
FARM CREDIT EAST, ACA

Quarterly Report

June 30, 2014



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

The following commentary is a review of the financial condition and results of operations of Farm Credit East, ACA (the Association) for the six month period ended June 30, 2014. This commentary should be read in conjunction with the accompanying unaudited consolidated financial statements and notes included in this report, as well as the 2013 Annual Report. Dollar amounts are in thousands unless otherwise noted.

The accompanying financial statements were prepared under the oversight of the Audit Committee.

Business Structure

Farm Credit East is a lending institution of the Farm Credit System (the System). The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. We are a mission-based lender with authority to make loans and provide related financial services to eligible borrowers for qualified agricultural purposes. As a cooperative, the Association is owned by the members it serves. The territory served extends across a diverse agricultural region covering the entire states of Connecticut, Maine, Massachusetts, New Jersey and Rhode Island, six counties of New Hampshire and all of New York except two counties. The Association makes short and intermediate term loans for agricultural production and long term real estate mortgage loans. Our success begins with our extensive agricultural experience and knowledge of the market.

Farm Credit East's annual and quarterly reports to stockholders are available on the Association's website, **Farmcrediteast.com** or can be obtained free of charge by calling the Association's main office at 860-741-4390. Annual reports are available 75 days after year end and quarterly reports are available 40 days after each calendar quarter end. The financial condition and results of operations of CoBank, ACB (Bank), materially affect the risk associated with stockholder investments in Farm Credit East, ACA. To obtain a free copy of the CoBank Annual Report to Stockholders, please contact us at one of our offices or by accessing **CoBank.com**.

Merger with Farm Credit of Maine, ACA

On January 1, 2014, Farm Credit of Maine, ACA (Maine) merged with and into Farm Credit East, ACA. The merger successfully brought together two excellent organizations and established a business entity with greater capacity of capital, people and leadership to serve northeast agriculture. Beginning in 2014, the financial statements and related metrics include the effects of the merger with Farm Credit of Maine. Prior year results have not been restated to reflect the impact of merger.

Upon the closing of the merger, total loans, other assets, liabilities and members equity increased by \$298.4 million, \$30.4 million, \$256.3 million, and \$72.5 million, respectively. These amounts include adjustments to fair value, as required by accounting standards for business combinations. The merger is also discussed in Note 2 "Business Combination" to the accompanying consolidated financial statements.

Results of Operations

Farm Credit East posted strong financial results for the six month period ending June 30, 2014. Net income was \$73.4 million for the six months ending June 30, 2014, an increase of \$9.7 million (15.2%) as compared with the same period in 2013. Our stronger earnings primarily reflect the favorable impact of the merger on net interest income, partially offset by higher operating expenses, also primarily due to the merger.

The following table reflects key performance results (*\$ in millions*):

For the six months ending June 30	2014	2013
Net income	\$ 73.4	\$ 63.7
Net interest income	\$ 83.9	\$ 72.0
Net interest margin	3.1%	3.1%
Return on average assets	2.6%	2.6%
Return on average members equity	14.2%	14.7%

Changes in the significant components impacting the results of operations are summarized in the following table (\$ in millions):

	2014 versus 2013	2013 versus 2012
Increase (decrease) due to:		
Net interest income	\$ 11.9	\$ 1.3
Provision for loan losses	0.0	5.0
Noninterest income	4.4	(4.6)
Noninterest expenses	(6.4)	(2.5)
Provision for income taxes	(0.2)	0.0
Total	\$ 9.7	\$ (0.8)

Net Interest Income

Net interest income was \$83.9 million for the six months ending June 30, 2014, an increase of \$11.9 million (16.6%) from 2013. The merger with Maine increased our loan volume by \$298.4 million, as of the merger date, which increased net interest income. The Association was also able to increase its hold positions on loans sold in the Maine portfolio. The following table quantifies the changes in net interest income (\$ in millions):

	2014 versus 2013	2013 versus 2012
Changes in net interest income due to:		
Volume & Merger	\$ 12.8	\$ 3.3
Nonaccrual and other income	(0.5)	(0.2)
Rates and margin	(1.9)	(2.0)
Hedging activity	1.5	0.2
Total	\$ 11.9	\$ 1.3

Interest income as a percent of earning assets was 3.97% as of June 30, 2014 down from 4.07% as of June 30, 2013. The average cost of debt funding also fell to 1.11% as of June 30, 2014 compared to 1.16% a year ago. The decline in yields from 2013 to 2014 was due to lower fixed rates and the steady decline in the average yield on the variable portfolio. Average interest rate spread over cost of funding declined slightly year over year from 2.91% to 2.86%. Of the \$11.9 million increase from 2013, \$12.8 million was due to loan volume from growth and merger, partially offset by lower margin over cost of funding \$1.9 million. Collection of nonaccrual interest income and other interest income decreased by \$0.5 million compared to 2013. The Association's hedging strategy contributed \$1.8 million to interest income, a \$1.5 million increase from 2013.

Information regarding the average daily balances and average rates earned and paid on our portfolio are presented in the following table:

As of June 30	2014	2013
Net interest income	\$ 83,910	\$ 71,991
Average balances:		
Average interest earning loans	\$ 5,398,441	\$ 4,626,755
Average interest bearing liabilities	\$ 4,575,590	\$ 3,935,723
Average yields and rates:		
Interest earning loan yield	3.97%	4.07%
Rate paid on interest bearing liabilities	1.11%	1.16%
Interest rate spread	2.86%	2.91%
Net interest margin (interest income as a percentage of average earning loans)	3.11%	3.11%

Provision for loan losses

The provision for loan losses reflects our estimate for losses inherent in our loan portfolio, including unfunded commitments. We maintain an allowance for credit losses for probable and estimable losses based on loan loss experience, portfolio quality, loan portfolio composition, current production conditions and economic conditions, among other factors.

