

# SECOND QUARTER 2013

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## CERTIFICATION

The undersigned certify that we have reviewed the June 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

August 7, 2013

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*AgCredit 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 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.



Neil L. Jordan  
Chief Executive Officer



Daniel E. Ebert  
Chief Financial Officer

August 7, 2013

# 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 six months ended June 30, 2013. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements, the Association's June 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 six 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 constitute about 72 percent of the entire portfolio as of June 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 June 30, 2013 the Association had \$444,978 of guaranteed loan volume, which is 33.35 percent of loans as compared to \$427,793 of guaranteed volume or 34.82 percent of the portfolio at June 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 June 30, 2013 was \$1,334,284, a decrease of \$44,542 or 3.23 percent as compared to \$1,378,826 at December 31, 2012. The decrease in loan volume is related to the normal, seasonal 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. From June 30, 2012 to June 30, 2013 volume increased by \$105,824 or 8.61 percent.

Net loans outstanding at June 30, 2013 were \$1,317,077 as compared to \$1,361,249 at December 31, 2012. Net loans accounted for 95.84 percent of total assets at June 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):

	<u>6/30/13</u>	<u>12/31/12</u>
Nonaccrual loans	\$ 28,088	\$ 32,024
Restructured loans	-	16
Accruing loans 90 days or more past due	-	98
Total high risk loans	28,088	32,138
Other property owned	1,174	53
Total high-risk assets	<u>\$ 29,262</u>	<u>\$ 32,191</u>
Ratios:		
Nonaccrual loans to total loans	2.11%	2.32%
High-risk assets to total assets	2.13%	2.26%

High risk assets decreased during the first six months of 2013 primarily as a result of payoffs of and payments on loans in nonaccrual status. Other property owned (OPO) increased as a result of the transfers from nonaccrual status loans 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 slightly during the first six months of 2013 and remains strong.

Credit administration is satisfactory.

During the first six months of 2013 the Association recorded charge offs of \$370 and did not record a provision for loan losses. For the same period of 2012, the Association recorded charge offs of \$68, a \$1 recovery and did not record a provision for loan losses. The allowance for loan losses represented 1.29 percent and 1.27 percent of loans at June 30, 2013 and December 31, 2012, respectively.

## RESULTS OF OPERATIONS

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

Net income for the three months ended June 30, 2013 (Q2 2013) was \$8,437, a decrease of \$960 or 10.22 percent when compared to the net income of \$9,397 for the same period in 2012 (Q2 2012). Major changes in the components of net income when comparing Q2 2013 to Q2 2012 are identified as follows:

- No provision for loan losses was recorded in Q2 2013 or Q2 2012.
- Net interest income increased by \$390 or 4.45 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 \$817 or 20.83 percent for the following reasons:

No Farm Credit System Insurance Corporation (FCSIC) refund was received in Q2 2013 and \$972 was received in Q2 2012.

Equity in earnings of AgFirst Farm Credit Bank (the Bank) increased by \$236 as a result of the increase in the Association's average note payable balance with the Bank and is partially offset by a decrease 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 \$58 primarily due to reduced loan servicing fee income. Fees for financially related services decreased by \$21 due to lower multi-peril crop insurance and appraisal income.

- Noninterest expense increased by \$541 or 16.70 percent primarily due to:  
Salary and benefits expense increased by \$141 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 increased by \$32 due to increased depreciation and maintenance expenses. Insurance premium expenses increased by \$108 due to increased premium rates and increased loan volume offset in part by higher guaranteed loan volume. Guarantee fees increased by \$193 due to higher initial USDA and FSA guarantee fees paid in Q2 2013 as compared to Q2 2012. Other operating expenses increased by \$67 primarily as a result of higher expenses for professional services, advertising, public member relations, travel and training.
- The provision for income taxes was \$39 and \$47 for Q2 2013 and Q2 2012, respectively.

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

Net income for the six months ended June 30, 2013 (YTD 2013) was \$16,041, which is a decrease of \$775 or 4.61 percent when compared to the net income of \$16,816 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 \$614 or 3.51 percent. The increase is a result of the same reasons previously discussed.
- The risks identified in the portfolio at June 30, 2013 and June 30, 2012 resulted in no provision for loan losses entry for YTD 2013 or YTD 2012.
- Noninterest income decreased by \$813 or 12.87 percent primarily due to the \$972 decrease in FCSIC refund and the \$201 decrease in loan fees partially offset by the equity in earnings of AgFirst Farm Credit Bank of \$368 for reasons previously discussed.
- Noninterest expense increased by \$583 or 8.47 percent. Salary and benefits expense increased by \$449, insurance premium expenses increased by \$216 and other operating expenses increase by \$93 for the reasons previously discussed. Guarantee fees decreased by \$227 due to the lack of FSA loan guarantee funding.
- The provision for income taxes was \$79 and \$86 for YTD 2013 and YTD 2012, respectively.

