Ag Credit Agricultural Credit Association

THIRD QUARTER 2013

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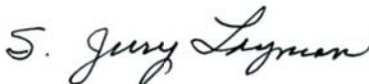
CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2013 quarterly report of Ag Credit Agricultural Credit Association, 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.

Neil L. Jordan
Chief Executive Officer

Daniel E. Ebert
Chief Financial Officer



S. Jerry Layman
Chairman of the Board

November 7, 2013

Ag Credit Agricultural Credit Association

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, to provide 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 and 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.

Neil L. Jordan
Chief Executive Officer

Daniel E. Ebert
Chief Financial Officer

November 7, 2013

Ag Credit Agricultural Credit Association

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

The following commentary reviews the financial condition and results of operations of Ag Credit Agricultural Credit Association (Association) for the nine months ended September 30, 2013. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, the Association's September 30, 2012 quarterly report and the 2012 Annual Report of the Association. The accompanying consolidated financial statements (financial statements) were prepared under the oversight of the Audit Committee of the Board of Directors, which includes Keith L. Roberts, David M. Stott, Ph.D., CPA and Gary L. Baldosser. The results for the first nine months of 2013 are not necessarily indicative of results to be expected for the year.

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 through numerous product types. The Association's loan portfolio consists predominantly of general cash grains (primarily soybeans, corn and wheat) and livestock and constitutes about 73 percent of the entire portfolio as of September 30, 2013. The Association recognizes the commodity concentration risk exceeds normally accepted industry standards. This risk, along with the risk associated with large loans, is reduced by members' off-farm income, utilization of crop insurance, and the use of FSA, USDA, Business and Industry and Farmer Mac loan guarantees. As of September 30, 2013 the Association had $439,791 of guaranteed loan volume, which is 32.04 percent of loans as compared to $432,066 of guaranteed volume or 33.74 percent of the portfolio at September 30, 2012. Loan guarantees reduce the potential of loss in the Association's loan portfolio and help to leverage the Association's capital.

Gross loan volume of the Association as of September 30, 2013 was $1,372,483, a decrease of $6,343 or 0.46 percent as compared to $1,378,826 at December 31, 2012. The decrease in loan volume is related to a reduction in production and intermediate-term volume and a slight reduction in real estate mortgage loan volume. These decreases were offset in part by an increase in rural residential real estate loan volume. The reduction in production and intermediate-term loans relates to farmers funding more of their own operations during Q2 and Q3 rather than using their lines of credit after the normal pay down of loan balances in Q1. From September 30, 2012 to September 30, 2013 volume increased by $91,990 or 7.18 percent.

Net loans outstanding at September 30, 2013 were $1,362,108 as compared to $1,361,249 at December 31, 2012. Net loans accounted for 95.08 percent of total assets at September 30, 2013 as compared to 95.46 percent at December 31, 2012.

The following table summarizes the Association's risk assets (accruing volume includes accrued interest receivable):

	9/30/13	12/31/12
Nonaccrual loans	$ 14,913	$ 32,024
Accruing restructured loans	–	16
Accruing loans 90 days or more past due	–	98
Total high risk loans	14,913	32,138
Other property owned	965	53
Total high-risk assets	$ 15,878	$ 32,191
Ratios:		
Nonaccrual loans to total loans	1.09%	2.32%
High-risk assets to total assets	1.11%	2.26%

High risk assets decreased during the first nine months of 2013 primarily due to the restructuring of a large commercial loan relationship. Other property owned (OPO) increased as a result of the transfer of loans from nonaccrual status to OPO.

There is an inherent risk in the extension of any type of credit, and accordingly, the Association maintains an allowance for loan losses consistent with the risk measured in the portfolio.

General portfolio credit quality improved during the first nine months of 2013 and remains strong.

Credit administration is satisfactory.

During the first nine months of 2013 the Association recorded charge offs of $7,633, no recoveries and a $431 of provision for loan losses. For the same period of 2012, the Association recorded charge offs of $448, recoveries of $3 and $5,342 of provision for loan losses. The allowance for loan losses represented 0.76 percent and 1.27 percent of loans at September 30, 2013 and December 31, 2012, respectively.

