June 30, 2014, compared to 0.6 percent at December 31, 2013.

The Association recorded $17,442 in recoveries and $2,234 in charge-offs for the quarter ended June 30, 2014, and $69,670 in recoveries and $3,786,129 in charge-offs for the same period in 2013. The Association's allowance for loan losses was 0.9 percent and 0.9 percent of total loans outstanding as of June 30, 2014, and December 31, 2013, respectively.

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, 2014		December 31, 2013	
	Amount	**%**	Amount	%
Nonaccrual	**$ 3,777,616**	**53.4%**	$ 3,787,777	45.7%
Formally restructured	**1,807,950**	**25.6%**	2,946,814	35.6%
Other property owned, net	**1,485,895**	**21.0%**	1,551,254	18.7%
Total	**$ 7,071,461**	**100.0%**	$ 8,285,845	100.0%

The non-accrual balance at June 30, 2014 is comprised of 23 loans with an average balance of $164,244. During the second quarter of 2014, there were no changes to other property owned.

Results of Operations:

The Association had net income of $3,103,895 and $5,315,637 for the three and six months ended June 30, 2014, as compared to net income of $2,363,176 and $4,481,821 for the same periods in 2013, reflecting an increase of 31.3 and 18.6 percent, respectively.

Net interest income was $5,086,784 and $9,484,460 for the three and six months ended June 30, 2014, compared to $4,680,285 and $8,961,862 for the same periods in 2013.

	June 30, 2014		June 30, 2013	
	Average Balance	**Interest**	Average Balance	Interest
Loans	**$ 611,728,629**	**$ 13,848,849**	$ 595,452,030	$ 13,208,992
Total interest-earning assets	**611,728,629**	**13,848,849**	595,452,030	13,208,992
Interest-bearing liabilities	**493,854,936**	**4,364,389**	485,177,797	4,247,130
Impact of capital	**$ 117,873,693**		$ 110,274,233	
Net interest income		**$ 9,484,460**		$ 8,961,862

	2014 Average Yield	2013 Average Yield
Yield on loans	**4.57%**	4.47%
Total yield on interest-earning assets	**4.57%**	4.47%
Cost of interest-bearing liabilities	**1.78%**	1.77%
Interest rate spread	**2.78%**	2.71%
Net interest income as a percentage of average earning assets	**3.13%**	3.04%

	June 30, 2014 vs. June 30, 2013		
	Increase (decrease) due to		
	Volume	**Rate**	**Total**
Interest income - loans	**$ 361,066**	**$ 278,791**	**$ 639,857**
Total interest income	**361,066**	**278,791**	**639,857**
Interest expense	**75,959**	**41,300**	**117,259**
Net interest income	**$ 285,107**	**$ 237,491**	**$ 522,598**

Interest income for the three and six months ended June 30, 2014, increased by $470,915 and $639,857, or 6.9 and 4.8 percent, respectively, from the same period of 2013, primarily due to increases in average loan volume and the one-time interest collection on non-accrual loans. Interest expense for the three and six months ended June 30, 2014, increased by $64,416 and $117,259, or 3.0 and 2.8 percent, respectively, from the same period of 2013 due to an increase in average debt volume. Average loan volume for the second quarter of 2014 was $611,730,810, compared to $603,446,114 in the second quarter of 2013. The average net interest rate spread on the loan portfolio for the second quarter of 2014 was 2.99 percent, compared to 2.79 percent in the second quarter of 2013.

The Association received interest income of $702,099 on two non-accrual loans which were paid in full during the second quarter of 2014. Management expects this to be a one-time, non-recurring event. During the second quarter of 2013, the Association received $447,397 in interest income relating to three non-accrual loans which were paid in full.

The Association accrues for patronage income that is estimated to be received from the Bank. Management monitors the accrual and adjusts the amount when needed.

Loan fee income is impacted by market pressure. The Association has collected less in loan fee income during the first six months of 2014 as compared to 2013. The Association had a one-time gain on the sale of an acquired property in the second quarter of 2013. The Association has not had a significant gain, or loss related to acquired property in 2014. The Association sold multiple automobiles during the first half of 2013. The sale of these vehicles resulted in a gain on sale of property in 2013. The Association sold one automobile during the first half of 2014. The Association is a member of a captive insurance group and income received from the captive is now reflected in other noninterest income.

