*Farm Credit of Central Florida, ACA*

# FIRST QUARTER 2013

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## CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2013 quarterly report of Farm Credit of Central Florida, 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.

Reginald T. Holt
Chief Executive Officer

D. Scott Fontenot
Chief Financial Officer

John S. Langford
Chairman of the Audit committee

May 9, 2013

*Farm Credit of Central Florida, 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 March 31, 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 March 31, 2013, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2013.

Reginald T. Holt
Chief Executive Officer

D. Scott Fontenot
Chief Financial Officer

May 9, 2013

# *Farm Credit of Central Florida, 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 Farm Credit of Central Florida, ACA, (Association) for the period ended March 31, 2013. These comments should be read in conjunction with the accompanying financial statements, notes to the 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 horticulture, fruits/vegetables, citrus, and cattle. 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 level of dependency on a given commodity.

### *March 31, 2013 compared to December 31, 2012*

Loan volume of the Association as of March 31, 2013, was $344,508, a decrease of $11,829 as compared to $356,337 at December 31, 2012. Net loans outstanding at March 31, 2013, were $334,130 as compared to $344,711 at December 31, 2012. The Association has investment securities that are classified as held to maturity in the amount of $45,797 at March 31, 2013, as compared to $47,900 at December 31, 2012. Net loans and investment securities accounted for 95.28 percent of total assets at March 31, 2013, as compared to 94.56 percent of total assets at December 31, 2012.

The Association's total servicing portfolio has decreased to $845,446 as compared to $847,909 at December 31, 2012, due in large part to the decrease in the investment securities portfolio. The decrease in net loan volume is primarily due to seasonal lending. The short-term portfolio, which is heavily influenced by operating loans, normally reaches a peak balance between October and December and declines between January and June as strawberry and other winter vegetable growers pay down their loans using proceeds from the sale of their crops. The result of this normal seasonal lending activity causes net loan volume to decrease on revolving credit lines.

## ASSET QUALITY AND LOAN LOSS RESERVES

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has improved as compared to year end as a result of recent reductions in Substandard-Viable assets. Acceptable and OAEM credit quality as a percentage of total loan portfolio was 85.21% as of March 31, 2013, compared to 84.07% at December 31, 2012 and 86.84% at March 31, 2012. Substandard credit quality was 14.79% as of March 31, 2013, compared to 15.92% at December 31, 2012. The actual substandard asset volume has been reduced by $5,804 from year-end December 31, 2012. Nonaccrual loan volume was $12,951 at March 31, 2013, compared to $13,120 at December 31, 2012 and $17,433 at March 31, 2012, a decrease of $169 and a decrease of $4,482, respectively. The majority of the loan assets in nonaccrual are in the nursery, citrus and cattle industries.

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 March 31, 2013, was $10,378 compared to $11,626 at December 31, 2012, and $10,479 at March 31, 2012, and is considered by management to be adequate to cover possible losses. The allowance for loan loss is broken down between specific reserves assigned to an individual loan and general reserves which are available for the possible losses within the entire portfolio. The current allowance for loan loss at March 31, 2013, contains $6,289 in specific reserves and $4,089 in general reserves. The following outlines the allowance for loan loss activity as of March 31, 2013.

| Allowance for Loan Losses Activity: | YTD 2013 |
|---|---|
| Balance at beginning of period | $ 11,626 |
| Charge-offs | (1,116) |
| Recoveries | 1 |
| Provisions/(Reversals)-General | (181) |
| Provisions/(Reversals)–Specifics | 48 |
| Balance at end of period | $ 10,378 |

The decrease in allowance for loan losses compared to December 2012 was a direct result of charge-offs and decreased provisions during 2013 within the citrus, nursery and real estate portfolios as well as the decrease in Substandard-Viable accounts. Chargeoffs are funded through the allowance from previous and/or current increases in the provision for loan losses.

## RESULTS OF OPERATIONS

### *For the three months ended March 31, 2013*

Net income for the three months ended March 31, 2013, totaled $2,114, as compared to $305 for the same period in 2012. The increase of $1,809 for the period is associated directly with the fewer provisions for loan losses, fewer losses on other property owned and increased patronage refunds from other Farm Credit institutions as compared to same period prior year.

