

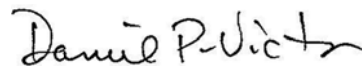
# SECOND QUARTER 2013

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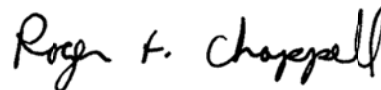
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## CERTIFICATION

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



Daniel P. Viator  
Chairman of the Board



Roger F. Chappell  
Chief Executive Officer



Bryan Applewhite  
Chief Financial Officer

August 7, 2013

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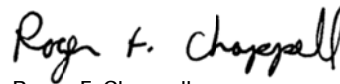
*First South Farm Credit, ACA*

# Report on Internal Control Over Financial Reporting

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

Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements. The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



Roger F. Chappell  
Chief Executive Officer



Bryan Applewhite  
Chief Financial Officer

August 7, 2013

# 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 *First South Farm Credit, ACA* (Association) for the period ended June 30, 2013. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2012 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

## **LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including poultry, cotton, livestock and forestry. 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, somewhat reduces the level of dependency on any single commodity.

### ***Comparison of June 30, 2013 to December 31, 2012***

The gross loan volume of the Association as of June 30, 2013, was \$1,350,745, an increase of \$27,558, as compared to \$1,323,187 at December 31, 2012. Net loans outstanding at June 30, 2013, were \$1,343,562 as compared to \$1,315,648 at December 31, 2012. Net loans accounted for 91.85 percent of total assets at June 30, 2013, as compared to 91.19 percent of total assets at December 31, 2012. The increased loan volume at June 30, 2013 was primarily attributable seasonal lending within the portfolio.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans decreased to \$8,182 at June 30, 2013 from \$9,368 at December 31, 2012, a decrease of \$1,186.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at June 30, 2013, was \$7,183 compared to \$7,539 at December 31, 2012, and was considered by management to be adequate to cover possible losses.

## **RESULTS OF OPERATIONS**

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

Net income for the three months ended June 30, 2013, totaled \$7,387, as compared to \$9,077 for the same period in 2012. The decrease in net income relates to various factors including the absence of an Insurance Fund refund in 2013 as compared to a refund of \$1,163 in 2012, an increase in other operating expenses of \$280, and an increase in salaries and employee benefits of \$253 compared to the same period. These changes were partially offset by an increase in loan fees of \$199 compared to the same period in 2012. Net interest income decreased \$235 and is the result of a reversal of allowance for loan losses of \$52 compared to a provision of allowance for loan losses of \$291 the prior year.

Noninterest income for the three months ended June 30, 2013 totaled \$5,664, as compared to \$6,475 for the same period of 2012, a decrease of \$811. The decrease is primarily the result of the absence of an Insurance Fund refund in 2013 as noted above. This decrease was partially offset by an increase in loan fees of \$199 and a decrease in losses on other property owned of \$80.

Noninterest expense for the three months ended June 30, 2013 increased \$657 compared to the same period of 2012. The increase is attributable to an increase in salaries and employee benefits of \$253, an increase in other operating expenses of \$280, an increase in Insurance Fund premiums of \$109 and increase of occupancy and equipment of \$15.

The Association recorded a reversal of allowance for loan loss of \$52 for the three months ended June 30, 2013, compared to a provision for loan losses \$291 for the same period in 2012. The Association also recorded a benefit for income taxes of \$68 for the three months ended June 30, 2013, compared to a benefit of \$81 for the same period of 2012.

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

Net income for the six months ended June 30, 2013, totaled \$13,272, as compared to \$15,043 for the same period in 2012. This decrease in net income of \$1,771 primarily relates to, as stated above, the absence of an Insurance Fund refund in 2013. Net interest income after the provision for loan losses for the six months ended June 30, 2013 increased \$564 or 2.98% percent, as compared to the same period in 2012. The increase in net interest income after the provision for loan

losses was primarily the result of a reversal of allowance for loan losses of \$53 versus a provision for loan losses of \$936 in the same period of 2012.

Noninterest income for the six months ended June 30, 2013, totaled \$9,859, as compared to \$10,895 for the same period of 2012, a decrease of \$1,036. The decrease again is primarily the result of the absence of an Insurance Fund refund in 2013 versus 2012. This decrease was partially offset by an increase in loan fees of \$266, decreased losses in other property owned of \$194, and an increase in other non interest income of \$56.