Noninterest expense was reduced in the first half of 2014 compared to 2013. This reduction is primarily derived by lower benefit expense and a decrease in legal and collection related expenses.

The Association's return on average assets for the six months ended June 30, 2014, was 1.71 percent compared to 1.48 percent for the same period in 2013. The Association's return on average equity for the six months ended June 30, 2014, was 8.33 percent, compared to 7.43 percent for the same period in 2013.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (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, 2014	December 31, 2013
Note payable to the bank	**$ 492,797,669**	$ 494,649,196
Accrued interest on note payable	**729,049**	751,711
Total	**$ 493,526,718**	$ 495,400,907

The Association operates under a general financing agreement (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 $492,797,669 as of June 30, 2014, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 1.78 percent at June 30, 2014.

The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the Bank and is governed by the GFA. The decrease in note payable to the Bank and related accrued interest payable since December 31, 2013 is a result of capital management practices of the Association. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $117,895,306 at June 30, 2014. The maximum amount the Association may borrow from the Bank as of June 30, 2014, was $610,400,503 as defined by the GFA. The indebtedness continues in effect until the expiration date of the GFA, 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 notice, or in all other circumstances, upon giving the Bank 120 days' prior written notice.

The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase accrual loan volume. The policy will continue to be pursued in 2014. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association will continue to fund its operations through direct borrowings from the Bank, capital surplus from prior years and borrower stock. It is management's opinion that funds available to the Association are sufficient to fund its operations for the next twelve months.

Capital Resources:

The Association's capital position increased by $5,446,778 at June 30, 2014, compared to December 31, 2013. The Association's debt as a percentage of members' equity was 3.80:1 as of June 30, 2014, compared to 4.01:1 as of December 31, 2013.

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, 2014, was 19.2 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, 2014, were 18.7 and 18.7 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

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 2013 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. The annual and quarterly stockholder reports for the Association are also available on its website at *www.louisianalandbank.com*. 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, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash	**$ 87,990**	$ 49,942
Loans	**611,236,567**	611,195,331
Less: allowance for loan losses	**5,279,657**	5,312,601
Net loans	**605,956,910**	605,882,730
Accrued interest receivable	**5,573,096**	4,752,404
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**9,847,090**	9,847,090
Other	**1,207,565**	2,029,531
Deferred taxes, net	**-**	16,661
Other property owned, net	**1,485,895**	1,551,254
Premises and equipment, net	**2,990,458**	3,131,092
Other assets	**520,001**	313,820
Total assets	**$ 627,669,005**	$ 627,574,524
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 492,797,669**	$ 494,649,196
Accrued interest payable	**729,049**	751,711
Drafts outstanding	**10,035**	87,989
Dividends payable	**532**	3,000,040
Other liabilities	**3,429,840**	3,830,486
Total liabilities	**496,967,125**	502,319,422
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,948,955**	2,899,765
Unallocated retained earnings	**127,899,747**	122,482,131
Accumulated other comprehensive income (loss)	**(146,822)**	(126,794)
Total members' equity	**130,701,880**	125,255,102
Total liabilities and members' equity	**$ 627,669,005**	$ 627,574,524