Net interest income increased $80 for the three months ended March 31, 2013, as compared to the same period in 2012. The primary reason for the increase in net interest income is the increases in net loan assets as compared to the same time last year. Net interest income for the three months ending March 31, 2013, is shown in the following table:

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| **Net Interest Income** | **2013** | **2012** | **$ change** | **% change** |
| Investment Interest Income | $ 242 | $ 270 | $ (28) | (10.37) % |
| Loan Interest Income | 4,056 | 4,030 | 26 | 0.65 |
| Total Interest Income | 4,298 | 4,300 | (2) | (0.05) |
| Total Interest Expense | 1,586 | 1,668 | (82) | (4.92) |
| Net Interest Income | $ 2,712 | $ 2,632 | $ 80 | 3.04 % |

Allowance for loan loss activity for the quarter consisted of a $133 reversal, as compared to a $990 provision for the same period last year. The reversal was due mostly to improved credit quality within the accruing loan volume. Provisions for loan losses for the three months ending March 31, 2013 are shown in the following table:

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| **Provisions/(Reversals) for Loan Losses** | **2013** | **2012** | **$ change** | **% change** |
| General Reserves | $ (181) | $ 185 | $ (366) | (197.84) |
| Specific Reserves | 48 | 805 | (757) | (94.04) |
| Total Provisions/(Reversals) | $ (133) | $ 990 | $ (1,123) | (113.43) |

Noninterest income for the three months ended March 31, 2013, totaled $1,511, as compared to $824 for the same period of 2012, an increase of $687. The increase is primarily the result of increased Equity in Earnings from other Farm Credit Institutions as well as fewer losses from sales of other property owned. Equity in Earnings from other Farm Credit Institutions increased from prior period due to higher patronage earnings from the Capitalized Participation Pools (CPP) as a result of improved credit quality within the pool and fewer provisions as compared to prior year. The sales of OPO have generated a loss of $49, as compared to a loss of $361 for the same period in 2012. OPO losses are made up of expenses of holding the asset as well as write-downs of the asset due to lower market values for the properties and additional losses taken at the time of the sale of the asset. Noninterest income for the three months ending March 31, 2013, is shown in the following table:

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| **Noninterest Income** | **2013** | **2012** | **$ change** | **% change** |
| Loan fees | $ 104 | $ 65 | $ 39 | 60.00 % |
| Fees for financially related services | – | 2 | (2) | (100.00) |
| Equity in earnings from other Farm Credit Institutions | 1,354 | 1,030 | 324 | 31.46 |
| Gains (losses) on other property owned, net | (49) | (361) | 312 | 86.43 |
| Gains (losses) on sales of rural home loans, net | 40 | 43 | (3) | (6.98) |
| Insurance Fund refund | – | – | – | – |
| Other noninterest income | 62 | 45 | 17 | 37.78 |
| Total noninterest income | $ 1,511 | $ 824 | $ 687 | 83.37% |

Noninterest expense for the three months ended March 31, 2013, increased $81 compared to the same period of 2012. Salary and Employee Benefits increased due to annual merit increases and promotions. Insurance Fund Premium expenses increased due to the Farm Credit System Insurance Corporation (FCSIC) adjusting the premium to 10 basis points on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans. For 2012, the FCSIC set premiums at 5 basis points on the adjusted insured debt outstanding with an additional 10 basis points premium on the average principal outstanding of nonaccrual loans. Noninterest expense for the three months ending March 31, 2013 is shown in the following table:

| | For the three months ended March 31, | | | |
|---|---|---|---|---|
| **Noninterest Expense** | **2013** | **2012** | **$ change** | **% change** |
| Salary and employee benefits | $ 1,545 | $ 1,491 | $ 54 | 3.62 % |
| Occupancy and equipment | 170 | 159 | 11 | 6.92 |
| Insurance Fund Premium | 72 | 39 | 33 | 84.62 |
| Other operating expenses | 455 | 472 | (17) | (3.60) |
| Total noninterest expense | $ 2,242 | $ 2,161 | $ 81 | 3.75 % |

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank 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 are 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 March 31, 2013, was $315,703 as compared to $333,645 at December 31, 2012. The decrease is attributable to pay downs on loans received during the normal course of business being greater than borrowings to fund new loan advances.

## CAPITAL RESOURCES

Total members' equity at March 31, 2013, increased to $77,101 from the December 31, 2012, total of $74,950. The increase is primarily attributed to the increase in unallocated surplus resulting from the increased net income.

Total capital stock and participation certificates were $937 on March 31, 2013, compared to $953 on December 31, 2012. This decrease is attributed to the retirement of stock and participation certificates on loans liquidated in the normal course of business.

Farm Credit Administration 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 March 31, 2013, the Association's total surplus ratio and core surplus ratio were 19.80 percent and 17.43 percent, respectively, and the permanent capital ratio was 20.08 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 three months ended March 31, 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 1-800-533-2773, or writing D. Scott Fontenot, CFO, Farm Credit of Central Florida, ACA, P. O. Box 8009, Lakeland, FL 33802, or accessing the website, *www.farmcreditcfl.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.