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

	6/30/13	6/30/12
Return on average assets	2.41%	2.73%
Return on average equity	15.53%	17.29%
Net interest margin	2.83%	2.91%
Members' equity to assets	15.73%	16.10%
Debt to members' equity (:1)	5.36%	5.21

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 \$216,131 at June 30, 2013 as compared to \$200,103 at December 31, 2012 for an increase of \$16,028 or 8.01 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 June 30, 2013, the Association's permanent capital, total surplus and core surplus ratios equaled 20.44 percent, 18.49 percent and 16.39 percent, respectively.

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## REGULATORY MATTERS

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

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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**Note:** 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](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 Quarterly and Annual Reports are available on the Association’s website, [www.agcredit.net](http://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

<i>(dollars in thousands)</i>	<b>June 30, 2013</b> <i>(unaudited)</i>	<b>December 31, 2012</b> <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 1,263	\$ 4,551
Investment securities:		
Held to maturity (fair value of \$10,771 and \$12,018, respectively)	10,990	11,063
Loans	1,334,284	1,378,826
Less: allowance for loan losses	17,207	17,577
Net loans	1,317,077	1,361,249
Accrued interest receivable	18,723	17,450
Investments in other Farm Credit institutions	14,668	14,668
Premises and equipment, net	4,242	4,143
Other property owned	1,174	53
Due from AgFirst Farm Credit Bank	4,427	10,807
Other assets	1,653	1,959
Total assets	\$ 1,374,217	\$ 1,425,943
<b>Liabilities</b>		
Notes payable to AgFirst Farm Credit Bank	\$ 1,143,405	\$ 1,203,825
Accrued interest payable	2,195	2,243
Patronage refunds payable	240	9,413
Advanced conditional payments	3,397	1,245
Other liabilities	8,849	9,114
Total liabilities	1,158,086	1,225,840
Commitments and contingencies		
<b>Members' Equity</b>		
Capital stock and participation certificates	18,626	18,285
Retained earnings		
Allocated	119,945	119,997
Unallocated	77,560	61,821
Total members' equity	216,131	200,103
Total liabilities and members' equity	\$ 1,374,217	\$ 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)*

<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>				
Investment securities	\$ 147	\$ 124	\$ 296	\$ 235
Loans	15,549	15,076	30,772	30,223
Total interest income	15,696	15,200	31,068	30,458
<b>Interest Expense</b>				
Notes payable to AgFirst Farm Credit Bank	6,546	6,440	12,986	12,990
Net interest income	9,150	8,760	18,082	17,468
Provision for loan losses	—	—	—	—
Net interest income after provision for loan losses loan losses	9,150	8,760	18,082	17,468
<b>Noninterest Income</b>				
Loan fees	97	155	197	398
Fees for financially related services	12	33	40	80
Patronage refunds from other Farm Credit institutions	3,007	2,771	5,206	4,838
Gains (losses) on other property owned, net	(12)	(5)	(11)	(13)
Gains (losses) on sales of premises and equipment, net	1	—	8	1
Insurance Fund refunds	—	972	—	972
Other noninterest income (loss)	1	(3)	64	41
Total noninterest income	3,106	3,923	5,504	6,317
<b>Noninterest Expense</b>				
Salaries and employee benefits	2,308	2,167	4,780	4,331
Occupancy and equipment	224	192	443	391
Insurance Fund premiums	192	84	384	168
Guarantee fees	477	284	616	843
Other operating expenses	579	512	1,243	1,150
Total noninterest expense	3,780	3,239	7,466	6,883
Income before income taxes	8,476	9,444	16,120	16,902
Provision for income taxes	39	47	79	86
Net income	8,437	9,397	16,041	16,816
Other comprehensive income	—	—	—	—
Comprehensive income	\$ 8,437	\$ 9,397	\$ 16,041	\$ 16,816