Noninterest expense for the six months ended June 30, 2013, increased \$1,299 compared to the same period of 2012. The increases in noninterest expense were due to an increase in salaries and employee benefits of \$574, an increase of \$468 in other operating expenses, an increase in Insurance Fund premiums of \$229 along with an increase of \$28 in occupancy and equipment.

The Association recorded a reversal of allowance for loan losses of \$53 for the six months ended June 30, 2013, compared to a provision of \$936 for the same period in 2012. The Association also recorded a provision for income taxes of \$53 for both six month periods ended June 30, 2013 and 2012.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the AgFirst Farm Credit Bank (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 Bank advances funds 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 June 30, 2013 was \$1,132,133 as compared to \$1,106,869 at December 31, 2012, an increase of \$25,264. The increase in notes payable from December 31, 2012 to June 30, 2013 is primarily related seasonal lending needs within the portfolio offset by an increase in loan participations with the Bank

## CAPITAL RESOURCES

Total members' equity at June 30, 2013 and December 31, 2012 was \$278,333 and \$272,702, respectively. The increase of \$5,631 from December 31, 2012 to June 30, 2013 is primarily attributable to an increase in allocated and unallocated retained earnings of \$9,693, a reduction in the amortization of accumulated other comprehensive loss of \$1,300, partially offset by a decrease in capital stock and participation

certificates of \$5,362. The decrease in capital stock and participation certificates is mainly related to the January 2013 reduction in the stock requirement on loans from the lessor of 2% of the loan or \$5,000 to the lessor of 2% of the loan or \$1,000.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of June 30, 2013, the Association's permanent capital ratio, total surplus ratio and core surplus ratio were 16.98, 16.04, and 15.25 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

## REGULATORY MATTERS

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

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

## STOCKHOLDER INVESTMENT

Stockholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst Farm Credit Bank's Quarterly and Annual Reports are on the AgFirst website, [www.agfirst.com](http://www.agfirst.com), or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Copies of the Association's Annual and Quarterly reports are also on the Association's website, [www.firstsouthland.com](http://www.firstsouthland.com), or may be obtained upon request free of charge by calling 1-800-955-1722 or writing Bryan Applewhite, First South Farm Credit, ACA, 574 Highland Colony Parkway, Suite 100, Ridgeland, MS 39157. 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.

First South Farm Credit, ACA

# Consolidated Balance Sheets

<i>(dollars in thousands)</i>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
	<i>(unaudited)</i>	<i>(audited)</i>
<b>Assets</b>		
Cash	\$ 3,310	\$ 8,758
Loans	1,350,745	1,323,187
Less: allowance for loan losses	7,183	7,539
Net loans	1,343,562	1,315,648
Accrued interest receivable	12,771	12,544
Investments in other Farm Credit institutions	84,538	77,736
Premises and equipment, net	8,400	8,065
Other property owned	1,560	973
Due from AgFirst Farm Credit Bank	7,152	17,378
Other assets	1,454	1,643
Total assets	\$ 1,462,747	\$ 1,442,745
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,132,133	\$ 1,106,869
Accrued interest payable	2,095	2,255
Patronage refunds payable	4	8,593
Other liabilities	50,182	52,326
Total liabilities	1,184,414	1,170,043
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	62,344	67,706
Retained earnings		
Allocated	136,616	140,146
Unallocated	111,427	98,204
Accumulated other comprehensive income (loss)	(32,054)	(33,354)
Total members' equity	278,333	272,702
Total liabilities and members' equity	\$ 1,462,747	\$ 1,442,745