Farm Credit Of Central Florida, ACA

# Consolidated Balance Sheets

| (dollars in thousands) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| | (unaudited) | (audited) |
| **Assets** | | |
| Cash | $ 12 | $ 56 |
| Investment securities: | | |
| Held to maturity (fair value of $47,000 and $49,101, respectively) | 45,797 | 47,900 |
| Loans | 344,508 | 356,337 |
| Less: allowance for loan losses | 10,378 | 11,626 |
| Net loans | 334,130 | 344,711 |
| Loans held for sale | 416 | — |
| Accrued interest receivable | 2,004 | 1,997 |
| Investments in other Farm Credit institutions | 8,552 | 8,832 |
| Premises and equipment, net | 706 | 677 |
| Other property owned | 1,763 | 1,759 |
| Due from AgFirst Farm Credit Bank | 1,354 | 5,037 |
| Other assets | 4,030 | 4,235 |
| Total assets | $ 398,764 | $ 415,204 |
| **Liabilities** | | |
| Notes payable to AgFirst Farm Credit Bank | $ 315,703 | $ 333,645 |
| Accrued interest payable | 535 | 555 |
| Patronage refunds payable | 51 | 1,551 |
| Other liabilities | 5,374 | 4,503 |
| Total liabilities | 321,663 | 340,254 |
| Commitments and contingencies | | |
| **Members' Equity** | | |
| Protected borrower stock | — | 1 |
| Capital stock and participation certificates | 937 | 952 |
| Retained earnings | | |
| Allocated | 34,167 | 34,202 |
| Unallocated | 42,015 | 39,813 |
| Accumulated other comprehensive income (loss) | (18) | (18) |
| Total members' equity | 77,101 | 74,950 |
| Total liabilities and members' equity | $ 398,764 | $ 415,204 |

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

Farm Credit Of Central Florida, ACA

# Consolidated Statements of Income

*(unaudited)*

| *(dollars in thousands)* | For the three months ended March 31, 2013 | 2012 |
|---|---|---|
| **Interest Income** | | |
| Investment securities | $ 242 | $ 270 |
| Loans | 4,056 | 4,030 |
| Total interest income | 4,298 | 4,300 |
| **Interest Expense** | | |
| Notes payable to AgFirst Farm Credit Bank | 1,586 | 1,668 |
| Net interest income | 2,712 | 2,632 |
| Provision for (reversal of allowance for) loan losses | (133) | 990 |
| Net interest income after provision for (reversal of allowance for) loan losses | 2,845 | 1,642 |
| **Noninterest Income** | | |
| Loan fees | 104 | 65 |
| Fees for financially related services | — | 2 |
| Patronage refunds from other Farm Credit institutions | 1,354 | 1,030 |
| Gains (losses) on other property owned, net | (49) | (361) |
| Gains (losses) on sales of rural home loans, net | 40 | 43 |
| Other noninterest income | 62 | 45 |
| Total noninterest income | 1,511 | 824 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | 1,545 | 1,491 |
| Occupancy and equipment | 170 | 159 |
| Insurance Fund premiums | 72 | 39 |
| Other operating expenses | 455 | 472 |
| Total noninterest expense | 2,242 | 2,161 |
| Net income | $ 2,114 | $ 305 |

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

Farm Credit Of Central Florida, ACA

# Consolidated Statements of Comprehensive Income

*(unaudited)*

| *(dollars in thousands)* | For the three months ended March 31, 2013 | 2012 |
|---|---|---|
| Net income | $ 2,114 | $ 305 |
| **Other comprehensive income net of tax** | | |
| Employee benefit plans adjustments | – | (5) |
| Comprehensive income | $ 2,114 | $ 300 |

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

Farm Credit Of Central Florida, 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 | $ 6 | $ 1,020 | $ 33,183 | $ 37,586 | $ 7 | $ 71,802 |
| Comprehensive income | | | | 305 | (5) | 300 |
| Protected borrower stock retired | (4) | | | | | (4) |
| Capital stock/participation certificates issued/(retired), net | | (21) | | | | (21) |
| Balance at March 31, 2012 | $ 2 | $ 999 | $ 33,183 | $ 37,891 | $ 2 | $ 72,077 |
| | | | | | | |
| Balance at December 31, 2012 | $ 1 | $ 952 | $ 34,202 | $ 39,813 | $ (18) | $ 74,950 |
| Comprehensive income | | | | 2,114 | — | 2,114 |
| Protected borrower stock retired | (1) | | | | | (1) |
| Capital stock/participation certificates issued/(retired), net | | (15) | | | | (15) |
| Patronage distribution adjustment | | | (35) | 88 | | 53 |
| Balance at March 31, 2013 | $ — | $ 937 | $ 34,167 | $ 42,015 | $ (18) | $ 77,101 |