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

Ag Credit Agricultural Credit Association

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

<i>(dollars in thousands)</i>	<b>Capital Stock and Participation Certificates</b>	<b>Retained Earnings</b>		<b>Total Members' Equity</b>
		<b>Allocated</b>	<b>Unallocated</b>	
Balance at December 31, 2011	\$ 17,577	\$ 109,753	\$ 60,109	\$ 187,439
Comprehensive income			16,816	16,816
Capital stock/participation certificates issued/(retired), net	677			677
Dividends declared/paid			(101)	(101)
Retained earnings retired		(30)		(30)
Patronage distribution adjustment		(69)	(74)	(143)
Balance at June 30, 2012	<u>\$ 18,254</u>	<u>\$ 109,654</u>	<u>\$ 76,750</u>	<u>\$ 204,658</u>
Balance at December 31, 2012	\$ 18,285	\$ 119,997	\$ 61,821	\$ 200,103
Comprehensive income			16,041	16,041
Capital stock/participation certificates issued/(retired), net	341			341
Dividends declared/paid			(95)	(95)
Retained earnings retired		(12)		(12)
Patronage distribution adjustment		(40)	(207)	(247)
Balance at June 30, 2013	<u>\$ 18,626</u>	<u>\$ 119,945</u>	<u>\$ 77,560</u>	<u>\$ 216,131</u>

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



# Notes to the Consolidated Financial Statements

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

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

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

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

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

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

### **Recently Issued Accounting Pronouncements**

In February 2013 the FASB issued Accounting Standards Update (ASU) 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date," which addresses the recognition, measurement and disclosure of certain obligations including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The amendments are to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the Update's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it

changed its accounting as a result of adopting the amendments in the Update) and should disclose that fact. The amendments are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. Early application is permitted. It is not anticipated the adoption of this guidance will have a material impact on the Association's financial condition or results of operations but will result in additional disclosures.

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

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

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

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

## NOTE 2 – INVESTMENT SECURITIES

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

	June 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	\$ 10,990	\$ 346	\$ (565)	\$ 10,771	5.34%

  

	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 at June 30, 2013 follows:

	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	10,990	10,771	5.34
Total	\$ 10,990	\$ 10,771	5.34%

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

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

	June 30, 2013			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission related Investments	\$ 5,690	\$ (358)	\$ 1,251	\$ (207)

	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)	\$ -	\$ -

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify any future possible loss of principal or interest due on each security identified for additional analysis. Factors considered in determining whether an impairment is other-than-temporary include among others as applicable: 1) the length of time and the extent to which the fair value is less than cost, 2) adverse conditions specifically related to the industry, 3) geographic area and the condition of the underlying collateral, 4) payment structure of the security, 5) ratings by rating agencies, 6) the credit worthiness of bond insurers, and 7) volatility of the fair value changes. Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment in connection with its investment securities. The Association has the ability and intent to hold these investments until maturity and at this time expects to collect the full principal amount and interest due on these securities. The Association does not intend to sell these investments and it is not likely that the Association would be required to sell these investments before recovering its costs.

**NOTE 3– LOANS AND ALLOWANCE FOR LOAN LOSSES**

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

	June 30, 2013	December 31, 2012
Real estate mortgage	\$ 674,550	\$ 695,182
Production and intermediate-term	423,895	493,971
Agribusiness		
Processing and marketing	12,099	12,846
Farm-related business	18,032	19,334
Total agribusiness	30,131	32,180
Rural residential real estate	202,931	155,436
Lease receivables	2,777	2,057
<b>Total Loans</b>	<b>\$ 1,334,284</b>	<b>\$ 1,378,826</b>

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

	June 30, 2013							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	\$ -	\$ 7,165	\$ -	\$ 618	\$ -	\$ -	\$ -	\$ 7,783
Production and intermediate-term	3,117	58,500	2,258	205	-	-	5,375	58,705
Agribusiness								
Processing and marketing	2,013	556	4,815	-	1,950	-	8,778	556
Total agribusiness	2,013	556	4,815	-	1,950	-	8,778	556
Lease receivables	-	-	538	-	-	-	538	-
<b>Total</b>	<b>\$ 5,130</b>	<b>\$ 66,221</b>	<b>\$ 7,611</b>	<b>\$ 823</b>	<b>\$ 1,950</b>	<b>\$ -</b>	<b>\$ 14,691</b>	<b>\$ 67,044</b>

	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
Agribusiness								
Processing and marketing	724	1,112	5,291	-	3,900	-	9,915	1,112
Total agribusiness	724	1,112	5,291	-	3,900	-	9,915	1,112
<b>Total</b>	<b>\$ 6,128</b>	<b>\$ 84,907</b>	<b>\$ 8,626</b>	<b>\$ -</b>	<b>\$ 3,900</b>	<b>\$ -</b>	<b>\$ 18,654</b>	<b>\$ 84,907</b>