Association management has determined that no provision for loan losses was required during the first six months of 2014. No provision for loan losses was recorded for the six month period ended June 30, 2013.

Noninterest income

Noninterest income was \$27.6 million for the six months ending June 30, 2014, a \$4.4 million increase over the same period in 2013.

Patronage income from CoBank is a significant part of the Association's noninterest income. Patronage income is based on the average balance of the Association's note payable to CoBank. For the six month period ending June 30, 2014, CoBank patronage income totaled \$10.3 million, compared to \$8.8 million in 2013. The merger with Maine increased our note payable by \$253.2 million, as of the merger date, which increases patronage income. The patronage rates paid by CoBank on the Association's note payable were 45 basis points in 2014 and 2013.

The Association also receives patronage income from CoBank and other Farm Credit entities that purchased interest in loans originated by the Association. For the six months ended June 30, 2014 this revenue totaled \$2.0 million compared to \$1.3 million in 2013.

Noninterest income also includes fees for financial services, loan fees, compensation on participation loans, other property owned income (expense), net and other noninterest income. These other noninterest income sources totaled \$15.3 million for the six months ending June 30, 2014, an increase of \$2.2 million compared to 2013. Financial services fee income is the largest component with \$11.4 million in revenue for the six months ended June 30, 2014 a slight increase of \$0.6 million compared to 2013. During the second quarter, the Association sold an acquired property which resulted in a gain of \$1.3 million.

Noninterest expense

Noninterest expense totaled \$37.5 million for the six month period ending June 30, 2014 as compared to \$31.1 million for the same period last year. Salaries and employee benefits is the primary component of noninterest expense and totaled \$23.6 million, an increase of \$3.5 million (17.4%) compared to 2013. The increase is primarily due to the addition of 41 former Maine employees offset by slightly lower retirement plan expenses. Noninterest expenses also include fees paid to our technology service provider, insurance fund premiums, occupancy and equipment expense and other operating expenses. The increases in fees paid to our technology service provider and insurance fund premiums were due to the merger with Maine.

Income Taxes

The provision for income taxes totaled \$0.6 million for the six months ending June 30, 2014, an increase of \$0.2 million from 2013. Our effective tax rate is significantly less than the applicable federal and state tax statutory income tax rates primarily due to tax deductible patronage distributions and our tax exempt business activities.

Patronage Distributions

The Association has a patronage program that allows it to distribute its available net earnings to its stockholders. The patronage program consists of a qualified cash distribution and a non-qualified distribution.

At December 31, 2013, liabilities included a \$42.0 million patronage distribution payable to members, which has since been distributed in cash. An anticipated patronage distribution payable to members of \$23.2 million was accrued during the first six months of 2014 which will be payable to members in cash early in 2015 provided the capital and earnings goals for the Association are achieved.

Loan Portfolio

The loan portfolio consists primarily of agricultural real estate loans, agricultural production operating loans and intermediate installment loans. Loans are originated and serviced within the Association's local service area (LSA) in New York, New Jersey, Maine and throughout Southern New England, as well as outside the LSA through purchased loan participations.

As of June 30	2014	2013
New York	47%	52%
New Jersey	13%	15%
Maine	8%	0%
Massachusetts	7%	8%
Connecticut	6%	7%
Rhode Island, New Hampshire and other states	19%	18%
Total	100%	100%

Loan volume totaled \$5.5 billion at June 30, 2014, an increase of \$532.2 million (10.7%) from December 31, 2013. The merger with Maine increased loan volume by \$298.4 million on January 1, 2014. The Association was also able to increase its hold position on sold loans in the Maine portfolio by approximately \$200 million. Compared to June 30, 2013 loan volume grew a combined (with Maine) 10.1%. The period to period growth was driven by our branch based farm loan portfolio which grew \$309.1 million (8.6%) as demand for agricultural products benefited producers. Our residential country living mortgage program grew \$53.9 million (11.9%) and our capital markets group grew \$150.0 million (17.0%).

Credit Quality Conditions and Measurements in the Loan Portfolio

The following table presents loans classified, by management, pursuant to our regulator's Uniform Loan Classification System, as a percent of total loans and related accrued interest.

As of June 30	2014	2013
Acceptable	92.79%	92.36%
Special mention	4.10%	3.84%
Substandard/doubtful	3.11%	3.80%
Total	100.00%	100.00%

The overall credit quality in our loan portfolio has continued to improve. Adversely classified loans ('Substandard' and 'Doubtful') decreased to 3.1% of total loans at June 30, 2014 compared to 3.8% at June 30, 2013 while 'Special Mention' loans increased slightly to 4.1% of loans from 3.8%. These overall improvements track closely with a strong Agricultural Economy which reflects the improved credit quality classification of loans in the timber, greenhouse, nursery and dairy industries combined with the resolution and payoff of previously adversely classified loans.

Credit risk arises from the inability of an obligor to meet its repayment obligation and exists in our outstanding loans, unfunded loan commitments and letters of credit. We manage credit risk associated with our lending activities through an assessment of the credit risk profile of an individual borrower based on an analysis of the borrower's credit history, repayment capacity, financial position and collateral. Repayment capacity focuses on the borrower's ability to repay the loan based on cash flows from operations or other sources of income. The Association also manages single borrower hold positions and industry concentrations based on underlying risk. The geographic and commodity diversity in the loan portfolio, coupled with disciplined underwriting reduces the potential for significant credit losses. Also worth noting, Farm Credit East's underwriting standards do not allow for subprime lending which is evident based on the current and historical delinquency percentages of the loan portfolio.