RESULTS OF OPERATIONS

For the three months ending September 30, 2013

Net income for the three months ended September 30, 2013 (Q3 2013) was $7,812 an increase of $5,308 or 211.98 percent when compared to the net income of $2,504 for the same period

in 2012 (Q3 2012). Major changes in the components of net income when comparing Q3 2013 to Q3 2012 are identified as follows:

- Provision for loan losses of $431 was recorded in Q3 2013 as compared to $5,342 recorded for Q3 2012 for a decrease of $4,911 or 91.93 percent.

- Net interest income increased by $622 or 7.07 percent. The increase resulted primarily from earnings on increased loan volume and an increase in earnings on the Association's own funds in loans.

- Noninterest income decreased by $2 or 0.08 percent for the following reasons:

  Equity in earnings of AgFirst Farm Credit Bank (the Bank) increased by $176 as a result of the increase in the Association's average note payable balance with the Bank along with a slight increase in patronage on accruing participation loans sold to the Bank. The average note payable balance increased as a result of the year-to-year increase in loan volume previously discussed.

  Loan fees decreased by $118 primarily due to reduced loan servicing fee income. Fees for financially related services (FRS) decreased by $58 due to lower multi-peril crop insurance and appraisal income.

- Noninterest expense increased by $228 or 6.77 percent primarily due to:

  Salary and benefits expense increased by $232 or 10.52% due to increased expenses related to scheduled salary increases, additional employees, salary related benefits, decreased deferred loan origination costs, higher incentive payments, and increased annual retirement expense. Occupancy and equipment expenses decreased by $21 or 10.45 percent primarily due to reduced furniture and equipment maintenance expenses. Insurance premium expenses increased by $108 or 113.68 percent due to increased premium rates and increased loan volume offset in part by higher guaranteed loan volume. Guarantee fees decreased by $113 or 62.43 due to lower initial USDA and FSA guarantee fees paid in Q3 2013 as compared to Q3 2012 as a result of the lack of funding for federal loan guarantees. Other operating expenses increased by $22 or 3.22 percent.

- The provision for income taxes was $47 and $52 for Q3 2013 and Q3 2012, respectively.

For the nine months ending September 30, 2013

Net income for the nine months ended September 30, 2013 (YTD 2013) was $23,853 which is an increase of $4,533 or 23.46 percent when compared to the net income of $19,320 for the same period in 2012 (YTD 2012). Major changes in the components of net income when comparing YTD 2013 to YTD 2012 are identified as follows:

- Net interest income increased by $1,236 or 4.70 percent for the reasons previously discussed.

- The risks identified in the portfolio at September 30, 2013 and September 30, 2012 resulted in a provision for loan losses of $431 and $5,342 for YTD 2013 or YTD 2012, respectively, for a reduction of $4,911 or 91.93%.

- Noninterest income decreased by $815 or 9.28 percent primarily due to a $972 decrease in FCSIC refund, a $319 decrease in loan fees and a $98 decrease in FRS income partially offset by a $544 increase in equity in earnings of the Bank. The Association received $972 of FCSIC refund in 2012. No such refund was received in 2013. Equity in earnings of the Bank increased for the reasons previously stated and due to an $87 increase in special patronage from the Bank. Loan fees and FRS income decreased for the reasons previously stated.

- Noninterest expense increased by $811 or 7.91 percent. Salary and benefits expense increased by $681, insurance premium expenses increased by $324 and guarantee fees decreased by $340 for the reasons previously stated. Occupancy and equipment expenses increased by $31 primarily due to increased expenses for depreciation, utilities and space rental. Other operating expenses increased by $115 due to increased expenses for directors, employee travel, postage and shipping, training and advertising.

- The provision for income taxes was $126 and $138 for YTD 2013 and YTD 2012, respectively.

The following table shows the key results of operations ratios for the nine months ended September 30, 2013 and September 30, 2012, respectively.