*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 Farm Credit of Central Florida, 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 first 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 three months ended March 31, 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 March 31, 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 March 31, 2013 and December 31, 2012 follows:

| | March 31, 2013 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| Asset-backed securities | $ 45,797 | $ 1,242 | $ (39) | $ 47,000 | 2.00% |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| Asset-backed securities | $ 47,900 | $ 1,240 | $ (39) | $ 49,101 | 2.03% |

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity at March 31, 2013 follows:

| | Amortized Cost | Fair Value | Weighted Average Yield |
|---|---|---|---|
| In one year or less | $ 214 | $ 211 | (7.10)% |
| After one year through five years | 22,761 | 23,266 | 1.97 |
| After five years through ten years | 10,200 | 10,335 | 1.96 |
| After ten years | 12,622 | 13,188 | 2.23 |
| Total | $ 45,797 | $ 47,000 | 2.00% |

The Association's investments consist of asset-backed securities (ABSs). These ABSs are rated AAA and they are guaranteed by the full faith and credit of the United States government. ABSs are held for managing short-term surplus funds and managing interest rate risk. These securities must meet the applicable Farm Credit Administration (FCA) regulatory guidelines, which require these securities to be high quality, senior class, and rated AAA at the time of purchase. To achieve the ratings, these securities have a guarantee of timely payment of principal and interest or credit enhancement achieved through over collateralization and the priority of payments of senior classes over junior classes. The FCA considers an asset-backed security investment ineligible if it falls below the AAA credit rating criteria and requires System institutions to divest of such an investment unless approval is granted to continue to hold by the FCA. All of the Association's asset-backed securities at March 31, 2013 are considered eligible under FCA regulatory guidelines.

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 table shows the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at March 31, 2013 and December 31, 2012.

| | March 31, 2013 | | | |
|---|---|---|---|---|
| | Less than 12 Months | | Greater than 12 Months | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Asset-backed securities | $ 76 | $ – | $ 1,618 | $ (39) |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Less than 12 Months | | Greater than 12 Months | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Asset-backed securities | $ 236 | $ – | $ 1,784 | $ (39) |

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 as the unrealized losses resulted primarily from reduced liquidity in the securities market stemming from general adversity in the financial markets. The Association has the ability and intent to hold these investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements. 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. Substantially all of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform.

## NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Real estate mortgage | $ 147,628 | $ 145,976 |
| Production and intermediate-term | 154,605 | 165,063 |
| Agribusiness | | |
| Loans to cooperatives | 10,485 | 10,975 |
| Processing and marketing | 5,677 | 4,525 |
| Farm-related business | 11,158 | 11,700 |
| Total agribusiness | 27,320 | 27,200 |
| Energy | – | 2,479 |
| Rural residential real estate | 14,955 | 15,619 |
| Total Loans | $ 344,508 | $ 356,337 |

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

| | March 31, 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 | $ 1,800 | $ 61,119 | $ – | $ – | $ – | $ – | $ 1,800 | $ 61,119 |
| Production and intermediate-term | 24,657 | 154,438 | – | – | – | – | 24,657 | 154,438 |
| Agribusiness | | | | | | | | |
| Loans to cooperatives | – | 2,388 | – | – | – | – | – | 2,388 |
| Processing and marketing | – | 25,443 | – | – | – | – | – | 25,443 |
| Farm-related business | – | 3,459 | – | – | – | – | – | 3,459 |
| Total agribusiness | – | 31,290 | – | – | – | – | – | 31,290 |
| Total | $ 26,457 | $ 246,847 | $ – | $ – | $ – | $ – | $ 26,457 | $ 246,847 |

| | 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 | $ 2,240 | $ 61,984 | $ – | $ – | $ – | $ – | $ 2,240 | $ 61,984 |
| Production and intermediate-term | 22,233 | 177,747 | – | – | – | – | 22,233 | 177,747 |
| Agribusiness | | | | | | | | |
| Loans to cooperatives | – | 3,599 | – | – | – | – | – | 3,599 |
| Processing and marketing | – | 4,879 | – | – | – | – | – | 4,879 |
| Farm-related business | – | 3,184 | – | – | – | – | – | 3,184 |
| Total agribusiness | – | 11,662 | – | – | – | – | – | 11,662 |
| Energy | 2,479 | – | – | – | – | – | 2,479 | – |
| Total | $ 26,952 | $ 251,393 | $ – | $ – | $ – | $ – | $ 26,952 | $ 251,393 |

