*Carolina Farm Credit, ACA*

# SECOND QUARTER 2013

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## CERTIFICATION

The undersigned certify that we have reviewed the June 30, 2013 quarterly report of Carolina Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Michael R Morton

Michael R. Morton
Chief Executive Officer

Steven L. Cobb

Steven L. Cobb
Chief Information and Technology Officer

Joseph A. Lail

Joseph A. Lail
Chairman of the Board

August 7, 2013

*Carolina Farm Credit, ACA*

# Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of June 30, 2013, the internal control over financial reporting was effective based upon the COSO (1992) criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of June 30, 2013.

Michael R Morton

Michael Morton
Chief Executive Officer

Steven L. Cobb

Steven L. Cobb
Chief Information and Technology Officer

August 7, 2013

*Carolina Farm Credit, ACA*

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of Carolina Farm Credit, ACA (Association) for the period ended June 30, 2013. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2012 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including part-time farm, poultry, and rural home loans. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the dependency on a single agricultural commodity.

The gross loan volume of the Association as of June 30, 2013, was $1,180,580, a decrease of $7,619 as compared to $1,188,199 at December 31, 2012. Net loans outstanding at June 30, 2013, were $1,173,416 as compared to $1,179,442 at December 31, 2012. Net loans accounted for 91.80 percent of total assets at June 30, 2013, as compared to 90.07 percent of total assets at December 31, 2012. The decrease in loan volume during the reporting period is a result of principal payments and payoffs outpacing new loan volume.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory.

Nonaccrual loans increased from $47,414 at December 31, 2012, to $47,870 at June 30, 2013. This increase is primarily the result of transfers of loan volume to nonaccrual being more than regular payments made on nonaccrual loans, along with nonaccrual loans liquidated or reinstated to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2013, was $7,164 compared to $8,757 at December 31, 2012, and was considered by management to be adequate to cover probable losses.

## RESULTS OF OPERATIONS

***For the three months ended June 30, 2013***

Net income for the three months ended June 30, 2013, totaled $6,267, as compared to $8,535 for the same period in 2012. Net interest income increased $418 for the three months ended June 30, 2013, as compared to the same period in 2012.

At June 30, 2013, total interest income decreased $170 compared to June 30, 2012. Nonaccrual income was $297 for the three months ended June 30, 2013, as compared to $119 for the same period in 2012. Interest expense decreased $588 for the three months ended June 30, 2013, as compared to the comparable period of 2012.

The Association recorded a provision for loan losses of $823 for the three months ended June 30, 2013 as compared to a provision of $1,090 for the same period of 2012.

Noninterest income for the three months ended June 30, 2013, totaled $4,681 as compared to $7,413 for the same period of 2012, a decrease of $2,732. This decline in earnings is attributed to a decrease of $59 in loan fees, $6 in fees for financially related services, $336 in equity in earnings of other Farm Credit institutions, $1,015 in gains (losses) on other property owned, $90 in gains (losses) on sale of rural home loans and $1,334 in Insurance Fund refunds when compared to the same period in 2012. These decreases were offset by an increase of $41 in gains (losses) on sales of premises and equipment, and $67 in other non-interest income when compared for the same period of 2012.

Noninterest expense for the three months ended June 30, 2013, increased $223 compared to the same period of 2012. This rise in noninterest expense is attributed to an increase of $57 in occupancy and equipment, $112 in Insurance Fund premiums, and $211 in other operating expenses when compared to the same period in 2012. These increases were offset by a decrease of $157 in salaries and employee benefits when compared for the same period of 2012.

The Association recorded a provision for income taxes of $1 for the three months ended June 30, 2013 as compared a provision of $3 for the same period of 2012.

***For the six months ended June 30, 2013***

Net income for the six months ended June 30, 2013, totaled $12,127, as compared to $14,341 for the same period in 2012. This decrease of $2,214, or 15.44 percent, is primarily attributed to significant decrease in noninterest income, partially offset by a decrease in the provision for loan loss.

At June 30, 2013, total interest income decreased $610 compared to June 30, 2012. Nonaccrual income was $433 for the six months ended June 30, 2013, as compared to $261 for the same period in 2012. Interest expense decreased $986 for the six months ended June 30, 2013, as compared to the same period in 2012. Both interest income and interest expense have decreased due to the lower interest rate environment.

The Association recorded a provision for loan losses of $1,002 for the six months ended June 30, 2013 as compared to a provision of $1,892 for the same period of 2012. The decrease in provision for loan losses reflects a decreased need to adjust nonaccrual loans down to fair value during the current reporting period.

Noninterest income for the six months ended June 30, 2013, totaled $9,256, as compared to $12,130 for the same period of 2012, a decrease of $2,874. The overall decrease is attributed to a decrease of $49 in loan fees, $113 in fees for financially related services, $569 in equity in earnings of other Farm Credit institutions, $648 in the gains (losses) on other property owned, $128 in the gains (losses) on sale of rural home loans, $1,334 in Insurance Fund refunds, and $41 in other noninterest income when compared to the same period in 2012. These decreases were offset by an increase of $8 in gains (losses) on sales of premises and equipment when compared to the same period in 2012.

During the second quarter of 2012, the Association recorded $1,334 of insurance premium refunds from the FCSIC, which insures the System's debt obligations. The amount is reflected in Insurance Fund refunds on the Consolidated Statements of Income. This payment is nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest expense for the six months ended June 30, 2013, increased $611 compared to the same period of 2012. This rise in noninterest expense is attributed to an increase of $166 in salaries and employee benefits, $44 in occupancy and equipment, $220 in Insurance Fund premiums, and $181 in other operating expenses when compared to the same period in 2012.

The Association recorded a provision for income taxes of $2 for the six months ended June 30, 2013 as compared to a provision of $7 for the same period of 2012.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable is segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at June 30, 2013, was $984,411 as compared to $1,023,213 at December 31, 2012. The decrease during the period is primarily attributable to the declines in patronage due from AgFirst Farm Credit Bank and other investments.

The Association has no lines of credit outstanding with third parties as of June 30, 2013.

## CAPITAL RESOURCES

Total members' equity at June 30, 2013, increased to $268,552 from the December 31, 2012, total of $256,178. The change in capital is attributed to net earnings for the six months ending June 30, 2013.

Farm Credit administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2013, the Association's total surplus ratio and core surplus ratio were 19.73 percent and 16.47 percent, respectively, and the permanent capital ratio was 20.42 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

## REGULATORY MATTERS

For the six months ended June 30, 2013, the FCA took no enforcement action against the Association.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1, *"Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements",* in the Notes to the Financial Statements, and the 2012 Annual Report to Shareholders for recently issued accounting pronouncements.