To further manage portfolio risk, the Association participates in the USDA's Farm Service Agency guarantee program and as of June 30, 2014 has guarantees totaling \$291.8 million. The Association also participates in the Farmer Mac Long Term Standby Commitment to Purchase Program. As of June 30, 2014, commitments totaling \$49.9 million were in this program.

The following table summarizes high risk assets and delinquency information:

As of	June 30, 2014	December 31, 2013
Nonaccrual	\$ 61,580	\$ 60,374
Accrual loans 90 Days or more past due	4,338	2,132
Accrual restructured loans	82	1,353
Total Impaired Loans	\$ 66,000	\$ 63,859
Other Property Owned	4,357	6,147
Total High Risk Assets	\$ 70,357	\$ 70,006
Impaired Loans to Total Loans	1.20%	1.28%
High Risk Assets to Total Loans	1.28%	1.41%
Nonaccrual Loans to Total Loans	1.12%	1.21%
Delinquencies as a % of total performing loans	0.38%	0.47%

For additional loan type information, see Note 3 to the consolidated financial statements “Loans, Loan Quality and Allowance for Credit Losses”.

Nonearning Assets

Nonaccrual loans represent all loans where there is a reasonable doubt as to collection of principal and/or interest. At June 30, 2014 nonaccrual loans totaled \$61.6 million, an increase of \$1.2 million from December 31, 2013. Nonaccrual loans as a percentage of gross loans remained at a relatively low level of 1.1%. In general, the Association is adequately secured on much of the \$61.6 million in nonaccrual loan volume at June 30, 2014. However, the Association has established specific loan loss allowances of \$4.1 million in relation to \$15.2 million of the nonaccrual portfolio.

Other property owned is comprised of real or personal property that has been acquired through foreclosure or deed in lieu of foreclosure. Other property owned totaled \$4.4 million at June 30, 2014, a decrease of \$1.7 million from \$6.1 million at December 31, 2013. The decrease is directly attributed to \$1.8 million in property dispositions offset by the addition of one property for \$0.1 million. The Association is actively marketing all other property owned assets and intends to dispose of all properties in an orderly and timely fashion.

Allowance for Credit Losses

The allowance for credit losses (ACL) is our best estimate of the amount of probable losses inherent in our loan portfolio, including unfunded commitments. The allowance for loan losses covers the funded portion of our loans outstanding, while the reserve for unfunded commitments is held to cover losses on unfunded lending commitments. The ACL was \$84.5 million at June 30, 2014 compared to \$83.9 million at December 31, 2013. Net loan recoveries were \$0.6 million for the first six months of 2014. The allowance for credit losses at each period end was considered by management to be adequate to absorb probable losses existing in and inherent to the loan portfolio. Management’s evaluations consider factors including loan loss experience, portfolio quality, loan portfolio composition, current production conditions and economic conditions.

Comparative allowance coverage, as a percentage of key loan categories, follows:

As of	June 30, 2014	December 31, 2013
Allowance for credit losses	\$ 84,454	\$ 83,949
Allowance as a percentage of:		
Total loans	1.53%	1.68%
Nonaccrual loans	137.15%	139.05%
Impaired loans	127.96%	131.46%

For further discussion regarding the allowance for loan losses, refer to Note 3 to the consolidated financial statements “Loans, Loan Quality and Allowance for Credit Losses”.

Liquidity and Funding Sources

The Association's primary source of funding is CoBank. Funds are obtained through borrowing on a revolving line of credit governed by a General Financing Agreement. At June 30, 2014 the Association's note payable to CoBank totaled \$4.6 billion. The Association is in full compliance with its financing agreement with CoBank and has capacity under the agreement to borrow funds needed to meet anticipated loan demand.

Members' Equity

Members' equity, which is available as loanable funds, was \$1.1 billion at June 30, 2014 and consisted of, capital stock and participation certificates of \$13.7 million, additional paid in capital of \$229.2 million, unallocated retained earnings of \$827.0 million, allocated retained earnings of \$6.8 million and other accumulated comprehensive loss of (\$23.2) million.

Farm Credit East, along with other System institutions, is subject to regulatory oversight by FCA. In addition to the Association's Board approved Capitalization Plan, a number of rules and regulations are imposed under the Farm Credit Act on the operations of System entities, including requirements to maintain a minimum permanent capital ratio, total surplus ratio and core surplus ratio. As displayed in the following table, the Association exceeded the minimum regulatory requirements, which are noted parenthetically.

As of June 30	2014	2013
Members' equity as a % of assets	18.36%	18.21%
Permanent capital ratio (7.0%)	15.65%	15.81%
Total surplus ratio (7.0%)	15.40%	15.54%
Core surplus ratio (3.5%)	15.36%	15.54%

Financial condition ratios for 2014 are consistent with Farm Credit East's current Capitalization Plan and long term objectives. Association management knows of no reason that would cause the Association not to meet these standards in the foreseeable future.

Critical Accounting Estimates

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. The Association's significant accounting policies are critical to the understanding of the results of operations and financial position because some accounting policies require management to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. Management considers these policies critical because it has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 1 to the consolidated financial statements "Organization and Significant Accounting Policies".

Forward-Looking Statements

Certain information included in this report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "believes," "could," "estimates," "anticipates," "may," "should," "will," or other variations of these terms or similar expressions are intended to identify forward-looking statements. These statements are based on assumptions and analyses made in light of experience, historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to fluctuations in the economy, the relative strengths and weaknesses in the agricultural credit sectors and in the real estate market, and the actions taken by the Federal Reserve in implementing monetary policy.

