Carolina Farm Credit, ACA

THIRD QUARTER 2013

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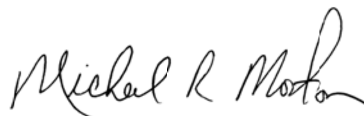
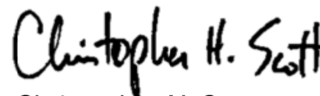
CERTIFICATION

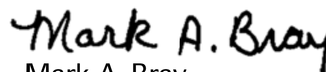
The undersigned certify that we have reviewed the September 30, 2013 quarterly report of Carolina Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that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



Michael R. Morton
Chief Executive Officer



Christopher H. Scott
Chief Risk and Operations Officer



Mark A. Bray
Chairman of the Board

November 7, 2013

Carolina Farm Credit, ACA

Report on Internal Control Over Financial Reporting

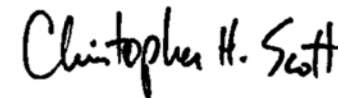
The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of 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.

Michael Morton
Chief Executive Officer



Christopher H. Scott
Chief Risk & Operations Officer

November 7, 2013

Carolina Farm Credit, 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 Carolina Farm Credit, ACA (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.

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 part-time farm, poultry, and rural home loans. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the dependency on a single agricultural commodity.

The gross loan volume of the Association as of September 30, 2013, was $1,167,676, a decrease of $20,523 as compared to $1,188,199 at December 31, 2012. Net loans outstanding at September 30, 2013, were $1,162,256 as compared to $1,179,442 at December 31, 2012. Net loans accounted for 91.57 percent of total assets at September 30, 2013, as compared to 90.07 percent of total assets at December 31, 2012. The decrease in loan volume during the reporting period is a result of principal payments and payoffs outpacing new loan volume.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory.

Nonaccrual loans decreased from $47,414 at December 31, 2012, to $42,578 at September 30, 2013. This decrease is primarily the result of transfers of loan volume to nonaccrual being less than regular payments made on nonaccrual loans, along with nonaccrual loans liquidated or reinstated to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2013, was $5,420 compared to $8,757 at December 31, 2012, and was considered by management to be adequate to cover probable losses.

RESULTS OF OPERATIONS

For the three months ended September 30, 2013

Net income for the three months ended September 30, 2013, totaled $7,404, as compared to $3,563 for the same period in 2012. Net interest income increased $120 for the three months ended September 30, 2013, as compared to the same period in 2012.

At September 30, 2013, total interest income decreased $436 compared to September 30, 2012. Nonaccrual income was $232 for the three months ended September 30, 2013, as compared to $235 for the same period in 2012. Interest expense decreased $556 for the three months ended September 30, 2013, as compared to the comparable period of 2012.

The Association recorded a provision/(reversal) for loan losses of ($644) for the three months ended September 30, 2013 as compared to a provision/(reversal) of $4,211 for the same period of 2012. This represents a positive variance of $4,855 and was the primary contributor to increased net income for this three-month period.

Noninterest income for the three months ended September 30, 2013, totaled $4,651 as compared to $5,281 for the same period of 2012, a decrease of $630. This decline in earnings is attributed to a decrease of $9 in loan fees, $95 in fees for financially related services, $16 in equity in earnings of other Farm Credit institutions, $277 in gains/(losses) on other property owned, $280 in gains/(losses) on the sale of rural home loans and $17 in other non-interest income when compared to the same period in 2012. These decreases were offset by an increase of $64 in gains/(losses) on sales of premises and equipment when compared for the same period of 2012.

Noninterest expense for the three months ended September 30, 2013, increased $503 compared to the same period of 2012. This rise in noninterest expense is

attributed to an increase of $448 in salaries and employee benefits and $109 in Insurance Fund premiums, when compared to the same period in 2012. These increases were offset by a decrease of $4 in occupancy and equipment and $50 in other operating expenses, when compared for the same period of 2012.

The Association recorded a provision for income taxes of $1 for the three months ended September 30, 2013 as compared a provision of $0 for the same period of 2012.

For the nine months ended September 30, 2013

Net income for the nine months ended September 30, 2013, totaled $19,531, as compared to $17,904 for the same period in 2012. This increase of $1,627, or 9.09 percent, is primarily attributed to significant decrease in the provision/(reversal) for loan loss, partially offset by a decrease in noninterest income.