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,	
	2014	2013	**2014**	2013
INTEREST INCOME				
Loans	**$ 7,288,372**	$ 6,817,457	**$ 13,848,849**	$ 13,208,992
Total interest income	**7,288,372**	6,817,457	**13,848,849**	13,208,992
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**2,201,588**	2,137,172	**4,364,389**	4,247,130
Total interest expense	**2,201,588**	2,137,172	**4,364,389**	4,247,130
Net interest income	**5,086,784**	4,680,285	**9,484,460**	8,961,862
PROVISION FOR LOAN LOSSES	**-**	351,945	**-**	351,945
Net interest income after provision for loan losses	**5,086,784**	4,328,340	**9,484,460**	8,609,917
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**517,415**	455,719	**1,035,408**	917,748
Loan fees	**38,435**	76,959	**67,456**	156,459
Financially related services income	**864**	1,064	**1,629**	1,846
Gain (loss) on other property owned, net	**(1,500)**	222,023	**(17,686)**	276,096
Gain (loss) on sale of premises and equipment, net	**7,271**	61,880	**46,695**	188,760
Other noninterest income	**49,111**	1,000	**50,161**	23,000
Total noninterest income	**611,596**	818,645	**1,183,663**	1,563,909
NONINTEREST EXPENSES				
Salaries and employee benefits	**1,620,846**	1,728,949	**3,381,262**	3,509,353
Directors' expense	**74,968**	88,390	**177,837**	183,966
Purchased services	**139,634**	207,276	**265,308**	352,771
Travel	**132,343**	142,746	**257,180**	286,395
Occupancy and equipment	**123,888**	114,813	**239,450**	244,694
Communications	**41,127**	40,748	**74,530**	78,292
Advertising	**86,429**	86,577	**194,659**	176,927
Public and member relations	**74,140**	55,270	**144,541**	133,420
Supervisory and exam expense	**70,397**	79,629	**180,852**	193,369
Insurance Fund premiums	**135,291**	111,698	**270,303**	224,306
Provision for losses on other property owned, net	**-**		**5,359**	
Other noninterest expense	**95,422**	114,452	**161,205**	265,226
Total noninterest expenses	**2,594,485**	2,770,548	**5,352,486**	5,648,719
Income before income taxes	**3,103,895**	2,376,437	**5,315,637**	4,525,107
Provision for (benefit from) income taxes	**-**	13,261	**-**	43,286
NET INCOME	**3,103,895**	2,363,176	**5,315,637**	4,481,821
Other comprehensive income:				
Change in postretirement benefit plans	**(10,014)**	2,403	**(20,028)**	4,806
Other comprehensive income, net of tax	**(10,014)**	2,403	**(20,028)**	4,806
COMPREHENSIVE INCOME	**$ 3,093,881**	$ 2,365,579	**$ 5,295,609**	$ 4,486,627

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 Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
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
Balance at December 31, 2013	$ 2,899,765	$ -	$ 122,482,131	$ (126,794)	$ 125,255,102
Net income	-	-	5,315,637	-	5,315,637
Other comprehensive income	-	-	-	(20,028)	(20,028)
Comprehensive income	-	-	5,315,637	(20,028)	5,295,609
Capital stock/participation certificates and allocated retained earnings issued	217,630	-	-	-	217,630
Capital stock/participation certificates and allocated retained earnings retired	(168,440)	-	-	-	(168,440)
Other Adjustment			101,979		101,979
Balance at June 30, 2014	**$ 2,948,955**	**$ -**	**$ 127,899,747**	**$ (146,822)**	**$ 130,701,880**

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

LOUISIANA LAND BANK, ACA
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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 parishes of 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 System, which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2013 as contained in the 2013 Annual Report to Stockholders.

In the opinion of management, the unaudited financial information is complete and reflects, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of results for the interim periods. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2014. Descriptions of the significant accounting policies are included in the 2013 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

GAAP 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. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2013, as contained in the 2013 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2014. Descriptions of the significant accounting policies are included in the 2013 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In February 2013, the Financial Accounting Standards Board (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 3 – Capital).

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, 2014, are not necessarily indicative of the results to be expected for the year ended December 31, 2014. 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:

A summary of loans follows:

Loan Type	June 30, 2014 Amount	December 31, 2013 Amount
Production agriculture:		
Real estate mortgage	**$ 529,106,707**	$ 532,101,326
Production and intermediate term	**33,020,381**	30,871,151
Agribusiness:		
Loans to cooperatives	**7,152,339**	6,740,253
Processing and marketing	**13,230,988**	13,706,635
Farm-related business	**5,804,867**	6,475,138
Communication	**6,438,417**	5,430,544
Energy	**1,618,473**	1,659,788
Water and waste water	**1,209,462**	1,428,456
Rural residential real estate	**13,554,266**	12,681,373
Lease receivables	**100,667**	100,667
Total	**$ 611,236,567**	$ 611,195,331

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with FCA regulations. The following table presents information regarding the balances of participations purchased and sold at June 30, 2014:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 6,070,045	$ 24,217,518	$ 5,260,130	$ -	$ 11,330,175	$ 24,217,518
Production and intermediate term	7,390,465	11,347,554	-	-	7,390,465	11,347,554
Agribusiness	8,131,846	-	5,511,980	4,326,882	13,643,826	4,326,882
Communication	6,438,417	-	-	-	6,438,417	-
Energy	1,618,473	-	-	-	1,618,473	-
Water and waste water	1,209,462	-	-	-	1,209,462	-
Total	$ 30,858,708	$ 35,565,072	$ 10,772,110	$ 4,326,882	$ 41,630,818	$ 39,891,954