FARM CREDIT EAST, ACA
CONSOLIDATED BALANCE SHEETS
(unaudited and dollars in thousands)

	June 30, 2014	December 31, 2013
ASSETS		
Loans	\$ 5,514,652	\$ 4,982,420
Less: Allowance for loan losses	72,039	72,616
Net loans	5,442,613	4,909,804
Cash	35,689	11,683
Accrued interest receivable	17,875	15,567
Investment in CoBank, ACB	180,602	164,000
Investment in Rural Investments, LLC	1,235	1,432
Premises and equipment, net	18,658	15,220
Other property owned	4,357	6,147
Other assets	36,149	39,848
Total Assets	\$ 5,737,178	\$ 5,163,701
LIABILITIES		
Notes payable to CoBank, ACB	\$ 4,623,066	\$ 4,152,555
Accrued interest payable	4,218	3,948
Patronage distributions payable	23,196	42,000
Reserve for unfunded commitments	12,415	11,333
Other liabilities	20,730	23,022
Total Liabilities	4,683,625	4,232,858
MEMBERS' EQUITY		
Capital stock and participation certificates	13,750	12,855
Additional paid-in capital	229,198	164,369
Allocated retained earnings	6,851	0
Unallocated retained earnings	826,987	776,796
Accumulated other comprehensive loss	(23,233)	(23,177)
Total Members' Equity	1,053,553	930,843
Total Liabilities and Members' Equity	\$ 5,737,178	\$ 5,163,701

The accompanying notes are an integral part of these statements.

FARM CREDIT EAST, ACA
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited and dollars in thousands)

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
INTEREST INCOME				
Loans	\$ 53,880	\$ 46,695	\$ 106,889	\$ 93,828
Other	65	68	204	393
Total interest income	53,945	46,763	107,093	94,221
INTEREST EXPENSE				
Notes payable to CoBank, ACB	11,759	11,012	23,180	22,228
Other	2	1	3	2
Total interest expense	11,761	11,013	23,183	22,230
Net interest income	42,184	35,750	83,910	71,991
Provision for loan losses	0	0	0	0
Net interest income after provision for loan losses	42,184	35,750	83,910	71,991
NONINTEREST INCOME				
Patronage distributions from Farm Credit Institutions	5,990	5,095	12,269	10,105
Financially related services income	6,763	6,288	11,354	10,753
Compensation on participation loans, net	844	886	1,582	1,715
Loan fees	676	609	1,209	784
Other property owned income (expense), net	1,272	(329)	1,118	(205)
Other income	11	2	32	18
Total noninterest income	15,556	12,551	27,564	23,170
NONINTEREST EXPENSE				
Salaries and employee benefits	11,967	9,618	23,648	20,144
Occupancy and equipment	779	655	1,669	1,389
Insurance Fund premiums	1,270	892	2,497	1,791
Fees paid to technology service provider	1,777	1,335	3,542	2,661
Other operating expenses	3,229	2,494	6,122	5,082
Total noninterest expenses	19,022	14,994	37,478	31,067
Income before income taxes	38,718	33,307	73,996	64,094
Provision for income taxes	305	202	609	403
Net Income	38,413	33,105	73,387	63,691
OTHER COMPREHENSIVE INCOME (LOSS)				
Net change in cash flow hedge	504	(146)	(63)	(300)
Other Comprehensive Income (Loss)	504	(146)	(63)	(300)
Comprehensive Income	\$ 38,917	\$ 32,959	\$ 73,324	\$ 63,391

The accompanying notes are an integral part of these statements.

FARM CREDIT EAST, ACA
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY
(unaudited and dollars in thousands)

	Capital Stock and Participation Certificates	Additional Paid-in- Capital	Allocated Retained Earnings	Unallocated Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Members' Equity
Balance at December 31, 2012	\$ 12,602	\$ 164,369	\$ -	\$ 702,235	\$ (36,716)	\$ 842,490
Comprehensive Income				63,691	(300)	63,391
Capital stock and participation certificates issued	695					695
Capital stock and participation certificates retired	(536)					(536)
Patronage Distribution				(19,569)		(19,569)
Balance at June 30, 2013	\$ 12,761	\$ 164,369	\$ -	\$ 746,357	\$ (37,016)	\$ 886,471
Balance at December 31, 2013	\$ 12,855	\$ 164,369	\$ -	\$ 776,796	\$ (23,177)	\$ 930,843
Comprehensive Income				73,387	(63)	73,324
Capital stock and participation certificates issued	689					689
Capital stock and participation certificates retired	(561)					(561)
Equity re-characterized upon merger	767	64,829	6,852		7	72,455
Allocated retained earnings retired			(1)			(1)
Patronage Distribution				(23,196)		(23,196)
Balance at June 30, 2014	\$ 13,750	\$ 229,198	\$ 6,851	\$ 826,987	\$ (23,233)	\$ 1,053,553

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

(unaudited and dollars in thousands except as noted)

NOTE 1 – Organization and Significant Accounting Policies

Farm Credit East, ACA (the Association or ACA) and its subsidiaries are part of the Farm Credit System. A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2013, are contained in the 2013 Annual Report to Stockholders. These unaudited second quarter 2014 financial statements should be read in conjunction with the 2013 Annual Report to Stockholders.

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 statement 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. Certain reclassifications have been made to amounts reported in the prior period to conform to the current period presentation.

In the opinion of management, the unaudited financial information is complete and reflects all 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 statement 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 to 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 non-public 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.

