## ArborOne, ACA

# THIRD QUARTER 2013

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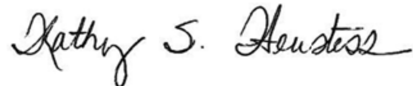
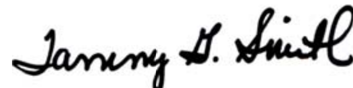
### CERTIFICATION

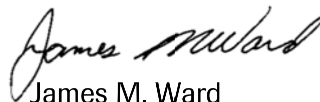
The undersigned certify that we have reviewed the September 30, 2013 quarterly report of **ArborOne, ACA**, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information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



Kathy S. Heustess
President and Chief Executive Officer



Tammy G. Smith
Chief Financial Officer



James M. Ward
Chairman of the Board

November 7, 2013

## ArborOne, ACA

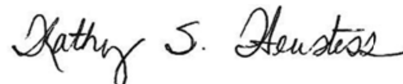
# Report on Internal Control Over Financial Reporting

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

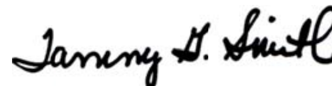
Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of September 30, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



Kathy S. Heustess
President and Chief Executive Officer



Tammy G. Smith
Chief Financial Officer

November 7, 2013

# ArborOne, ACA

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

*(dollars in thousands)*

The following commentary reviews the financial condition and results of operations of **ArborOne, ACA**, (the Association) for the period ended September 30, 2013. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2012 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

**SIGNIFICANT EVENTS**

As of September 30, 2013, Agfirst Farm Credit Bank (the Bank) declared a special patronage distribution in the amount of $275, which was received in second quarter 2013.

On October 21, 2013, the AgFirst's Board of Directors declared a special patronage distribution in the amount of $5,499. See Note 10 "Subsequent Events".

**LOAN PORTFOLIO**

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including tobacco, cash grains, poultry, swine and forestry. Farm size varies and many of the borrowers in the region have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, somewhat impact the level of dependency on a given commodity. Approximately twenty-one percent of the portfolio has significant outside income to diversify dependence on agriculture, consisting of lifestyle loans and loans to less than full-time farmers with retirement income, salaried income and non-agricultural business income. Further, approximately eighteen percent of the assets carry federal guarantees as a risk management tool.

The gross loan volume of the Association as of September 30, 2013, was $333,128, an increase of $34,343 as compared to $298,785 at December 31, 2012. Net loans outstanding at September 30, 2013, were $328,501 as compared to $294,073 at December 31, 2012. During the nine months ended September 30, 2013, the Association's sold participations to the Bank through the capitalized participation pools (CPP) program decreased by $30,002. As of September 30, 2013, the Association had $66,709 of such participations outstanding. The Association had investment securities classified as available-for-sale in the amount of $45,472 at September 30, 2013 compared to $53,492 at December 31, 2012. The Association entered into commitments to acquire Successor-in-Interest Contracts (SIIC), beginning in the fourth quarter of 2005. As of September 30, 2013, the Association had $22,985 in other investments for SIIC, compared to $45,553 at December 31, 2012. Net loans and investments accounted for 91.94 percent of total assets at September 30, 2013, as compared to 90.57 percent of total assets at December 31, 2012.

Net loans and investments increased by $3,840 during the reporting period. This was primarily due to an increase in the originated loan volume and a decrease in participations sold loan volume. This increase was partially offset by a decrease in participations purchased loan volume, a decrease in nonaccrual loan volume, the annual payments on the SIIC contracts, and the decrease in fair values as well as normal payments on the investment securities available-for-sale. The increase in originated loan volume is attributed to an increased concentration in our 12 county territory. The decrease in participation sold volume is mainly due to reduced participation in the CPP program as a result of adequate capital levels. The decrease in nonaccrual loan volume is mainly due to a large participation loan and a core agricultural loan moving out of nonaccrual status and into other property owned (OPO), which was partially offset by several core agricultural loans moving into nonaccrual status. The decrease in participation purchased loan volume is attributed to payments along with tightening lending policies which has strengthened the Association's capital position.

Investment securities available-for-sale consist of mission related investments (Rural America Bonds) which decreased by $8,020 when compared to December 31, 2012. The decrease in the investment securities available-for-sale is due mainly to the change in the unrealized loss in the amount of $5,565 which is largely a result of rising interest rates. In addition, there was a payoff on one bond along with normal paydowns totaling $2,469, and net amortization of fees of $6 on one Rural America bond. These decreases were partially offset by advances of $313 on an existing Rural America Bond.

The Association has six Rural America Bonds that are ineligible investments. During the second quarter of 2013, a credit impairment in the amount of $292 was taken on two ineligible bonds. During the third quarter of 2013, a USDA guarantee was received on a Series C issue of one of the ineligible bonds.

The other investments for SIIC decreased by $22,568 in January of 2013 due to the annual payment on the contracts.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual loans decreased from $5,622 at December 31, 2012, to $3,918 at September 30, 2013. This was mainly due to the transfer of a large participation loan and a few core agricultural loans out of nonaccrual status and into OPO, as well as the payoff of several nonaccrual core agricultural loans, and the transfer of a core agricultural loan into accruing status. This decrease was partially offset by the transfer of several core agricultural loans into nonaccrual status.

As of September 30, 2013, the Association has eight properties classed as OPO totaling $8,075, an increase of $634 as compared to $7,441 at December 31, 2012. The increase was due to a large participation account and a couple of core agricultural accounts transferring out of nonaccrual status and into OPO, which was partially offset by the sale of a core account and the partial sale of a large participation account. Association staff is working diligently to market the OPO properties.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on credit quality, current conditions, and expected future conditions. The allowance for loan losses at September 30, 2013, was $4,627, compared to $4,712 at December 31, 2012. The $4,627 allowance for loan losses consisted of $4,345 in general reserves and $282 in specific reserves for two core agricultural loans. There were recoveries of $28 for the nine months ended September 30, 2013 attributed to both core agricultural and participation loans. The charge-offs for the nine months ended September 30, 2013 were $463 which consisted of mainly one participated loan. The allowance for loan losses for the period ending September 30, 2013 is considered by management to be adequate to cover any future possible losses.

## RESULTS OF OPERATIONS

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

Net income for the three months ended September 30, 2013, totaled $2,825, an increase of $594, as compared to $2,231 for the same period in 2012.