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

	June 30, 2014	December 31, 2013
Nonaccrual loans:		
Real estate mortgage	**$ 2,445,993**	$ 2,244,693
Agribusiness	**957,120**	1,245,856
Rural residential real estate	**374,503**	297,228
Total nonaccrual loans	**3,777,616**	3,787,777
Accruing restructured loans:		
Real estate mortgage	**1,607,763**	2,875,350
Rural residential real estate	**200,187**	71,464
Total accruing restructured loans	**1,807,950**	2,946,814
Total nonperforming loans	**5,585,566**	6,734,591
Other property owned	**1,485,895**	1,551,254
Total nonperforming assets	**$ 7,071,461**	$ 8,285,845

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, 2014	December 31, 2013
Real estate mortgage		
Acceptable	**97.5** %	97.4 %
OAEM	**1.0**	1.1
Substandard/doubtful	**1.5**	1.5
	100.0	100.0
Production and intermediate term		
Acceptable	**87.3**	100.0
OAEM	**12.7**	-
	100.0	100.0
Agribusiness		
Acceptable	**88.3**	87.0
Substandard/doubtful	**11.7**	13.0
	100.0	100.0
Energy and water/waste water		
Acceptable	**77.7**	87.9
Substandard/doubtful	**22.3**	12.1
	100.0	100.0
Communication		
Acceptable	**95.2**	94.1
Substandard/doubtful	**4.8**	5.9
	100.0	100.0
Rural residential real estate		
Acceptable	**95.7**	95.3
OAEM	**1.5**	1.4
Substandard/doubtful	**2.8**	3.3
	100.0	100.0
Lease receivables		
Acceptable	**100.0**	100.0
	100.0	100.0
Total loans		
Acceptable	**96.4**	96.9
OAEM	**1.6**	1.0
Substandard/doubtful	**2.0**	2.1
	100.0 %	100.0 %

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

June 30, 2014	**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	**$ 2,266,877**	**$ 218,665**	**$ 2,485,542**	**$ 531,861,279**	**$ 534,346,821**	**$ -**
Production and intermediate term	**140,937**	**-**	**140,937**	**33,069,817**	**33,210,754**	**-**
Loans to cooperatives	**-**	**-**	**-**	**7,189,020**	**7,189,020**	**-**
Processing and marketing	**-**	**-**	**-**	**13,252,882**	**13,252,882**	**-**
Farm-related business	**-**	**-**	**-**	**5,811,924**	**5,811,924**	**-**
Communication	**-**	**-**	**-**	**6,439,248**	**6,439,248**	**-**
Energy	**-**	**-**	**-**	**1,618,609**	**1,618,609**	**-**
Water and waste water	**-**	**-**	**-**	**1,209,824**	**1,209,824**	**-**
Rural residential real estate	**264,982**	**-**	**264,982**	**13,362,189**	**13,627,171**	**-**
Lease receivables	**-**	**-**	**-**	**103,410**	**103,410**	**-**
Total	**$ 2,672,796**	**$ 218,665**	**$ 2,891,461**	**$ 613,918,202**	**$ 616,809,663**	**$ -**

December 31, 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	$ 649,514	$ 65,908	$ 715,422	$ 535,814,099	$ 536,529,521	$ -
Production and intermediate term	-	-	-	31,040,800	31,040,800	-
Loans to cooperatives	-	-	-	6,772,167	6,772,167	-
Processing and marketing	-	-	-	13,729,895	13,729,895	-
Farm-related business	-	-	-	6,514,478	6,514,478	-
Communication	-	-	-	5,431,443	5,431,443	-
Energy	-	-	-	1,659,924	1,659,924	-
Water and waste water	-	-	-	1,429,170	1,429,170	-
Rural residential real estate	102,977	13,988	116,965	12,622,705	12,739,670	-
Lease receivables	-	-	-	100,667	100,667	-
Total	$ 752,491	$ 79,896	$ 832,387	$ 615,115,348	$ 615,947,735	$ -

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, 2014, the total recorded investment of troubled debt restructured loans was $2,925,555, including $1,117,605 classified as nonaccrual and $1,807,950 classified as accrual, with specific allowance for loan losses of $162,695. There were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring at June 30, 2014, and at December 31, 2013.

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, 2014 and 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, 2014, were $1,437,507.

There was no TDR activity for the three months ended June 30, 2014 and 2013.