	9/30/13	9/30/12
Return on average assets	2.34%	2.05%
Return on average equity	15.08%	12.95%
Net interest margin	2.75%	2.87%
Members' equity to assets	15.10%	15.16%
Debt to members' equity (:1)	5.62	5.61

The changes in these ratios are directly related to the changes in income discussed in the Results of Operations section, changes in assets discussed in the Loan Portfolio section and changes in capital discussed in the Capital Resources section.

CAPITAL RESOURCES

Total members' equity was $216,350 at September 30, 2013 as compared to $200,103 at December 31, 2012 for an increase of $16,247 or 8.12 percent. The increase is due to year-to-date earnings, more Class A preferred stock, Class C Stock and Participation Certificates offset in part by the reduction in allocated equities.

FCA regulations require all Farm Credit institutions maintain a minimum permanent capital ratio of 7.0 percent and a total surplus and core surplus ratios equal to 3.5 percent. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus by a risk-adjusted asset base. At September 30, 2013, the Association's permanent capital, total surplus and core surplus ratios equaled 20.19 percent, 18.28 percent and 15.89 percent, respectively.

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: The Association obtains funding from AgFirst Farm Credit Bank (the Bank). The Association is materially affected and shareholder investment could be materially affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, *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 Quarterly and Annual Reports are available on the Association's website, www.agcredit.net, or may be obtained upon request free of charge by calling 1-800-837-3678, extension 1023, or writing Daniel Ebert, Chief Financial Officer, Ag Credit, ACA, 610 W Lytle Street, Fostoria, OH 44830. The Association prepares an electronic version of the 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 Association.

Ag Credit Agricultural Credit Association

Consolidated Balance Sheets

(dollars in thousands)	**September 30, 2013**	**December 31, 2012**
	(unaudited)	*(audited)*
Assets		
Cash	$ 3,411	$ 4,551
Investment securities:		
Held to maturity (fair value of $13,020 and $12,018, respectively)	13,435	11,063
Loans	1,372,483	1,378,826
Less: allowance for loan losses	10,375	17,577
Net loans	1,362,108	1,361,249
Accrued interest receivable	24,992	17,450
Investments in other Farm Credit institutions	14,668	14,668
Premises and equipment, net	5,022	4,143
Other property owned	965	53
Due from AgFirst Farm Credit Bank	6,724	10,807
Other assets	1,253	1,959
Total assets	$ 1,432,578	$ 1,425,943
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,195,771	$ 1,203,825
Accrued interest payable	2,328	2,243
Patronage refunds payable	110	9,413
Advanced conditional payments	2,332	1,245
Other liabilities	15,687	9,114
Total liabilities	1,216,228	1,225,840
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	18,889	18,285
Retained earnings		
Allocated	112,138	119,997
Unallocated	85,323	61,821
Total members' equity	216,350	200,103
Total liabilities and members' equity	$ 1,432,578	$ 1,425,943

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

Ag Credit Agricultural Credit Association

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
Interest Income				
Investment securities	$ 197	$ 115	$ 493	$ 350
Loans	16,155	15,126	46,927	45,349
Total interest income	16,352	15,241	47,420	45,699
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,928	6,439	19,914	19,429
Net interest income	9,424	8,802	27,506	26,270
Provision for loan losses	431	5,342	431	5,342
Net interest income after provision for loan losses	8,993	3,460	27,075	20,928
Noninterest Income				
Loan fees	55	173	252	571
Fees for financially related services	105	163	145	243
Patronage refunds from other Farm Credit institutions	2,297	2,121	7,503	6,959
Gains (losses) on other property owned, net	4	—	(7)	(13)
Gains (losses) on sales of premises and equipment, net	(3)	1	5	2
Insurance Fund refunds	—	—	—	972
Other noninterest income	2	4	66	45
Total noninterest income	2,460	2,462	7,964	8,779
Noninterest Expense				
Salaries and employee benefits	2,437	2,205	7,217	6,536
Occupancy and equipment	180	201	623	592
Insurance Fund premiums	203	95	587	263
Guarantee fees	68	181	684	1,024
Other operating expenses	706	684	1,949	1,834
Total noninterest expense	3,594	3,366	11,060	10,249
Income before income taxes	7,859	2,556	23,979	19,458
Provision for income taxes	47	52	126	138
Net income	7,812	2,504	23,853	19,320
Other comprehensive income	—	—	—	—
Comprehensive income	$ 7,812	$ 2,504	$ 23,853	$ 19,320