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

First South Farm Credit, ACA

# Consolidated Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
<b>Interest Income</b>				
Loans	\$ 15,905	\$ 17,349	\$ 31,858	\$ 33,565
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	6,108	6,974	12,391	13,673
Net interest income	9,797	10,375	19,467	19,892
Provision for (reversal of allowance for) loan losses	(52)	291	(53)	936
Net interest income after provision for (reversal of allowance for) loan losses	9,849	10,084	19,520	18,956
<b>Noninterest Income</b>				
Loan fees	861	662	1,695	1,429
Fees for financially related services	59	63	82	72
Patronage refunds from other Farm Credit institutions	4,790	4,713	7,966	8,365
Gains (losses) on other property owned, net	(46)	(126)	(73)	(267)
Insurance Fund refunds	—	1,163	—	1,163
Other noninterest income	—	—	189	133
Total noninterest income	5,664	6,475	9,859	10,895
<b>Noninterest Expense</b>				
Salaries and employee benefits	5,453	5,200	11,098	10,524
Occupancy and equipment	382	367	764	736
Insurance Fund premiums	239	130	477	248
Other operating expenses	1,984	1,704	3,715	3,247
Total noninterest expense	8,058	7,401	16,054	14,755
Income before income taxes	7,455	9,158	13,325	15,096
Provision for income taxes	68	81	53	53
Net income	\$ 7,387	\$ 9,077	\$ 13,272	\$ 15,043

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

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First South Farm Credit, ACA  
**Consolidated Statements of  
Comprehensive Income**

*(unaudited)*

<i>(dollars in thousands)</i>	<b>For the three months ended June 30,</b>		<b>For the six months ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 7,387	\$ 9,077	\$ 13,272	\$ 15,043
<b>Other comprehensive income net of tax</b>				
Employee benefit plans adjustments (Note 6)	650	610	1,300	1,221
Comprehensive income	\$ 8,037	\$ 9,687	\$ 14,572	\$ 16,264

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

First South Farm Credit, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

*(dollars in thousands)*

	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
			Allocated	Unallocated		
Balance at December 31, 2011	\$ 85	\$ 66,600	\$ 124,862	\$ 94,299	\$ (30,176)	\$ 255,670
Comprehensive income				15,043	1,221	16,264
Capital stock/participation certificates issued/(retired), net		503				503
Retained earnings retired			(4,018)			(4,018)
Patronage distribution adjustment			(220)	390		170
Balance at June 30, 2012	\$ 85	\$ 67,103	\$ 120,624	\$ 109,732	\$ (28,955)	\$ 268,589
Balance at December 31, 2012	\$ —	\$ 67,706	\$ 140,146	\$ 98,204	\$ (33,354)	\$ 272,702
Comprehensive income				13,272	1,300	14,572
Capital stock/participation certificates issued/(retired), net		(5,362)				(5,362)
Retained earnings retired			(3,667)	2		(3,665)
Patronage distribution adjustment			137	(51)		86
Balance at June 30, 2013	\$ —	\$ 62,344	\$ 136,616	\$ 111,427	\$ (32,054)	\$ 278,333

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



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*First South Farm Credit, ACA*

# 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 First South Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2012, are contained in the 2012 Annual Report to Shareholders. These unaudited second quarter 2013 consolidated financial statements should be read in conjunction with the 2012 Annual Report to Shareholders.

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

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of June 30, 2013, the allowance for loan 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 – LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	June 30, 2013	December 31, 2012
Real estate mortgage	\$ 415,050	\$ 416,750
Production and intermediate-term Agribusiness	868,905	833,897
Loans to cooperatives	3,752	9,278
Processing and marketing	41,386	39,080
Farm-related business	9,149	8,366
Total agribusiness	54,287	56,724
Communication	10,355	13,534
Rural residential real estate	2,148	2,282
Total Loans	\$ 1,350,745	\$ 1,323,187

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:

	June 30, 2013							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ 2,727	\$ 83,892	\$ -	\$ -	\$ 55,712	\$ -	\$ 58,439	\$ 83,892
Production and intermediate-term Agribusiness	5,505	188,118	9,000	-	25,396	-	39,901	188,118
Loans to cooperatives	267	430	254	-	3,185	-	3,706	430
Processing and marketing	14,347	439	-	1,986	4,428	-	18,775	2,425
Farm-related business	-	393	-	-	263	776	263	1,169
Total agribusiness	14,614	1,262	254	1,986	7,876	776	22,744	4,024
Communication	10,358	-	-	-	-	-	10,358	-
Rural residential real estate	-	-	-	-	50	-	50	-
Total	\$ 33,204	\$ 273,272	\$ 9,254	\$ 1,986	\$ 89,034	\$ 776	\$ 131,492	\$ 276,034