At September 30, 2013, total interest income decreased $1,046 compared to September 30, 2012. Nonaccrual income was $665 for the nine months ended September 30, 2013, as compared to $496 for the same period in 2012. Interest expense decreased $1,542 for the nine months ended September 30, 2013, as compared to the same period in 2012. Both interest income and interest expense have decreased due to the lower interest rate environment.

The Association recorded a provision/(reversal) for loan losses of $358 for the nine months ended September 30, 2013 as compared to a provision/(reversal) of $6,103 for the same period of 2012. The decrease in provision for loan losses reflects a decreased need to adjust nonaccrual loans down to fair value during the current reporting period.

Noninterest income for the nine months ended September 30, 2013, totaled $13,907, as compared to $17,411 for the same period of 2012, a decrease of $3,504. The overall decrease is attributed to a decrease of $58 in loan fees, $208 in fees for financially related services, $585 in equity in earnings of other Farm Credit institutions, $925 in the gains (losses) on other property owned, $408 in the gains (losses) on sale of rural home loans, $1,334 in Insurance Fund refunds, and $58 in other noninterest income when compared to the same period in 2012. These decreases were offset by an increase of $72 in gains (losses) on sales of premises and equipment when compared to the same period in 2012.

During the third quarter of 2012, the Association recorded $1,334 of insurance premium refunds from the FCSIC, which insures the System's debt obligations. The amount is reflected in Insurance Fund refunds on the Consolidated Statements of Income. This payment is nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest expense for the nine months ended September 30, 2013, increased $1,114 compared to the same period of 2012. This rise in noninterest expense is attributed to an increase of $614 in salaries and employee benefits, $40 in occupancy and equipment, $329 in Insurance Fund premiums, and $131 in other operating expenses when compared to the same period in 2012.

The Association recorded a provision for income taxes of $3 for the nine months ended September 30, 2013 as compared to a provision of $7 for the same period of 2012.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst 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 is 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 $968,444 as compared to $1,023,213 at December 31, 2012. The decrease during the period is primarily attributable to the declines in loan and other investment volume.

The Association has no lines of credit outstanding with third parties as of September 30, 2013.

CAPITAL RESOURCES

Total members' equity at September 30, 2013, increased to $264,513 from the December 31, 2012, total of $256,178. The change in capital is attributed to net earnings for the year, offset by the revolvement of allocated surplus to members.

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 19.80 percent and 16.70 percent, respectively, and the permanent capital ratio was 20.50 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, www.agfirst.com. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-800-521-9952, or writing Michael R. Morton, CEO, Carolina Farm Credit, ACA, P.O. Box 1827, Statesville NC 28687-1827, or accessing the website, www.carolinafarmcredit.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.

Carolina Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2013 (unaudited)	December 31, 2012 (audited)
Assets		
Cash	$ 3,848	$ 2,246
Investment securities:		
Held to maturity (fair value of $3,190 and $3,109, respectively)	3,207	2,791
Loans	1,167,676	1,188,199
Less: allowance for loan losses	5,420	8,757
Net loans	1,162,256	1,179,442
Loans held for sale	2,757	7,218
Other investments	11,987	23,669
Accrued interest receivable	13,981	11,565
Investments in other Farm Credit institutions	30,742	31,208
Premises and equipment, net	15,461	15,696
Other property owned	3,916	4,252
Due from AgFirst Farm Credit Bank	11,275	17,683
Other assets	9,817	13,723
Total assets	$ 1,269,247	$ 1,309,493
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 968,444	$ 1,023,213
Accrued interest payable	1,857	2,054
Patronage refunds payable	1,924	5,152
Allocated surplus payable	4,642	118
Other liabilities	27,867	22,778
Total liabilities	1,004,734	1,053,315
Commitments and contingencies		
Members' Equity		
Protected borrower stock	—	48
Capital stock and participation certificates	8,153	7,860
Retained earnings		
Allocated	135,736	148,080
Unallocated	121,338	101,265
Accumulated other comprehensive income (loss)	(714)	(1,075)
Total members' equity	264,513	256,178
Total liabilities and members' equity	$ 1,269,247	$ 1,309,493