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

Ag Credit Agricultural Credit Association

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2011	$ 17,577	$ 109,753	$ 60,109	$ 187,439
Comprehensive income			19,320	19,320
Capital stock/participation certificates issued/(retired), net	844			844
Dividends declared/paid			(149)	(149)
Retained earnings retired		(6,359)		(6,359)
Patronage distribution adjustment		(39)	(105)	(144)
Balance at September 30, 2012	$ 18,421	$ 103,355	$ 79,175	$ 200,951
Balance at December 31, 2012	$ 18,285	$ 119,997	$ 61,821	$ 200,103
Comprehensive income			23,853	23,853
Capital stock/participation certificates issued/(retired), net	604			604
Dividends declared/paid			(143)	(143)
Retained earnings retired		(7,819)		(7,819)
Patronage distribution adjustment		(40)	(208)	(248)
Balance at September 30, 2013	$ 18,889	$ 112,138	$ 85,323	$ 216,350

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

Ag Credit Agricultural Credit Association

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 Ag Credit Agricultural Credit Association (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.

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 held-to-maturity investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment program approved by the Farm Credit Administration (FCA). In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible.

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
Mission-related investments	$ 13,435	$ 288	$ (703)	$ 13,020	5.53%

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 11,063	1,042	(87)	12,018	5.34%

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	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	13,435	13,020	5.53
Total	$ 13,435	$ 13,020	5.53%

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
Mission related Investments	$ 7,929	$ (485)	$ 1,246	$ (218)

	December 31, 2012			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission related Investments	$ 1,173	$ (87)	$ –	$ –

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.

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	$ 682,373	$ 695,182
Production and intermediate-term	443,500	493,971
Processing and marketing	13,648	12,846
Farm-related business	17,611	19,334
Rural residential real estate	212,622	155,436
Lease receivables	2,729	2,057
Total Loans	$ 1,372,483	$ 1,378,826

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	$ –	$ 6,717	$ –	$ 617	$ –	$ –	$ –	$ 7,334
Production and intermediate-term	1,025	60,504	1,867	305	–	–	2,892	60,809
Processing and marketing	4,050	556	4,384	–	1,950	–	10,384	556
Lease receivables	–	–	491	–	–	–	491	–
Total	$ 5,075	$ 67,777	$ 6,742	$ 922	$ 1,950	$ –	$ 13,767	$ 68,699

	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	$ –	$ 7,583	$ –	$ –	$ –	$ –	$ –	$ 7,583
Production and intermediate-term	5,404	76,212	3,335	–	–	–	8,739	76,212
Processing and marketing	724	1,112	5,291	–	3,900	–	9,915	1,112
Total	$ 6,128	$ 84,907	$ 8,626	$ –	$ 3,900	$ –	$ 18,654	$ 84,907

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	$ 13,423	$ 47,767	$ 621,183	$ 682,373
Production and intermediate-term	130,737	200,223	112,540	443,500
Processing and marketing	4,922	3,023	5,703	13,648
Farm-related business	1,600	3,698	12,313	17,611
Rural residential real estate	2,131	8,367	202,124	212,622
Lease receivables	36	2,084	609	2,729
Total loans	$ 152,849	$ 265,162	$ 954,472	$ 1,372,483
Percentage	11.14%	19.32%	69.54%	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	97.31%	95.91%
OAEM	1.56	2.29
Substandard/doubtful/loss	1.13	1.80
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	92.68%	89.56%
OAEM	2.36	3.55
Substandard/doubtful/loss	4.96	6.89
	100.00%	100.00%
Processing and marketing		
Acceptable	75.73%	67.73%
OAEM	9.73	17.88
Substandard/doubtful/loss	14.54	14.39
	100.00%	100.00%
Farm-related business		
Acceptable	97.25%	96.66%
OAEM	0.34	1.10
Substandard/doubtful/loss	2.41	2.24
	100.00%	100.00%