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**NOTE**: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-521-9952, or writing Michael R. Morton, CEO, Carolina Farm Credit, ACA, P.O. Box 1827, Statesville NC 28687-1827, or accessing the website, www.carolinafarmcredit.com. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Carolina Farm Credit, ACA

# Consolidated Balance Sheets

| *(dollars in thousands)* | June 30, 2013 *(unaudited)* | December 31, 2012 *(audited)* |
|---|---|---|
| **Assets** | | |
| Cash | $ 2,747 | $ 2,246 |
| Investment securities: | | |
| Held to maturity (fair value of $3,259 and $3,109, respectively) | 3,248 | 2,791 |
| Loans | 1,180,580 | 1,188,199 |
| Less: allowance for loan losses | 7,164 | 8,757 |
| Net loans | 1,173,416 | 1,179,442 |
| Loans held for sale | 5,260 | 7,218 |
| Other investments | 11,843 | 23,669 |
| Accrued interest receivable | 13,322 | 11,565 |
| Investments in other Farm Credit institutions | 30,696 | 31,208 |
| Premises and equipment, net | 15,335 | 15,696 |
| Other property owned | 3,335 | 4,252 |
| Due from AgFirst Farm Credit Bank | 7,432 | 17,683 |
| Other assets | 11,664 | 13,723 |
| Total assets | $ 1,278,298 | $ 1,309,493 |
| **Liabilities** | | |
| Notes payable to AgFirst Farm Credit Bank | $ 984,411 | $ 1,023,213 |
| Accrued interest payable | 1,908 | 2,054 |
| Patronage refunds payable | 675 | 5,152 |
| Other liabilities | 22,752 | 22,896 |
| Total liabilities | 1,009,746 | 1,053,315 |
| Commitments and contingencies | | |
| **Members' Equity** | | |
| Protected borrower stock | 35 | 48 |
| Capital stock and participation certificates | 7,902 | 7,860 |
| Retained earnings | | |
| Allocated | 147,516 | 148,080 |
| Unallocated | 113,933 | 101,265 |
| Accumulated other comprehensive income (loss) | (834) | (1,075) |
| Total members' equity | 268,552 | 256,178 |
| Total liabilities and members' equity | $ 1,278,298 | $ 1,309,493 |

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

Carolina Farm Credit, ACA

# Consolidated Statements of Income

*(unaudited)*

| *(dollars in thousands)* | For the three months ended June 30, 2013 | For the three months ended June 30, 2012 | For the six months ended June 30, 2013 | For the six months ended June 30, 2012 |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Investment securities | $ 43 | $ 41 | $ 82 | $ 78 |
| Loans | 15,782 | 15,732 | 31,409 | 31,735 |
| Other investments | 63 | 285 | 306 | 594 |
| Total interest income | 15,888 | 16,058 | 31,797 | 32,407 |
| **Interest Expense** | | | | |
| Notes payable to AgFirst Farm Credit Bank | 5,689 | 6,288 | 11,742 | 12,737 |
| Other | 16 | 5 | 16 | 7 |
| Total interest expense | 5,705 | 6,293 | 11,758 | 12,744 |
| Net interest income | 10,183 | 9,765 | 20,039 | 19,663 |
| Provision for loan losses | 823 | 1,090 | 1,002 | 1,892 |
| Net interest income after provision for loan losses | 9,360 | 8,675 | 19,037 | 17,771 |
| **Noninterest Income** | | | | |
| Loan fees | 518 | 577 | 1,105 | 1,154 |
| Fees for financially related services | 44 | 50 | 91 | 204 |
| Patronage refunds from other Farm Credit institutions | 4,834 | 5,170 | 8,248 | 8,817 |
| Gains (losses) on other property owned, net | (1,530) | (515) | (1,592) | (944) |
| Gains (losses) on sales of rural home loans, net | 482 | 572 | 1,065 | 1,193 |
| Gains (losses) on sales of premises and equipment, net | 92 | 51 | 122 | 114 |
| Insurance Fund refunds | — | 1,334 | — | 1,334 |
| Other noninterest income | 241 | 174 | 217 | 258 |
| Total noninterest income | 4,681 | 7,413 | 9,256 | 12,130 |
| **Noninterest Expense** | | | | |
| Salaries and employee benefits | 5,243 | 5,400 | 11,300 | 11,134 |
| Occupancy and equipment | 748 | 691 | 1,447 | 1,403 |
| Insurance Fund premiums | 234 | 122 | 462 | 242 |
| Other operating expenses | 1,548 | 1,337 | 2,955 | 2,774 |
| Total noninterest expense | 7,773 | 7,550 | 16,164 | 15,553 |
| Income before income taxes | 6,268 | 8,538 | 12,129 | 14,348 |
| Provision for income taxes | 1 | 3 | 2 | 7 |
| Net income | $ 6,267 | $ 8,535 | $ 12,127 | $ 14,341 |

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

Carolina Farm Credit, ACA

# Consolidated Statements of Comprehensive Income

*(unaudited)*

| *(dollars in thousands)* | For the three months ended June 30, 2013 | For the three months ended June 30, 2012 | For the six months ended June 30, 2013 | For the six months ended June 30, 2012 |
|---|---|---|---|---|
| Net income | $ 6,267 | $ 8,535 | $ 12,127 | $ 14,341 |
| **Other comprehensive income net of tax** | | | | |
| Employee benefit plans adjustments (Note 7) | 121 | 83 | 241 | 126 |
| Comprehensive income | $ 6,388 | $ 8,618 | $ 12,368 | $ 14,467 |

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

Carolina Farm Credit, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

| *(dollars in thousands)* | Protected Borrower Stock | Capital Stock and Participation Certificates | Retained Earnings Allocated | Retained Earnings Unallocated | Accumulated Other Comprehensive Income (Loss) | Total Members' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2011 | $ 67 | $ 7,833 | $ 137,891 | $ 99,863 | $ (1,066) | $ 244,588 |
| Comprehensive income | | | | 14,341 | 126 | 14,467 |
| Protected borrower stock retired | (16) | | | | | (16) |
| Capital stock/participation certificates issued/(retired), net | | (40) | | | | (40) |
| Patronage distribution adjustment | | | 260 | (268) | | (8) |
| Balance at June 30, 2012 | $ 51 | $ 7,793 | $ 138,151 | $ 113,936 | $ (940) | $ 258,991 |
| | | | | | | |
| Balance at December 31, 2012 | $ 48 | $ 7,860 | $ 148,080 | $ 101,265 | $ (1,075) | $ 256,178 |
| Comprehensive income | | | | 12,127 | 241 | 12,368 |
| Protected borrower stock retired | (13) | | | | | (13) |
| Capital stock/participation certificates issued/(retired), net | | 42 | | | | 42 |
| Patronage distribution adjustment | | | (564) | 541 | | (23) |
| Balance at June 30, 2013 | $ 35 | $ 7,902 | $ 147,516 | $ 113,933 | $ (834) | $ 268,552 |

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

# Notes to the Consolidated Financial Statements

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

## NOTE 1 – ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The accompanying financial statements include the accounts of Carolina Farm Credit, ACA (the Association). 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, 2012, are contained in the 2012 Annual Report to Shareholders. These unaudited second quarter 2013 consolidated financial statements should be read in conjunction with the 2012 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the six months ended June 30, 2013, are not necessarily indicative of the results to be expected for the year ending December 31, 2013.