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

Carolina Farm Credit, 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	$ 44	$ 40	$ 126	$ 118
Loans	15,892	16,203	47,301	47,938
Other investments	145	274	451	868
Total interest income	16,081	16,517	47,878	48,924
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	5,672	6,231	17,414	18,968
Other	3	–	19	7
Total interest expense	5,675	6,231	17,433	18,975
Net interest income	10,406	10,286	30,445	29,949
Provision for (reversal of allowance for) loan losses	(644)	4,211	358	6,103
Net interest income after provision for (reversal of allowance for) loan losses	11,050	6,075	30,087	23,846
Noninterest Income				
Loan fees	575	584	1,680	1,738
Fees for financially related services	102	197	193	401
Patronage refunds from other Farm Credit institutions	3,845	3,861	12,093	12,678
Gains (losses) on other property owned, net	(355)	(78)	(1,947)	(1,022)
Gains (losses) on sales of rural home loans, net	323	603	1,388	1,796
Gains (losses) on sales of premises and equipment, net	88	24	210	138
Insurance Fund refunds	–	–	–	1,334
Other noninterest income	73	90	290	348
Total noninterest income	4,651	5,281	13,907	17,411
Noninterest Expense				
Salaries and employee benefits	5,931	5,483	17,231	16,617
Occupancy and equipment	910	914	2,357	2,317
Insurance Fund premiums	235	126	697	368
Other operating expenses	1,220	1,270	4,175	4,044
Total noninterest expense	8,296	7,793	24,460	23,346
Income before income taxes	7,405	3,563	19,534	17,911
Provision for income taxes	1	–	3	7
Net income	$ 7,404	$ 3,563	$ 19,531	$ 17,904

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

Carolina Farm Credit, 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	$ 7,404	$ 3,563	$ 19,531	$ 17,904
Other comprehensive income net of tax				
Employee benefit plans adjustments (Note 8)	120	84	361	210
Comprehensive income	$ 7,524	$ 3,647	$ 19,892	$ 18,114

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

Carolina Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2011	$ 67	$ 7,833	$ 137,891	$ 99,863	$ (1,066)	$ 244,588
Comprehensive income				17,904	210	18,114
Protected borrower stock retired	(16)					(16)
Capital stock/participation certificates issued/(retired), net		168				168
Retained earnings retired			(9,611)			(9,611)
Patronage distribution adjustment			260	(268)		(8)
Balance at September 30, 2012	$ 51	$ 8,001	$ 128,540	$ 117,499	$ (856)	$ 253,235
Balance at December 31, 2012	$ 48	$ 7,860	$ 148,080	$ 101,265	$ (1,075)	$ 256,178
Comprehensive income				19,531	361	19,892
Protected borrower stock retired	(48)					(48)
Capital stock/participation certificates issued/(retired), net		293				293
Retained earnings retired			(11,780)			(11,780)
Patronage distribution adjustment			(564)	542		(22)
Balance at September 30, 2013	$ —	$ 8,153	$ 135,736	$ 121,338	$ (714)	$ 264,513

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

Carolina Farm Credit, ACA

Notes to the Consolidated Financial Statements

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

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

Organization

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

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

	September 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 3,207	$ 145	$ (162)	$ 3,190	5.37%

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 2,791	$ 333	$ (15)	$ 3,109	5.44%

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

	September 30, 2013		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 100	$ 100	4.25 %
After one year through five years	–	–	–
After five years through ten years	189	194	4.01
After ten years	2,918	2,896	5.49
Total	$ 3,207	$ 3,190	5.37 %

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	$ 1,120	$ (105)	$ 586	$ (57)

	December 31, 2012			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	$ 657	$ (15)	$ –	$ –

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

The Association performs periodic credit reviews, including other-than-temporary impairment analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

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

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

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

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

A summary of loans outstanding at period end follows:

	September 30, 2013	December 31, 2012
Real estate mortgage	$ 527,399	$ 527,939
Production and intermediate-term	539,446	551,031
Loans to cooperatives	2,023	2,984
Processing and marketing	25,714	32,307
Farm-related business	5,495	6,048
Communication	9,522	9,238
Energy and water/waste disposal	2,536	2,113
Rural residential real estate	55,541	56,539
Total Loans	$ 1,167,676	$ 1,188,199

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	$ 5,594	$ 153,850	$ –	$ 989	$ 456	$ –	$ 6,050	$ 154,839
Production and intermediate-term	18,187	116,157	4,050	–	5	–	22,242	116,157
Loans to cooperatives	2,008	–	–	–	–	–	2,008	–
Processing and marketing	25,587	1,006	–	–	–	–	25,587	1,006
Farm-related business	2,584	698	143	–	–	–	2,727	698
Communication	9,561	–	–	–	–	–	9,561	–
Energy and water/waste disposal	2,567	–	–	–	–	–	2,567	–
Rural residential real estate	–	1,358	–	–	–	–	–	1,358
Total	$ 66,088	$ 273,069	$ 4,193	$ 989	$ 461	$ –	$ 70,742	$ 274,058