Interest income on accruing loans increased by $364 for the three months ended September 30, 2013 compared to $3,849 for the three months ended September 30, 2012. Nonaccrual interest income increased by $4 as compared to the same period in 2012, which was mainly due to nonaccrual interest income recognized on a couple of core agricultural nonaccrual loans that liquidated in the second quarter of 2013. Interest income on investment securities was $681 compared to $767 for the same period in 2012. Interest income on other investments (SIIC) was $270 for the three months ended September 30, 2013, and $524 for the same period in 2012. The increase in interest income is primarily due to the decrease in participations sold volume. This increase was partially offset by a decrease in originated loan volume, a decrease in SIIC volume, and a decrease in investment securities available-for-sale.

Interest expense decreased $233 for the three months ended September 30, 2013, as compared to the comparable period of 2012. The interest expense decrease was primarily due to a reduction in nonaccrual loan volume and a decrease in SIIC volume, as well as a reduction in rates. This reduction was partially offset by the decrease in participation sold volume.

The Association recorded a reversal of allowance for loan losses of $319 as compared to a provision for loan losses of $334 for the comparable period of 2012.

Noninterest income for the three months ended September 30, 2013, totaled $2,015 as compared to $2,349 for the same period of 2012, a decrease of $334. The decrease is mainly due to the decrease in loan fees of $31, a decrease in fees for financially related services of $43, a decrease in patronage refunds from other Farm Credit institutions of $757, a decrease in gains on sales of premises and equipment of $2, and a decrease in other income of $29. This decrease in income was partially offset by a decrease in losses on other property owned of $370, and a decrease in the net impairment losses on investment securities available-for-sale of $158.

Noninterest expense for the three months ended September 30, 2013, decreased $8 compared to the same period of 2012. The decrease was primarily due to a decrease in salaries and employee benefits of $66. This decrease was partially offset by an increase in occupancy and equipment of $5, an increase in insurance fund premiums of $29, and an increase in other operating expenses of $24. The Association

recorded a provision for income taxes in the amount of $3 for the three months ended September 30, 2013 as compared to $13 for the same period in 2012.

***For the nine months ended September 30, 2013***

Net income for the nine months ended September 30, 2013, totaled $6,630, as compared to $10,350 for the same period in 2012. This was mainly due to an increase in the provision of $1,380, and the nonrecurring 2012 income events of nonaccrual interest income in the amount of $588 and the FCSIC refund in the amount of $369.

Interest income on investment securities and other investments (SIIC) decreased by $923 due to the annual payments on the SIIC contracts as well as normal payments on the investment securities available-for-sale. Interest income on loans increased by $806 primarily due to the decrease in participation sold volume through the CPP program. Interest expense decreased by $655 compared to the same period of 2012. This decrease in interest expense was attributed to a decrease in SIIC volume, a decrease in investment securities available-for-sale, a decrease in nonaccrual loan volume, as well as a reduction in rates, which was partially offset by the decrease in participation sold volume. The change in net interest income is mainly a result of a reduction in interest expense.

The Association recorded a provision for loan losses of $350 for the nine months ended September 30, 2013, as compared to a reversal of allowance for loan losses of $1,030 for the same period in 2012.

Noninterest income for the nine months ended September 30, 2013, totaled $5,846 as compared to $8,747 for the same period of 2012, a decrease of $2,901. The decrease is primarily due to a decrease in loan fees of $241, a decrease in fees for financially related services of $22, a decrease in patronage refunds from other Farm Credit institutions of $2,145, an increase in net loss on OPO of $31, an increase in realized loss on investments of $121, and a decrease in a nonrecurring payment from 2012 of $369 representing insurance premium refunds FCSIC. The decrease was partially offset by an increase in the net gains on sales of premises and equipment of $6, and an increase in other noninterest income of $22.

Noninterest expense for the nine months ended September 30, 2013, decreased $13 compared to the same period of 2012. This decrease is attributable to a decrease in salaries and employee benefits of $348. The decrease in noninterest expense was partially offset by an increase in occupancy and equipment of $27 and insurance fund premiums of $82, and other operating expenses of $226. The Association recorded a provision for income taxes in the amount of $3 for the nine months ended September 30, 2013, as compared to $13 for the comparable period in 2012.

## FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2013, was $343,786 as compared to $342,261 at December 31, 2012. The increase during the period is primarily attributable to an increase in net loan volume resulting mainly from a decrease in participations sold volume. This increase in total notes payable was partially offset by a decrease in SIIC volume, a decrease in participations purchased volume, a decrease in nonaccrual loan volume, and a decrease in investment securities available-for-sale.

In September 2008, the Association issued $7,500 of fixed rate unsecured subordinated debt due in 2018, generating proceeds that were primarily used to increase the permanent capital of the Association pursuant to the Farm Credit Administration regulations, and for general corporate purposes. The debt is payable to another association in the Farm Credit System (System). It is subordinate to all other categories of creditors, including any claims of the Bank and general creditors, and is senior to all classes of shareholders. The subordinated debt is not considered System debt, and thus is not guaranteed by the System and not insured by the Farm Credit System Insurance Corporation.

On October 15, 2013, the Association redeemed in full its subordinated debt. Refer to Note 5 "Subordinated Debt" and Note 10 "Subsequent Events" for additional information.

## CAPITAL RESOURCES

Total members' equity at September 30, 2013, increased to $74,055 from the December 31, 2012, total of $73,022. The increase is primarily attributable to an increase in retained earnings and is partially offset by a decrease in other comprehensive income.

Total capital stock and participation certificates were $1,309 on September 30, 2013, compared to $1,315 on December 31, 2012. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business and the annual retirement of B stock.

The Association reports other comprehensive income (loss) (OCI) in its Consolidated Statements of Changes in Members' Equity. The Association has an unrealized loss of $214 as of September 30, 2013, as compared to an unrealized loss of $219 as of December 31, 2012 for FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The Association also has an unrealized gain of $283 as of September 30, 2013 as compared to an unrealized gain of $5,848 as of December 31, 2012 on investments available-for-sale. The resulting effect was a net loss of $5,560 to Accumulated Other Comprehensive Income for the nine months ending September 30, 2013. This net loss to Accumulated Other Comprehensive Income is attributed mostly to rising interest rates which adversely affect the market values of Rural America Bonds in the investment securities available-for-sale portfolio.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2013, the Association's total surplus ratio and core surplus ratio were 19.29 percent and 17.03 percent, respectively, and the permanent capital ratio was 19.69 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

## 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.

## REGULATORY MATTERS

For the nine months ended September 30, 2013, the FCA took no enforcement action against the Association.