Certain amounts in the prior period's consolidated financial statements may have been reclassified to conform to the current period's consolidated financial statement presentation. Such reclassifications had no effect on the prior period net income or total capital as previously reported.

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2013, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

### Recently Issued Accounting Pronouncements

In February 2013 the FASB issued Accounting Standards Update (ASU) 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date," which addresses the recognition, measurement and disclosure of certain obligations including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The amendments are to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the Update's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in the Update) and should disclose that fact. The amendments are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. Early application is permitted. It is not anticipated the adoption of this guidance will have a material impact on the Association's financial condition or results of operations but will result in additional disclosures.

In February 2013 the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The update is intended to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The amendments do not change the requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. For nonpublic entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2013. Early application is permitted.

In January 2013, the FASB issued ASU 2013-01 "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The Update clarifies that ordinary trade receivables and payables are not in the scope of ASU 2011-11, "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities." Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria or subject to a master netting arrangement or similar agreement. The effective date is the same as that for ASU 2011-11 below.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210) - Disclosures about Offsetting Assets and Liabilities." The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity's recognized assets and recognized liabilities. The requirements apply to recognized financial instruments and derivative instruments that are offset in accordance with accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance, in conjunction with ASU 2013-01 above, will not impact the Association's financial condition or its results of operations, but will result in additional disclosures.

Other recently issued accounting pronouncements are discussed in the 2012 Annual Report to Shareholders.

## NOTE 2 — INVESTMENT SECURITIES

A summary of the amortized cost and fair value of investment securities held-to-maturity at June 30, 2013 and December 31, 2012 follows.

| | June 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| Mission-related investments | $ 3,248 | $ 163 | $ (152) | $ 3,259 | 5.28% |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| Mission-related investments | $ 2,791 | $ 333 | $ (15) | $ 3,109 | 5.44% |

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity at June 30, 2013 follows:

| | Amortized Cost | Fair Value | Weighted Average Yield |
|---|---|---|---|
| In one year or less | $ 100 | $ 100 | 4.25 % |
| After one year through five years | – | – | – |
| After five years through ten years | – | – | – |
| After ten years | 3,148 | 3,159 | 5.32 |
| Total | $ 3,248 | $ 3,259 | 5.28 % |

The Association's mission-related investments consist of private placement securities purchased under the Rural America Bond Program approved by the FCA.

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at June 30, 2013 and December 31, 2012:

| | June 30, 2013 | | | |
|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Greater | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mission-related investments | $ 1,136 | $ (95) | $ 595 | $ (57) |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Greater | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mission-related investments | $ 657 | $ (15) | $ – | $ – |

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes.

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment in connection with its investment securities. The Association has the ability and intent to hold these investments until maturity and at this time expects to collect the full principal amount and interest due on these securities. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs.

## NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans outstanding at period end were as follows:

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Real estate mortgage | $ 528,762 | $ 527,939 |
| Production and intermediate-term | 543,402 | 551,031 |
| Agribusiness | | |
| Loans to cooperatives | 1,579 | 2,984 |
| Processing and marketing | 34,873 | 32,307 |
| Farm-related business | 5,762 | 6,048 |
| Total agribusiness | 42,214 | 41,339 |
| Communication | 8,941 | 9,238 |
| Energy | 2,593 | 2,092 |
| Water and waste disposal | – | 21 |
| Rural residential real estate | 54,668 | 56,539 |
| Total Loans | $ 1,180,580 | $ 1,188,199 |

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. Participation loan balances at period end were as follows:

| June 30, 2013 | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 6,765 | $ 156,441 | $ – | $ 1,038 | $ 472 | $ – | $ 7,237 | $ 157,479 |
| Production and intermediate-term | 16,197 | 115,850 | 3,482 | – | 8 | – | 19,687 | 115,850 |
| Agribusiness | | | | | | | | |
| Loans to cooperatives | 1,585 | – | 10 | – | – | – | 1,595 | – |
| Processing and marketing | 34,700 | 1,055 | – | – | – | – | 34,700 | 1,055 |
| Farm-related business | 2,784 | 711 | 145 | – | – | – | 2,929 | 711 |
| Total agribusiness | 39,069 | 1,766 | 155 | – | – | – | 39,224 | 1,766 |
| Communication | 8,958 | – | – | – | – | – | 8,958 | – |
| Energy | 2,625 | – | – | – | – | – | 2,625 | – |
| Rural residential real estate | – | 1,366 | – | – | – | – | – | 1,366 |
| Total | $ 73,614 | $ 275,423 | $ 3,637 | $ 1,038 | $ 480 | $ – | $ 77,731 | $ 276,461 |

| December 31, 2012 | Within AgFirst District | | Within Farm Credit System | | Outside Farm Credit System | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold | Participations Purchased | Participations Sold |
| Real estate mortgage | $ 8,927 | $ 158,770 | $ – | $ – | $ 505 | $ – | $ 9,432 | $ 158,770 |
| Production and intermediate-term | 22,516 | 171,761 | 3,077 | – | 16 | – | 25,609 | 171,761 |
| Agribusiness | | | | | | | | |
| Loans to cooperatives | 3,002 | – | 14 | – | – | – | 3,016 | – |
| Processing and marketing | 31,118 | 1,328 | 205 | – | – | – | 31,323 | 1,328 |
| Farm-related business | 3,415 | 737 | 149 | – | – | – | 3,564 | 737 |
| Total agribusiness | 37,535 | 2,065 | 368 | – | – | – | 37,903 | 2,065 |
| Communication | 9,260 | – | – | – | – | – | 9,260 | – |
| Energy | 2,123 | – | – | – | – | – | 2,123 | – |
| Rural residential real estate | – | 1,392 | – | – | – | – | – | 1,392 |
| Total | $ 80,361 | $ 333,988 | $ 3,445 | $ – | $ 521 | $ – | $ 84,327 | $ 333,988 |