**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	\$ 3,341	\$ 44,071	\$ -	\$ -	\$ 62,322	\$ -	\$ 65,663
Production and intermediate-term Agribusiness	4,300	155,299	17,317	-	23,930	-	45,547	155,299
Loans to cooperatives	-	430	4,704	-	3,597	-	8,301	430
Processing and marketing	16,438	499	-	3,765	3,418	-	19,856	4,264
Farm-related business	-	553	-	-	421	817	421	1,370
Total agribusiness	16,438	1,482	4,704	3,765	7,436	817	28,578	6,064
Communication	13,538	-	-	-	-	-	13,538	-
Rural residential real estate	-	-	-	-	51	-	51	-
Total	\$ 37,617	\$ 200,852	\$ 22,021	\$ 3,765	\$ 93,739	\$ 817	\$ 153,377	\$ 205,434

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at June 30, 2013 and indicates that approximately 21.57 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	\$ 24,348	\$ 138,971	\$ 251,731	\$ 415,050
Production and intermediate-term Agribusiness	218,488	313,899	336,518	868,905
Loans to cooperatives	480	1,754	1,518	3,752
Processing and marketing	34,893	5,101	1,392	41,386
Farm-related business	2,733	6,318	98	9,149
Total agribusiness	38,106	13,173	3,008	54,287
Communication	10,344	11	-	10,355
Rural residential real estate	41	747	1,360	2,148
Total Loans	\$ 291,327	\$ 466,801	\$ 592,617	\$ 1,350,745

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.

	June 30, 2013	December 31, 2012		June 30, 2013	December 31, 2012
<b>Real estate mortgage:</b>			<b>Total agribusiness:</b>		
Acceptable	91.02%	90.12%	Acceptable	89.14%	90.34%
OAEM	3.78	3.79	OAEM	9.42	8.20
Substandard/doubtful/loss	5.20	6.09	Substandard/doubtful/loss	1.44	1.46
	100.00%	100.00%		100.00%	100.00%
<b>Production and intermediate-term:</b>			<b>Communication:</b>		
Acceptable	93.79%	93.30%	Acceptable	100.00%	100.00%
OAEM	3.00	3.76	OAEM	-	-
Substandard/doubtful/loss	3.21	2.94	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
<b>Agribusiness:</b>			<b>Rural residential real estate:</b>		
<b>Loans to cooperatives:</b>			Acceptable	78.09%	78.76%
Acceptable	100.00%	95.94%	OAEM	4.45	4.15
OAEM	-	4.06	Substandard/doubtful/loss	17.46	17.09
Substandard/doubtful/loss	-	-		100.00%	100.00%
	100.00%	100.00%	<b>Total Loans:</b>		
<b>Processing and marketing:</b>			Acceptable	92.78%	92.21%
Acceptable	89.32%	91.20%	OAEM	3.47	3.93
OAEM	10.68	8.80	Substandard/doubtful/loss	3.75	3.86
Substandard/doubtful/loss	-	-		100.00%	100.00%
	100.00%	100.00%			
<b>Farm-related business:</b>					
Acceptable	83.90%	80.22%			
OAEM	7.58	10.02			
Substandard/doubtful/loss	8.52	9.76			
	100.00%	100.00%			

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

June 30, 2013						
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	\$ 1,568	\$ 1,010	\$ 2,578	\$ 416,171	\$ 418,749	\$ -
Production and intermediate-term Agribusiness	1,239	2,732	3,971	873,789	877,760	17
Loans to cooperatives	-	-	-	3,781	3,781	-
Processing and marketing	-	-	-	41,463	41,463	-
Farm-related business	-	-	-	9,231	9,231	-
Total agribusiness	-	-	-	54,475	54,475	-
Communication	-	-	-	10,361	10,361	-
Rural residential real estate	-	-	-	2,171	2,171	-
Total	\$ 2,807	\$ 3,742	\$ 6,549	\$ 1,356,967	\$ 1,363,516	\$ 17

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	\$ 1,935	\$ 3,929	\$ 5,864	\$ 414,538	\$ 420,402	\$ -
Production and intermediate-term Agribusiness	1,493	2,420	3,913	838,568	842,481	-
Loans to cooperatives	-	-	-	9,345	9,345	-
Processing and marketing	-	-	-	39,178	39,178	-
Farm-related business	-	-	-	8,491	8,491	-
Total agribusiness	-	-	-	57,014	57,014	-
Communication	-	-	-	13,543	13,543	-
Rural residential real estate	171	-	171	2,120	2,291	-
Total	\$ 3,599	\$ 6,349	\$ 9,948	\$ 1,325,783	\$ 1,335,731	\$ -