	September 30, 2013	December 31, 2012
Rural residential real estate:		
Acceptable	98.16%	98.67%
OAEM	0.59	0.57
Substandard/doubtful/loss	1.25	0.76
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total loans:		
Acceptable	95.74%	93.70%
OAEM	1.73	2.67
Substandard/doubtful/loss	2.53	3.63
	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	$ 100	$ –	$ 100	$ 698,484	$ 698,584	$ –
Production and intermediate-term	92	–	92	450,855	450,947	–
Processing and marketing	240	364	604	13,114	13,718	–
Farm-related business	407	–	407	17,379	17,786	–
Rural residential real estate	908	–	908	212,672	213,580	–
Lease receivables	–	–	–	2,729	2,729	–
Total	$ 1,747	$ 364	$ 2,111	$ 1,395,233	$ 1,397,344	$ –

	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	$ 3,649	$ 3,834	$ 7,483	$ 698,389	$ 705,872	$ –
Production and intermediate-term	2,637	10,054	12,691	487,184	499,875	98
Processing and marketing	–	–	–	12,920	12,920	–
Farm-related business	42	–	42	19,473	19,515	–
Rural residential real estate	912	319	1,231	154,712	155,943	–
Lease receivables	–	–	–	2,057	2,057	–
Total	$ 7,240	$ 14,207	$ 21,447	$ 1,374,735	$ 1,396,182	$ 98

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	$ 1,735	$ 6,826
Production and intermediate-term	11,673	24,382
Processing and marketing	364	–
Farm-related business	407	437
Rural residential real estate	734	379
Total nonaccrual loans	$ 14,913	$ 32,024
Accruing restructured loans:		
Real estate mortgage	$ –	$ 16
Total accruing restructured loans	$ –	$ 16
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	–	98
Total accruing loans 90 days or more past due	$ –	$ 98
Total nonperforming loans	$ 14,913	$ 32,138
Other property owned	965	53
Total nonperforming assets	$ 15,878	$ 32,191
Nonaccrual loans as a percentage of total loans	1.09%	2.32%
Nonperforming assets as a percentage of total loans and other property owned	1.16%	2.33%
Nonperforming assets as a percentage of capital	7.34%	16.09%

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	$ 14,110	$ 14,603
Past due	803	17,421
Total impaired nonaccrual loans	14,913	32,024
Impaired accrual loans:		
Restructured	–	16
90 days or more past due	–	98
Total impaired accrual loans	–	114
Total impaired loans	$ 14,913	$ 32,138

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	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Production and intermediate-term	8,874	9,168	4,415	16,605	1	17,932	93
Farm-related business	407	448	192	761	–	822	4
Rural residential real estate	445	488	147	833	–	899	5
Total	$ 9,726	$ 10,104	$ 4,754	$ 18,199	$ 1	$ 19,653	$ 102
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 1,735	$ 1,927	$ –	$ 3,246	$ –	$ 3,505	$ 18
Production and intermediate-term	2,799	2,966	–	5,237	1	5,656	30
Processing and marketing	364	560	–	682	–	736	4
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	289	320	–	540	–	583	3
Total	$ 5,187	$ 5,773	$ –	$ 9,705	$ 1	$ 10,480	$ 55
Total impaired loans:							
Real estate mortgage	$ 1,735	$ 1,927	$ –	$ 3,246	$ –	$ 3,505	$ 18
Production and intermediate-term	11,673	12,134	4,415	21,842	2	23,588	123
Processing and marketing	364	560	–	682	–	736	4
Farm-related business	407	448	192	761	–	822	4
Rural residential real estate	734	808	147	1,373	–	1,482	8
Total	$ 14,913	$ 15,877	$ 4,754	$ 27,904	$ 2	$ 30,133	$ 157