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at June 30, 2013 and indicates that approximately 23.24 percent of loans had maturities of less than one year:

| | Due less than 1 year | Due 1 Through 5 years | Due after 5 years | Total |
|---|---|---|---|---|
| Real estate mortgage | $ 70,808 | $ 113,044 | $ 344,910 | $ 528,762 |
| Production and intermediate-term | 159,401 | 196,682 | 187,319 | 543,402 |
| Agribusiness | | | | |
| Loans to cooperatives | 1,442 | 137 | – | 1,579 |
| Processing and marketing | 24,763 | 9,594 | 516 | 34,873 |
| Farm-related business | 2,254 | 2,538 | 970 | 5,762 |
| Total agribusiness | 28,459 | 12,269 | 1,486 | 42,214 |
| Communication | 8,927 | 13 | 1 | 8,941 |
| Energy | 2,593 | – | – | 2,593 |
| Rural residential real estate | 4,127 | 10,749 | 39,792 | 54,668 |
| Total Loans | $ 274,315 | $ 332,757 | $ 573,508 | $ 1,180,580 |

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

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| **Real estate mortgage:** | | |
| Acceptable | 83.97% | 86.67% |
| OAEM | 8.14 | 5.48 |
| Substandard/doubtful/loss | 7.89 | 7.85 |
| | 100.00% | 100.00% |
| **Production and intermediate-term:** | | |
| Acceptable | 85.63% | 88.35% |
| OAEM | 8.34 | 4.89 |
| Substandard/doubtful/loss | 6.03 | 6.76 |
| | 100.00% | 100.00% |
| **Agribusiness:** | | |
| **Loans to cooperatives:** | | |
| Acceptable | 100.00% | 90.29% |
| OAEM | – | 9.71 |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Processing and marketing:** | | |
| Acceptable | 87.92% | 80.97% |
| OAEM | 3.13 | 7.20 |
| Substandard/doubtful/loss | 8.95 | 11.83 |
| | 100.00% | 100.00% |
| **Farm-related business:** | | |
| Acceptable | 99.27% | 99.57% |
| OAEM | – | – |
| Substandard/doubtful/loss | 0.73 | 0.43 |
| | 100.00% | 100.00% |

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| **Total agribusiness:** | | |
| Acceptable | 89.92% | 84.36% |
| OAEM | 2.59 | 6.33 |
| Substandard/doubtful/loss | 7.49 | 9.31 |
| | 100.00% | 100.00% |
| **Communication:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Energy and water/waste disposal:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Rural residential real estate:** | | |
| Acceptable | 93.20% | 92.71% |
| OAEM | 2.76 | 3.92 |
| Substandard/doubtful/loss | 4.04 | 3.37 |
| | 100.00% | 100.00% |
| **Total Loans:** | | |
| Acceptable | 85.52% | 87.78% |
| OAEM | 7.71 | 5.11 |
| Substandard/doubtful/loss | 6.77 | 7.11 |
| | 100.00% | 100.00% |

The following tables provide an aging analysis of past due loans and related accrued interest.

| | June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | 30 Through 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment 90 Days or More Past Due and Accruing Interest |
| Real estate mortgage | $ 3,946 | $ 14,596 | $ 18,542 | $ 516,435 | $ 534,977 | $ 52 |
| Production and intermediate-term | 2,768 | 15,334 | 18,102 | 531,852 | 549,954 | – |
| Agribusiness | | | | | | |
| Loans to cooperatives | – | – | – | 1,582 | 1,582 | – |
| Processing and marketing | – | – | – | 35,069 | 35,069 | – |
| Farm-related business | – | – | – | 5,792 | 5,792 | – |
| Total agribusiness | – | – | – | 42,443 | 42,443 | – |
| Communication | – | – | – | 8,944 | 8,944 | – |
| Energy and water/waste disposal | – | – | – | 2,593 | 2,593 | – |
| Rural residential real estate | 1,618 | 305 | 1,923 | 53,039 | 54,962 | – |
| Total | $ 8,332 | $ 30,235 | $ 38,567 | $ 1,155,306 | $ 1,193,873 | $ 52 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | 30 Through 89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less Than 30 Days Past Due | Total Loans | Recorded Investment 90 Days or More Past Due and Accruing Interest |
| Real estate mortgage | $ 2,672 | $ 11,230 | $ 13,902 | $ 519,560 | $ 533,462 | $ – |
| Production and intermediate-term | 4,451 | 15,680 | 20,131 | 536,547 | 556,678 | – |
| Agribusiness | | | | | | |
| Loans to cooperatives | – | – | – | 2,989 | 2,989 | – |
| Processing and marketing | – | – | – | 32,436 | 32,436 | – |
| Farm-related business | – | – | – | 6,063 | 6,063 | – |
| Total agribusiness | – | – | – | 41,488 | 41,488 | – |
| Communication | – | – | – | 9,241 | 9,241 | – |
| Energy and water/waste disposal | – | – | – | 2,114 | 2,114 | – |
| Rural residential real estate | 1,269 | 507 | 1,776 | 54,976 | 56,752 | – |
| Total | $ 8,392 | $ 27,417 | $ 35,809 | $ 1,163,926 | $ 1,199,735 | $ – |

The recorded investment in a 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.

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

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | $ 22,360 | $ 19,548 |
| Production and intermediate-term | 21,593 | 22,879 |
| Agribusiness | | |
| Processing and marketing | 3,138 | 3,838 |
| Farm-related business | 15 | 16 |
| Total agribusiness | 3,153 | 3,854 |
| Rural residential real estate | 764 | 1,133 |
| Total nonaccrual loans | $ 47,870 | $ 47,414 |
| **Accruing restructured loans:** | | |
| Real estate mortgage | $ 1,468 | $ 358 |
| Production and intermediate-term | 119 | – |
| Agribusiness | | |
| Farm-related business | 643 | 665 |
| Total agribusiness | 643 | 665 |
| Rural residential real estate | 190 | 99 |
| Total accruing restructured loans | $ 2,420 | $ 1,122 |
| **Accruing loans 90 days or more past due:** | | |
| Real estate mortgage | $ 52 | $ – |
| Total accruing loans 90 days or more past due | $ 52 | $ – |
| Total nonperforming loans | $ 50,342 | $ 48,536 |
| Other property owned | 3,335 | 4,252 |
| Total nonperforming assets | $ 53,677 | $ 52,788 |
| Nonaccrual loans as a percentage of total loans | 4.05% | 3.99% |
| Nonperforming assets as a percentage of total loans and other property owned | 4.53% | 4.43% |
| Nonperforming assets as a percentage of capital | 19.99% | 20.61% |

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

| | June 30, 2013 | December 31, 2012 |
|---|---|---|
| Impaired nonaccrual loans: | | |
| Current as to principal and interest | $ 15,153 | $ 16,750 |
| Past due | 32,717 | 30,664 |
| Total impaired nonaccrual loans | 47,870 | 47,414 |
| Impaired accrual loans: | | |
| Restructured | 2,420 | 1,122 |
| 90 days or more past due | 52 | – |
| Total impaired accrual loans | 2,472 | 1,122 |
| Total impaired loans | $ 50,342 | $ 48,536 |

