Farm Credit of Central Florida, ACA

THIRD QUARTER 2013

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 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

November 7, 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 September 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 September 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 September 30, 2013.

Reginald T. Holt
Chief Executive Officer

D. Scott Fontenot
Chief Financial Officer

November 7, 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 September 30, 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.

September 30, 2013 compared to December 31, 2012

Loan volume of the Association as of September 30, 2013, was $357,815, an increase of $1,478 as compared to $356,337 at December 31, 2012. Net loans outstanding at September 30, 2013, were $349,478 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 $41,379 at September 30, 2013, as compared to $47,900 at December 31, 2012. Net loans and investment securities accounted for 95.27 percent of total assets at September 30, 2013, as compared to 94.56 percent of total assets at December 31, 2012.

The Association's total servicing portfolio has increased to $862,410 as compared to $847,909 at December 31, 2012, due in large part to new money closings exceeding run-off and liquidations. Even with a decrease in nonaccrual assets and investments, servicing volume has maintained positive growth throughout the period.

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 87.64% as of September 30, 2013, compared to 84.07% at December 31, 2012 and 84.84% at September 30, 2012. Substandard credit quality was 12.36% as of September 30, 2013, compared to 15.93% at December 31, 2012. The actual substandard asset volume has been reduced by $12,618 from year-end December 31, 2012. Nonaccrual loan volume was $10,027 at September 30, 2013, compared to $13,120 at December 31, 2012 and $13,722 at September 30, 2012, a decrease of $3,093 and a decrease of $3,695, 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 September 30, 2013, was $8,337 compared to $11,626 at December 31, 2012, and $11,110 at September 30, 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 September 30, 2013, contains $5,003 in specific reserves and $3,334 in general reserves. The following outlines the allowance for loan loss activity as of September 30, 2013.

Allowance for Loan Losses Activity:		YTD 2013
Balance at beginning of period	$	11,626
Charge-offs		(2,556)
Recoveries		15
Provisions/(Reversals)-General		(936)
Provisions/(Reversals)–Specifics		188
Balance at end of period	$	8,337

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 September 30, 2013

Net income for the three months ended September 30, 2013, totaled $2,453, as compared to $380 for the same period in 2012. The increase of $2,073 for the period is associated directly with the fewer provisions for loan losses, increased patronage refunds from other Farm Credit institutions and gains on the sales of other property owned as compared to the same period prior year.

Net interest income increased $52 for the three months ended September 30, 2013, as compared to the same period in 2012. The primary reason for the increase in net interest income is the increase in net loan assets as compared to the same time last year. Net interest income for the three months ending September 30, 2013, is shown in the following table:

	For the three months ended September 30,			
Net Interest Income	**2013**	**2012**	**$ change**	**% change**
Investment Interest Income	$ 194	$ 235	$ (41)	(17.45) %
Loan Interest Income	4,045	3,904	141	3.61
Total Interest Income	4,239	4,139	100	2.42
Total Interest Expense	1,557	1,509	48	3.18
Net Interest Income	$ 2,682	$ 2,630	$ 52	1.98 %

Allowance for loan loss activity for the quarter consisted of a $180 reversal, as compared to a $215 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 September 30, 2013 are shown in the following table:

	For the three months ended September 30,			
Provisions/(Reversals) for Loan Losses	**2013**	**2012**	**$ change**	**% change**
General Reserves	$ 62	$ (17)	$ 79	464.71
Specific Reserves	(242)	232	(474)	(204.31)
Total Provisions/(Reversals)	$ (180)	$ 215	$ (395)	(183.72)

Noninterest income for the three months ended September 30, 2013, totaled $1,932, as compared to $88 for the same period of 2012, an increase of $1,844. The increase is primarily the result of increased Patronage Refunds from other Farm Credit Institutions as well as gains recognized on the sales of other property owned (OPO). Patronage Refunds from other Farm Credit Institutions increased $1,087 from the prior year due to higher 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 gain of $22, as compared to a loss of $805 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 September 30, 2013, is shown in the following table:

