Farm Credit Midsouth, ACA

Quarterly Report
June 30, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial condition and consolidated results of operations of Farm Credit Midsouth, ACA (the parent) and Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our Annual Report for the year ended December 31, 2013 (2013 Annual Report).

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in Farm Credit Midsouth, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports or additional copies of our report, contact us at 3000 Prosperity Drive, Jonesboro, AR 72404, (870) 932-2288, or through our website at www.farmcreditmidsouth.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at financialreporting@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

FORWARD-LOOKING INFORMATION

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2013 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

AGRICULTURAL AND ECONOMIC CONDITIONS

Economic conditions in northeast Arkansas are showing signs of improvement with all 10 Arkansas counties in our territory showing improvement in the unemployment rate according to the April 2014 Arkansas Labor Market report.

Farmers saw some delay in crop plantings during the first quarter of the year, but progress has been made during the second quarter. The United States Department of Agriculture (USDA) Crop Progress Report dated June 30, 2014 shows that corn was planted with 80% silking, cotton was planted with 84% squaring, and soybeans were 90% planted.

The territory has encountered above normal precipitation for the quarter with the deviation from normal being as much as 7 inches. The weekend of June 28th and 29th brought devastating rainfall to the area with some counties receiving as much as 10 to 15 inches of rain fall in a 24 hour time period. In a press release dated July 8, 2014:

"Senators Pryor and Boozman, along with Congressmen Rick Crawford, Tim Griffin, Steve Womack, and Tom Cotton wrote to USDA Secretary Vilsack in support of Governor Mike Beebe's request for federal disaster assistance for Arkansas farmers and ranchers suffering from losses caused by severe weather. Last week, east Arkansas was hit with flash flooding, which devastated thousands of acres of crops and pastures."

An Associated Press release dated July 23, 2014 stated that Secretary Vilsack has made disaster declarations for farmers and ranchers in 10 Arkansas counties who suffered losses due to storms that began in the affected area June 29th. Vilsack issued disaster declarations Wednesday in response to flood conditions in Cross, Independence, Jackson, Lee, Lonoke, Monroe, Prairie, St. Francis, White, and Woodruff counties.

Additionally, a declaration providing flood-related aid also applies to 13 Arkansas counties that are next to the declared region. Included in that declaration are Arkansas, Cleburne, Craighead, Crittenden, Faulkner, Izard, Jefferson, Lawrence, Phillips, Poinsett, Pulaski, Sharp, and Stone counties.

LOAN PORTFOLIO

Loans were $795.6 million at June 30, 2014, a $64.6 million increase from December 31, 2013. Owned and managed mortgage loan volume increased $5.7 million primarily due to new loan originations which totaled $40.1 million offset by normal loan repayments. Owned and managed commercial loan volume increased approximately $58.0 million primarily due to normal disbursements on operating lines partially offset by normal loan repayments.

Portfolio Credit Quality

The credit quality of our portfolio has remained stable from December 31, 2013. Adversely classified loans decreased to 0.1% of the portfolio at June 30, 2014, from 0.4% of the portfolio at December 31, 2013. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, government guarantee programs are used to reduce the risk of loss. At June 30, 2014, $7.4 million of our loans were, to some level, guaranteed under these government programs.

Risk Assets

The following table summarizes risk information (accruing loans include accrued interest receivable) (dollars in thousands):

As of:	**June 30 2014**	December 31 2013
Loans:		
Nonaccrual	**$ 1,173**	$ 2,262
Accruing restructured	**6**	7
Accruing loans 90 days or more past due	**--**	--
Total risk loans	**1,179**	2,269
Other property owned	**--**	--
Total risk assets	**$ 1,179**	$ 2,269
Risk loans as a percentage of total loans	**0.1%**	0.3%
Nonaccrual loans as a percentage of total loans	**0.1%**	0.3%
Total delinquencies as a percentage of total loans	**--**	0.2%

Our risk assets have decreased from December 31, 2013 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The decrease in nonaccrual loans was due to repayments. Nonaccrual loans remained at an acceptable level at June 30, 2014 and 76.9% of our nonaccrual loans were current.

Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

The following table presents comparative allowance coverage of various loan categories:

Allowance as a percentage of:	**June 30 2014**	December 31 2013
Loans	**0.1%**	0.1%
Nonaccrual loans	**73.1%**	37.9%
Total risk loans	**72.8%**	37.8%

There has been no change in the allowance for loan losses as of June 30, 2014 compared to December 31, 2013. However, the allowance for loan losses as a percentage of nonaccrual loans and risk loans has increased due to the decline in nonaccrual loans and risk loans during the six months ended June 30, 2014. Refer to the Risk Assets section above for additional information regarding the changes in nonaccrual loans. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2014.