The following tables present additional information concerning impaired loans and related allowance by loan type at period end. Unpaid principal balance represents the contractual principal balance of the loan.

| | June 30, 2013 | | | Quarter Ended June 30, 2013 | | Six Months Ended June 30, 2013 | |
|---|---|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| **Impaired loans with a related allowance for credit losses:** | | | | | | | |
| Real estate mortgage | $ 4,806 | $ 5,095 | $ 623 | $ 4,986 | $ 29 | $ 4,754 | $ 42 |
| Production and intermediate-term | 13,398 | 17,849 | 2,778 | 13,898 | 80 | 13,253 | 115 |
| Agribusiness | | | | | | | |
| Processing and marketing | 3,067 | 3,836 | 1,219 | 3,181 | 18 | 3,034 | 27 |
| Farm-related business | – | – | – | – | – | – | – |
| Total agribusiness | 3,067 | 3,836 | 1,219 | 3,181 | 18 | 3,034 | 27 |
| Rural residential real estate | 201 | 193 | 77 | 208 | 1 | 199 | 2 |
| Total | $ 21,472 | $ 26,973 | $ 4,697 | $ 22,273 | $ 128 | $ 21,240 | $ 186 |
| **Impaired loans with no related allowance for credit losses:** | | | | | | | |
| Real estate mortgage | $ 19,074 | $ 21,171 | $ – | $ 19,784 | $ 112 | $ 18,867 | $ 165 |
| Production and intermediate-term | 8,314 | 11,090 | – | 8,623 | 50 | 8,224 | 74 |
| Agribusiness | | | | | | | |
| Processing and marketing | 71 | – | – | 74 | 1 | 70 | – |
| Farm-related business | 658 | 660 | – | 683 | 4 | 651 | 6 |
| Total agribusiness | 729 | 660 | – | 757 | 5 | 721 | 6 |
| Rural residential real estate | 753 | 921 | – | 782 | 5 | 745 | 6 |
| Total | $ 28,870 | $ 33,842 | $ – | $ 29,946 | $ 172 | $ 28,557 | $ 251 |
| **Total impaired loans:** | | | | | | | |
| Real estate mortgage | $ 23,880 | $ 26,266 | $ 623 | $ 24,770 | $ 141 | $ 23,621 | $ 207 |
| Production and intermediate-term | 21,712 | 28,939 | 2,778 | 22,521 | 130 | 21,477 | 189 |
| Agribusiness | | | | | | | |
| Processing and marketing | 3,138 | 3,836 | 1,219 | 3,255 | 19 | 3,104 | 27 |
| Farm-related business | 658 | 660 | – | 683 | 4 | 651 | 6 |
| Total agribusiness | 3,796 | 4,496 | 1,219 | 3,938 | 23 | 3,755 | 33 |
| Rural residential real estate | 954 | 1,114 | 77 | 990 | 6 | 944 | 8 |
| Total | $ 50,342 | $ 60,815 | $ 4,697 | $ 52,219 | $ 300 | $ 49,797 | $ 437 |

| | December 31, 2012 | | | Year Ended December 31, 2012 | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| **Impaired loans with a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 7,872 | $ 8,755 | $ 1,259 | $ 8,115 | $ 161 |
| Production and intermediate-term | 9,884 | 10,350 | 3,049 | 10,188 | 202 |
| Agribusiness | | | | | |
| Processing and marketing | 3,767 | 3,836 | 1,919 | 3,883 | 77 |
| Farm-related business | – | – | – | – | – |
| Total agribusiness | 3,767 | 3,836 | 1,919 | 3,883 | 77 |
| Rural residential real estate | 241 | 268 | 96 | 248 | 5 |
| Total | $ 21,764 | $ 23,209 | $ 6,323 | $ 22,434 | $ 445 |
| **Impaired loans with no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 12,034 | $ 13,666 | $ – | $ 12,403 | $ 246 |
| Production and intermediate-term | 12,995 | 17,892 | – | 13,395 | 266 |
| Agribusiness | | | | | |
| Processing and marketing | 71 | – | – | 73 | 1 |
| Farm-related business | 681 | 683 | – | 702 | 14 |
| Total agribusiness | 752 | 683 | – | 775 | 15 |
| Rural residential real estate | 991 | 1,168 | – | 1,022 | 20 |
| Total | $ 26,772 | $ 33,409 | $ – | $ 27,595 | $ 547 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 19,906 | $ 22,421 | $ 1,259 | $ 20,518 | $ 407 |
| Production and intermediate-term | 22,879 | 28,242 | 3,049 | 23,583 | 468 |
| Agribusiness | | | | | |
| Processing and marketing | 3,838 | 3,836 | 1,919 | 3,956 | 78 |
| Farm-related business | 681 | 683 | – | 702 | 14 |
| Total agribusiness | 4,519 | 4,519 | 1,919 | 4,658 | 92 |
| Rural residential real estate | 1,232 | 1,436 | 96 | 1,270 | 25 |
| Total | $ 48,536 | $ 56,618 | $ 6,323 | $ 50,029 | $ 992 |

Unpaid principal balance represents the contractual principal balance of the loan.