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

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

	June 30, 2013	December 31, 2012
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 3,801	\$ 4,647
Production and intermediate-term	4,169	4,501
Rural residential real estate	212	220
Total nonaccrual loans	\$ 8,182	\$ 9,368
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 3,466	\$ 1,491
Production and intermediate-term	7,671	5,996
Rural residential real estate	-	-
Total accruing restructured loans	\$ 11,137	\$ 7,487
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ -	\$ -
Production and intermediate-term	17	-
Rural residential real estate	-	-
Total accruing loans 90 days or more past due	\$ 17	\$ -
Total nonperforming loans	\$ 19,336	\$ 16,855
Other property owned	1,560	973
Total nonperforming assets	\$ 20,896	\$ 17,828
Nonaccrual loans as a percentage of total loans	0.61%	0.71%
Nonperforming assets as a percentage of total loans and other property owned	1.55%	1.35%
Nonperforming assets as a percentage of capital	7.51%	6.54%

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.

	June 30, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 4,417	\$ 2,716
Past due	3,765	6,652
Total impaired nonaccrual loans	<u>8,182</u>	<u>9,368</u>
Impaired accrual loans:		
Restructured	11,137	7,487
90 days or more past due	17	-
Total impaired accrual loans	<u>11,154</u>	<u>7,487</u>
Total impaired loans	<u>\$ 19,336</u>	<u>\$ 16,855</u>

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

	June 30, 2013			Quarter Ended June 30, 2013		Six Months Ended June 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>							
Real estate mortgage	\$ 2,937	\$ 3,593	\$ 873	\$ 2,885	\$ 3	\$ 2,759	\$ 7
Production and intermediate-term	2,548	3,196	385	2,502	2	2,394	6
Rural residential real estate	-	-	-	-	-	-	-
Total	<u>\$ 5,485</u>	<u>\$ 6,789</u>	<u>\$ 1,258</u>	<u>\$ 5,387</u>	<u>\$ 5</u>	<u>\$ 5,153</u>	<u>\$ 13</u>
<b>Impaired loans with no related allowance for credit losses:</b>							
Real estate mortgage	\$ 4,330	\$ 4,641	-	\$ 4,251	\$ 3	\$ 4,067	\$ 10
Production and intermediate-term	9,309	11,961	-	9,142	9	8,745	22
Agribusiness							
Farm-related business	-	6	-	-	-	-	-
Total agribusiness	-	6	-	-	-	-	-
Rural residential real estate	212	209	-	209	-	200	-
Total	<u>\$ 13,851</u>	<u>\$ 16,817</u>	<u>\$ -</u>	<u>\$ 13,602</u>	<u>\$ 12</u>	<u>\$ 13,012</u>	<u>\$ 32</u>
<b>Total Impaired Loans</b>							
Real estate mortgage	\$ 7,267	\$ 8,234	\$ 873	\$ 7,136	\$ 6	\$ 6,826	\$ 17
Production and intermediate-term	11,857	15,157	385	11,644	11	11,139	28
Agribusiness							
Farm-related business	-	6	-	-	-	-	-
Total agribusiness	-	6	-	-	-	-	-
Rural residential real estate	212	209	-	209	-	200	-
Total	<u>\$ 19,336</u>	<u>\$ 23,606</u>	<u>\$ 1,258</u>	<u>\$ 18,989</u>	<u>\$ 17</u>	<u>\$ 18,165</u>	<u>\$ 45</u>

	December 31, 2012			Year Ended December 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 3,737	\$ 4,342	\$ 2,131	\$ 2,751	\$ 21
Production and intermediate-term	2,446	2,860	446	1,800	13
Total	<u>\$ 6,183</u>	<u>\$ 7,202</u>	<u>\$ 2,577</u>	<u>\$ 4,551</u>	<u>\$ 34</u>
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 2,401	\$ 2,719	-	\$ 1,767	\$ 12
Production and intermediate-term	8,051	10,785	-	5,926	45
Agribusiness					
Farm-related business	-	8	-	-	-
Total agribusiness	-	8	-	-	-
Rural residential real estate	220	211	-	162	1
Total	<u>\$ 10,672</u>	<u>\$ 13,723</u>	<u>\$ -</u>	<u>\$ 7,855</u>	<u>\$ 58</u>
<b>Total Impaired Loans</b>					
Real estate mortgage	\$ 6,138	\$ 7,061	\$ 2,131	\$ 4,518	\$ 33
Production and intermediate-term	10,497	13,645	446	7,726	58
Agribusiness					
Farm-related business	-	8	-	-	-
Total agribusiness	-	8	-	-	-
Rural residential real estate	220	211	-	162	1
Total	<u>\$ 16,855</u>	<u>\$ 20,925</u>	<u>\$ 2,577</u>	<u>\$ 12,406</u>	<u>\$ 92</u>