For the Six Months Ended June 30, 2014	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Rural residential real estate	$ 95,686	$ 131,195
Total	$ 95,686	$ 131,195

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

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, 2014.

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 troubled debt restructurings that occurred within the previous 12 months and for which there was a subsequent 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, 2014	Recorded Investment at June 30, 2013
Real estate mortgage	$ 503,810	$ 6,567
Farm-related business	957,120	-
Rural residential real estate	143,776	66,557
Total	$ 1,604,706	$ 73,124

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

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Real estate mortgage	$ 1,763,622	$ 2,899,035	$ 155,859	$ -
Production and intermedi	-	273,872	-	273,872
Farm-related business	957,120	977,254	957,120	977,254
Rural residential real esta	204,813	78,699	4,626	7,579
Total	$ 2,925,555	$ 4,228,860	$ 1,117,605	$ 1,258,705

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	June 30, 2014			December 31, 2013		
	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	**$ 302,451**	**$ 300,850**	**$ 42,107**	$ 392,243	$ 391,881	$ 13,816
Production and intermediate term	**-**	**-**	**-**	268,602	316,746	128,526
Farm-related business	**957,120**	**4,881,343**	**120,588**	977,254	4,901,476	160,295
Rural residential real estate	**14,546**	**14,546**	**1,148**	249,138	249,138	9,493
Total	**$ 1,274,117**	**$ 5,196,739**	**$ 163,843**	$ 1,887,237	$ 5,859,241	$ 312,130
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 3,736,307**	**$ 4,801,360**	**$ -**	$ 4,686,977	$ 5,755,153	$ -
Farm-related business	**-**	**214,700**	**-**	-	246,407	-
Rural residential real estate	**559,390**	**560,570**	**-**	119,511	119,693	-
Total	**$ 4,295,697**	**$ 5,576,630**	**$ -**	$ 4,806,488	$ 6,121,253	$ -
Total impaired loans:						
Real estate mortgage	**$ 4,038,758**	**$ 5,102,210**	**$ 42,107**	$ 5,079,220	$ 6,147,034	$ -
Production and intermediate term	**-**	**-**	**-**	268,602	316,746	13,816
Loans to cooperatives	**-**	**-**	**-**	-	-	128,526
Farm-related business	**957,120**	**5,096,043**	**120,588**	977,254	5,147,883	160,295
Rural residential real estate	**573,936**	**575,116**	**1,148**	368,649	368,831	9,493
Total	**$ 5,569,814**	**$ 10,773,369**	**$ 163,843**	$ 6,693,725	$11,980,494	$ 312,130

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

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2014		June 30, 2013		June 30, 2014		June 30, 2013	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ 302,880**	**$ 3,160**	$ 2,050,949	$ 4,488	$ 309,476	$ 6,421	$ 2,541,116	$ 7,588
Production and intermediate term	**-**	**-**	294,234	-	-	-	-	-
Farm-related business	**960,898**	**-**	-	-	965,379	-	14,870,067	-
Communication	**-**	**-**	357,864	13,440	-	-	261,457	-
Rural residential real estate	**14,544**	**-**	-	-	14,299	-	-	-
Total	**$ 1,278,322**	**$ 3,160**	$ 2,703,047	$ 17,928	$ 1,289,154	$ 6,421	$ 17,672,640	$ 7,588
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 3,577,526**	**$ 20,012**	$ 4,624,807	$ 29,237	$ 3,510,491	$ 36,793	$ 11,752,771	$ 52,518
Processing and marketing	**-**	**-**	-	-	-	-	299,647	4,642
Farm-related business	**-**	**-**	8,112,085	-	2	-	279,008	-
Communication	**-**	**-**	78,690	-	-	-	-	-
Rural residential real estate	**533,828**	**2,631**	94,924	752	515,000	5,171	35,335	-
Total	**$ 4,111,354**	**$ 22,643**	$ 12,910,506	$ 29,989	$ 4,025,493	$ 41,964	$ 12,366,761	$ 57,160
Total impaired loans:								
Real estate mortgage	**$ 3,880,406**	**$ 23,172**	$ 6,675,756	$ 33,725	$ 3,819,967	$ 43,214	$ 14,293,887	$ 60,106
Production and intermediate term	**-**	**-**	294,234	-	-	-	-	-
Processing and marketing	**-**	**-**	-	-	-	-	299,647	4,642
Farm-related business	**960,898**	**-**	8,112,085	-	965,379	-	15,149,075	-
Communication	**-**	**-**	436,554	13,440	-	-	261,457	-
Rural residential real estate	**548,372**	**2,631**	94,924	752	529,299	5,171	35,335	-
Total	**$ 5,389,676**	**$ 25,803**	$ 15,613,553	$ 47,917	$ 5,314,645	$ 48,385	$ 30,039,401	$ 64,748