	For the three months ended September 30,			
Noninterest Income	**2013**	**2012**	**$ change**	**% change**
Loan fees	$ 182	$ 231	$ (49)	(21.21)%
Fees for financially related services	43	45	(2)	(4.44)
Patronage refunds from other Farm Credit Institutions	1,640	553	1,087	196.56
Gains (losses) on other property owned, net	22	(805)	827	102.73
Gains (losses) on sales of rural home loans, net	46	57	(11)	(19.30)
Insurance Fund refund	–	–	–	–
Other noninterest income	(1)	7	(8)	(114.29)
Total noninterest income	$ 1,932	$ 88	$ 1,844	2,095.45 %

Noninterest expense for the three months ended September 30, 2013, increased $218 compared to the same period of 2012. Salary and Employee Benefits increased due to the quarterly bonus accrual as well as annual merit increases and promotions. During the third quarter of 2013, the Association booked a quarterly bonus plan accrual in the amount of $249 as compared to $196 during the third quarter of 2012. 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 September 30, 2013 is shown in the following table:

	For the three months ended September 30,			
Noninterest Expense	**2013**	**2012**	**$ change**	**% change**
Salary and employee benefits	$ 1,642	$ 1,534	$ 108	7.04 %
Occupancy and equipment	164	162	2	1.23
Insurance Fund Premium	72	36	36	100.00
Other operating expenses	463	391	72	18.41
Total noninterest expense	$ 2,341	$ 2,123	$ 218	10.27 %

For the nine months ended September 30, 2013

Net income for the nine months ended September 30, 2013, totaled $6,879 as compared to $2,844 for the same period in 2012. The increase of $4,035 for the period is associated with lower provisions from loan losses and increased Patronage Refunds from other Farm Credit Institutions as compared to the same period prior year.

Net interest income increased $186 for the nine months ended September 30, 2013, as compared to the same period in 2012. The primary reason for the increase is improved volume in net loan assets offsetting the decreased income from compressed loan spreads. Net interest income for the nine months ending September 30, 2013 is shown in the following table:

	For the nine months ended September 30,			
Net Interest Income	**2013**	**2012**	**$ change**	**% change**
Investment Interest Income	$ 652	$ 797	$ (145)	(18.19)
Loan Interest Income	12,093	11,819	274	2.32
Total Interest Income	12,745	12,616	129	1.02
Total Interest Expense	4,689	4,746	(57)	(1.20)
Net Interest Income	$ 8,056	$ 7,870	$ 186	2.36

The effects of changes in average volume and interest rates on net interest income over the past nine months are presented in the following table:

Change in Net Interest Income:

	Volume	Rate	Non-accrual	Amortization	Total
	(dollars in thousands)				
Change in NII	$ 420	$ (342)	83	$ 25	$ 186

Allowance for loan loss activity consisted of a $747 reversal, as compared to a $1,645 provision for the same period last year. The reversal was due mostly to the decrease in nonaccrual loan volumes coupled with improved credit quality. Provisions for loan losses for the nine months ending September 30, 2012 are shown in the following table:

	For the nine months ended September 30,			
Provisions for Loan Losses	**2013**	**2012**	**$ change**	**% change**
General Reserves	$ (936)	$ (625)	$ (311)	(49.76)
Specific Reserves	189	2,270	2,081	91.67
Total Provisions/(Reversals)	$ (747)	$ 1,645	$ (2,392)	(145.41)

Noninterest income for the nine months ended September 30, 2013, totaled $4,960, as compared to $2,909 for the same period of 2012, an increase of $2,051. The increase is primarily the result of increased Patronage Refunds from other Farm Credit Institutions as well as decreased losses on sales of OPO. Patronage Refunds from other Farm Credit Institutions increased from the prior year 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. Sales of OPOs have generated a los off $399 as compared to a loss of $1,138 during the same period in 2012. Noninterest income for the nine months ending September 30, 2013 is shown in the following table:

	For the nine months ended September 30,			
Noninterest Income	**2013**	**2012**	**$ change**	**% change**
Loan fees	$ 569	$ 394	$ 175	44.42
Fees for financially related services	104	85	19	22.35
Patronage refunds from other Farm Credit Institutions	4,510	3,017	1,493	49.49
Gains (losses) on other property owned, net	(399)	(1,138)	739	64.94
Gains (losses) on sales of rural home loans, net	113	126	(13)	(10.32)
Insurance Fund Refund	–	379	(379)	(100.00)
Other noninterest income	63	46	17	36.96
Total noninterest income	$ 4,960	$ 2,909	$ 2,051	70.51