NOTE 2 – Business Combination

As discussed in our 2013 Annual Report, Farm Credit of Maine (Maine) was merged into Farm Credit East effective January 1, 2014. The merger was accounted for under the acquisition method of accounting in accordance with the FASB Accounting Standards Codification (ASC) 805 *Business Combinations* (ASC 805). As the accounting acquirer, Farm Credit East recognized the identifiable assets acquired and liabilities assumed in the Merger as of Effective Date at their respective fair values. The fair values are based on various assumptions that Farm Credit East management believes are reasonable utilizing information currently available.

The fair value of net assets acquired includes an adjustment to certain loan receivables and certain debt not considered impaired as of the acquisition date. These fair value adjustments were determined using spread assumptions based on the current spread to the cost of funds by each category of loans. Projected cash flows were discounted using the current Farm Credit funding yield curve to determine the fair value of the assets and liabilities. The pro forma statement below shows the fair value of the acquired assets and assumed liabilities as of January 1, 2014.

Farm Credit East, ACA
Pro-Forma Balance Sheet
As of January 1, 2014

	Farm Credit East	Maine	As Adjusted Pro-Forma
ASSETS			
Loans	\$ 4,982,420	\$ 298,053	\$ 5,280,473
Less: Allowance for loan losses	83,949	0	83,949
Accretable loan yield mark	0	314	314
Net Loans	4,898,471	298,367	5,196,838
Cash	11,683	2,552	14,235
Accrued Interest Receivable	15,567	1,767	17,334
Investment in CoBank, ACB	164,000	15,867	179,867
Investment in Rural Investments, LLC	1,432	0	1,432
Premises and Equipment, net	15,220	3,055	18,275
Other Property Owned	6,147	0	6,147
Other Assets	39,848	7,199	47,047
Total Assets	\$ 5,152,368	\$ 328,807	\$ 5,481,175
LIABILITIES			
Notes payable to CoBank, ACB	\$ 4,152,555	\$ 253,592	\$ 4,406,147
Accretable note payable yield mark	0	(353)	(353)
Net Notes payable to CoBank, ACB	4,152,555	253,239	4,405,794
Patronage refunds payable	42,000	1,250	43,250
Accrued interest payable	3,948	0	3,948
Other Liabilities	23,022	1,863	24,885
Total Liabilities	\$ 4,221,525	\$ 256,352	\$ 4,477,877
MEMBERS' EQUITY			
Capital stock and participation certificates	\$ 12,855	\$ 767	\$ 13,622
Additional paid-in capital	164,369	64,829	229,198
Allocated surplus	0	6,852	6,852
Unallocated surplus	776,796	0	776,796
Accumulated other comprehensive loss	(23,177)	7	(23,170)
Total Members' Equity	930,843	72,455	1,003,298
Total Liabilities and Members' Equity	\$ 5,152,368	\$ 328,807	\$ 5,481,175

NOTE 3 – Loans, Loan Quality and Allowance for Credit Losses

A summary of loans follows:

As of	June 30, 2014		December 31, 2013	
Real estate mortgage	\$ 2,569,553	46.6%	\$ 2,413,645	48.5%
Production and intermediate term	1,941,006	35.2%	1,826,825	36.7%
Loans to cooperatives	152,359	2.8%	120,773	2.4%
Processing and marketing	482,555	8.7%	270,972	5.4%
Farm related business	235,977	4.3%	223,252	4.5%
Communication	5,107	0.1%	5,267	0.1%
Energy	61,354	1.1%	59,742	1.2%
Rural residential real estate	61,608	1.1%	61,944	1.2%
Water/Waste water	5,133	0.1%	0	0.0%
Total Loans	\$ 5,514,652	100.0%	\$ 4,982,420	100.0%

The Association's concentration of credit risk in various agricultural commodities is shown in the following table. While the amounts represent the Association's maximum potential credit risk as it relates to recorded loan principal, a substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly. An estimate of the Association's credit risk exposure is considered in the determination of the allowance for credit losses.

As of	June 30, 2014		December 31, 2013	
Commodity	Amount		Amount	
Dairy	\$ 1,124,193	20.4%	\$ 1,164,060	23.4%
Timber	622,485	11.3%	479,074	9.6%
Cash Field	582,331	10.6%	570,195	11.4%
Livestock	516,986	9.4%	500,221	10.0%
Processing & Marketing	486,574	8.8%	262,687	5.3%
Fruit	458,252	8.3%	438,325	8.8%
Greenhouse	249,356	4.5%	261,565	5.2%
Nursery	243,271	4.4%	240,383	4.8%
Farm Services	239,807	4.3%	229,103	4.6%
Aquatic	217,680	3.9%	169,849	3.4%
Vegetables	179,490	3.3%	165,465	3.3%
Potato	165,909	3.0%	66,520	1.3%
All Other	428,318	7.8%	434,973	8.9%
Total	\$ 5,514,652	100.0%	\$ 4,982,420	100%

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock as well as receivables. Long-term real estate loans are secured by the first liens on the underlying property. Federal regulations state that long-term real estate loans are not to exceed 85% (97% if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in the loan to value ratios in excess of the regulatory maximum.

To mitigate the risk of loan losses, the Association may enter into long-term standby commitments to purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac). The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Association the right to sell the loans identified in the agreements to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under long-term standby commitments was \$49,904 at June 30, 2014 and \$60,321 at December 31, 2013. Fees paid to Farmer Mac for such commitments totaled \$131 for the six months ended June 30, 2014 and \$154 for the six months ended June 30, 2013. These amounts are classified as noninterest expense. In addition to Farmer Mac, the Association has credit enhancements with federal government agencies totaling \$291.8 million at June 30, 2014 and \$271.9 million at December 31, 2013.