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 11.17 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	\$ 15,750	\$ 49,920	\$ 608,880	\$ 674,550
Production and intermediate-term	123,634	191,559	108,702	423,895
Agribusiness				
Processing and marketing	6,479	1,824	3,796	12,099
Farm-related business	1,254	3,053	13,725	18,032
Total agribusiness	7,733	4,877	17,521	30,131
Rural residential real estate	1,943	8,617	192,371	202,931
Lease receivables	20	2,156	601	2,777
<b>Total loans</b>	<b>\$ 149,080</b>	<b>\$ 257,129</b>	<b>\$ 928,075</b>	<b>\$ 1,334,284</b>



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	\$ 6,420	\$ 6,826
Production and intermediate-term	20,481	24,382
Agribusiness		
Farm-related business	416	437
Total agribusiness	416	437
Rural residential real estate	771	379
Total nonaccrual loans	<u>\$ 28,088</u>	<u>\$ 32,024</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ -	\$ 16
Total accruing restructured loans	<u>\$ -</u>	<u>\$ 16</u>
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ -	-
Production and intermediate-term	-	98
Total accruing loans 90 days or more past due	<u>\$ -</u>	<u>\$ 98</u>
Total nonperforming loans	\$ 28,088	\$ 32,138
Other property owned	1,174	53
Total nonperforming assets	<u>\$ 29,262</u>	<u>\$ 32,191</u>
Nonaccrual loans as a percentage of total loans	2.11%	2.32%
Nonperforming assets as a percentage of total loans and other property owned	2.19%	2.33%
Nonperforming assets as a percentage of capital	<u>13.54%</u>	<u>16.09%</u>

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
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 1,505	\$ 14,603
Past due	26,583	17,421
Total impaired nonaccrual loans	<u>28,088</u>	<u>32,024</u>
<b>Impaired accrual loans:</b>		
Restructured	-	16
90 days or more past due	-	98
Total impaired accrual loans	<u>-</u>	<u>114</u>
Total impaired loans	<u>\$ 28,088</u>	<u>\$ 32,138</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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Production and intermediate-term Agribusiness	20,232	20,628	10,853	21,547	110	22,521	112
Farm-related business	416	454	200	443	2	463	2
Total agribusiness	416	454	200	443	2	463	2
Rural residential real estate	476	512	147	507	3	530	3
Total	\$ 21,124	\$ 21,594	\$ 11,200	\$ 22,497	\$ 115	\$ 23,514	\$ 117
<b>Impaired loans with no related allowance for credit losses:</b>							
Real estate mortgage	\$ 6,420	\$ 6,565	\$ -	\$ 6,837	\$ 35	\$ 7,146	\$ 36
Production and intermediate-term Agribusiness	249	226	-	266	2	278	1
Farm-related business	-	-	-	-	-	-	-
Total agribusiness	-	-	-	-	-	-	-
Rural residential real estate	295	321	-	314	1	328	1
Total	\$ 6,964	\$ 7,112	\$ -	\$ 7,417	\$ 38	\$ 7,752	\$ 38
<b>Total impaired loans:</b>							
Real estate mortgage	\$ 6,420	\$ 6,565	\$ -	\$ 6,837	\$ 35	\$ 7,146	\$ 36
Production and intermediate-term Agribusiness	20,481	20,854	10,853	21,813	112	22,799	113
Farm-related business	416	454	200	443	2	463	2
Total agribusiness	416	454	200	443	2	463	2
Rural residential real estate	771	833	147	821	4	858	4
Total	\$ 28,088	\$ 28,706	\$ 11,200	\$ 29,914	\$ 153	\$ 31,266	\$ 155