Noninterest expense for the nine months ended September 30, 2013, increased $594 compared to the same period of 2012. The primary reasons for the increase were an increase in Salary and Employee Benefits and Insurance Fund Premiums as compared to the prior period. The Association booked bonus plan accruals totaling $432 for the nine months as compared to $196 during the same period in 2012. 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 nine months ending September 30, 2013 is shown in the following table:

	For the nine months ended September 30,			
Noninterest Expense	**2013**	**2012**	**$ change**	**% change**
Salary and employee benefits	$ 4,874	$ 4,439	$ 435	9.80
Occupancy and equipment	496	488	8	1.64
Insurance Fund Premium	216	113	103	91.15
Other operating expenses	1,298	1,250	48	3.84
Total noninterest expense	$ 6,884	$ 6,290	$ 594	9.44

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 September 30, 2013, was $322,737 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 September 30, 2013, increased to $81,840 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 $911 on September 30, 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 September 30, 2013, the Association's total surplus ratio and core surplus ratio were 20.43 percent and 18.09 percent, respectively, and the permanent capital ratio was 20.70 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 nine months ended September 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.

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)	September 30, 2013	December 31, 2012
	(unaudited)	(audited)
Assets		
Cash	$ 47	$ 56
Investment securities:		
Held to maturity (fair value of $42,482 and $49,101, respectively)	41,379	47,900
Loans	357,815	356,337
Less: allowance for loan losses	8,337	11,626
Net loans	349,478	344,711
Accrued interest receivable	1,767	1,997
Investments in other Farm Credit institutions	7,539	8,832
Premises and equipment, net	748	677
Other property owned	1,466	1,759
Due from AgFirst Farm Credit Bank	4,253	5,037
Other assets	3,570	4,235
Total assets	$ 410,247	$ 415,204
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 322,737	$ 333,645
Accrued interest payable	520	555
Patronage refunds payable	42	1,551
Other liabilities	5,108	4,503
Total liabilities	328,407	340,254
Commitments and contingencies		
Members' Equity		
Protected borrower stock	—	1
Capital stock and participation certificates	911	952
Retained earnings		
Allocated	34,167	34,202
Unallocated	46,780	39,813
Accumulated other comprehensive income (loss)	(18)	(18)
Total members' equity	81,840	74,950
Total liabilities and members' equity	$ 410,247	$ 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 September 30, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
Interest Income				
Investment securities	$ 194	$ 235	$ 652	$ 797
Loans	4,045	3,904	12,093	11,819
Total interest income	4,239	4,139	12,745	12,616
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	1,557	1,509	4,689	4,746
Net interest income	2,682	2,630	8,056	7,870
Provision for (reversal of allowance for) loan losses	(180)	215	(747)	1,645
Net interest income after provision for (reversal of allowance for) loan losses	2,862	2,415	8,803	6,225
Noninterest Income				
Loan fees	182	231	569	394
Fees for financially related services	43	45	104	85
Patronage refunds from other Farm Credit institutions	1,640	553	4,510	3,017
Gains (losses) on other property owned, net	22	(805)	(399)	(1,138)
Gains (losses) on sales of rural home loans, net	46	57	113	126
Insurance Fund refunds	—	—	—	379
Other noninterest income (loss)	(1)	7	63	46
Total noninterest income	1,932	88	4,960	2,909
Noninterest Expense				
Salaries and employee benefits	1,642	1,534	4,874	4,439
Occupancy and equipment	164	162	496	488
Insurance Fund premiums	72	36	216	113
Other operating expenses	463	391	1,298	1,250
Total noninterest expense	2,341	2,123	6,884	6,290
Net income	$ 2,453	$ 380	$ 6,879	$ 2,844

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 September 30, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
Net income	$ 2,453	$ 380	$ 6,879	$ 2,844
Other comprehensive income net of tax				
Employee benefit plans adjustments (Note 8)	–	–	–	(5)
Comprehensive income	$ 2,453	$ 380	$ 6,879	$ 2,839