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, 2014	$ 3,416,986	$ (122,313)	$ 1,568,734	$ 291,702	$ 49,830	$ 38,398	$ 21,112	$ 5,264,449
Charge-offs	(2,234)	-	-	-	-	-	-	(2,234)
Recoveries	1,588	-	15,854	-	-	-	-	17,442
Provision for loan losses	-	-	-	-	-	-	-	-
Adjustment due to merger	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Balance at June 30, 2014	$ 3,416,340	$ (122,313)	$ 1,584,588	$ 291,702	$ 49,830	$ 38,398	$ 21,112	$ 5,279,657
Balance at December 31, 2013	$ 3,418,150	$ (122,313)	$ 1,614,752	$ 291,702	$ 49,830	$ 39,368	$ 21,112	$ 5,312,601
Charge-offs	(3,398)	-	(61,871)	-	-	(970)	-	(66,239)
Recoveries	1,588	-	31,707	-	-	-	-	33,295
Provision for loan losses	-	-	-	-	-	-	-	-
Adjustment due to merger	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Balance at June 30, 2014	$ 3,416,340	$ (122,313)	$ 1,584,588	$ 291,702	$ 49,830	$ 38,398	$ 21,112	$ 5,279,657
Ending Balance:								
Individually evaluated for impairment	$ 60,224	$ -	$ 1,230,524	$ -	$ -	$ 178	$ -	$ 1,290,926
Collectively evaluated for impairment	3,356,116	(122,313)	354,064	291,702	49,830	38,220	21,112	3,988,731
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Balance at June 30, 2014	$ 3,416,340	$ (122,313)	$ 1,584,588	$ 291,702	$ 49,830	$ 38,398	$ 21,112	$ 5,279,657
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
Adjustment due to merger	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
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
Adjustment due to merger	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
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
Loans acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Balance at June 30, 2013	$ 4,565,182	$ (122,313)	$ 1,714,319	$ 291,702	$ 49,830	$ 39,550	$ 21,112	$ 6,559,382

	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, 2014	$ 534,464,651	$ 33,210,754	$26,253,826	$ 6,439,248	$ 2,828,433	$ 13,627,171	$103,410	$ 616,927,493
Individually evaluated for impairment	$ 4,281,327	$ -	$ 3,082,130	$ -	$ -	$ 573,937	$ -	$ 7,937,394
Collectively evaluated for impairment	$ 530,183,324	$ 33,210,754	$23,171,696	$ 6,439,248	$ 2,828,433	$ 13,053,234	$103,410	$ 608,990,099
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
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	$ -	$ 18,311,700
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
Loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

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 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.

On July 25th, 2014, Association stockholders approved an amendment to the Association's capitalization bylaws addressing the amount of stock a borrower must purchase as a condition of borrowing from the Association.

Currently, the stock purchase required is applied on a per loan basis and is measured as 2 percent of the individual loan amount up to a maximum of $1,000. Effective October 1, 2014, the stock requirement will change to be applied to the borrower level instead of the loan level. This will be measured as 2 percent of the aggregate of all a borrower's loans, up to a maximum of $1,000.

In relation to the amended stock requirement, the board of directors approved a "stock equalization" action or the refund of excess stock amounts to borrowers impacted by the conversion of the stock requirement from the loan level to the borrower level. The stock equalization refund is expected to have a minimal impact on the Association's permanent capital ratio. The stock equalization refund is expected to be completed in the fourth quarter of 2014.

An additional component of equity is accumulated other comprehensive income, which is reported net of taxes as follows:

June 30, 2014	**Before Tax**	**Deferred Tax**	**Net of Tax**
Nonpension postretirement benefits	**$ 2,380,270**	**$ -**	**$ 2,380,270**
Total	**$ 2,380,270**	**$ -**	**$ 2,380,270**

June 30, 2013	Before Tax	Deferred Tax	Net of Tax
Nonpension postretirement benefits	$ 2,821,659	$ -	$ 2,821,660
Total	$ 2,821,659	$ -	$ 2,821,660

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:

	2014	2013
Accumulated other comprehensive income (loss) at January 1	**$ (126,794)**	$ (689,860)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(26,369)**	(26,370)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**6,341**	31,176
Other comprehensive income (loss), net of tax	**(20,028)**	4,806
Accumulated other comprehensive income at June 30	**$ (146,822)**	$ (685,054)

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, 2014, the Association did not 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, 2014, and 2013, net income for tax purposes was $5,315,637 and $4,481,821.