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 March 31, 2013 and indicates that approximately 23.03 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 | $ 12,820 | $ 50,557 | $ 84,251 | $ 147,628 |
| Production and intermediate-term | 60,724 | 55,525 | 38,356 | 154,605 |
| Agribusiness | | | | |
| Loans to cooperatives | 1,076 | 5,268 | 4,141 | 10,485 |
| Processing and marketing | 1,830 | 2,203 | 1,644 | 5,677 |
| Farm-related business | 579 | 6,695 | 3,884 | 11,158 |
| Total agribusiness | 3,485 | 14,166 | 9,669 | 27,320 |
| Energy | – | – | – | – |
| Rural residential real estate | 2,321 | 4,107 | 8,527 | 14,955 |
| Total Loans | $ 79,350 | $ 124,355 | $ 140,803 | $ 344,508 |

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

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Real estate mortgage:** | | |
| Acceptable | 81.07% | 80.34% |
| OAEM | 4.65 | 4.06 |
| Substandard/doubtful/loss | 14.28 | 15.60 |
| | 100.00% | 100.00% |
| **Production and intermediate-term:** | | |
| Acceptable | 74.74% | 75.36% |
| OAEM | 8.26 | 6.15 |
| Substandard/doubtful/loss | 17.00 | 18.49 |
| | 100.00% | 100.00% |
| **Agribusiness:** | | |
| **Loans to cooperatives:** | | |
| Acceptable | 95.92% | 96.06% |
| OAEM | 4.08 | 3.94 |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Processing and marketing:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Farm-related business:** | | |
| Acceptable | 99.19% | 99.22% |
| OAEM | 0.81 | 0.78 |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Total agribusiness:** | | |
| Acceptable | 98.10% | 98.07% |
| OAEM | 1.90 | 1.93 |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Energy and water/waste disposal:** | | |
| Acceptable | –% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | –% | 100.00% |
| **Rural residential real estate:** | | |
| Acceptable | 69.70% | 69.83% |
| OAEM | 6.36 | 7.98 |
| Substandard/doubtful/loss | 23.94 | 22.19 |
| | 100.00% | 100.00% |
| **Total Loans:** | | |
| Acceptable | 79.09% | 79.06% |
| OAEM | 6.12 | 5.01 |
| Substandard/doubtful/loss | 14.79 | 15.93 |
| | 100.00% | 100.00% |

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

| | March 31, 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 | $ 1,331 | $ 5,083 | $ 6,414 | 141,945 | $ 148,359 | $ – |
| Production and intermediate-term | 752 | 2,098 | 2,850 | 152,525 | 155,375 | – |
| Agribusiness | | | | | | |
| Loans to cooperatives | – | – | – | 10,558 | 10,558 | – |
| Processing and marketing | – | – | – | 5,699 | 5,699 | – |
| Farm-related business | – | – | – | 11,217 | 11,217 | – |
| Total agribusiness | – | – | – | 27,474 | 27,474 | – |
| Energy and water/waste disposal | – | – | – | – | – | – |
| Rural residential real estate | 790 | 1,102 | 1,892 | 13,139 | 15,031 | – |
| Total | $ 2,873 | $ 8,283 | $ 11,156 | $ 335,083 | $ 346,239 | $ – |

| | 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 | $ 903 | $ 3,496 | $ 4,399 | $ 142,309 | $ 146,708 | $ – |
| Production and intermediate-term | 795 | 2,066 | 2,861 | 162,973 | 165,834 | – |
| Agribusiness | | | | | | |
| Loans to cooperatives | – | – | – | 11,041 | 11,041 | – |
| Processing and marketing | – | – | – | 4,549 | 4,549 | – |
| Farm-related business | – | – | – | 11,759 | 11,759 | – |
| Total agribusiness | – | – | – | 27,349 | 27,349 | – |
| Energy and water/waste disposal | – | – | – | 2,479 | 2,479 | – |
| Rural residential real estate | 679 | 1,104 | 1,783 | 13,896 | 15,679 | – |
| Total | $ 2,377 | $ 6,666 | $ 9,043 | $ 349,006 | $ 358,049 | $ – |

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:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Nonaccrual loans:** | | |
| Real estate mortgage | $ 7,173 | $ 8,186 |
| Production and intermediate-term | 4,503 | 3,739 |
| Rural residential real estate | 1,275 | 1,195 |
| Total nonaccrual loans | $ 12,951 | $ 13,120 |
| **Accruing restructured loans:** | | |
| Real estate mortgage | $ 7,717 | $ 8,085 |
| Production and intermediate-term | 10,918 | 12,027 |
| Rural residential real estate | 1,212 | 1,216 |
| Total accruing restructured loans | $ 19,847 | $ 21,328 |
| **Accruing loans 90 days or more past due:** | | |
| Total accruing loans 90 days or more past due | $ – | $ – |
| Total nonperforming loans | $ 32,798 | $ 34,448 |
| Other property owned | 1,763 | 1,759 |
| Total nonperforming assets | $ 34,561 | $ 36,207 |
| Nonaccrual loans as a percentage of total loans | 3.76% | 3.68% |
| Nonperforming assets as a percentage of total loans and other property owned | 9.98% | 10.11% |
| Nonperforming assets as a percentage of capital | 44.83% | 48.31% |

The following table presents information relating 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.