	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	$ 8,927	$ 158,770	$ –	$ –	$ 505	$ –	$ 9,432	$ 158,770
Production and intermediate-term	22,516	171,761	3,077	–	16	–	25,609	171,761
Loans to cooperatives	3,002	–	14	–	–	–	3,016	–
Processing and marketing	31,118	1,328	205	–	–	–	31,323	1,328
Farm-related business	3,415	737	149	–	–	–	3,564	737
Communication	9,260	–	–	–	–	–	9,260	–
Energy and water/waste disposal	2,123	–	–	–	–	–	2,123	–
Rural residential real estate	–	1,392	–	–	–	–	–	1,392
Total	$ 80,361	$ 333,988	$ 3,445	$ –	$ 521	$ –	$ 84,327	$ 333,988

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	$ 60,270	$ 120,320	$ 346,809	$ 527,399
Production and intermediate-term	143,663	207,326	188,457	539,446
Loans to cooperatives	542	1,481	–	2,023
Processing and marketing	6,538	10,458	8,718	25,714
Farm-related business	1,766	2,780	949	5,495
Communication	(4)	4,747	4,779	9,522
Energy and water/waste disposal	–	903	1,633	2,536
Rural residential real estate	5,302	10,965	39,274	55,541
Total Loans	$ 218,077	$ 358,980	$ 590,619	$ 1,167,676
Percentage	18.68%	30.74%	50.58%	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	85.73%	86.67%
OAEM	6.93	5.48
Substandard/doubtful/loss	7.34	7.85
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	85.15%	88.35%
OAEM	9.66	4.89
Substandard/doubtful/loss	5.19	6.76
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	90.29%
OAEM	–	9.71
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	90.21%	80.97%
OAEM	–	7.20
Substandard/doubtful/loss	9.79	11.83
	100.00%	100.00%
Farm-related business:		
Acceptable	99.42%	99.57%
OAEM	–	–
Substandard/doubtful/loss	0.58	0.43
	100.00%	100.00%

	September 30, 2013	December 31, 2012
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	94.10%	92.71%
OAEM	2.44	3.92
Substandard/doubtful/loss	3.46	3.37
	100.00%	100.00%
Total Loans:		
Acceptable	86.19%	87.78%
OAEM	7.72	5.11
Substandard/doubtful/loss	6.09	7.11
	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	$ 2,824	$ 12,519	$ 15,365	$ 518,673	$ 534,016	$ –
Production and intermediate-term	3,525	12,803	16,328	530,070	546,398	89
Loans to cooperatives	–	–	–	2,026	2,026	–
Processing and marketing	–	2,524	2,524	23,255	25,779	–
Farm-related business	–	–	–	5,540	5,540	–
Communication	–	–	–	9,532	9,532	–
Energy and water/waste disposal	–	–	–	2,542	2,542	–
Rural residential real estate	1,198	354	1,552	54,260	55,812	–
Total	$ 7,547	$ 28,200	$ 35,769	$ 1,145,897	$ 1,181,645	$ 89

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	$ 2,672	$ 11,230	$ 13,902	$ 519,560	$ 533,462	$ –
Production and intermediate-term	4,451	15,680	20,131	536,547	556,678	–
Loans to cooperatives	–	–	–	2,989	2,989	–
Processing and marketing	–	–	–	32,436	32,436	–
Farm-related business	–	–	–	6,063	6,063	–
Communication	–	–	–	9,241	9,241	–
Energy and water/waste disposal	–	–	–	2,114	2,114	–
Rural residential real estate	1,269	507	1,776	54,976	56,752	–
Total	$ 8,392	$ 27,417	$ 35,809	$ 1,163,926	$ 1,199,735	$ –

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	$ 19,435	$ 19,548
Production and intermediate-term	19,488	22,879
Processing and marketing	2,524	3,838
Farm-related business	8	16
Rural residential real estate	1,123	1,133
Total nonaccrual loans	$ 42,578	$ 47,414
Accruing restructured loans:		
Real estate mortgage	$ 1,427	$ 358
Production and intermediate-term	146	–
Farm-related business	628	665
Rural residential real estate	189	99
Total accruing restructured loans	$ 2,390	$ 1,122
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ –
Production and intermediate-term	89	
Total accruing loans 90 days or more past due	$ 89	$ –
Total nonperforming loans	$ 45,057	$ 48,536
Other property owned	3,916	4,252
Total nonperforming assets	$ 48,973	$ 52,788
Nonaccrual loans as a percentage of total loans	3.65%	3.99%
Nonperforming assets as a percentage of total loans and other property owned	4.18%	4.43%
Nonperforming assets as a percentage of capital	18.51%	20.61%