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

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

| | Real Estate Mortgage | Production and Intermediate-term | Agribusiness | Communication | Energy and Water/Waste Disposal | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | | |
| Balance at March 31, 2013 | $ 1,995 | $ 4,708 | $ 1,975 | $ 10 | $ 6 | $ 122 | $ 8,816 |
| Charge-offs | (1,190) | (1,224) | (700) | – | – | (3) | (3,117) |
| Recoveries | 387 | 101 | 154 | – | – | – | 642 |
| Provision for loan losses | 104 | 851 | (158) | 2 | 1 | 23 | 823 |
| Balance at June 30, 2013 | $ 1,296 | $ 4,436 | $ 1,271 | $ 12 | $ 7 | $ 142 | $ 7,164 |
| | | | | | | | |
| Balance at December 31, 2012 | $ 1,678 | $ 4,895 | $ 2,006 | $ 13 | $ 6 | $ 159 | $ 8,757 |
| Charge-offs | (1,223) | (1,350) | (700) | – | – | (4) | (3,277) |
| Recoveries | 389 | 136 | 154 | – | – | 3 | 682 |
| Provision for loan losses | 452 | 755 | (189) | (1) | 1 | (16) | 1,002 |
| Balance at June 30, 2013 | $ 1,296 | $ 4,436 | $ 1,271 | $ 12 | $ 7 | $ 142 | $ 7,164 |
| | | | | | | | |
| Balance at March 31, 2012 | $ 936 | $ 4,038 | $ 519 | $ 3 | $ 2 | $ 233 | $ 5,731 |
| Charge-offs | (132) | (427) | (57) | – | – | (41) | (657) |
| Recoveries | 13 | 23 | 42 | – | – | 1 | 79 |
| Provision for loan losses | 123 | 878 | 1 | 7 | 2 | 79 | 1,090 |
| Balance at June 30, 2012 | $ 940 | $ 4,512 | $ 505 | $ 10 | $ 4 | $ 272 | $ 6,243 |
| | | | | | | | |
| Balance at December 31, 2011 | $ 724 | $ 3,449 | $ 598 | $ 6 | $ 2 | $ 267 | $ 5,046 |
| Charge-offs | (338) | (621) | 211 | – | – | (76) | (824) |
| Recoveries | 37 | 45 | 46 | – | – | 1 | 129 |
| Provision for loan losses | 517 | 1,639 | (350) | 4 | 2 | 80 | 1,892 |
| Balance at June 30, 2012 | $ 940 | $ 4,512 | $ 505 | $ 10 | $ 4 | $ 272 | $ 6,243 |
| | | | | | | | |
| Loans individually evaluated for impairment | $ 623 | $ 2,778 | $ 1,219 | $ – | $ – | $ 77 | $ 4,697 |
| Loans collectively evaluated for impairment | 673 | 1,658 | 52 | 12 | 7 | 65 | 2,467 |
| Balance at June 30, 2013 | $ 1,296 | $ 4,436 | $ 1,271 | $ 12 | $ 7 | $ 142 | $ 7,164 |
| | | | | | | | |
| Loans individually evaluated for impairment | $ 1,259 | $ 3,049 | $ 1,919 | $ – | $ – | $ 96 | $ 6,323 |
| Loans collectively evaluated for impairment | 419 | 1,846 | 87 | 13 | 6 | 63 | 2,434 |
| Balance at December 31, 2012 | $ 1,678 | $ 4,895 | $ 2,006 | $ 13 | $ 6 | $ 159 | $ 8,757 |
| | | | | | | | |
| **Recorded investment in loans outstanding:** | | | | | | | |
| Loans individually evaluated for impairment | $ 23,828 | $ 21,712 | $ 3,796 | $ – | $ – | $ 954 | $ 50,290 |
| Loans collectively evaluated for impairment | 511,149 | 528,242 | 38,647 | 8,944 | 2,593 | 54,008 | 1,143,583 |
| Ending balance at June 30, 2013 | $ 534,977 | $ 549,954 | $ 42,443 | $ 8,944 | $ 2,593 | $ 54,962 | $ 1,193,873 |
| | | | | | | | |
| Loans individually evaluated for impairment | $ 19,906 | $ 22,879 | $ 4,519 | $ – | $ – | $ 1,232 | $ 48,536 |
| Loans collectively evaluated for impairment | 513,556 | 533,799 | 36,969 | 9,241 | 2,114 | 55,520 | 1,151,199 |
| Ending balance at December 31, 2012 | $ 533,462 | $ 556,678 | $ 41,488 | $ 9,241 | $ 2,114 | $ 56,752 | $ 1,199,735 |

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information regarding TDRs as of the restructuring date that occurred during the periods presented.

| | Three months ended June 30, 2013 | | | |
|---|---|---|---|---|
| | Pre-modification Outstanding Recorded Investment | | | |
| | Interest Concessions | Principal Concessions | Other Concessions | Total |
| **Troubled debt restructurings:** | | | | |
| Real estate mortgage | $ 24 | $ – | $ – | $ 24 |
| Production and intermediate-term | – | 1,029 | – | 1,029 |
| Rural residential real estate | 30 | – | – | 30 |
| Total | $ 54 | $ 1,029 | $ – | $ 1,083 |

| Three months ended June 30, 2013 | | | | | | |
|---|---|---|---|---|---|---|
| | Post-modification Outstanding Recorded Investment | | | | Effects of Modification | |
| | Interest Concessions | Principal Concessions | Other Concessions | Total | Provisions | Charge-offs |
| **Troubled debt restructurings:** | | | | | | |
| Real estate mortgage | $ 24 | $ – | $ – | $ 24 | $ – | $ – |
| Production and intermediate-term | – | 965 | – | 965 | (431) | – |
| Rural residential real estate | 29 | – | – | 29 | – | – |
| Total | $ 53 | $ 965 | $ – | $ 1,018 | $ (431) | $ – |

| Six months ended June 30, 2013 | | | | |
|---|---|---|---|---|
| | Pre-modification Outstanding Recorded Investment | | | |
| | Interest Concessions | Principal Concessions | Other Concessions | Total |
| **Troubled debt restructurings:** | | | | |
| Real estate mortgage | $ 24 | $ – | $ – | $ 24 |
| Production and intermediate-term | – | 1,394 | – | 1,394 |
| Rural residential real estate | 30 | – | – | 30 |
| Total | $ 54 | $ 1,394 | $ – | $ 1,448 |

| Six months ended June 30, 2013 | | | | | | |
|---|---|---|---|---|---|---|
| | Post-modification Outstanding Recorded Investment | | | | Effects of Modification | |
| | Interest Concessions | Principal Concessions | Other Concessions | Total | Provisions | Charge-offs |
| **Troubled debt restructurings:** | | | | | | |
| Real estate mortgage | $ 24 | $ – | $ – | $ 24 | $ – | $ – |
| Production and intermediate-term | – | 1,329 | – | 1,329 | (353) | – |
| Rural residential real estate | 29 | – | – | 29 | – | – |
| Total | $ 53 | $ 1,329 | $ – | $ 1,382 | $ (353) | $ – |

| Three months ended June 30, 2012 | | | | |
|---|---|---|---|---|
| | Pre-modification Outstanding Recorded Investment | | | |
| | Interest Concessions | Principal Concessions | Other Concessions | Total |
| **Troubled debt restructurings:** | | | | |
| Real estate mortgage | $ – | $ 763 | $ – | $ 763 |
| Production and intermediate-term | – | 1,221 | – | 1,221 |
| Agribusiness | | | | |
| Farm-related business | 694 | – | – | 694 |
| Total | $ 694 | $ 1,984 | $ – | $ 2,678 |

| Three months ended June 30, 2012 | | | | | | |
|---|---|---|---|---|---|---|
| | Post-modification Outstanding Recorded Investment | | | | Effects of Modification | |
| | Interest Concessions | Principal Concessions | Other Concessions | Total | Provisions | Charge-offs |
| **Troubled debt restructurings:** | | | | | | |
| Real estate mortgage | $ – | $ 763 | $ – | $ 763 | $ – | $ – |
| Production and intermediate-term | – | 1,220 | – | 1,220 | (11) | – |
| Agribusiness | | | | | | |
| Farm-related business | 692 | – | – | 692 | (269) | – |
| Rural residential real estate | – | – | – | – | – | – |
| Total | $ 692 | $ 1,983 | $ – | $ 2,675 | $ (280) | $ – |