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**NOTE**: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, ***www.agfirst.com***. Copies of the Association's Annual and Quarterly reports are also available upon request free of charge by calling 1-800-741-7332, writing Sarah Jackson, Corporate Secretary, ArborOne, ACA, P.O. Box 3699, Florence, SC 29502, or accessing the website, ***www.arborone.com***. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

ArborOne, ACA

# Consolidated Balance Sheets

| (dollars in thousands) | September 30, 2013 | December 31, 2012 |
|---|---|---|
| | (unaudited) | (audited) |
| **Assets** | | |
| Cash | $ 2 | $ 432 |
| Investment securities: | | |
| Available for sale (amortized cost of $45,190 and $47,644, respectively) | 45,472 | 53,492 |
| Loans | 333,128 | 298,785 |
| Less: allowance for loan losses | 4,627 | 4,712 |
| Net loans | 328,501 | 294,073 |
| Other investments | 22,985 | 45,553 |
| Accrued interest receivable | 5,318 | 4,051 |
| Investments in other Farm Credit institutions | 10,671 | 13,057 |
| Premises and equipment, net | 3,791 | 3,883 |
| Other property owned | 8,075 | 7,441 |
| Due from AgFirst Farm Credit Bank | 3,738 | 8,110 |
| Other assets | 3,210 | 3,971 |
| Total assets | $ 431,763 | $ 434,063 |
| **Liabilities** | | |
| Notes payable to AgFirst Farm Credit Bank | $ 343,786 | $ 342,261 |
| Subordinated debt payable to other Farm Credit institutions (Note 5) | 7,500 | 7,500 |
| Accrued interest payable | 819 | 936 |
| Patronage refunds payable | 347 | 2,428 |
| Other liabilities | 5,256 | 7,916 |
| Total liabilities | 357,708 | 361,041 |
| Commitments and contingencies | | |
| **Members' Equity** | | |
| Protected borrower stock | 90 | 118 |
| Capital stock and participation certificates | 1,219 | 1,197 |
| Retained earnings | | |
| Allocated | 43,870 | 43,392 |
| Unallocated | 28,807 | 22,686 |
| Accumulated other comprehensive income | 69 | 5,629 |
| Total members' equity | 74,055 | 73,022 |
| Total liabilities and members' equity | $ 431,763 | $ 434,063 |

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

ArborOne, ACA

# Consolidated Statements of Income

*(unaudited)*

| *(dollars in thousands)* | For the three months ended September 30, 2013 | For the three months ended September 30, 2012 | For the nine months ended September 30, 2013 | For the nine months ended September 30, 2012 |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Investment securities | $ 681 | $ 767 | $ 2,129 | $ 2,316 |
| Loans | 4,213 | 3,849 | 11,912 | 11,106 |
| Other investments | 270 | 524 | 876 | 1,612 |
| Total interest income | 5,164 | 5,140 | 14,917 | 15,034 |
| **Interest Expense** | | | | |
| Notes payable to AgFirst Farm Credit Bank | 2,438 | 2,671 | 7,106 | 7,761 |
| Subordinated debt payable to other Farm Credit institutions (Note 5) | 168 | 168 | 506 | 506 |
| Total interest expense | 2,606 | 2,839 | 7,612 | 8,267 |
| Net interest income | 2,558 | 2,301 | 7,305 | 6,767 |
| Provision for (reversal of allowance for) loan losses | (319) | 334 | 350 | (1,030) |
| Net interest income after provision for (reversal of allowance for) loan losses | 2,877 | 1,967 | 6,955 | 7,797 |
| **Noninterest Income** | | | | |
| Loan fees | 503 | 534 | 1,941 | 2,182 |
| Fees for financially related services | 479 | 522 | 554 | 576 |
| Patronage refunds from other Farm Credit institutions | 1,166 | 1,923 | 4,082 | 6,227 |
| Gains (losses) on other property owned, net | (137) | (507) | (540) | (509) |
| Gains (losses) on sales of premises and equipment, net | 4 | 6 | 13 | 7 |
| Total other-than-temporary impairment losses on investments | – | – | (371) | – |
| Portion of loss recognized in other comprehensive income (loss) | – | (158) | 79 | (171) |
| Net impairment losses on investments | – | (158) | (292) | (171) |
| Insurance Fund refunds | – | – | – | 369 |
| Other noninterest income | – | 29 | 88 | 66 |
| Total noninterest income | 2,015 | 2,349 | 5,846 | 8,747 |
| **Noninterest Expense** | | | | |
| Salaries and employee benefits | 1,390 | 1,456 | 4,136 | 4,484 |
| Occupancy and equipment | 152 | 147 | 452 | 425 |
| Insurance Fund premiums | 59 | 30 | 163 | 81 |
| Other operating expenses | 463 | 439 | 1,417 | 1,191 |
| Total noninterest expense | 2,064 | 2,072 | 6,168 | 6,181 |
| Income before income taxes | 2,828 | 2,244 | 6,633 | 10,363 |
| Provision for income taxes | 3 | 13 | 3 | 13 |
| Net income | $ 2,825 | $ 2,231 | $ 6,630 | $ 10,350 |

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

ArborOne, ACA

# Consolidated Statements of Comprehensive Income

*(unaudited)*

| *(dollars in thousands)* | For the three months ended September 30, 2013 | For the three months ended September 30, 2012 | For the nine months ended September 30, 2013 | For the nine months ended September 30, 2012 |
|---|---|---|---|---|
| Net income | $ 2,825 | $ 2,231 | $ 6,630 | $ 10,350 |
| **Other comprehensive income net of tax** | | | | |
| Unrealized gains (losses) on investments available for sale: | | | | |
| Other-than-temporarily impaired | (2) | 222 | (3) | 222 |
| Not other-than-temporarily impaired | (441) | 726 | (5,562) | (479) |
| Employee benefit plans adjustments | 2 | 1 | 5 | (9) |
| Other comprehensive income (loss) (Note 9) | (441) | 949 | (5,560) | (266) |
| Comprehensive income | $ 2,384 | $ 3,180 | $ 1,070 | $ 10,084 |