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	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
<b>Allowance for credit losses:</b>							
Balance at March 31, 2013	\$ 3,554	\$ 3,489	\$ 203	\$ 22	\$ -	\$ 30	\$ 7,298
Charge-offs	(89)	-	-	-	-	-	(89)
Recoveries	-	26	-	-	-	-	26
Provision for loan losses	(399)	360	(6)	(6)	-	(1)	(52)
Balance at June 30, 2013	\$ 3,066	\$ 3,875	\$ 197	\$ 16	\$ -	\$ 29	\$ 7,183
Balance at December 31, 2012	\$ 4,168	\$ 3,162	\$ 167	\$ 18	\$ -	\$ 24	\$ 7,539
Charge-offs	(90)	(246)	-	-	-	-	(336)
Recoveries	-	33	-	-	-	-	33
Provision for loan losses	(1,012)	926	30	(2)	-	5	(53)
Balance at June 30, 2013	\$ 3,066	\$ 3,875	\$ 197	\$ 16	\$ -	\$ 29	\$ 7,183
Balance at March 31, 2012	\$ 3,972	\$ 3,056	\$ 236	\$ 17	\$ -	\$ 10	\$ 7,291
Charge-offs	(101)	(20)	-	-	-	-	(121)
Recoveries	20	92	-	-	-	-	112
Provision for loan losses	38	266	(19)	(2)	-	8	291
Balance at June 30, 2012	\$ 3,929	\$ 3,394	\$ 217	\$ 15	\$ -	\$ 18	\$ 7,573
Balance at December 31, 2011	\$ 3,803	\$ 2,969	\$ 90	\$ 14	\$ -	\$ 9	\$ 6,885
Charge-offs	(112)	(426)	-	-	-	-	(538)
Recoveries	22	268	-	-	-	-	290
Provision for loan losses	216	583	127	1	-	9	936
Balance at June 30, 2012	\$ 3,929	\$ 3,394	\$ 217	\$ 15	\$ -	\$ 18	\$ 7,573
Loans individually evaluated for impairment	\$ 873	\$ 385	\$ -	\$ -	\$ -	\$ -	\$ 1,258
Loans collectively evaluated for impairment	2,193	3,490	197	16	-	29	5,925
Balance at June 30, 2013	\$ 3,066	\$ 3,875	\$ 197	\$ 16	\$ -	\$ 29	\$ 7,183
Loans individually evaluated for impairment	\$ 2,131	\$ 446	\$ -	\$ -	\$ -	\$ -	\$ 2,577
Loans collectively evaluated for impairment	2,037	2,716	167	18	-	24	4,962
Balance at December 31, 2012	\$ 4,168	\$ 3,162	\$ 167	\$ 18	\$ -	\$ 24	\$ 7,539
<b>Recorded investment in loans outstanding:</b>							
Loans individually evaluated for impairment	\$ 3,801	\$ 4,169	\$ -	\$ -	\$ -	\$ 212	\$ 8,182
Loans collectively evaluated for impairment	414,948	873,591	54,475	10,361	-	1,959	1,355,334
Ending balance at June 30, 2013	\$ 418,749	\$ 877,760	\$ 54,475	\$ 10,361	\$ -	\$ 2,171	\$ 1,363,516
Loans individually evaluated for impairment	\$ 4,647	\$ 4,501	\$ -	\$ -	\$ -	\$ 220	\$ 9,368
Loans collectively evaluated for impairment	415,755	837,980	57,014	13,543	-	2,071	1,326,363
Ending balance at December 31, 2012	\$ 420,402	\$ 842,481	\$ 57,014	\$ 13,543	\$ -	\$ 2,291	\$ 1,335,731