RESULTS OF OPERATIONS

Net income for the six months ended June 30, 2014 totaled $6.4 million compared to $5.3 million for the same period in 2013. The following table illustrates profitability information:

For the six months ended June 30	**2014**	2013
Return on average assets	**1.8%**	1.5%
Return on average members' equity	**7.6%**	6.6%

Changes in our return on average assets and return on average members' equity are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section, and changes in capital discussed in the Funding, Liquidity, and Capital section.

The following table summarizes the changes in components of net income (in thousands):

For the six months ended June 30	2014	2013	Increase (decrease) in net income
Net interest income	**$ 10,513**	$ 10,150	**$ 363**
Reversal of loan loss provision	**--**	(72)	**(72)**
Patronage income	**1,286**	1,212	**74**
Other income, net	**311**	(825)	**1,136**
Operating expenses	**5,684**	5,346	**(338)**
(Benefit from) provision for income taxes	**(23)**	4	**27**
Net income	**$ 6,449**	$ 5,259	**$ 1,190**

Net interest income was $10.5 million for the six months ended June 30, 2014. The following table quantifies changes in net interest income for the six months ended June 30, 2014 compared to the same period in 2013 (in thousands):

	2014 vs 2013
Changes in volume	**$ 525**
Changes in rates	**(216)**
Changes in nonaccrual income and other	**54**
Net change	**$ 363**

The change in other income was primarily related to an other property owned net loss of $1.1 million during the first six months of 2013. No similar loss was recognized during the first six months of 2014. We originated rural home loans for resale into the secondary market. We sold loans through the secondary market totaling $1.5 million through June 30, 2014 compared to $2.0 million for the same period in 2013. The fee income from this activity totaled $23 thousand for the six months ended June 30, 2014 compared to $25 thousand for the same period of 2013.

The change in operating expenses was primarily related to increases in salaries and benefits and in our required Farm Credit System Insurance Corporation premium expense.

FUNDING, LIQUIDITY, AND CAPITAL

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our note payable matured on April 30, 2014 and was renewed for $850 million with a maturity date of April 30, 2015. The note payable will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Cost of funds associated with our note payable includes a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, bank profit, and, if applicable, a risk premium component. However, we were not subject to a risk premium at June 30, 2014 or December 31, 2013.

Total members' equity increased $4.3 million from December 31, 2013 primarily due to net income for the period partially offset by patronage distribution accruals.

Farm Credit Administration (FCA) regulations require us to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0%, and a core surplus ratio of at least 3.5%. Refer to Note 7 in our 2013 Annual Report for a more complete description of these ratios. As of June 30, 2014, the ratios were as follows:

- The permanent capital ratio was 18.7%.
- The total surplus ratio was 18.4%.
- The core surplus ratio was 18.4%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

RELATIONSHIP WITH AGRIBANK

We are required to invest in AgriBank capital stock as a condition of borrowing. On March 5, 2014, the AgriBank Board of Directors approved an amendment to the AgriBank capital plan which reduced the base required stock investment for all affiliated associations, including Farm Credit Midsouth, ACA from 2.5% to 2.25% effective March 31, 2014.

ADDITIONAL REGULATORY INFORMATION

Effective June 18, 2014, the FCA Board adopted a final rule to remove all requirements related to advisory votes at Farm Credit institutions. This rule eliminates the requirement for advisory votes on CEO and/or senior officer compensation.

CERTIFICATION

The undersigned certify they have reviewed Farm Credit Midsouth, ACA's June 30, 2014 Quarterly Report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Jane Pirani
Chairperson of the Board
Farm Credit Midsouth, ACA

James McJunkins
President and Chief Executive Officer
Farm Credit Midsouth, ACA

Shari J. Wilson
Chief Financial Officer
Farm Credit Midsouth, ACA

August 6, 2014

CONSOLIDATED STATEMENTS OF CONDITION

Farm Credit Midsouth, ACA

(in thousands)

(Unaudited)