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

ArborOne, ACA

# Consolidated Statements of Changes in Members' Equity

*(unaudited)*

| *(dollars in thousands)* | Protected Borrower Stock | Capital Stock and Participation Certificates | Retained Earnings Allocated | Retained Earnings Unallocated | Accumulated Other Comprehensive Income | Total Members' Equity |
|---|---|---|---|---|---|---|
| Balance at December 31, 2011 | $ 150 | $ 1,192 | $ 37,166 | $ 21,452 | $ 6,386 | $ 66,346 |
| Comprehensive income | | | | 10,350 | (266) | 10,084 |
| Protected borrower stock retired | (16) | | | | | (16) |
| Capital stock/participation certificates issued/(retired), net | | 8 | | | | 8 |
| Patronage distribution adjustment | | | (103) | 118 | | 15 |
| Balance at September 30, 2012 | $ 134 | $ 1,200 | $ 37,063 | $ 31,920 | $ 6,120 | $ 76,437 |
| | | | | | | |
| Balance at December 31, 2012 | $ 118 | $ 1,197 | $ 43,392 | $ 22,686 | $ 5,629 | $ 73,022 |
| Comprehensive income | | | | 6,630 | (5,560) | 1,070 |
| Protected borrower stock retired | (28) | | | | | (28) |
| Capital stock/participation certificates issued/(retired), net | | 22 | | | | 22 |
| Patronage distribution adjustment | | | 478 | (509) | | (31) |
| Balance at September 30, 2013 | $ 90 | $ 1,219 | $ 43,870 | $ 28,807 | $ 69 | $ 74,055 |

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

## ArborOne, ACA

# Notes to the Consolidated Financial Statements

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

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

**Organization**

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

**Basis of Presentation**

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry.

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

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 available-for-sale 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 available-for-sale follows:

| | September 30, 2013 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| Mission-related Investments (a) | $ 45,190 | $ 1,754 | $ (1,472) | $ 45,472 | 6.00% |

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Yield |
| Mission related Investments | $ 47,644 | $ 6,104 | $ (256) | $ 53,492 | 5.96% |

*(a) Gross unrealized losses include non-credit related other-than-temporary impairment included in AOCI of $3.*

In August of 2012, the Association sold its one remaining non-agency CMO for proceeds of $486. Because the Association intended to sell the security, the entire difference of $158 between the investment’s amortized cost basis and its fair value was recognized as an other-than-temporary impairment in earnings.

The Association had no investment securities held-to-maturity at either reporting date. As of September 30, 2013, the Association’s available-for-sale portfolio consisted solely of mission related investments.

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities available-for-sale follows:

| | September 30, 2013 | | |
|---|---|---|---|
| | Amortized Cost | Fair Value | Weighted Average Yield |
| In one year or less | $ – | $ – | –% |
| After one year through five years | 940 | 925 | 5.00 |
| After five years through ten years | 1,510 | 1,431 | 5.53 |
| After ten years | 42,740 | 43,116 | 6.04 |
| Total | $ 45,190 | $ 45,472 | 6.00% |

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 | $ 16,696 | $ (786) | $ 3,610 | $ (686) |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Greater | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Mission-related Investments | $ 3,241 | $ (86) | $ 2,517 | $ (170) |

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.

Based on the results of all analyses, the Association has recognized credit-related other-than-temporary impairment of $292 for 2013, which is included in Impairment Losses on Investments in the Statements of Income. Since the Association does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total other-than temporary impairment is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

For all other impaired investments, the Association has not recognized any credit losses as the 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.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings.

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **Cumulative credit losses at beginning of period** | $ 292 | $ 331 | $ – | $ 318 |
| Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized | – | – | 292 | – |
| Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized | – | 158 | – | 171 |
| Reductions for securities sold | – | (432) | – | (432) |
| Reductions for incurred losses | – | (57) | – | (57) |
| **Cumulative credit losses at end of period** | $ 292 | $ – | $ 292 | $ – |

## 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 | $ 146,812 | $ 130,881 |
| Production and intermediate-term | 167,940 | 155,611 |
| Loans to cooperatives | 271 | 1,242 |
| Processing and marketing | 11,919 | 5,211 |
| Farm-related business | 4,084 | 3,778 |
| Energy and water/waste disposal | 754 | 754 |
| Rural residential real estate | 1,348 | 1,308 |
| Total Loans | $ 333,128 | $ 298,785 |

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 | $ 9,363 | $ 54,850 | $ 9,211 | $ 1,726 | $ 2,412 | $ – | $ 20,986 | $ 56,576 |
| Production and intermediate-term | 28,013 | 25,450 | 850 | – | – | – | 28,863 | 25,450 |
| Loans to cooperatives | 271 | – | – | – | – | – | 271 | – |
| Processing and marketing | 10,952 | 86 | 974 | – | – | – | 11,926 | 86 |
| Farm-related business | 268 | 106 | – | – | – | – | 268 | 106 |
| Total | $ 48,867 | $ 80,492 | $ 11,035 | $ 1,726 | $ 2,412 | $ – | $ 62,314 | $ 82,218 |

| | 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 | $ 11,784 | $ 69,025 | $ 9,888 | $ 1,913 | $ 2,919 | $ – | $ 24,591 | $ 70,938 |
| Production and intermediate-term | 32,758 | 46,245 | 1,000 | 913 | 8,380 | – | 42,138 | 47,158 |
| Loans to cooperatives | 1,241 | – | – | – | – | – | 1,241 | – |
| Processing and marketing | 1,764 | 113 | 1,032 | – | – | – | 2,796 | 113 |
| Farm-related business | 314 | 484 | – | – | – | – | 314 | 484 |
| Total | $ 47,861 | $ 115,867 | $ 11,920 | $ 2,826 | $ 11,299 | $ – | $ 71,080 | $ 118,693 |