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				2,844	(5)	2,839
Protected borrower stock retired	(4)					(4)
Capital stock/participation certificates issued/(retired), net		(57)				(57)
Balance at September 30, 2012	$ 2	$ 963	$ 33,183	$ 40,430	$ 2	$ 74,580
Balance at December 31, 2012	$ 1	$ 952	$ 34,202	$ 39,813	$ (18)	$ 74,950
Comprehensive income				6,879	—	6,879
Protected borrower stock retired	(1)					(1)
Capital stock/participation certificates issued/(retired), net		(41)				(41)
Patronage distribution adjustment			(35)	88		53
Balance at September 30, 2013	$ —	$ 911	$ 34,167	$ 46,780	$ (18)	$ 81,840

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

Organization

The accompanying financial statements include the accounts of Farm Credit of Central Florida, ACA (the Association). A description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations for the Association as of and for the year ended December 31, 2012, are contained in the 2012 Annual Report to Shareholders. These unaudited interim consolidated financial statements should be read in conjunction with the latest Annual Report to Shareholders.

Basis of Presentation

In the opinion of management, 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.

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

In the third quarter of 2013, management determined that the investment securities portfolio had been erroneously classified as Level 3 securities, instead of Level 2 securities, for disclosure and presentation purposes in the quarterly financial statements for the periods ending June 30, 2012, September 30, 2012, March 31, 2013 and June 30, 2013, and in the annual audited financial statements for the year ended December 31, 2012. This error caused the disclosure of additional qualitative information about the affected securities, because of their Level 3 designation, but did not affect the Association's balance sheet, income statement, changes in members' equity or cash flows during any of the affected periods. The portfolio ranged in value during these periods from $45 million to $53 million, and currently is valued at $47.9 million for the quarter ended September 30, 2013. The reported valuation of these securities, as outlined in the disclosures of the respective periods, was not affected by this error. Management has evaluated this error and determined that it is not material so as to require reissuance of any prior period financial statements. Therefore management has corrected this classification in the September 30, 2013 quarterly financial statements and related disclosures to properly reflect these securities as Level 2 securities, and will revise the disclosure of the affected periods when these are reported on a comparative basis in subsequent periods

The results of any interim period are not necessarily indicative of the results to be expected for a full year.

Significant Accounting Policies

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified.

Recently Issued Accounting Pronouncements

In February 2013 the Financial Accounting Standards Board (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 ASU'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 ASU) 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 could 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 ASU is intended to improve the transparency of reporting reclassifications out of accumulated other comprehensive income (AOCI). 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 ASU 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, did not impact the Association's financial condition or its results of operations, but did result in additional disclosures.

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

NOTE 2 — INVESTMENT SECURITIES

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable Farm Credit Administration (FCA) regulatory guidelines related to government agency guaranteed investments.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

	September 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Asset-backed securities	$ 41,379	$ 1,136	$ (33)	$ 42,482	1.94%

	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 follows:

	September 30, 2013		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 14	$ 14	3.17%
After one year through five years	3,826	3,849	2.05
After five years through ten years	19,684	20,157	1.95
After ten years	17,855	18,462	1.91
Total	$ 41,379	$ 42,482	1.94%

A portion of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. 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 each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	September 30, 2013			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Asset-backed securities	$ 737	$ (2)	$ 1,348	$ (31)

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

FASB guidance contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio.

Factors considered in determining whether an impairment is other-than-temporary include among others: (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.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired 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.

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 at period end.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

For a complete description of the Association's accounting for loans (including impaired loans and the allowance for loan losses) and definitions of loan types, see the 2012 Annual Report to Shareholders.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the board of directors.