One credit quality indicator utilized by the Bank and Associations 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 tables show loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of period end:

As of June 30, 2014	Acceptable	OAEM	Substandard/ Doubtful	Total
Real estate mortgage	43.1%	1.7%	1.8%	46.6%
Production and Intermediate term	32.6%	1.6%	1.0%	35.2%
Loans to cooperatives	2.8%	0.0%	0.0%	2.8%
Processing and marketing	8.5%	0.3%	0.0%	8.8%
Farm related business	3.5%	0.5%	0.2%	4.2%
Communication	0.1%	0.0%	0.0%	0.1%
Energy and Water/Waste water	1.2%	0.0%	0.0%	1.2%
Rural residential real estate	1.0%	0.0%	0.1%	1.1%
Total	92.8%	4.1%	3.1%	100.0%

December 31, 2013	Acceptable	OAEM	Substandard/ Doubtful	Total
Real estate mortgage	44.1%	2.2%	2.2%	48.5%
Production and Intermediate term	34.2%	1.6%	0.9%	36.7%
Loans to cooperatives	2.4%	0.0%	0.0%	2.4%
Processing and marketing	5.4%	0.0%	0.0%	5.4%
Farm related business	3.7%	0.4%	0.3%	4.4%
Communication	0.1%	0.0%	0.0%	0.1%
Energy and Water/Waste water	1.2%	0.0%	0.0%	1.2%
Rural residential real estate	1.2%	0.0%	0.1%	1.3%
Total	92.3%	4.2%	3.5%	100.0%

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms. Interest income recognized and payments received on nonaccrual impaired loans are applied in a similar manner as for nonaccrual loans, as described in Note 2 of the 2013 Annual Report to Stockholders.

The following table presents information relating to impaired loans:

As of	June 30, 2014	December 31, 2013
Nonaccrual loans:		
Current as to principal and interest	\$ 17,514	\$ 30,546
Past due	44,066	29,828
Total nonaccrual loans	\$ 61,580	\$ 60,374
Impaired accrual loans:		
Restructured accrual loans	\$ 82	\$ 1,353
Accrual loans 90 days or more past due	4,338	2,132
Total impaired accrual loans	\$ 4,420	\$ 3,485
Total impaired loans	\$ 66,000	\$ 63,859

The following tables provide an age analysis of past due loans as of period end:

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	\$ 10,874	\$ 27,043	\$ 37,917	\$ 2,531,636	\$ 2,569,553	\$ 2,529
Production and intermediate term	8,361	12,988	21,349	1,919,657	1,941,006	1,809
Loans to cooperatives	0	0	0	152,359	152,359	0
Processing and marketing	2,544	527	3,071	479,484	482,555	0
Farm related business	391	1,151	1,542	234,435	235,977	0
Communication	0	0	0	5,107	5,107	0
Energy and Water/Waste water	0	0	0	66,487	66,487	0
Rural residential real estate	412	296	708	60,900	61,608	0
Total Loans	\$ 22,582	\$ 42,005	\$ 64,587	\$ 5,450,065	\$ 5,514,652	\$ 4,338

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.

As of 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	\$ 25,418	\$ 16,371	\$ 41,789	\$ 2,371,856	\$ 2,413,645	\$ 958
Production and intermediate term	4,497	13,795	18,292	1,808,533	1,826,825	1,174
Loans to cooperatives	0	0	0	120,773	120,773	0
Processing and marketing	0	0	0	270,972	270,972	0
Farm related business	287	442	729	222,523	223,252	0
Communication	0	0	0	5,267	5,267	0
Energy and Water/Waste water	0	0	0	59,742	59,742	0
Rural residential real estate	497	334	831	61,113	61,944	0
Total Loans	\$ 30,699	\$ 30,942	\$ 61,641	\$ 4,920,779	\$ 4,982,420	\$ 2,132

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.

The Association had no troubled debt restructurings (TDR) that occurred during the quarter ended June 30, 2014. During the previous 12 months, \$0 troubled debt restructurings subsequently defaulted.

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 tables.

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Real estate mortgage	\$ 11,536	\$ 12,127	\$ 11,536	\$ 12,127
Production and intermediate term	3,314	4,919	3,232	4,919
Processing and marketing	0	1,353	0	0
Total	\$ 14,850	\$ 18,399	\$ 14,768	\$ 17,046

* represents the portion of loans modified as TDRs (first column) that are in nonaccrual status

The following table presents allowance information concerning impaired loans:

As of	June 30, 2014	December 31, 2013
Impaired loans with related allowance	\$ 15,177	\$ 10,070
Impaired loans with no related allowance	50,823	53,865
Total impaired loans	\$ 66,000	\$ 63,935
Total specific allowance	\$ 4,078	\$ 2,977
For the six months ending June 30,	2014	2013
Average impaired loans	\$ 68,238	\$ 72,015
Interest income recognized on impaired loans	\$ 505	\$ 1,050

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at June 30, 2014.

A summary of the changes in the allowance for credit losses follows:

For the six months ended June 30,	2014	2013
Allowance for Loan Losses		
Beginning balance at January 1	\$ 72,616	\$ 54,042
Charge-offs	(980)	(160)
Recoveries	1,485	374
Transfers from (to) Reserve for Unfunded Commitments	(1,082)	11,643
Ending balance at June 30,	\$ 72,039	\$ 65,899
Reserve for Unfunded Commitments		
Beginning balance at January 1	\$ 11,333	\$ 20,912
Transfers (to) from Allowance for Loan Losses	1,082	(11,643)
Ending balance June 30,	\$ 12,415	\$ 9,269
Allowance for Credit Losses	\$ 84,454	\$ 75,168

NOTE 4 – Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below. Members' equity is described and governed by the Association's capitalization policies. Farm Credit East's capitalization policies are specified in the Bylaws and in the Capitalization Plan approved by the Board of Directors. Copies of the Association's Bylaws and Capitalization Plan are available to members at any time.