	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:					
Production and intermediate-term	$ 22,875	$ 23,652	$ 10,310	$ 12,575	$ 86
Farm related business	437	461	385	240	2
Rural residential real estate	379	382	168	208	1
Total	$ 23,691	$ 24,495	$ 10,863	13,023	89
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 6,841	$ 6,995	$ –	$ 3,761	$ 26
Production and intermediate-term	1,606	1,621	–	882	6
Total	8,447	$ 8,616	$ –	$ 4,643	$ 32
Total impaired loans:					
Real estate mortgage	$ 6,841	$ 6,995	$ –	$ 3,761	$ 26
Production and intermediate-term	24,481	25,273	10,310	13,457	92
Farm-related business	437	461	385	240	2
Rural residential real estate	379	382	168	208	1
Total	$ 32,138	$ 33,111	$ 10,863	$ 17,666	$ 121

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

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*	Rural Residential Real Estate	Lease Receivables	Total
Allowance for credit losses:						
Balance at June 30, 2013	$ 697	$ 14,839	$ 871	$ 793	$ 7	$ 17,207
Charge-offs	–	(7,067)	(196)	–	–	(7,263)
Recoveries	–	–	–	–	–	–
Provision for loan losses	40	391	(17)	21	(4)	431
Loan type reclassification	–	(177)	177	–	–	–
Balance at September 30, 2013	$ 737	$ 7,986	$ 835	$ 814	$ 3	$ 10,375
Balance at December 31, 2012	$ 893	$ 14,850	$ 1,160	$ 670	$ 4	$ 17,577
Charge-offs	–	(7,425)	(196)	(12)	–	(7,633)
Recoveries	–	–	–	–	–	–
Provision for loan losses	(156)	738	(306)	156	(1)	431
Loan type reclassification	–	(177)	177	–	–	–
Balance at September 30, 2013	$ 737	$ 7,986	$ 835	$ 814	$ 3	$ 10,375
Balance at June 30, 2012	$ 453	$ 9,243	$ 745	$ 400	$ 8	$ 10,849
Charge-offs	–	(379)	–	–	–	(379)
Recoveries	–	1	1	–	–	2
Provision for loan losses	384	5,008	(104)	54	–	5,342
Balance at September 30, 2012	$ 837	$ 13,873	$ 642	$ 454	$ 8	$ 15,814
Balance at December 31, 2011	$ 1,368	$ 8,261	$ 931	$ 353	$ 4	$ 10,917
Charge-offs	–	(421)	(1)	(26)	–	(448)
Recoveries	–	2	1	–	–	3
Provision for loan losses	(531)	6,031	(289)	127	4	5,342
Balance at September 30, 2012	$ 837	$ 13,873	$ 642	$ 454	$ 8	$ 15,814
Loans individually evaluated for impairment	$ –	$ 4,415	$ 192	$ 147	$ –	$ 4,754
Loans collectively evaluated for impairment	737	3,571	643	667	3	5,621
Balance at September 30, 2013	$ 737	$ 7,986	$ 835	$ 814	$ 3	$ 10,375
Loans individually evaluated for impairment	$ –	$ 10,310	$ 385	$ 168	$ –	$ 10,863
Loans collectively evaluated for impairment	893	4,540	775	502	4	6,714
Balance at December 31, 2012	$ 893	$ 14,850	$ 1,160	$ 670	$ 4	$ 17,577
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 1,735	$ 11,673	$ 771	$ 734	$ –	$ 14,913
Loans collectively evaluated for impairment	696,849	439,274	30,733	212,846	2,729	1,382,431
Balance at September 30, 2013	$ 698,584	$ 450,947	$ 31,504	$ 213,580	$ 2,729	$ 1,397,344
Loans individually evaluated for impairment	$ 6,826	$ 24,383	$ 436	$ 379	$ –	$ 32,024
Loans collectively evaluated for impairment	699,046	475,492	31,999	155,564	2,057	1,364,158
Balance at December 31, 2012	$ 705,872	$ 499,875	$ 32,435	$ 155,943	$ 2,057	$ 1,396,182