A summary of loans outstanding at period end follows:

	September 30, 2013	December 31, 2012
Real estate mortgage	$ 148,858	$ 145,976
Production and intermediate-term	149,433	165,063
Loans to cooperatives	8,291	10,975
Processing and marketing	25,721	4,525
Farm-related business	7,977	11,700
Communication	734	–
Energy and water/waste disposal	2,203	2,479
Rural residential real estate	14,598	15,619
Total Loans	$ 357,815	$ 356,337

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. The following tables present participation loan balances at periods ended:

	September 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	$ –	$ 50,926	$ –	$ –	$ –	$ –	$ –	$ 50,926
Production and intermediate-term	8,282	143,119	–	–	–	–	8,282	143,119
Loans to cooperatives	–	839	–	–	–	–	–	839
Processing and marketing	20,377	31,072	–	–	–	–	20,377	31,072
Farm-related business	–	1,979	–	–	–	–	–	1,979
Communication	734	–	–	–	–	–	734	–
Energy and water/waste disposal	2,204	–	–	–	–	–	2,204	–
Total	$ 31,597	$ 227,935	$ –	$ –	$ –	$ –	$ 31,597	$ 227,935

	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
Loans to cooperatives	–	3,599	–	–	–	–	–	3,599
Processing and marketing	–	4,879	–	–	–	–	–	4,879
Farm-related business	–	3,184	–	–	–	–	–	3,184
Energy and water/waste disposal	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 the latest period end:

	September 30, 2013			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 12,061	$ 42,003	$ 94,794	$ 148,858
Production and intermediate-term	29,224	70,354	49,855	149,433
Loans to cooperatives	390	3,855	4,046	8,291
Processing and marketing	3,280	10,303	12,138	25,721
Farm-related business	1,521	4,661	1,795	7,977
Communication	734	–	–	734
Energy and water/waste disposal	–	–	2,203	2,203
Rural residential real estate	2,064	4,047	8,487	14,598
Total Loans	$ 49,274	$ 135,223	$ 173,318	$ 357,815
Percentage	13.77%	37.79%	48.44%	100.00%

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 as of:

	September 30, 2013	December 31, 2012
Real estate mortgage:		
Acceptable	82.04%	80.34%
OAEM	4.75	4.06
Substandard/doubtful/loss	13.21	15.60
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	74.51%	75.36%
OAEM	10.93	6.15
Substandard/doubtful/loss	14.56	18.49
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	96.06%
OAEM	–	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%

	September 30, 2013	December 31, 2012
Farm-related business:		
Acceptable	98.87%	99.22%
OAEM	1.13	0.78
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	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	76.85%	69.83%
OAEM	4.08	7.98
Substandard/doubtful/loss	19.07	22.19
	100.00%	100.00%
Total Loans:		
Acceptable	80.91%	79.06%
OAEM	6.73	5.01
Substandard/doubtful/loss	12.36	15.93
	100.00%	100.00%

The following tables provide an age analysis of past due loans and related accrued interest as of:

	September 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	$ 888	$ 4,534	$ 5,422	144,107	$ 149,529	$ –
Production and intermediate-term	349	788	1,137	148,899	150,036	–
Loans to cooperatives	–	–	–	8,333	8,333	–
Processing and marketing	–	–	–	25,803	25,803	–
Farm-related business	–	–	–	8,007	8,007	–
Communication	–	–	–	734	734	–
Energy and water/waste disposal	–	–	–	2,204	2,204	–
Rural residential real estate	474	66	540	14,148	14,688	–
Total	$ 1,711	$ 5,388	$ 7,099	$ 352,235	$ 359,334	$ –

	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	–
Loans to cooperatives	–	–	–	11,041	11,041	–
Processing and marketing	–	–	–	4,549	4,549	–
Farm-related business	–	–	–	11,759	11,759	–
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, 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:

	September 30, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	$ 6,109	$ 8,186
Production and intermediate-term	3,585	3,739
Rural residential real estate	333	1,195
Total nonaccrual loans	$ 10,027	$ 13,120
Accruing restructured loans:		
Real estate mortgage	$ 7,490	$ 7,150
Production and intermediate-term	7,859	7,590
Rural residential real estate	1,206	1,216
Total accruing restructured loans	$ 16,555	$ 15,956
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 26,582	$ 29,076
Other property owned	1,466	1,759
Total nonperforming assets	$ 28,048	$ 30,835
Nonaccrual loans as a percentage of total loans	2.80%	3.68%
Nonperforming assets as a percentage of total loans and other property owned	7.81%	8.61%
Nonperforming assets as a percentage of capital	34.27%	41.14%

Based upon further analysis subsequent to year end, the Association determined that the amount of troubled debt restructurings reported at December 31, 2012 was overstated by $5,372.

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.