| Six months ended June 30, 2012 | | | | |
|---|---|---|---|---|
| | Pre-modification Outstanding Recorded Investment | | | |
| | Interest Concessions | Principal Concessions | Other Concessions | Total |
| **Troubled debt restructurings:** | | | | |
| Real estate mortgage | $ – | $ 4,270 | $ – | $ 4,270 |
| Production and intermediate-term | – | 3,387 | – | 3,387 |
| Agribusiness | | | | |
| Farm-related business | 694 | – | – | 694 |
| Rural residential real estate | – | – | 78 | 78 |
| Total | $ 694 | $ 7,657 | $ 78 | $ 8,429 |

| | Six months ended June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Post-modification Outstanding Recorded Investment | | | | Effects of Modification | |
| | Interest Concessions | Principal Concessions | Other Concessions | Total | Provisions | Charge-offs |
| **Troubled debt restructurings:** | | | | | | |
| Real estate mortgage | $ – | $ 4,280 | $ – | $ 4,280 | $ 25 | $ – |
| Production and intermediate-term | – | 3,334 | – | 3,334 | 41 | (1) |
| Agribusiness | | | | | | |
| Farm-related business | 692 | – | – | 692 | (269) | – |
| Rural residential real estate | – | – | 78 | 78 | 41 | – |
| Total | $ 692 | $ 7,614 | $ 78 | $ 8,384 | $ (162) | $ (1) |

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

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **Defaulted troubled debt restructurings:** | | | | |
| Real estate mortgage | $ – | $ – | $ – | $ – |
| Production and intermediate-term | – | 31 | 684 | 31 |
| Total | $ – | $ 31 | $ 684 | $ 31 |

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

| | Total TDRs | | Nonaccrual TDRs | |
|---|---|---|---|---|
| | June 30, 2013 | December 31, 2012 | June 30, 2013 | December 31, 2012 |
| Real estate mortgage | $ 3,849 | $ 4,179 | $ 2,381 | $ 3,821 |
| Production and intermediate-term | 8,579 | 8,458 | 8,460 | 8,458 |
| Agribusiness | | | | |
| Farm-related business | 643 | 665 | – | – |
| Total agribusiness | 643 | 665 | – | – |
| Rural residential real estate | 219 | 171 | 29 | 72 |
| Total Loans | $ 13,290 | $ 13,473 | $ 10,870 | $ 12,351 |

Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings was $15 and $16 at June 30, 2013 and December 31, 2012, respectively.

## NOTE 4 — EMPLOYEE BENEFIT PLANS

The following is a table of retirement and other postretirement benefit expenses for the Association:

| | For the three months ended June 30 , | | For the six months ended June 30 , | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Pension | $ 1,569 | $ 1,508 | $ 3,139 | $ 3,016 |
| 401(k) | 106 | 108 | 228 | 226 |
| Other postretirement benefits | 268 | 215 | 535 | 430 |
| Total | $ 1,943 | $ 1,831 | $ 3,902 | $ 3,672 |

The following is a table of retirement and other postretirement benefit contributions for the Association:

| | Actual YTD Through 6/30/13 | Projected Contributions For Remainder of 2013 | Projected Total Contributions 2013 |
|---|---|---|---|
| Pension | $ 18 | $ 5,506 | $ 5,524 |
| Other postretirement benefits | 341 | 383 | 724 |
| Total | $ 359 | $ 5,889 | $ 6,248 |

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2013.

Further details regarding employee benefit plans are contained in the 2012 Annual Report to Shareholders.

## NOTE 5 – COMMITMENTS AND CONTINGENT LIABILITIES

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association.

## NOTE 6 – FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. Accounting guidance establishes a fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 10.84 percent of the issued stock of the Bank as of June 30, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.1 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $232 million for the first six months of 2013. In addition, the Association has an investment of $489 related to other Farm Credit institutions.

The classifications of the Association's financial instruments within the fair value hierarchy are as follows:

### Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

### Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis at June 30, 2013.

For investment securities, the fair value is determined by discounting the expected future cash flows using appropriate interest rates for similar assets.

### Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Level 3 assets at June 30, 2013 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these 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. 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.

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

For investment securities, the fair value is determined by discounting the expected future cash flows using extrapolated interest rates for similar assets.

For other investments, which consist of Tobacco Buyout SIIC, fair value is determined by discounting the expected future cash flows using current interest rates for similar assets. Other property owned is classified as a level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

| | Standby Letters Of Credit |
|---|---|
| Balance at January 1, 2013 | $ 34 |
| **Total gains or (losses) realized/unrealized:** | |
| Included in earnings | – |
| Included in other comprehensive income | – |
| Purchases | – |
| Sales | – |
| Issuances | – |
| Settlements | – |
| Transfers in and/or out of level 3 | – |
| Balance at June 30, 2013 | $ 34 |

| | Standby Letters Of Credit |
|---|---|
| Balance at January 1, 2012 | $ 34 |
| **Total gains or (losses) realized/unrealized:** | |
| Included in earnings | – |
| Included in other comprehensive income | – |
| Purchases | – |
| Sales | – |
| Issuances | 24 |
| Settlements | – |
| Transfers in and/or out of level 3 | – |
| Balance at June 30, 2012 | $ 58 |

## INFORMATION ABOUT SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS.

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

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

### Investment Securities

The fair values of predominantly all level 3 investment securities have consistent inputs, valuation techniques and correlation to changes in underlying inputs. The models used to determine fair value for these instruments use certain significant unobservable inputs within a discounted cash flow or market comparable pricing valuation technique. Such inputs generally include discount rate components including risk premiums, prepayment estimates, default estimates and loss severities.

These level 3 assets would decrease (increase) in value based upon an increase (decrease) in discount rates, defaults, or loss severities. Conversely, the fair value of these assets would generally increase (decrease) in value if the prepayment input were to increase (decrease).

Generally, a change in the assumption used for defaults is accompanied by a directionally similar change in the risk premium component of the discount rate (specifically, the portion related to credit risk) and a directionally opposite change in the assumption used for prepayments. Unobservable inputs for loss severities do not normally increase or decrease based on movements in the other significant unobservable inputs for these level 3 assets.

**Other Property Owned/Impaired Loans**

Other property owned and impaired loans are valued using appraisals, market comparable sales, replacement costs and income and expense (cash flow) techniques. Certain unobservable inputs are used within these techniques to determine the level 3 fair value of these properties. The significant unobservable inputs are primarily sensitive only to industry, geographic and overall economic conditions, and/or specific attributes of each property.