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

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	Rural Residential Real Estate	Lease Receivables	Total
<b>Allowance for credit losses:</b>						
Balance at March 31, 2013	\$ 869	\$ 14,669	\$ 1,121	\$ 897	\$ 9	\$ 17,565
Charge-offs	-	(358)	-	-	-	(358)
Recoveries	-	-	-	-	-	-
Provision for loan losses	(172)	528	(250)	(104)	(2)	-
Balance at June 30, 2013	\$ 697	\$ 14,839	\$ 871	\$ 793	\$ 7	\$ 17,207
Balance at December 31, 2012	\$ 893	\$ 14,850	\$ 1,160	\$ 670	\$ 4	\$ 17,577
Charge-offs	-	(358)	-	(12)	-	(370)
Recoveries	-	-	-	-	-	-
Provision for loan losses	(196)	347	(289)	135	3	-
Balance at June 30, 2013	\$ 697	\$ 14,839	\$ 871	\$ 793	\$ 7	\$ 17,207
Balance at March 31, 2012	\$ 1,142	\$ 8,363	\$ 1,046	\$ 336	\$ 4	\$ 10,891
Charge-offs	-	(42)	(1)	-	-	(43)
Recoveries	-	1	-	-	-	1
Provision for loan losses	(689)	921	(300)	64	4	-
Balance at June 30, 2012	\$ 453	\$ 9,243	\$ 745	\$ 400	\$ 8	\$ 10,849
Balance at December 31, 2011	\$ 1,368	\$ 8,261	\$ 931	\$ 353	\$ 4	\$ 10,917
Charge-offs	-	(42)	(1)	(26)	-	(69)
Recoveries	-	1	-	-	-	1
Provision for loan losses	(915)	1,023	(185)	73	4	-
Balance at June 30, 2012	\$ 453	\$ 9,243	\$ 745	\$ 400	\$ 8	\$ 10,849
Loans individually evaluated for impairment	\$ -	\$ 10,853	\$ 200	\$ 147	\$ -	\$ 11,200
Loans collectively evaluated for impairment	697	3,986	671	646	7	6,007
Balance at June 30, 2013	\$ 697	\$ 14,839	\$ 871	\$ 793	\$ 7	\$ 17,207
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
<b>Recorded investment in loans outstanding:</b>						
Loans individually evaluated for impairment	\$ 6,420	\$ 20,481	\$ 416	\$ 771	\$ -	\$ 28,088
Loans collectively evaluated for impairment	679,842	409,153	29,977	203,056	2,777	1,324,805
Balance at June 30, 2013	\$ 686,262	\$ 429,634	\$ 30,393	\$ 203,827	\$ 2,777	\$ 1,352,893
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

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 six month periods ended June 30, 2013 or 2012.

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	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Real estate mortgage	\$ -	\$ 15	\$ -	\$ -
Production and intermediate-term	455	696	455	696
Total Loans	\$ 455	\$ 711	\$ 455	\$ 696

At June 30, 2013 and December 31, 2012, there were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings.

#### NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Pension	\$ 355	\$ 328	\$ 710	\$ 655
401 (k)	92	89	185	178
Other postretirement benefits	84	67	168	135
Total	\$ 531	\$ 484	\$ 1,063	\$ 968

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

	Actual YTD Through 6/30/13	Projected Contributions For Remainder of 2013	Projected Total Contributions 2013
	Pension	\$ -	\$ 1,823
Other postretirement benefits	89	101	190
Total	\$ 89	\$ 1,924	\$ 2,013

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

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

#### NOTE 5 – COMMITMENTS AND CONTINGENT LIABILITIES

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On the basis of information presently available, management

and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association.

#### NOTE 6 – FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 5.36 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 \$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. 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.

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

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

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

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

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

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

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

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

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

#### Investment Securities

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

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

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

#### Other Property Owned/Impaired Loans

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

#### Inputs to Valuation Techniques

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

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

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

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Mission Related Investments	\$ 10,771	Discounted cash flow	Risk adjusted spread	2.00%-8.25%
Impaired loans and other property owned	\$ 18,214	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
Investment securities, held-to-maturity	Discounted cash flow	Probability of default Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment rates Probability of default Loss severity Annualized volatility

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

<b>At or for the Six Months Ended June 30, 2013</b>						
	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Fair Value Effects On Earnings</b>
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 16,888	\$ -	\$ -	\$ 16,888	\$ 16,888	\$ (708)
Other property owned	1,174	-	-	1,326	1,326	3
Nonrecurring Assets	\$ 18,062	\$ -	\$ -	\$ 18,214	\$ 18,214	\$ (705)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 1,263	\$ 1,263	\$ -	\$ -	\$ 1,263	
Investment securities, held-to-maturity	10,990	-	-	10,771	10,771	
Loans	1,300,189	-	-	1,267,594	1,267,594	
Other Assets	\$ 1,312,442	\$ 1,263	\$ -	\$ 1,278,365	\$ 1,279,628	
<b>Liabilities:</b>						
Notes payable to AgFirst Farm Credit Bank	\$ 1,143,405	\$ -	\$ -	\$ 1,101,280	\$ 1,101,280	
Other Liabilities	\$ 1,143,405	\$ -	\$ -	\$ 1,101,280	\$ 1,101,280	

<b>At or for the Year Ended December 31, 2012</b>						
	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>	<b>Fair Value Effects On Earnings</b>
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Recurring Assets	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Liabilities:</b>						
Recurring Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
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)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
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	
<b>Liabilities:</b>						
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	

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**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.