The components of Association capital that are allocated directly to members are capital stock, participation certificates, and allocated surplus.

Capital stock and participation certificates

In accordance with the Farm Credit Act, and the Association's capitalization Bylaws and Capitalization Plan, each Association borrower, as a condition of borrowing, is required at the time the loan is made, to invest in Class B Stock for agricultural loans or Class B Participation Certificates for country home and farm related business loans. Association Bylaws require that borrowers acquire capital stock or participation certificates, as a condition of borrowing, at least the lesser of \$1,000 or 2% of the amount of the loan, and not more than 10% of the amount of the loan.

Pursuant to the Association Capitalization Plan, the Association Board has determined that Class B stock and Class B participation certificates shall be issued as follows:

For all loans (except where indicated below) Class B stock and Class B participation certificates shall be issued equal to one thousand dollars per customer as a condition of borrowing from this Association. For purposes of borrower stock, a customer is defined as the primary borrower on a loan. The intent of this policy is for each primary customer

to have one thousand dollars of stock, regardless of the number of loans or balance on those loans to that customer. Stock shall be purchased at the beginning of a customer's relationship and will not be retired until all loans to that customer are paid in full and there are no funds available for advances.

Exceptions to this policy are:

- At the time of the Farm Credit East mergers in 2010 and 2014, certain customers with less than one thousand dollars of stock were "grandfathered" at the stock level at conversion. Grandfathered customer stock will be frozen at converted levels until all loans are repaid, at which time the stock will be retired, or increased to one thousand dollars at the time of a future advance or credit action.
- Certain small borrowers (customers with total commitment less than ten thousand dollars initially) will be issued at 10% of the initial commitment, consistent with By-Law limitations.
- Certain interests in loans sold to other financial institutions.
- Loans to be sold into the secondary market

All stock and participation certificates are retired at the discretion of the Association's Board of Directors after considering the capitalization plan as well as regulatory and other requirements.

Regulatory capitalization requirements and restrictions

The Farm Credit Administration's (FCA) capital adequacy regulations require the Association to achieve permanent capital of seven percent (7.0%) of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the 7.0% capital requirement can initiate certain mandatory and possibly additional discretionary actions by FCA that, if undertaken, could have a direct material effect on the Association's financial statements. The Association is prohibited from reducing permanent capital by retiring stock or making certain other distributions to stockholders unless prescribed capital standards are met. FCA regulations also require that additional minimum standards for capital be achieved. These standards are summarized below:

	FCA Regulatory Minimum	Ratios at June 30, 2014
Permanent Capital Ratio	7.0%	15.65%
Total Surplus Ratio	7.0%	15.40%
Core Surplus Ratio	3.5%	15.36%

Patronage Distribution

In December 2013, the Board of Directors approved a patronage resolution. This resolution will allow the Association to pay a patronage refund on 2014 income provided the capital goals and earnings for the Association are achieved. The patronage program is described more fully in the 2013 Annual Report to Stockholders.

Accumulated Other Comprehensive Income/Loss

The Association reports accumulated other comprehensive income (loss) as a component of members' equity. Other comprehensive income refers to revenue, expenses, gains and losses that under GAAP are reported as an element of members' equity and comprehensive income but excluded from net income. Other comprehensive income/loss results from the recognition of the retirement plans net unamortized gains and losses and prior service costs or credits of (\$22,003) at June 30, 2014 and December 31, 2013. Also included in accumulated other comprehensive income/loss is the unrealized holding gain or loss on cash flow derivatives of (\$1,230) and (\$1,174) at June 30, 2014 and December 31, 2013, respectively. There are no other items affecting comprehensive income or loss.

NOTE 5 – Fair Value Measurements

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for

the asset or liability. The fair value measurement is not an indication of liquidity. See Note 2 and Note 13 to the 2013 Annual Report to Stockholder for additional information.

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

Fair Value Measurement Using				Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
June 30, 2014				
Derivative assets	\$ 0	\$ 520	\$ 0	\$ 520
Assets held in trust	\$ 5,739	\$ 0	\$ 0	\$ 5,739
December 31, 2013				
Derivative assets	\$ 0	\$ 487	\$ 0	\$ 487
Assets held in trust	\$ 4,760	\$ 0	\$ 0	\$ 4,760
Liabilities:				
June 30, 2014				
Derivative liabilities	\$ 0	\$ 387	\$ 0	\$ 387
December 31, 2013				
Derivative liabilities	\$ 0	\$ 1,051	\$ 0	\$ 1,051

Assets measured at fair value on a non-recurring basis at period end for each of the fair value hierarchy values are summarized below:

Fair Value Measurement Using				Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
June 30, 2014				
Impaired loans	\$ 0	\$ 0	\$ 61,921	\$ 61,921
Other Property Owned	\$ 0	\$ 0	\$ 5,617	\$ 5,617
Rural Investments, LLC	\$ 0	\$ 0	\$ 1,235	\$ 1,235
December 31, 2013				
Impaired loans	\$ 0	\$ 0	\$ 60,881	\$ 60,881
Other Property Owned	\$ 0	\$ 0	\$ 7,508	\$ 7,508
Rural Investments, LLC	\$ 0	\$ 0	\$ 1,432	\$ 1,432

Financial assets and financial liabilities measured at carrying amounts and not measured at fair value on the Balance Sheet for each of the fair value hierarchy values are summarized below:

	June 30, 2014			December 31, 2013		
	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:						
Loans, net	\$ 5,442,613	\$ 5,435,555	Level 3	\$ 4,909,804	\$ 4,871,406	Level 3
Cash	\$ 35,689	\$ 35,689	Level 1	\$ 11,683	\$ 11,683	Level 1
Financial liabilities:						
Notes payable to ACB	\$ 4,623,066	\$ 4,631,114	Level 3	\$ 4,152,555	\$ 4,148,346	Level 3

Sensitivity to Changes in Significant Unobservable Inputs

Quoted market prices may not be available for the instruments presented below. Accordingly, fair values are based on internal models that consider judgments regarding anticipated cash flows, future expected loss experience, current

economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 2 to the 2013 Annual Report to Stockholders, accounting 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.