**Inputs to Valuation Techniques**

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for certain System financial instruments, as described below. Accordingly fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements**

| | Fair Value | Valuation Technique(s) | Unobservable Input | Range |
|---|---|---|---|---|
| Mission Related Investments | $ 3,259 | Discounted cash flow | Risk adjusted spread | 2.00% - 8.25% |
| Impaired loans and other property owned | $ 49,504 | Appraisal | Income and expense | * |
| | | | Comparable sales | * |
| | | | Replacement costs | * |
| | | | Comparability adjustments | * |

** Ranges for this type of input are not useful because each collateral property is unique.*

**Information about Other Financial Instrument Fair Value Measurements**

| | Valuation Technique(s) | Input |
|---|---|---|
| Cash | Carrying Value | Par/Principle and appropriate interest yield |
| Loans | Discounted cash flow | Prepayment rates |
| | | Probability of default |
| | | Loss severity |
| | | Annualized volatility |
| Investment securities, held-to-maturity | Discounted cash flow | Probability of default |
| | | Risk adjusted discount rate |
| Other investments | Discounted cash flow | Probability of default |
| | | Risk adjusted discount rate |
| Notes payable to AgFirst Farm Credit Bank | Discounted cash flow | Prepayment rates |
| | | Probability of default |
| | | Loss severity |
| | | Annualized volatility |

The following table presents the carrying amounts and fair values of assets and liabilities that are measured at fair value on a recurring and nonrecurring basis, as well as, those financial instruments not measured at fair value, for each of the hierarchy levels at the period ended:

| | At or for the Six Months Ended June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value | Fair Value Effects On Earnings |
| **Recurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Assets held in Trust funds | $ 1,040 | $ 1,040 | $ – | $ – | $ 1,040 | |
| Recurring Assets | $ 1,040 | $ 1,040 | $ – | $ – | $ 1,040 | |
| **Liabilities:** | | | | | | |
| Standby letters of credit | $ 34 | $ – | $ – | $ 34 | $ 34 | |
| Recurring Liabilities | $ 34 | $ – | $ – | $ 34 | $ 34 | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans | $ 45,645 | $ – | $ – | $ 45,645 | $ 45,645 | $ (969) |
| Other property owned | 3,335 | – | – | 3,859 | 3,859 | (1,509) |
| Nonrecurring Assets | $ 48,980 | $ – | $ – | $ 49,504 | $ 49,504 | $ (2,478) |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 2,747 | $ 2,747 | $ – | $ – | $ 2,747 | |
| Investment securities, held-to-maturity | 3,248 | – | – | 3,259 | 3,259 | |
| Loans | 1,133,031 | – | – | 1,138,212 | 1,138,212 | |
| Other investments | 11,843 | – | – | 12,041 | 12,041 | |
| Other Assets | $ 1,150,869 | $ 2,747 | $ – | $ 1,153,512 | $ 1,156,259 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 984,411 | $ – | $ – | $ 975,557 | $ 975,557 | |
| Other Liabilities | $ 984,411 | $ – | $ – | $ 975,557 | $ 975,557 | |

| | At or for the Year Ended December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Total Carrying Amount | Level 1 | Level 2 | Level 3 | Total Fair Value | Fair Value Effects On Earnings |
| **Recurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Assets held in Trust funds | $ 755 | $ 755 | $ – | $ – | $ 755 | |
| Recurring Assets | $ 755 | $ 755 | $ – | $ – | $ 755 | |
| **Liabilities:** | | | | | | |
| Standby letters of credit | $ 34 | $ – | $ – | $ 34 | $ 34 | |
| Recurring Liabilities | $ 34 | $ – | $ – | $ 34 | $ 34 | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans | $ 42,213 | $ – | $ – | $ 42,213 | $ 42,213 | $ (6,958) |
| Other property owned | 4,252 | – | – | 4,465 | 4,465 | (2,208) |
| Nonrecurring Assets | $ 46,465 | $ – | $ – | $ 46,678 | $ 46,678 | $ (9,166) |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 2,246 | $ 2,246 | $ – | $ – | $ 2,246 | |
| Investment securities, held-to-maturity | 2,791 | – | – | 3,109 | 3,109 | |
| Loans | 1,144,447 | – | – | 1,155,278 | 1,155,278 | |
| Other investments | 23,669 | – | – | 24,074 | 24,074 | |
| Other Assets | $ 1,173,153 | $ 2,246 | $ – | $ 1,182,461 | $ 1,184,707 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 1,023,213 | $ – | $ – | $ 1,025,404 | $ 1,025,404 | |
| Other Liabilities | $ 1,023,213 | $ – | $ – | $ 1,025,404 | $ 1,025,404 | |

## NOTE 7 - ACCUMULATED OTHER COMPREHENSIVE INCOME

**Changes in Accumulated Other Comprehensive income by Component** *(a)*

| | | Employee Benefit Plans |
|---|---|---|
| Balance at March 31, 2013 | $ | (955) |
| Other comprehensive income before reclassifications | | – |
| Amounts reclassified from AOCI | | 121 |
| Net current period other comprehensive income | | 121 |
| Balance at June 30, 2013 | $ | (834) |
| Balance at December 31, 2012 | $ | (1,075) |
| Other comprehensive income before reclassifications | | – |
| Amounts reclassified from AOCI | | 241 |
| Net current period other comprehensive income | | 241 |
| Balance at June 30, 2013 | $ | (834) |
| Balance at March 31, 2012 | $ | (1,023) |
| Other comprehensive income before reclassifications | | – |
| Amounts reclassified from AOCI | | 83 |
| Net current period other comprehensive income | | 83 |
| Balance at June 30, 2012 | $ | (940) |
| Balance at December 31, 2011 | $ | (1,066) |
| Other comprehensive income before reclassifications | | (41) |
| Amounts reclassified from AOCI | | 167 |
| Net current period other comprehensive income | | 126 |
| Balance at June 30, 2012 | $ | (940) |

**Reclassifications Out of Accumulated Other Comprehensive Income** *(b)*

| | For the three months ended June 30, | | For the six months ended June 30, | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | Income Statement Line Item |
| **Defined Benefit Pension Plans:** | | | | | |
| Periodic pension costs | $ (121) | $ (83) | $ (241) | $ (167) | See footnote 4. |
| Net amounts reclassified | $ (121) | $ (83) | $ (241) | $ (167) | |

*(a) Amounts in parentheses indicate debits to AOCI.*
*(b) Amounts in parentheses indicate debits to profit/loss.*

## NOTE 8 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through August 7, 2013, which is the date the financial statements were issued.