	September 30, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	$ 3,931	$ 5,188
Past due	6,096	7,932
Total impaired nonaccrual loans	10,027	13,120
Impaired accrual loans:		
Restructured	16,555	15,956
90 days or more past due	–	–
Total impaired accrual loans	16,555	15,956
Total impaired loans	$ 26,582	$ 29,076

The following tables present additional impaired loan information at period end.

	September 30, 2013			Quarter Ended September 30, 2013		Nine Months Ended September 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	$ 10,861	$ 11,287	$ 3,483	$ 13,029	$ 24	$ 13,461	$ 74
Production and intermediate-term	4,747	4,942	1,083	5,694	10	5,882	33
Rural residential real estate	1,533	1,554	437	1,839	3	1,899	11
Total	$ 17,141	$ 17,783	$ 5,003	$ 20,562	$ 37	$ 21,242	$ 118
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 2,738	$ 2,852	$ –	$ 3,285	$ 5	$ 3,393	$ 19
Production and intermediate-term	6,697	8,913	–	8,034	15	8,299	46
Rural residential real estate	6	75	–	7	–	8	–
Total	$ 9,441	$ 11,840	$ –	$ 11,326	$ 20	$ 11,700	$ 65
Total impaired loans:							
Real estate mortgage	$ 13,599	$ 14,139	$ 3,483	$ 16,314	$ 29	$ 16,854	$ 93
Production and intermediate-term	11,444	13,855	1,083	13,728	25	14,181	79
Rural residential real estate	1,539	1,629	437	1,846	3	1,907	11
Total	$ 26,582	$ 29,623	$ 5,003	$ 31,888	$ 57	$ 32,942	$ 183

	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	$ 12,056	$ 12,765	$ 4,773	$ 12,484	$ 151
Production and intermediate-term	10,442	10,562	1,705	10,813	131
Rural residential real estate	2,319	2,527	878	2,402	29
Total	$ 24,817	$ 25,854	$ 7,356	$ 25,699	$ 311
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 3,280	$ 2,714	$ –	$ 3,397	$ 41
Production and intermediate-term	887	4,887	–	919	11
Rural residential real estate	92	160	–	94	1
Total	$ 4,259	$ 7,761	$ –	$ 4,410	$ 53
Total impaired loans:					
Real estate mortgage	$ 15,336	$ 15,479	$ 4,773	$ 15,881	$ 192
Production and intermediate-term	11,329	15,449	1,705	11,732	142
Rural residential real estate	2,411	2,687	878	2,496	30
Total	$ 29,076	$ 33,615	$ 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 for each reporting period 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 June 30, 2013	$ 4,977	$ 3,326	$ 12	$ –	$ –	$ 704	$ 9,019
Charge-offs	(264)	(102)	–	–	–	(136)	(502)
Recoveries	–	–	–	–	–	–	–
Provision for loan losses	45	(405)	141	2	–	37	(180)
Balance at September 30, 2013	$ 4,758	$ 2,819	$ 153	$ 2	$ –	$ 605	$ 8,337
Balance at December 31, 2012	$ 6,418	$ 4,016	$ 18	$ –	$ 3	$ 1,171	$ 11,626
Charge-offs	(1,322)	(1,097)	–	–	–	(137)	(2,556)
Recoveries	–	14	–	–	–	–	14
Provision for loan losses	(338)	(114)	135	2	(3)	(429)	(747)
Balance at September 30, 2013	$ 4,758	$ 2,819	$ 153	$ 2	$ –	$ 605	$ 8,337
Balance at June 30, 2012	$ 4,736	$ 5,033	$ 19	$ –	$ 4	$ 1,065	$ 10,857
Charge-offs	–	(23)	–	–	–	–	(23)
Recoveries	–	61	–	–	–	–	61
Provision for loan losses	1,489	(1,284)	2	–	(1)	9	215
Balance at September 30, 2012	$ 6,225	$ 3,787	$ 21	$ –	$ 3	$ 1,074	$ 11,110
Balance at December 31, 2011	$ 4,319	$ 4,793	$ 38	$ –	$ 4	$ 1,004	$ 10,158
Charge-offs	(458)	(334)	–	–	–	(49)	(841)
Recoveries	23	82	–	–	–	43	148
Provision for loan losses	2,341	(754)	(17)	–	(1)	76	1,645
Balance at September 30, 2012	$ 6,225	$ 3,787	$ 21	$ –	$ 3	$ 1,074	$ 11,110
Loans individually evaluated for impairment	$ 3,483	$ 1,083	$ –	$ –	$ –	$ 437	$ 5,003
Loans collectively evaluated for impairment	1,275	1,736	153	2	–	168	3,334
Balance at September 30, 2013	$ 4,758	$ 2,819	$ 153	$ 2	$ –	$ 605	$ 8,337
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	$ 13,006	$ 10,907	$ –	$ –	$ –	$ 1,536	$ 25,449
Loans collectively evaluated for impairment	136,523	139,129	42,143	734	2,204	13,152	333,885
Ending balance at September 30, 2013	$ 149,529	$ 150,036	$ 42,143	$ 734	$ 2,204	$ 14,688	$ 359,334
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