As of:		**June 30 2014**		December 31 2013
ASSETS				
Loans	**$**	**795,644**	$	731,002
Allowance for loan losses		**858**		858
Net loans		**794,786**		730,144
Investment in AgriBank, FCB		**16,322**		18,882
Accrued interest receivable		**10,333**		12,650
Premises and equipment, net		**4,195**		4,320
Assets held for lease, net		**1,892**		2,111
Other assets		**2,215**		2,758
Total assets	**$**	**829,743**	$	770,865
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**651,145**	$	593,535
Accrued interest payable		**2,367**		2,440
Deferred tax liabilities, net		**799**		826
Patronage distribution payable		**2,100**		4,200
Other liabilities		**2,129**		2,986
Total liabilities		**658,540**		603,987
Contingencies and commitments		**--**		--
MEMBERS' EQUITY				
Protected members' equity		**4**		5
Capital stock and participation certificates		**2,070**		2,094
Unallocated surplus		**169,129**		164,779
Total members' equity		**171,203**		166,878
Total liabilities and members' equity	**$**	**829,743**	$	770,865

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

CONSOLIDATED STATEMENTS OF INCOME

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the period ended June 30	**2014**	2013	**2014**	2013
Interest income	**$ 7,933**	$ 7,532	**$ 15,152**	$ 14,501
Interest expense	**2,367**	2,213	**4,639**	4,351
Net interest income	**5,566**	5,319	**10,513**	10,150
Reversal of loan loss provision	**--**	--	**--**	(72)
Net interest income after reversal of loan loss provision	**5,566**	5,319	**10,513**	10,222
Other income				
Patronage income	**649**	602	**1,286**	1,212
Financially related services income	**42**	45	**100**	114
Fee income	**55**	24	**76**	64
Miscellaneous income (loss), net	**54**	(1,874)	**135**	(1,003)
Total other income	**800**	(1,203)	**1,597**	387
Operating expenses				
Salaries and employee benefits	**1,828**	1,697	**3,762**	3,546
Other operating expenses	**980**	931	**1,922**	1,800
Total operating expenses	**2,808**	2,628	**5,684**	5,346
Income before income taxes	**3,558**	1,488	**6,426**	5,263
Provision for (benefit from) income taxes	**33**	34	**(23)**	4
Net income	**$ 3,525**	$ 1,454	**$ 6,449**	$ 5,259

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Farm Credit Midsouth, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2012	$ 5	$ 2,077	$ 155,323	$ 157,405
Net income	--	--	5,259	5,259
Unallocated surplus designated for patronage distributions	--	--	(2,104)	(2,104)
Capital stock and participation certificates issued	--	93	--	93
Capital stock and participation certificates retired	--	(88)	--	(88)
Balance at June 30, 2013	$ 5	$ 2,082	$ 158,478	$ 160,565
Balance at December 31, 2013	$ 5	$ 2,094	$ 164,779	$ 166,878
Net income	**--**	**--**	**6,449**	**6,449**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(2,099)**	**(2,099)**
Capital stock and participation certificates issued	**--**	**66**	**--**	**66**
Capital stock and participation certificates retired	**(1)**	**(90)**	**--**	**(91)**
Balance at June 30, 2014	**$ 4**	**$ 2,070**	**$ 169,129**	**$ 171,203**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the six months ended June 30, 2014 are not necessarily indicative of the results to be expected for the year ended December 31, 2014. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report for the year ended December 31, 2013 (2013 Annual Report).

The consolidated financial statements present the consolidated financial results of Farm Credit Midsouth, ACA (the parent) and Farm Credit Midsouth, FLCA and Farm Credit Midsouth, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued, but are not yet effective, and have determined that no such standards are expected to have a material impact to our consolidated financial statements.

NOTE 2: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

As of:	**June 30, 2014**		December 31, 2013	
	Amount	%	Amount	%
Real estate mortgage	**$ 397,655**	**50.0%**	$ 385,663	52.8%
Production and intermediate term	**363,243**	**45.7%**	315,371	43.1%
Agribusiness	**31,158**	**3.9%**	26,673	3.6%
Other	**3,588**	**0.4%**	3,295	0.5%
Total	**$ 795,644**	**100.0%**	$ 731,002	100.0%

The other category is comprised of finance leases, loans originated under our mission related investment authority, and rural residential real estate related loans.