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Impaired nonaccrual loans: | | |
| Current as to principal and interest | $ 2,780 | $ 5,188 |
| Past due | 10,171 | 7,932 |
| Total impaired nonaccrual loans | 12,951 | 13,120 |
| Impaired accrual loans: | | |
| Restructured | 19,847 | 21,328 |
| 90 days or more past due | – | – |
| Total impaired accrual loans | 19,847 | 21,328 |
| Total impaired loans | $ 32,798 | $ 34,448 |

The following tables present additional information concerning impaired loans and related allowance by loan type at period end.

| | March 31, 2013 | | | Quarter Ended March 31, 2013 | |
|---|---|---|---|---|---|
| | 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 | $ 11,046 | $ 11,694 | $ 3,441 | $ 11,480 | $ 26 |
| Production and intermediate-term | 13,626 | 11,846 | 1,917 | 14,162 | 33 |
| Rural residential real estate | 2,400 | 2,607 | 931 | 2,494 | 6 |
| Total | $ 27,072 | $ 26,147 | $ 6,289 | $ 28,136 | $ 65 |
| **Impaired loans with no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 3,844 | $ 3,725 | $ – | $ 3,994 | $ 10 |
| Production and intermediate-term | 1,795 | 8,452 | – | 1,866 | 3 |
| Rural residential real estate | 87 | 159 | – | 91 | – |
| Total | $ 5,726 | $ 12,336 | $ – | $ 5,951 | $ 13 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 14,890 | $ 15,419 | $ 3,441 | $ 15,474 | $ 36 |
| Production and intermediate-term | 15,421 | 20,298 | 1,917 | 16,028 | 36 |
| Rural residential real estate | 2,487 | 2,766 | 931 | 2,585 | 6 |
| Total | $ 32,798 | $ 38,483 | $ 6,289 | $ 34,087 | $ 78 |

| | 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 | $ 12,147 | $ 12,854 | $ 4,773 | $ 10,616 | $ 128 |
| Production and intermediate-term | 11,450 | 32,383 | 1,705 | 10,008 | 121 |
| Rural residential real estate | 2,319 | 2,527 | 878 | 2,027 | 25 |
| Total | $ 25,916 | $ 47,764 | $ 7,356 | $ 22,651 | $ 274 |
| **Impaired loans with no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 4,124 | $ 3,514 | $ – | $ 3,605 | $ 44 |
| Production and intermediate-term | 4,316 | 5,894 | – | 3,773 | 46 |
| Rural residential real estate | 92 | 160 | – | 80 | – |
| Total | $ 8,532 | $ 9,568 | $ – | $ 7,458 | $ 90 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 16,271 | $ 16,368 | $ 4,773 | $ 14,221 | $ 172 |
| Production and intermediate-term | 15,766 | 38,277 | 1,705 | 13,781 | 167 |
| Rural residential real estate | 2,411 | 2,687 | 878 | 2,107 | 25 |
| Total | $ 34,448 | $ 57,332 | $ 7,356 | $ 30,109 | $ 364 |

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 were as follows:

| | Real Estate Mortgage | Production and Intermediate-term | Agribusiness | Energy and Water/Waste Disposal | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | |
| Balance at December 31, 2012 | $ 6,418 | $ 4,016 | $ 18 | $ 3 | $ 1,171 | $ 11,626 |
| Charge-offs | (1,008) | (107) | – | – | (1) | (1,116) |
| Recoveries | – | 1 | – | – | – | 1 |
| Provision for loan losses | (614) | 535 | 9 | (3) | (60) | (133) |
| Balance at March 31, 2013 | $ 4,796 | $ 4,445 | $ 27 | $ – | $ 1,110 | $ 10,378 |
| | | | | | | |
| Balance at December 31, 2011 | $ 4,319 | $ 4,793 | $ 38 | $ 4 | $ 1,004 | $ 10,158 |
| Charge-offs | (395) | (311) | – | – | (11) | (717) |
| Recoveries | 5 | – | – | – | 43 | 48 |
| Provision for loan losses | 241 | 698 | (30) | – | 81 | 990 |
| Balance at March 31, 2012 | $ 4,170 | $ 5,180 | $ 8 | $ 4 | $ 1,117 | $ 10,479 |
| | | | | | | |
| Loans individually evaluated for impairment | $ 3,441 | $ 1,917 | $ – | $ – | $ 931 | $ 6,289 |
| Loans collectively evaluated for impairment | 1,355 | 2,528 | 27 | – | 179 | 4,089 |
| Balance at March 31, 2013 | $ 4,796 | $ 4,445 | $ 27 | $ – | $ 1,110 | $ 10,378 |
| | | | | | | |
| Loans individually evaluated for impairment | $ 4,773 | $ 1,705 | $ – | $ – | $ 878 | $ 7,356 |
| Loans collectively evaluated for impairment | 1,645 | 2,311 | 18 | 3 | 293 | 4,270 |
| Balance at December 31, 2012 | $ 6,418 | $ 4,016 | $ 18 | $ 3 | $ 1,171 | $ 11,626 |
| | | | | | | |
| **Recorded investment in loans outstanding:** | | | | | | |
| Loans individually evaluated for impairment | $ 14,097 | $ 12,217 | $ – | $ – | $ 2,487 | $ 28,801 |
| Loans collectively evaluated for impairment | 134,262 | 143,158 | 27,474 | – | 12,544 | 317,438 |
| Ending balance at March 31, 2013 | $ 148,359 | $ 155,375 | $ 27,474 | $ – | $ 15,031 | $ 346,239 |
| | | | | | | |
| Loans individually evaluated for impairment | $ 14,447 | $ 10,938 | $ – | $ – | $ 2,411 | $ 27,796 |
| Loans collectively evaluated for impairment | 132,261 | 154,896 | 27,349 | 2,479 | 13,268 | 330,253 |
| Ending balance at December 31, 2012 | $ 146,708 | $ 165,834 | $ 27,349 | $ 2,479 | $ 15,679 | $ 358,049 |

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. There were no TDRs that occurred during the three months ended March 31, 2013.

| | Three months ended March 31, 2012 | | | |
|---|---|---|---|---|
| | Pre-modification Outstanding Recorded Investment | | | |
| | Interest Concessions | Principal Concessions | Other Concessions | Total |
| **Troubled debt restructurings:** | | | | |
| Real estate mortgage | $ – | $ 1,540 | $ – | $ 1,540 |
| Production and intermediate-term | – | 332 | – | 332 |
| Total | $ – | $ 1,872 | $ – | $ 1,872 |

| | Three months ended March 31, 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 | $ – | $ 1,544 | $ – | $ 1,544 | $ 6 | $ – |
| Production and intermediate-term | – | 332 | – | 332 | 3 | – |
| Total | $ – | $ 1,876 | $ – | $ 1,876 | $ 9 | $ – |

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.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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 | |
|---|---|---|---|---|
| | March 31, 2013 | December 31, 2012 | March 31, 2013 | December 31, 2012 |
| Real estate mortgage | $ 11,873 | $ 12,643 | $ 4,156 | $ 4,558 |
| Production and intermediate-term | 12,745 | 13,526 | 1,827 | 1,499 |
| Rural residential real estate | 1,300 | 1,307 | 88 | 91 |
| Total Loans | $ 25,918 | $ 27,476 | $ 6,071 | $ 6,148 |

Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings was $1,207 and $223 at March 31, 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 March 31, | |
|---|---|---|
| | 2013 | 2012 |
| Pension | $ 286 | $ 285 |
| 401(k) | 58 | 38 |
| Other postretirement benefits | 45 | 39 |
| Total | $ 389 | $ 362 |

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

| | Actual YTD Through 3/31/13 | Projected Contributions For Remainder of 2013 | Projected Total Contributions 2013 |
|---|---|---|---|
| Pension | $ 6 | $ 1,113 | $ 1,119 |
| Other postretirement benefits | 42 | 136 | 178 |
| Total | $ 48 | $ 1,249 | $ 1,297 |

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 – 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 3.02 percent of the issued stock of the Bank as of March 31, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $27.7 billion and shareholders' equity totaled $2.4billion. The Bank's earnings were $121 million for the first three months of 2013. In addition, the Association has an investment of $308 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 at March 31, 2013 consist of assets held in trust funds related to a supplemental retirement plan. 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 March 31, 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 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. 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 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.

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.