**Includes the loan types; Loans to cooperatives, Processing and marketing, and Farm-related business.*

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 about activity that occurred during the periods presented related to TDRs.

	Three months ended September 30, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 78	$ 1,030	$ –	$ 1,108
Production and intermediate-term	–	1,573	100	1,673
Rural residential real estate	202	–	–	202
Total	$ 280	$ 2,603	$ 100	$ 2,983

Three months ended September 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	$ 82	$ 1,060	$ –	$ 1,142	$ 34	$ –
Production and intermediate-term	–	1,574	100	1,674	1	–
Rural residential real estate	202	–	–	202	119	–
Total	$ 284	$ 2,634	$ 100	$ 3,018	$ 154	$ –

Nine months ended September 30, 2013				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 78	$ 1,167	$ 649	$ 1,894
Production and intermediate-term	–	3,446	100	3,546
Rural residential real estate	202	–	–	202
Total	$ 280	$ 4,613	$ 749	$ 5,642

Nine months ended September 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	$ 82	$ 1,198	$ 647	$ 1,927	$ 156	$ –
Production and intermediate-term	–	3,462	100	3,562	944	(887)
Rural residential real estate	202	–	–	202	119	–
Total	$ 284	$ 4,660	$ 747	$ 5,691	$ 1,219	$ (887)

Three months ended September 30, 2012				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 133	$ 96	$ 229
Production and intermediate-term	–	2,322	–	2,322
Total	$ –	$ 2,455	$ 96	$ 2,551

Three months ended September 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	$ –	$ 132	$ 96	$ 228	$ –	$ –
Production and intermediate-term	–	2,322	–	2,322	–	–
Total	$ –	$ 2,454	$ 96	$ 2,550	$ –	$ –

Nine months ended September 30, 2012				
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 1,809	$ 96	$ 1,905
Production and intermediate-term	–	4,269	–	4,269
Rural residential real estate	–	207	–	207
Total	$ –	$ 6,285	$ 96	$ 6,381

Nine months ended September 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	$ –	$ 1,817	$ 96	$ 1,913	$ (38)	$ –
Production and intermediate-term	–	4,160	–	4,160	3	(66)
Rural residential real estate	–	207	–	207	–	–
Total	$ –	$ 6,184	$ 96	$ 6,280	$ (35)	$ (66)

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	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Real estate mortgage	$ 11,879	$ 11,708	$ 4,389	$ 4,558
Production and intermediate-term	10,150	9,089	2,291	1,499
Rural residential real estate	1,391	1,307	185	91
Total Loans	$ 23,420	$ 22,104	$ 6,865	$ 6,148
Additional commitments to lend	$ 154	$ 223		

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 September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Pension	$ 286	$ 284	$ 857	$ 854
401(k)	43	39	144	117
Other postretirement benefits	45	39	136	117
Total	$ 374	$ 362	$ 1,137	$ 1,088

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

	Actual YTD Through 9/30/13	Projected Contributions For Remainder of 2013	Projected Total Contributions 2013
Pension	$ 16	$ 1,192	$ 1,208
Other postretirement benefits	124	51	175
Total	$ 140	$ 1,243	$ 1,383

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 at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is 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. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

NOTE 6 – NOTES PAYABLE TO AGFIRST FARM CREDIT BANK

The Association's indebtedness to AgFirst Farm Credit Bank (AgFirst or the Bank) represents borrowings by the Association primarily to fund its loan portfolio. This indebtedness is collateralized by a pledge of substantially all of the Association's assets. The contractual terms of the revolving line of credit are contained in the General Financing Agreement (GFA). The GFA also defines Association performance criteria for borrowing from the Bank, which includes borrowing base margin, earnings and capital covenants, among others.