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 2013 Annual Report to Stockholders for a more complete description.

There were no assets and liabilities measured at fair value on a recurring basis as of June 30, 2014.

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

June 30, 2014	**Fair Value Measurement Using**			**Total Fair**	**Total Gains**
	Level 1	**Level 2**	**Level 3**	**Value**	**(Losses)**
Assets:					
Loans*	**$ -**	**$ -**	**$ 5,186,013**	**$ 5,186,013**	**$ -**
Other property owned	**-**	**-**	**1,485,895**	**1,485,895**	**-**

December 31, 2013	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Assets:					
Loans*	$ -	$ -	$ 2,916,596	$ 2,916,596	$ -
Other property owned	-	-	1,551,254	1,551,254	-

*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 2013 Annual Report to Stockholders, the FASB 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 2013 Annual Report to Stockholders.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying real estate collateral since the loans were collateral-dependent. 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, a majority of these loans have fair value measurements that fall within Level 3 of the fair value 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. The fair value of these loans would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy.

Cash

For cash, the carrying amount is a reasonable estimate of fair value.

Loans

Fair value is estimated by discounting the expected future cash flows using the Associations' current interest rates at which similar loans would be made to borrowers with similar credit risk. The discount rates are based on the Associations' current loan origination rates as well as management's estimates of credit risk. Management has no basis to determine whether the fair values presented would be indicative of the value negotiated in an actual sale and could be less.

For purposes of estimating fair value of accruing loans, the loan portfolio is segregated into pools of loans with homogeneous characteristics. Expected future cash flows, primarily based on contractual terms, and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

The fair value of loans in nonaccrual status that are current as to principal and interest is estimated as described above, with appropriately higher interest rates which reflect the uncertainty of continued cash flows. For collateral-dependent impaired loans, it is assumed that collection will result only from the disposition of the underlying collateral.

Bonds and Notes

Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between System debt instruments and Treasury securities. We estimate an appropriate yield-spread taking into consideration selling group member (banks and securities dealers) yield indications, observed new government-sponsored enterprise debt security pricing, and pricing levels in the related U.S. dollar interest rate swap market.

Subordinated Debt

The fair value of subordinated debt is estimated based upon quotes obtained from a broker/dealer or based on discounted cash flows.

Commitments to Extend Credit

The fair value of commitments is estimated using the fees currently charged for similar agreements, taking into account the remaining terms of the agreements and the creditworthiness of the counterparties. For fixed-rate loan commitments, estimated fair value also considers the difference between current levels of interest rates and the committed rates.

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	
	2014	2013
Service cost	**$ 28,780**	$ 18,557
Interest cost	**59,601**	30,013
Amortization of prior service (credits) costs	**(26,369)**	(13,185)
Amortization of net actuarial (gain) loss	**6,341**	15,588
Net periodic benefit cost	**$ 68,353**	$ 50,973

The Association's liability for the unfunded accumulated obligation for these benefits at June 30, 2014, was $2,380,270 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, 2014, $74,035 of contributions have been made. The Association presently anticipates contributing an additional $74,033 to fund the defined benefit pension plan in 2014 for a total of $148,068.

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:

	2014	2013
Accumulated other comprehensive income (loss) at January 1	**$ (126,794)**	$ (689,860)
Amortization of prior service (credit) costs included in salaries and employee benefits	**(26,369)**	(26,370)
Amortization of actuarial (gain) loss included in salaries and employee benefits	**6,341**	31,176
Other comprehensive income (loss), net of tax	**(20,028)**	4,806
Accumulated other comprehensive income at June 30	**$ (146,822)**	$ (685,054)

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 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through August 8, 2014, which is the date the financial statements were issued.

On July 25th, 2014, the Association's stockholders approved an amendment to the Association's capitalization bylaws addressing the amount of stock a borrower must purchase as a condition of borrowing from the Association. Further details are discussed in Note 3, "Capital" to the financial statements included in this quarterly report.