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 | $ 48 |
| **Total gains or (losses) realized/unrealized:** | |
| Included in earnings | – |
| Included in other comprehensive income | – |
| Purchases | – |
| Sales | – |
| Issuances | 6 |
| Settlements | – |
| Transfers in and/or out of level 3 | – |
| Balance at March 31, 2013 | $ 54 |

| | Standby Letters Of Credit |
|---|---|
| Balance at January 1, 2012 | $ 18 |
| **Total gains or (losses) realized/unrealized:** | |
| Included in earnings | – |
| Included in other comprehensive income | – |
| Purchases | – |
| Sales | – |
| Issuances | – |
| Settlements | (6) |
| Transfers in and/or out of level 3 | – |
| Balance at March 31, 2012 | $ 12 |

## 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 |
|---|---|---|---|---|
| Non-agency securities | $ 47,000 | Vendor priced | | |
| Impaired loans and other property owned | $ 28,411 | 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/Principal and appropriate interest yield |
| Loans | Discounted cash flow | Prepayment rates<br>Probability of default<br>Loss severity<br>Annualized volatility |
| Investment securities, held-to-maturity | Discounted cash flow | Probability of default<br>Risk adjusted discount rate |
| Notes payable to AgFirst Farm Credit Bank | Discounted cash flow | Prepayment rates<br>Probability of default<br>Loss severity<br>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 Three Months Ended March 31, 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 | $ 123 | $ 123 | $ – | $ – | $ 123 | |
| Recurring Assets | $ 123 | $ 123 | $ – | $ – | $ 123 | |
| **Liabilities:** | | | | | | |
| Standby letters of credit | $ 54 | $ – | $ – | $ 54 | $ 54 | |
| Recurring Liabilities | $ 54 | $ – | $ – | $ 54 | $ 54 | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans | $ 26,509 | $ – | $ – | $ 26,509 | $ 26,509 | $ (48) |
| Other property owned | 1,763 | – | – | 1,902 | 1,902 | (41) |
| Nonrecurring Assets | $ 28,272 | $ – | $ – | $ 28,411 | $ 28,411 | $ (89) |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 12 | $ 12 | $ – | $ – | $ 12 | |
| Investment securities, held-to-maturity | 45,797 | – | – | 47,000 | 47,000 | |
| Loans | 308,037 | – | – | 308,624 | 308,624 | |
| Other Assets | $ 353,846 | $ 12 | $ – | $ 355,624 | $ 355,636 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 315,703 | $ – | $ – | $ 316,998 | $ 316,998 | |
| Other Liabilities | $ 315,703 | $ – | $ – | $ 316,998 | $ 316,998 | |

**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 | $ 124 | $ 124 | $ – | $ – | $ 124 | |
| Recurring Assets | $ 124 | $ 124 | $ – | $ – | $ 124 | |
| **Liabilities:** | | | | | | |
| Standby letters of credit | $ 48 | $ – | $ – | $ 48 | $ 48 | |
| Recurring Liabilities | $ 48 | $ – | $ – | $ 48 | $ 48 | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans | $ 27,092 | $ – | $ – | $ 27,092 | $ 27,092 | $ (3,997) |
| Other property owned | 1,759 | – | – | 1,894 | 1,894 | (1,000) |
| Nonrecurring Assets | $ 28,851 | $ – | $ – | $ 28,986 | $ 28,986 | $ (4,997) |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 56 | $ 56 | $ – | $ – | $ 56 | |
| Investment securities, held-to-maturity | 47,900 | – | – | 49,101 | 49,101 | |
| Loans | 317,619 | – | – | 318,385 | 318,385 | |
| Other Assets | $ 365,575 | $ 56 | $ – | $ 367,486 | $ 367,542 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 333,645 | $ – | $ – | $ 324,502 | $ 324,502 | |
| Other Liabilities | $ 333,645 | $ – | $ – | $ 324,502 | $ 324,502 | |

## NOTE 6 - ACCUMULATED OTHER COMPREHENSIVE INCOME

| Changes in Accumulated Other Comprehensive income by Component *(a)* | | |
|---|---|---|
| | Employee Benefit Plans | |
| Balance at December 31, 2012 | $ | (18) |
| Other comprehensive income before reclassifications | | – |
| Amounts reclassified from AOCI | | – |
| Net current period other comprehensive income | | – |
| Balance at March 31, 2013 | $ | (18) |
| | | |
| Balance at December 31, 2011 | $ | 7 |
| Other comprehensive income before reclassifications | | (5) |
| Amounts reclassified from AOCI | | – |
| Net current period other comprehensive income | | (5) |
| Balance at March 31, 2012 | $ | 2 |

| Reclassifications Out of Accumulated Other Comprehensive Income *(b)* | | | |
|---|---|---|---|
| | For the three months ended March 31, | | |
| | 2013 | 2012 | Income Statement Line Item |
| **Defined Benefit Pension Plans:** | | | |
| Periodic pension costs | $ – | $ – | See footnote 4. |
| Net amounts reclassified | $ – | $ – | |

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

## NOTE 7 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined there are none requiring disclosure through May 9, 2013, which is the date the financial statements were issued.