NOTE 7 – 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 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 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 hierarchy tiers 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 2.62 percent of the issued stock of the Bank as of September 30, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.5 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $350 million for the first nine 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.

Assets held in trust funds, related to a supplemental retirement plan, are classified as Level 1. 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.

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

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. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. 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.

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
Issuances	12
Settlements	–
Transfers in and/or out of level 3	–
Balance at September 30, 2013	$ 60

	Standby Letters Of Credit
Balance at January 1, 2012	$ 18
Issuances	30
Settlements	–
Transfers in and/or out of level 3	–
Balance at September 30, 2012	$ 48

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 the instruments presented 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
Impaired loans and other property owned	$ 23,194	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			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 forecasts
		Probability of default
		Loss severity
Investment securities, held-to-maturity	Vendor priced	
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

*** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

The following tables present 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 Nine Months Ended September 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	$ 114	$ 114	$ –	$ –	$ 114	
Recurring Assets	$ 114	$ 114	$ –	$ –	$ 114	
Liabilities:						
Standby letters of credit	$ 60	$ –	$ –	$ 60	$ 60	
Recurring Liabilities	$ 60	$ –	$ –	$ 60	$ 60	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 21,579	$ –	$ –	$ 21,579	$ 21,579	$ (189)
Other property owned	1,466	–	–	1,615	1,615	(350)
Nonrecurring Assets	$ 23,045	$ –	$ –	$ 23,194	$ 23,194	$ (539)
Other Financial Instruments						
Assets:						
Cash	$ 47	$ 47	$ –	$ –	$ 47	
Investment securities, held-to-maturity	41,379	–	42,482	–	42,482	
Loans	327,899	–	–	325,953	325,953	
Other Assets	$ 369,325	$ 47	$ 42,482	$ 325,953	$ 368,482	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 322,737	$ –	$ –	$ 318,952	$ 318,952	
Other Liabilities	$ 322,737	$ –	$ –	$ 318,952	$ 318,952	

	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	$ 21,720	$ –	$ –	$ 21,720	$ 21,720	$ (3,997)
Other property owned	1,759	–	–	1,894	1,894	(1,000)
Nonrecurring Assets	$ 23,479	$ –	$ –	$ 23,614	$ 23,614	$ (4,997)
Other Financial Instruments						
Assets:						
Cash	$ 56	$ 56	$ –	$ –	$ 56	
Investment securities, held-to-maturity	47,900	–	49,101	–	49,101	
Loans	322,991	–	–	323,757	323,757	
Other Assets	$ 370,947	$ 56	$ 49,101	$ 323,757	$ 372,914	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 333,645	$ –	$ –	$ 324,502	$ 324,502	
Other Liabilities	$ 333,645	$ –	$ –	$ 324,502	$ 324,502	

NOTE 8 – ACCUMULATED OTHER COMPREHENSIVE INCOME

The following tables present activity related to AOCI for the three month and nine month periods ended September 30:

	Changes in Accumulated Other Comprehensive income by Component *(a)*			
	Three Months		Year to Date	
	2013	2012	2013	2012
Employee Benefit Plans:				
Balance at beginning of period	$ (18)	$ 2	$ (18)	$ 7
Other comprehensive income before reclassifications	–	–	–	(5)
Amounts reclassified from AOCI	–	–	–	–
Net current period other comprehensive income	–	–	–	(5)
Balance at end of period	$ (18)	$ 2	$ (18)	$ 2

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*				
	Three Months		Year to Date		
	2013	2012	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 9 – SUBSEQUENT EVENTS

The Association has evaluated subsequent events and has determined that, except as described below, there are none requiring disclosure through November 7, 2013, which is the date the financial statements were issued.

On October 21, 2013, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2014. The Association will receive approximately $4,984 which will be recorded in October 2013 as patronage refunds from other Farm Credit institutions.