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 | $ 7,768 | $ 38,714 | $ 100,330 | $ 146,812 |
| Production and intermediate-term | 68,262 | 55,403 | 44,275 | 167,940 |
| Loans to cooperatives | 271 | – | – | 271 |
| Processing and marketing | 1,827 | 6,326 | 3,766 | 11,919 |
| Farm-related business | 3,010 | 200 | 874 | 4,084 |
| Energy and water/waste disposal | 754 | – | – | 754 |
| Rural residential real estate | 2 | 320 | 1,026 | 1,348 |
| Total Loans | $ 81,894 | $ 100,963 | $ 150,271 | $ 333,128 |
| Percentage | 24.58% | 30.31% | 45.11% | 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 | 94.91% | 94.30% |
| OAEM | 2.60 | 1.28 |
| Substandard/doubtful/loss | 2.49 | 4.42 |
| | 100.00% | 100.00% |
| **Production and intermediate-term:** | | |
| Acceptable | 93.71% | 93.23% |
| OAEM | 1.09 | 0.52 |
| Substandard/doubtful/loss | 5.20 | 6.25 |
| | 100.00% | 100.00% |
| **Loans to cooperatives:** | | |
| Acceptable | 100.00% | 0.01% |
| OAEM | – | 99.99 |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Processing and marketing:** | | |
| Acceptable | 91.85% | 100.00% |
| OAEM | 8.15 | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| **Farm-related business:** | | |
| Acceptable | 100.00% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | – | – |
| | 100.00% | 100.00% |
| **Energy and water/waste disposal:** | | |
| Acceptable | 0.02% | 100.00% |
| OAEM | – | – |
| Substandard/doubtful/loss | 99.98 | – |
| | 100.00% | 100.00% |
| **Rural residential real estate:** | | |
| Acceptable | 92.98% | 91.87% |
| OAEM | – | – |
| Substandard/doubtful/loss | 7.02 | 8.13 |
| | 100.00% | 100.00% |
| **Total Loans:** | | |
| Acceptable | 94.04% | 93.53% |
| OAEM | 1.98 | 1.24 |
| Substandard/doubtful/loss | 3.98 | 5.23 |
| | 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 | $ 2,132 | $ 731 | $ 2,863 | $ 145,570 | $ 148,433 | $ – |
| Production and intermediate-term | 185 | 1,713 | 1,898 | 168,932 | 170,830 | – |
| Loans to cooperatives | – | – | – | 272 | 272 | – |
| Processing and marketing | – | – | – | 11,948 | 11,948 | – |
| Farm-related business | – | – | – | 4,105 | 4,105 | – |
| Energy and water/waste disposal | – | – | – | 777 | 777 | – |
| Rural residential real estate | 92 | – | 92 | 1,263 | 1,355 | – |
| Total | $ 2,409 | $ 2,444 | $ 4,853 | $ 332,867 | $ 337,720 | $ – |

| | 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 | $ 694 | $ 1,841 | $ 2,535 | $ 129,787 | $ 132,322 | $ – |
| Production and intermediate-term | 42 | 3,205 | 3,247 | 154,422 | 157,669 | – |
| Loans to cooperatives | – | – | – | 1,242 | 1,242 | – |
| Processing and marketing | – | – | – | 5,223 | 5,223 | – |
| Farm-related business | – | – | – | 3,801 | 3,801 | – |
| Energy and water/waste disposal | – | – | – | 785 | 785 | – |
| Rural residential real estate | 10 | – | 10 | 1,302 | 1,312 | – |
| Total | $ 746 | $ 5,046 | $ 5,792 | $ 296,562 | $ 302,354 | $ – |

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 | $ 2,076 | $ 2,251 |
| Production and intermediate-term | 1,747 | 3,264 |
| Rural residential real estate | 95 | 107 |
| Total nonaccrual loans | $ 3,918 | $ 5,622 |
| **Accruing restructured loans:** | | |
| Real estate mortgage | $ 765 | $ 680 |
| Production and intermediate-term | 1,014 | 793 |
| Total accruing restructured loans | $ 1,779 | $ 1,473 |
| **Accruing loans 90 days or more past due:** | | |
| Total accruing loans 90 days or more past due | $ – | $ – |
| Total nonperforming loans | $ 5,697 | $ 7,095 |
| Other property owned | 8,075 | 7,441 |
| Total nonperforming assets | $ 13,772 | $ 14,536 |
| Nonaccrual loans as a percentage of total loans | 1.18% | 1.88% |
| Nonperforming assets as a percentage of total loans and other property owned | 4.04% | 4.75% |
| Nonperforming assets as a percentage of capital | 18.60% | 19.91% |

The following table presents information related 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 | $ 154 | $ 464 |
| Past due | 3,764 | 5,158 |
| Total impaired nonaccrual loans | 3,918 | 5,622 |
| Impaired accrual loans: | | |
| Restructured | 1,779 | 1,473 |
| 90 days or more past due | – | – |
| Total impaired accrual loans | 1,779 | 1,473 |
| Total impaired loans | $ 5,697 | $ 7,095 |

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 | $ 502 | $ 495 | $ 73 | $ 749 | $ 3 | $ 671 | $ 8 |
| Production and intermediate-term | 421 | 415 | 209 | 629 | 2 | 565 | 7 |
| Rural residential real estate | – | – | – | – | – | – | – |
| Total | $ 923 | $ 910 | $ 282 | $ 1,378 | $ 5 | $ 1,236 | $ 15 |
| **Impaired loans with no related allowance for credit losses:** | | | | | | | |
| Real estate mortgage | $ 2,339 | $ 3,441 | $ – | $ 3,494 | $ 12 | $ 3,135 | $ 36 |
| Production and intermediate-term | 2,340 | 3,172 | – | 3,494 | 12 | 3,133 | 37 |
| Rural residential real estate | 95 | 153 | – | 142 | – | 127 | 2 |
| Total | $ 4,774 | $ 6,766 | $ – | $ 7,130 | $ 24 | $ 6,395 | $ 75 |
| **Total impaired loans:** | | | | | | | |
| Real estate mortgage | $ 2,841 | $ 3,936 | $ 73 | $ 4,243 | $ 15 | $ 3,806 | $ 44 |
| Production and intermediate-term | 2,761 | 3,587 | 209 | 4,123 | 14 | 3,698 | 44 |
| Rural residential real estate | 95 | 153 | – | 142 | – | 127 | 2 |
| Total | $ 5,697 | $ 7,676 | $ 282 | $ 8,508 | $ 29 | $ 7,631 | $ 90 |