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

	Three months ended June 30, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
<b>Troubled debt restructurings:</b>				
Real estate mortgage	\$ -	\$ 655	\$ -	\$ 655
Production and intermediate-term	-	229	-	229
Total	\$ -	\$ 884	\$ -	\$ 884

**Three months ended June 30, 2013**

	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
<b>Troubled debt restructurings:</b>						
Real estate mortgage	\$ -	\$ 908	\$ -	\$ 908	\$ -	\$ -
Production and intermediate-term	-	229	-	229	-	-
Total	\$ -	\$ 1,137	\$ -	\$ 1,137	\$ -	\$ -

**Six months ended June 30, 2013**

	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
<b>Troubled debt restructurings:</b>				
Real estate mortgage	\$ -	\$ 655	\$ -	\$ 655
Production and intermediate-term	-	693	-	693
Total	\$ -	\$ 1,348	\$ -	\$ 1,348

**Six months ended June 30, 2013**

	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
<b>Troubled debt restructurings:</b>						
Real estate mortgage	\$ -	\$ 908	\$ -	\$ 908	\$ -	\$ -
Production and intermediate-term	-	693	-	693	-	-
Total	\$ -	\$ 1,601	\$ -	\$ 1,601	\$ -	\$ -

**Three months ended June 30, 2012**

	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
<b>Troubled debt restructurings:</b>				
Production and intermediate-term	\$ -	\$ 144	\$ -	\$ 144
Total	\$ -	\$ 144	\$ -	\$ 144

**Three months ended June 30, 2012**

	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
<b>Troubled debt restructurings:</b>						
Production and intermediate-term	\$ -	\$ 144	\$ -	\$ 144	\$ -	\$ -
Total	\$ -	\$ 144	\$ -	\$ 144	\$ -	\$ -

**Six months ended June 30, 2012**

	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
<b>Troubled debt restructurings:</b>				
Production and intermediate-term	\$ -	\$ 144	\$ -	\$ 144
Total	\$ -	\$ 144	\$ -	\$ 144

**Six months ended June 30, 2012**

	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
<b>Troubled debt restructurings:</b>						
Production and intermediate-term	\$ -	\$ 144	\$ -	\$ 144	\$ -	\$ -
Total	\$ -	\$ 144	\$ -	\$ 144	\$ -	\$ -

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	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Real estate mortgage	\$ 3,466	\$ 1,491	\$ -	\$ -
Production and intermediate-term	7,671	5,996	-	-
Total Loans	\$ 11,137	\$ 7,487	\$ -	\$ -

Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings was \$112 and \$19 at June 30, 2013 and December 31, 2012, respectively.

### NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Pension	\$ 1,099	\$ 1,077	\$ 2,199	\$ 2,154
401(k)	105	95	209	186
Other postretirement benefits	266	222	532	444
Total	\$ 1,470	\$ 1,394	\$ 2,940	\$ 2,784

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

	Actual YTD Through 6/30/13	Projected Contributions For Remainder of 2013	Projected Total Contributions 2013
	Pension	\$ -	\$ 3,001
Other postretirement benefits	253	271	524
Total	\$ 253	\$ 3,272	\$ 3,525

Other postretirement benefit contributions in the above table include allocated estimates of funding for a multi-employer plan 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 4 – COMMITMENTS AND CONTINGENT LIABILITIES

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

### NOTE 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 12.16 percent of the issued stock of the Bank as of June 30, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled \$28.1 billion and shareholders' equity totaled \$2.3 billion. The Bank's earnings were \$232 million for the



first six months of 2013. In addition, the Association has an investment of \$64 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 has no Level 1 assets or liabilities measured at fair value on a recurring basis at June 30, 2013. 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 or liabilities measured at fair value on a recurring basis at June 30, 2013.

### 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.

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.