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. There were no TDRs that occurred during the three or nine month periods ended September 30, 2012. 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	$ 5,831	$ –	$ –	$ 5,831
Production and intermediate-term	19,599	–	–	19,599
Rural residential real estate	433	–	–	433
Total	$ 25,863	$ –	$ –	$ 25,863

	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	$ 1,159	$ –	$ –	$ 1,159	$ –	$ –
Production and intermediate-term	11,438	–	–	11,438	1,966	(7,169)
Rural residential real estate	413	–	–	413	–	–
Total	$ 13,010	$ –	$ –	$ 13,010	$ 1,966	$ (7,169)

	Nine months ended September 30, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 5,831	$ –	$ –	$ 5,831
Production and intermediate-term	19,599	–	–	19,599
Rural residential real estate	433	–	–	433
Total	$ 25,863	$ –	$ –	$ 25,863

	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	$ 1,159	$ –	$ –	$ 1,159	$ –	$ –
Production and intermediate-term	11,438	–	–	11,438	1,966	(7,169)
Rural residential real estate	413	–	–	413	–	–
Total	$ 13,010	$ –	$ –	$ 13,010	$ 1,966	$ (7,169)

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 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	$ 1,159	$ 15	$ 1,159	$ –
Production and intermediate-term	11,512	696	11,512	696
Processing and marketing	364	–	364	–
Rural residential real estate	413	–	413	–
Total Loans	$ 13,448	$ 711	$ 13,448	$ 696
Additional commitments to lend	$ 2,762	$ –		

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	$ 355	$ 327	$ 1,065	$ 982
401(k)	96	87	281	265
Other postretirement benefits	83	68	251	203
Total	$ 534	$ 482	$ 1,597	$ 1,450

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	$ –	$ 1,838	$ 1,838
Other postretirement benefits	134	55	189
Total	$ 134	$ 1,893	$ 2,027

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 5.32 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 $10 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.

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 had no Level 2 assets or liabilities measured at fair value.

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.

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

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

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

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. 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	$ 11,259	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

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:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 10,159	$ –	$ –	$ 10,159	$ 10,159	$ (1,524)
Other property owned	965	–	–	1,100	1,100	7
Nonrecurring Assets	$ 11,124	$ –	$ –	$ 11,259	$ 11,259	$ (1,517)
Other Financial Instruments						
Assets:						
Cash	$ 3,411	$ 3,411	$ –	$ –	$ 3,411	
Investment securities, held-to-maturity	13,435	–	–	13,020	13,020	
Loans	1,351,949	–	–	1,323,301	1,323,301	
Other Assets	$ 1,368,795	$ 3,411	$ –	$ 1,336,321	$ 1,339,732	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,195,771	$ –	$ –	$ 1,161,898	$ 1,161,898	
Other Liabilities	$ 1,195,771	$ –	$ –	$ 1,161,898	$ 1,161,898	

	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:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 21,275	$ –	$ –	$ 21,275	$ 21,275	$ (10,658)
Other property owned	53	–	–	58	58	(5)
Nonrecurring Assets	$ 21,328	$ –	$ –	$ 21,333	$ 21,333	$ (10,663)
Other Financial Instruments						
Assets:						
Cash	$ 4,551	$ 4,551	$ –	$ –	$ 4,551	
Investment securities, held-to-maturity	11,063	–	–	12,018	12,018	
Loans	1,339,974	–	–	1,331,861	1,331,861	
Other Assets	$ 1,355,588	$ 4,551	$ –	$ 1,343,879	$ 1,348,430	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,203,825	$ –	$ –	$ 1,196,401	$ 1,196,401	
Other Liabilities	$ 1,203,825	$ –	$ –	$ 1,196,401	$ 1,196,401	

NOTE 8 – 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 $15,550 which will be recorded in October 2013 as patronage refunds from other Farm Credit institutions.