| | December 31, 2012 | | | Year Ended December 31, 2012 | |
|---|---|---|---|---|---|
| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Impaired Loans | Interest Income Recognized on Impaired Loans |
| **Impaired loans with a related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 401 | $ 400 | $ 73 | $ 559 | $ 40 |
| Production and intermediate-term | 2,285 | 2,254 | 551 | 3,188 | 229 |
| Total | $ 2,686 | $ 2,654 | $ 624 | $ 3,747 | $ 269 |
| **Impaired loans with no related allowance for credit losses:** | | | | | |
| Real estate mortgage | $ 2,530 | $ 3,613 | $ – | $ 3,529 | $ 254 |
| Production and intermediate-term | 1,772 | 2,531 | – | 2,471 | 177 |
| Rural residential real estate | 107 | 159 | – | 149 | 11 |
| Total | $ 4,409 | $ 6,303 | $ – | $ 6,149 | $ 442 |
| **Total impaired loans:** | | | | | |
| Real estate mortgage | $ 2,931 | $ 4,013 | $ 73 | $ 4,088 | $ 294 |
| Production and intermediate-term | 4,057 | 4,785 | 551 | 5,659 | 406 |
| Rural residential real estate | 107 | 159 | – | 149 | 11 |
| Total | $ 7,095 | $ 8,957 | $ 624 | $ 9,896 | $ 711 |

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

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at each reporting period.

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

| | Real Estate Mortgage | Production and Intermediate-term | Agribusiness* | Energy and Water/Waste Disposal | Rural Residential Real Estate | Total |
|---|---|---|---|---|---|---|
| **Allowance for credit losses:** | | | | | | |
| Balance at June 30, 2013 | $ 1,246 | $ 3,724 | $ 54 | $ 297 | $ 3 | $ 5,324 |
| Charge-offs | (15) | (365) | – | – | – | (380) |
| Recoveries | 1 | 1 | – | – | – | 2 |
| Provision for loan losses | 10 | (588) | 256 | 3 | – | (319) |
| Balance at September 30, 2013 | $ 1,242 | $ 2,772 | $ 310 | $ 300 | $ 3 | $ 4,627 |
| | | | | | | |
| Balance at December 31, 2012 | $ 1,621 | $ 2,860 | $ 167 | $ 61 | $ 3 | $ 4,712 |
| Charge-offs | (17) | (446) | – | – | – | (463) |
| Recoveries | 4 | 24 | – | – | – | 28 |
| Provision for loan losses | (366) | 334 | 143 | 239 | – | 350 |
| Balance at September 30, 2013 | $ 1,242 | $ 2,772 | $ 310 | $ 300 | $ 3 | $ 4,627 |
| | | | | | | |
| Balance at June 30, 2012 | $ 1,136 | $ 1,799 | $ 153 | $ 54 | $ 8 | $ 3,150 |
| Charge-offs | (95) | (1) | – | – | – | (96) |
| Recoveries | 6 | 19 | – | – | – | 25 |
| Provision for loan losses | 147 | 182 | 8 | – | (3) | 334 |
| Balance at September 30, 2012 | $ 1,194 | $ 1,999 | $ 161 | $ 54 | $ 5 | $ 3,413 |
| | | | | | | |
| Balance at December 31, 2011 | $ 1,208 | $ 1,827 | $ 131 | $ 53 | $ 9 | $ 3,228 |
| Charge-offs | (194) | (277) | (56) | – | – | (527) |
| Recoveries | 9 | 1,733 | – | – | – | 1,742 |
| Provision for loan losses | 171 | (1,284) | 86 | 1 | (4) | (1,030) |
| Balance at September 30, 2012 | $ 1,194 | $ 1,999 | $ 161 | $ 54 | $ 5 | $ 3,413 |
| | | | | | | |
| Loans individually evaluated for impairment | $ 73 | $ 209 | $ – | $ – | $ – | $ 282 |
| Loans collectively evaluated for impairment | 1,169 | 2,563 | 310 | 300 | 3 | 4,345 |
| Balance at September 30, 2013 | $ 1,242 | $ 2,772 | $ 310 | $ 300 | $ 3 | $ 4,627 |
| | | | | | | |
| Loans individually evaluated for impairment | $ 73 | $ 551 | $ – | $ – | $ – | $ 624 |
| Loans collectively evaluated for impairment | 1,548 | 2,309 | 167 | 61 | 3 | 4,088 |
| Balance at December 31, 2012 | $ 1,621 | $ 2,860 | $ 167 | $ 61 | $ 3 | $ 4,712 |
| | | | | | | |
| **Recorded investment in loans outstanding:** | | | | | | |
| Loans individually evaluated for impairment | $ 2,841 | $ 2,761 | $ – | $ – | $ 95 | $ 5,697 |
| Loans collectively evaluated for impairment | 145,592 | 168,069 | 16,325 | 777 | 1,260 | 332,023 |
| Ending balance at September 30, 2013 | $ 148,433 | $ 170,830 | $ 16,325 | $ 777 | $ 1,355 | $ 337,720 |
| | | | | | | |
| Loans individually evaluated for impairment | $ 2,931 | $ 4,057 | $ – | $ – | $ 107 | $ 7,095 |
| Loans collectively evaluated for impairment | 129,391 | 153,612 | 10,266 | 785 | 1,205 | 295,259 |
| Ending balance at December 31, 2012 | $ 132,322 | $ 157,669 | $ 10,266 | $ 785 | $ 1,312 | $ 302,354 |

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

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about activity that occurred during the periods presented related to TDRs. There were no TDRs for the three and nine month periods ended September 30, 2012.

| | Three months ended September 30, 2013 | | | |
|---|---|---|---|---|
| | Pre-modification Outstanding Recorded Investment | | | |
| | Interest Concessions | Principal Concessions | Other Concessions | Total |
| **Troubled debt restructurings:** | | | | |
| Production and intermediate-term | $ – | $ 225 | $ 279 | $ 504 |
| Total | $ – | $ 225 | $ 279 | $ 504 |

| 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:** | | | | | | |
| Production and intermediate-term | $ – | $ 225 | $ 279 | $ 504 | $ (80) | $ – |
| Total | $ – | $ 225 | $ 279 | $ 504 | $ (80) | $ – |

| Nine months ended September 30, 2013 | | | | |
|---|---|---|---|---|
| | Pre-modification Outstanding Recorded Investment | | | |
| | Interest Concessions | Principal Concessions | Other Concessions | Total |
| **Troubled debt restructurings:** | | | | |
| Production and intermediate-term | $ – | $ 225 | $ 650 | $ 875 |
| Total | $ – | $ 225 | $ 650 | $ 875 |

| 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:** | | | | | | |
| Production and intermediate-term | $ – | $ 225 | $ 650 | $ 875 | $ 208 | $ – |
| Total | $ – | $ 225 | $ 650 | $ 875 | $ 208 | $ – |