	<b>Standby Letters Of Credit</b>
Balance at January 1, 2013	\$ 239
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive income	-
Purchases	-
Sales	-
Issuances	-
Settlements	(68)
Transfers in and/or out of level 3	-
Balance at June 30, 2013	<u>\$ 171</u>

	<b>Standby Letters Of Credit</b>
Balance at January 1, 2012	\$ 403
<b>Total gains or (losses) realized/unrealized:</b>	
Included in earnings	-
Included in other comprehensive income	-
Purchases	-
Sales	-
Issuances	-
Settlements	(78)
Transfers in and/or out of level 3	-
Balance at June 30, 2012	<u>\$ 325</u>

### 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.

### 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

	<b>Fair Value</b>	<b>Valuation Technique(s)</b>	<b>Unobservable Input</b>	<b>Range</b>
Impaired loans and other property owned	\$ 20,028	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

	<b>Valuation Technique(s)</b>	<b>Input</b>
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment rates Probability of default Loss severity Annualized volatility
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates Probability of default Loss severity Annualized volatility

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

At or for the Six Months Ended June 30, 2013						
Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$ -	\$ -	\$ -	\$ -		
<b>Liabilities:</b>						
Standby letters of credit	\$ 171	\$ -	\$ -	\$ 171	\$ 171	
Recurring Liabilities	\$ 171	\$ -	\$ -	\$ 171	\$ 171	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 18,078	\$ -	\$ -	\$ 18,078	\$ 18,078	\$ 1,016
Other property owned	1,560	-	-	1,950	1,950	(33)
Nonrecurring Assets	\$ 19,638	\$ -	\$ -	\$ 20,028	\$ 20,028	\$ 983
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 3,310	\$ 3,310	\$ -	\$ -	\$ 3,310	
Loans	1,325,484	-	-	1,314,378	1,314,378	
Other Assets	\$ 1,328,794	\$ 3,310	\$ -	\$ 1,314,378	\$ 1,317,688	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,132,133	\$ -	\$ -	\$ 1,119,350	\$ 1,119,350	
Other Liabilities	\$ 1,132,133	\$ -	\$ -	\$ 1,119,350	\$ 1,119,350	

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	
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$ -	\$ -	\$ -	\$ -		
<b>Liabilities:</b>						
Standby letters of credit	\$ 239	\$ -	\$ -	\$ 239	\$ 239	
Recurring Liabilities	\$ 239	\$ -	\$ -	\$ 239	\$ 239	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 14,278	\$ -	\$ -	\$ 14,278	\$ 14,278	\$ 64
Other property owned	973	-	-	1,119	1,119	209
Nonrecurring Assets	\$ 15,251	\$ -	\$ -	\$ 15,397	\$ 15,397	\$ 273
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 8,758	\$ 8,758	\$ -	\$ -	\$ 8,758	
Loans	1,301,370	-	-	1,301,618	1,301,618	
Other Assets	\$ 1,310,128	\$ 8,758	\$ -	\$ 1,301,618	\$ 1,310,376	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,106,869	\$ -	\$ -	\$ 1,110,651	\$ 1,110,651	
Other Liabilities	\$ 1,106,869	\$ -	\$ -	\$ 1,110,651	\$ 1,110,651	

## NOTE 6 - ACCUMULATED OTHER COMPREHENSIVE INCOME

<b>Changes in Accumulated Other Comprehensive income by Component (a)</b>	
<b>Employee Benefit Plans</b>	
Balance at March 31, 2013	\$ (32,704)
Other comprehensive income before reclassifications	-
Amounts reclassified from AOCI	650
Net current period other comprehensive income	650
Balance at June 30, 2013	<u>\$ (32,054)</u>
Balance at December 31, 2012	\$ (33,354)
Other comprehensive income before reclassifications	-
Amounts reclassified from AOCI	1,300
Net current period other comprehensive income	1,300
Balance at June 30, 2013	<u>\$ (32,054)</u>
Balance at March 31, 2012	\$ (29,565)
Other comprehensive income before reclassifications	-
Amounts reclassified from AOCI	610
Net current period other comprehensive income	610
Balance at June 30, 2012	<u>\$ (28,955)</u>
Balance at December 31, 2011	\$ (30,176)
Other comprehensive income before reclassifications	-
Amounts reclassified from AOCI	1,221
Net current period other comprehensive income	1,221
Balance at June 30, 2012	<u>\$ (28,955)</u>

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

	For the three months ended June 30,		For the six months ended June 30,		Income Statement Line Item
	2013	2012	2013	2012	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	\$ (650)	\$ (610)	\$ (1,300)	\$ (1,221)	See footnote 3.
Net amounts reclassified	<u>\$ (650)</u>	<u>\$ (610)</u>	<u>\$ (1,300)</u>	<u>\$ (1,221)</u>	

(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 August 7, 2013, which is the date the financial statements were issued.