Cash

The carrying value of cash is a reasonable estimate of fair value.

Assets Held in Trust

Assets held in trust funds related to deferred compensation and supplemental retirement plans and are classified within Level 1. These assets include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans

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

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 appraisals or 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.

Impaired Loans

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are 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.

Notes payable to CoBank, ACB

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the note payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables plus

accrued interest on the notes payable. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Rural Investments, LLC

For these investments, the fair value is based upon the underlying loans contained in the investment. 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 collateral is less than the principal balance of the investment a loss is realized.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the Association's derivative positions are valued using internally developed models that use as their basis readily observable market parameters and are classified within Level 2 of the valuation hierarchy. Such derivatives include basic interest rate swaps. Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively or have trade activity that is one way are classified within Level 3 of the valuation hierarchy. The Association does not have any derivatives classified within Level 3.

The models used to determine the fair value of derivative assets and liabilities use an income approach based on observable market inputs, primarily the LIBOR swap curve and volatility assumptions about future interest rate movements.

NOTE 6 – Derivative Instruments and Hedging Activities

The Association maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. The Association's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of certain balance sheet assets or liabilities so that the net interest margin is not adversely affected by movements in interest rates. As a result of interest rate fluctuations, the Association's interest income and interest expense of hedged variable-rate assets, will increase or decrease. The effect of this variability in earnings is expected to be substantially offset by the Association's gains and losses on the derivative instruments that are linked to these hedged assets. The Association considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The Association enters into interest rate swaps to stabilize net interest income on variable priced loan assets, to the extent they are funded with equity. Under interest rate swap arrangements, the Association agrees with other parties (CoBank) to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

The Association's interest-earning assets, to the degree they are funded with debt, are matched with similarly priced and termed liabilities. Volatility in net interest income, comes from equity funded, variable priced assets. To the degree that variable priced assets are funded with equity, interest rate swaps in which the Association pays the floating rate and receives the fixed rate (receive fixed swaps) are used to reduce the impact of market fluctuations on the Association's net interest income.

By using derivative instruments, the Association exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the Association's credit risk will equal the fair value gain in a derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the Association, thus creating a repayment risk for the Association. When the fair value of the derivative contract is negative, the Association owes the counterparty and, therefore, assumes no repayment risk. The Association minimizes the credit (or repayment) risk by entering into transactions only with CoBank, its funding bank. The Association's derivative activities are monitored by senior management and the Board of Directors.

Cash flow hedges

The Association uses interest rate swaps to hedge the risk of overall changes in the cash flows of an asset. The asset is defined as a pool of long term variable rate loans equal to the notional amount of the swaps, and not exceeding the Association's equity position. These swaps, which qualify for hedge accounting, have up to a three-year term, with a pay rate indexed to three month LIBOR.

As of June 30, 2014, the Association has executed interest rate swap contracts with CoBank, ACB having a notional amount of \$816 million. The fair value of the swap contracts at June 30, 2014 is \$133 of which (\$1,230) is reflected in accumulated other comprehensive income due to the highly effective nature of the hedge transaction and \$1,363 of income is recorded in interest expense due to the ineffectiveness of the hedge transactions. The carrying value of the hedged assets was \$520 and the carrying value of the hedged liabilities was \$387. The Association is exposed to credit loss in the event of nonperformance by other parties to the interest rate swap agreement; however, the Association does not anticipate nonperformance by CoBank, ACB.

NOTE 7 – Subsequent Events

The Association has evaluated subsequent events through August 7, 2014 which is the date the financial statements were issued or available to be issued. No subsequent event items met the criteria for disclosure.

Report on Internal Control over Financial Reporting

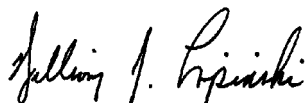
The Association maintains a system of internal control over financial reporting. For purposes of this report, “internal control over financial reporting” is defined as a process designed by, or under the supervision of the Association’s principal executives and principal financial officers, or persons performing similar functions, and effected by its boards of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the combined financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association’s assets that could have a material effect on its combined financial statements.

The Association continually assesses the adequacy of its internal control over financial reporting and enhances its controls in response to internal control assessments and internal and external audit and regulatory recommendations. There have been no significant changes in our internal controls or in other factors that could significantly affect such controls subsequent to the date we carried out our evaluations. In accordance with our internal control procedures, these financial statements were prepared under the oversight of the Audit Committee of our Board of Directors.

Certification

The consolidated financial statements of Farm Credit East, ACA (the Association) are prepared by management, who are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements, in our opinion, fairly present the financial position of the Association.

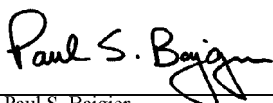
The undersigned certify that we have reviewed the June 30, 2014 Quarterly Report to Stockholders and it has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.



William J. Lipinski
CEO



Andrew J. Gilbert
Chairman of the Board



Paul S. Bajger
Senior Vice President & Treasurer



James D. Miller
Senior Vice President of Finance

Dated: August 7, 2014

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