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

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

The following table provides information at period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table:

| | Total TDRs | | Nonaccrual TDRs | |
|---|---|---|---|---|
| | September 30, 2013 | December 31, 2012 | September 30, 2013 | December 31, 2012 |
| Real estate mortgage | $ 765 | $ 734 | $ – | $ 54 |
| Production and intermediate-term | 1,126 | 1,190 | 112 | 397 |
| Total Loans | $ 1,891 | $ 1,924 | $ 112 | $ 451 |
| Additional commitments to lend | $ – | $ – | | |

## 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 | $ 345 | $ 327 | $ 1,037 | $ 984 |
| 401(k) | 34 | 39 | 91 | 116 |
| Other postretirement benefits | 47 | 41 | 140 | 123 |
| Total | $ 426 | $ 407 | $ 1,268 | $ 1,223 |

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 | $ 38 | $ 1,368 | $ 1,406 |
| Other postretirement benefits | 142 | 60 | 202 |
| Total | $ 180 | $ 1,428 | $ 1,608 |

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 – SUBORDINATED DEBT**

In September 2008, the Association issued $7,500 of fixed rate unsecured subordinated debt due in 2018, generating proceeds that were primarily used to increase the permanent capital of the Association pursuant to the Farm Credit Administration regulations, and for general corporate purposes. The debt is payable to another association in the AgFirst District. It is subordinate to all other categories of creditors, including any claims of the Bank and general creditors, and is senior to all classes of shareholders. The subordinated debt is not considered Farm Credit System (System) debt, and thus is not guaranteed by the System and not insured by the Farm Credit System Insurance Corporation.

The subordinated debt bears interest at an annual fixed rate of 9 percent, payable on the fifteenth day of each month, beginning on October 15, 2008. Interest will be deferred if, as of the fifth business day prior to an interest payment date of the debt, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than five consecutive years or beyond the maturity date of the subordinated debt. During such a period, the Association may not declare or pay any dividends or patronage refunds, among certain other restrictions, until interest payments are resumed and all deferred interest has been paid. The subordinated debt may be redeemed, at the Association's option, on October 15, 2013, or upon the occurrence of certain defined regulatory events, at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided the Association has made payment in full of all amounts then due in respect of its senior indebtedness.

On October 15, 2013, the Association redeemed in full its subordinated debt. See Note 10, *Subsequent Events*.

**NOTE 6 – COMMITMENTS AND CONTINGENCIES**

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 7 – 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 8 – 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 3.61 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 $708 related to other Farm Credit institutions.

The classifications of the Association's financial instruments within the fair value hierarchy are as follows:

**Level 1**

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Assets held in trust funds, related to deferred compensation and supplemental retirement plans, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

**Level 2**

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. 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.

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

For other investments, which consist of Tobacco Buyout Successor-in-Interest Contracts (SIIC), fair value is determined by discounting estimated future cash flows using prevailing 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.

For subordinated debt payable to other Farm Credit institutions, fair value is determined by discounting the estimated future cash flows using appropriate interest rates for similar liabilities.

**Movement from Level 2 to Level 3**

Securities comprising the Mission Related Investment category are not generally traded in a secondary market and those that trade may not have readily available quoted prices. Therefore, the fair value of these instruments is estimated by calculating the present value of the future contractual cash flows using a risk adjusted discount rate. We estimate an appropriate yield adjustment based on the 14-point risk rating assigned to each bond. This input to the valuation methodology was determined to be Level 3.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. In tandem with guidance on fair value measurement and disclosure effective at that time, and movement to an available for sale classification, $51.9 million of Mission Related Investments were transferred from Level 2 to Level 3 status effective March 31, 2012. The Association had no transfers of assets or liabilities into or out of Level 1, Level 2, or Level 3 during the first nine months of 2013.

| | Standby Letters Of Credit | Mission Related Investments |
|---|---|---|
| Balance at January 1, 2013 | $ 12 | $ 53,492 |
| **Total gains or (losses) realized/unrealized:** | | |
| Included in earnings | – | (292) |
| Included in other comprehensive income (loss) | – | (5,565) |
| Purchases | – | 313 |
| Sales | – | – |
| Issuances | – | – |
| Settlements | (8) | (2,476) |
| Transfers in and/or out of level 3 | – | – |
| Balance at September 30, 2013 | $ 4 | $ 45,472 |

| | Standby Letters Of Credit | Mission Related Investments |
|---|---|---|
| Balance at January 1, 2012 | $ 18 | $ – |
| **Total gains or (losses) realized/unrealized:** | | |
| Included in earnings | – | – |
| Included in other comprehensive income (loss) | – | 2,003 |
| Purchases | – | 431 |
| Sales | – | – |
| Issuances | – | – |
| Settlements | (6) | (232) |
| Transfers in and/or out of level 3 | – | 51,885 |
| Balance at September 30, 2012 | $ 12 | $ 54,087 |

## Sensitivity to Changes in Significant Unobservable Inputs

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

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

## INVESTMENT SECURITIES

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

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

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

## OTHER PROPERTY OWNED/IMPAIRED LOANS

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

### Inputs to Valuation Techniques

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

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

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

| | Fair Value | Valuation Technique(s) | Unobservable Input | Range |
|---|---|---|---|---|
| Impaired loans and other property owned | $ 14,127 | Appraisal | Income and expense | * |
| | | | Comparable sales | * |
| | | | Replacement cost | * |
| | | | Comparability adjustments | * |
| Mission-related investments | $ 45,472 | Discounted cash flow | Risk adjusted discount rate | 0.01% - 91.61% |

** 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 |
| Other investments | Discounted cash flow | Prepayment rates |
| | | Risk adjusted discount rate |
| Notes payable to AgFirst Farm Credit Bank | Discounted cash flow | Prepayment forecasts |
| | | Probability of default |
| | | Loss severity |
| Subordinated debt payable | Discounted cash flow | Prepayment rates |
| | | Risk adjusted discount rate |