Delinquency

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (in thousands):

	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
As of June 30, 2014					
Real estate mortgage	**$ 129**	**$ --**	**$ 129**	**$ 403,305**	**$ 403,434**
Production and intermediate term	**72**	**199**	**271**	**367,201**	**367,472**
Agribusiness	**--**	**--**	**--**	**31,459**	**31,459**
Other	**--**	**--**	**--**	**3,612**	**3,612**
Total	**$ 201**	**$ 199**	**$ 400**	**$ 805,577**	**$ 805,977**
As of December 31, 2013					
Real estate mortgage	$ 129	$ --	$ 129	$ 392,752	$ 392,881
Production and intermediate term	1	1,393	1,394	318,989	320,383
Agribusiness	--	--	--	27,083	27,083
Other	--	--	--	3,305	3,305
Total	$ 130	$ 1,393	$ 1,523	$ 742,129	$ 743,652

There were no loans 90 days or more past due and still accruing interest at June 30, 2014 or December 31, 2013.

Risk Loans

The following table presents risk loan information (accruing loans include accrued interest receivable) (in thousands):

As of:		June 30 2014		December 31 2013
Volume with specific reserves	**$**	**338**	$	278
Volume without specific reserves		**841**		1,991
Total risk loans	**$**	**1,179**	$	2,269
Total specific reserves	**$**	**148**	$	138
For the six months ended June 30		**2014**		2013
Income on accrual risk loans	**$**	**--**	$	1
Income on nonaccrual loans		**162**		108
Total income on risk loans	**$**	**162**	$	109
Average risk loans	**$**	**1,370**	$	3,256

The decrease in risk loans was primarily due to repayments on nonaccrual loans.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring, also known as a restructured loan. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the restructured loan to the lower of book value or net realizable value of collateral.

There were no troubled debt restructurings that occurred during the six months ended June 30, 2014. The following table presents information regarding troubled debt restructurings that occurred during the six months ended June 30, 2013 (in thousands):

		Pre-modification		Post-modification
Real estate mortgage	$	33	$	34
Production and intermediate term		25		25
Total	$	58	$	59

Pre-modification represents the outstanding recorded investment of the loan just prior to restructuring and post-modification represents the outstanding recorded investment of the loan immediately following the restructuring. The recorded investment of the loan is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off.

There were no troubled debt restructurings that defaulted during the six months ended June 30, 2014 or 2013 in which the modification was within twelve months of the respective reporting period.

The following table presents information regarding troubled debt restructurings outstanding (in thousands):

As of:		June 30 2014		December 31 2013
Troubled debt restructurings in accrual status	**$**	**6**	$	7
Troubled debt restructurings in nonaccrual status		**75**		1,406
Troubled debt restructurings	**$**	**81**	$	1,413

Troubled debt restructurings outstanding decreased during six months ended June 30, 2014 primarily due to payments on restructured loans. There were no additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring at June 30, 2014.

Allowance for Loan Losses

A summary of changes in the allowance for loan losses follows (in thousands):

Six months ended June 30	**2014**	2013
Balance at beginning of year	**$ 858**	$ 930
Reversal of loan loss provision	**--**	(72)
Loan recoveries	**--**	--
Loan charge-offs	**--**	--
Balance at end of period	**$ 858**	$ 858

NOTE 3: INVESTMENT IN AGRIBANK, FCB

Effective March 31, 2014, we were required by AgriBank to maintain an investment equal to 2.25% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. Previously, the required investment was equal to 2.5%. There was no change in the required investment for growth exceeding the targeted rate.

The balance of our investment in AgriBank, all required stock, was $16.3 million at June 30, 2014 and $18.9 million at December 31, 2013.

NOTE 4: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have contingent liabilities and outstanding commitments, primarily commitments to extend credit, which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

We may be named as a defendant in lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

NOTE 5: FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Accounting guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 12 in our 2013 Annual Report for a more complete description of the three input levels.

We did not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2014 or December 31, 2013.

Non-Recurring Basis

We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis follows (in thousands):

	As of June 30, 2014				**Six months ended June 30, 2014**
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	**$ --**	**$ 200**	**$ --**	**$ 200**	**$ (10)**
Other property owned	**--**	**--**	**--**	**--**	**--**

	As of December 31, 2013				Six months ended June 30, 2013
	Fair Value Measurement Using			Total Fair	Total Gains
	Level 1	Level 2	Level 3	Value	(Losses)
Loans	$ --	$ 147	$ --	$ 147	$ (52)
Other property owned	--	--	--	--	(870)

Valuation Techniques

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Other property owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value. We had no other property owned at June 30, 2014 or December 31, 2013.

NOTE 6: SUBSEQUENT EVENTS

We have evaluated subsequent events through August 6, 2014, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.