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

| | At or for the Nine Months Ended September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | **Total Carrying Amount** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** | **Fair Value Effects On Earnings** |
| **Recurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Assets held in Trust funds | $ 510 | $ 510 | $ – | $ – | $ 510 | |
| Investment securities, available-for-sale | 45,472 | – | – | 45,472 | 45,472 | |
| Recurring Assets | $ 45,982 | $ 510 | $ – | $ 45,472 | $ 45,982 | |
| **Liabilities:** | | | | | | |
| Standby letters of credit | $ 4 | $ – | $ – | $ 4 | $ 4 | |
| Recurring Liabilities | $ 4 | $ – | $ – | $ 4 | $ 4 | |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans | $ 5,415 | $ – | $ – | $ 5,415 | $ 5,415 | $ (92) |
| Other property owned | 8,075 | – | – | 8,712 | 8,712 | (384) |
| Nonrecurring Assets | $ 13,490 | $ – | $ – | $ 14,127 | $ 14,127 | $ (476) |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 2 | $ 2 | $ – | $ – | $ 2 | |
| Loans | 323,086 | – | – | 321,539 | 321,539 | |
| Other investments | 22,985 | – | – | 23,351 | 23,351 | |
| Other Assets | $ 346,073 | $ 2 | $ – | $ 344,890 | $ 344,892 | |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 343,786 | $ – | $ – | $ 340,983 | $ 340,983 | |
| Subordinated debt payable to other Farm Credit institutions | 7,500 | – | – | 7,504 | 7,504 | |
| Other Liabilities | $ 351,286 | $ – | $ – | $ 348,487 | $ 348,487 | |

| | At or for the Year Ended December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | **Total Carrying Amount** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** | **Fair Value Effects On Earnings** |
| **Recurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Assets held in Trust funds | $ 488 | $ 488 | $ – | $ – | $ 488 | $ – |
| Investment securities, available-for-sale | 53,492 | – | – | 53,492 | 53,492 | – |
| Recurring Assets | $ 53,980 | $ 488 | $ – | $ 53,492 | $ 53,980 | $ – |
| **Liabilities:** | | | | | | |
| Standby letters of credit | $ 12 | $ – | $ – | $ 12 | $ 12 | $ – |
| Recurring Liabilities | $ 12 | $ – | $ – | $ 12 | $ 12 | $ – |
| **Nonrecurring Measurements** | | | | | | |
| **Assets:** | | | | | | |
| Impaired loans | $ 6,471 | $ – | $ – | $ 6,471 | $ 6,471 | $ 1,374 |
| Other property owned | 7,441 | – | – | 7,951 | 7,951 | (1,017) |
| Nonrecurring Assets | $ 13,912 | $ – | $ – | $ 14,422 | $ 14,422 | $ 357 |
| **Other Financial Instruments** | | | | | | |
| **Assets:** | | | | | | |
| Cash | $ 432 | $ 432 | $ – | $ – | $ 432 | $ – |
| Loans | 287,602 | – | – | 289,553 | 289,553 | – |
| Other investments | 45,553 | – | – | 46,510 | 46,510 | – |
| Other Assets | $ 333,587 | $ 432 | $ – | $ 336,063 | $ 336,495 | $ – |
| **Liabilities:** | | | | | | |
| Notes payable to AgFirst Farm Credit Bank | $ 342,261 | $ – | $ – | $ 335,225 | $ 335,225 | $ – |
| Subordinated debt payable to other Farm Credit institutions | 7,500 | – | – | 7,748 | 7,748 | – |
| Other Liabilities | $ 349,761 | $ – | $ – | $ 342,973 | $ 342,973 | $ – |

## NOTE 9 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

**Changes in Accumulated Other Comprehensive income by Component** *(a)*

| | Three Months | | Year to Date | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **Unrealized gains (losses) on Investments** | | | | |
| Balance at beginning of period | $ 726 | $ 5,337 | $ 5,848 | $ 6,542 |
| Other comprehensive income before reclassifications | (443) | 790 | (5,857) | (428) |
| Amounts reclassified from AOCI | – | 158 | 292 | 171 |
| Net current period other comprehensive income | (443) | 948 | (5,565) | (257) |
| Balance at end of period | $ 283 | $ 6,285 | $ 283 | $ 6,285 |
| **Employee Benefit Plans:** | | | | |
| Balance at beginning of period | $ (216) | $ (166) | $ (219) | $ (156) |
| Other comprehensive income before reclassifications | – | – | – | (12) |
| Amounts reclassified from AOCI | 2 | 1 | 5 | 3 |
| Net current period other comprehensive income | 2 | 1 | 5 | (9) |
| Balance at end of period | $ (214) | $ (165) | $ (214) | $ (165) |
| **Accumulated Other Comprehensive Income** | | | | |
| Balance at beginning of period | $ 510 | $ 5,171 | $ 5,629 | $ 6,386 |
| Other comprehensive income before reclassifications | (443) | 790 | (5,857) | (440) |
| Amounts reclassified from AOCI | 2 | 159 | 297 | 174 |
| Net current period other comprehensive income | (441) | 949 | (5,560) | (266) |
| Balance at end of period | $ 69 | $ 6,120 | $ 69 | $ 6,120 |

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

| | Three Months | | Year to Date | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | Income Statement Line Item |
| **Investment Securities:** | | | | | |
| Sales gains & losses | $ – | $ – | $ – | $ – | Gains (losses) on investments, net |
| Holding gains & losses | – | (158) | (292) | (171) | Net other-than-temporary impairment |
| Net amounts reclassified | $ – | $ (158) | $ (292) | $ (171) | |
| **Defined Benefit Pension Plans:** | | | | | |
| Periodic pension costs | $ (2) | $ (1) | $ (5) | $ (3) | See Note 4. |
| Net amounts reclassified | $ (2) | $ (1) | $ (5) | $ (3) | |
| Total reclassifications for period | $ (2) | $ (159) | $ (297) | $ (174) | |

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

## NOTE 10 – 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 15, 2013, the Association redeemed in full its subordinated debt payable to another association in the AgFirst District. See Note 5, *Subordinated Debt*.

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 $5,499 which will be recorded in October 2013 as patronage refunds from other Farm Credit institutions.