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	$ 11,879	$ 16,750
Past due	30,699	30,664
Total impaired nonaccrual loans	42,578	47,414
Impaired accrual loans:		
Restructured	2,390	1,122
90 days or more past due	89	–
Total impaired accrual loans	2,479	1,122
Total impaired loans	$ 45,057	$ 48,536

The following tables present additional 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	$ 4,447	$ 5,014	$ 65	$ 4,714	$ 26	$ 4,847	$ 69
Production and intermediate-term	11,667	16,414	2,259	12,366	68	12,715	182
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	540	546	191	573	3	589	8
Total	$ 16,654	$ 21,974	$ 2,515	$ 17,653	$ 97	$ 18,151	$ 259
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 16,415	$ 17,741	$ –	$ 17,399	$ 95	$ 17,890	$ 256
Production and intermediate-term	8,057	10,910	–	8,540	47	8,781	124
Processing and marketing	2,524	3,836	–	2,676	15	2,751	39
Farm-related business	636	639	–	673	4	692	10
Rural residential real estate	772	945	–	818	5	841	12
Total	$ 28,404	$ 34,071	$ –	$ 30,106	$ 166	$ 30,955	$ 441
Total impaired loans:							
Real estate mortgage	$ 20,862	$ 22,755	$ 65	$ 22,113	$ 121	$ 22,737	$ 325
Production and intermediate-term	19,724	27,324	2,259	20,906	115	21,496	306
Processing and marketing	2,524	3,836	–	2,676	15	2,751	39
Farm-related business	636	639	–	673	4	692	10
Rural residential real estate	1,312	1,491	191	1,391	8	1,430	20
Total	$ 45,058	$ 56,045	$ 2,515	$ 47,759	$ 263	$ 49,106	$ 700

	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	$ 7,872	$ 8,755	$ 1,259	$ 8,115	$ 161
Production and intermediate-term	9,884	10,350	3,049	10,188	202
Processing and marketing	3,767	3,836	1,919	3,883	77
Farm-related business	–	–	–	–	–
Rural residential real estate	241	268	96	248	5
Total	$ 21,764	$ 23,209	$ 6,323	$ 22,434	$ 445
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 12,034	$ 13,666	$ –	$ 12,403	$ 246
Production and intermediate-term	12,995	17,892	–	13,395	266
Processing and marketing	71	–	–	73	1
Farm-related business	681	683	–	702	14
Rural residential real estate	991	1,168	–	1,022	20
Total	$ 26,772	$ 33,409	$ –	$ 27,595	$ 547
Total impaired loans:					
Real estate mortgage	$ 19,906	$ 22,421	$ 1,259	$ 20,518	$ 407
Production and intermediate-term	22,879	28,242	3,049	23,583	468
Processing and marketing	3,838	3,836	1,919	3,956	78
Farm-related business	681	683	–	702	14
Rural residential real estate	1,232	1,436	96	1,270	25
Total	$ 48,536	$ 56,618	$ 6,323	$ 50,029	$ 992

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 follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at June 30, 2013	$ 1,296	$ 4,436	$ 1,271	$ 12	$ 7	$ 142	$ 7,164
Charge-offs	(330)	(418)	(612)	–	–	(36)	(1,396)
Recoveries	274	22	–	–	–	–	296
Provision for loan losses	(397)	220	(606)	5	–	134	(644)
Balance at September 30, 2013	$ 843	$ 4,260	$ 53	$ 17	$ 7	$ 240	$ 5,420
Balance at December 31, 2012	$ 1,678	$ 4,895	$ 2,006	$ 13	$ 6	$ 159	$ 8,757
Charge-offs	(1,553)	(1,768)	(1,312)	–	–	(40)	(4,673)
Recoveries	663	158	154	–	–	3	978
Provision for loan losses	55	975	(795)	4	1	118	358
Balance at September 30, 2013	$ 843	$ 4,260	$ 53	$ 17	$ 7	$ 240	$ 5,420
Balance at June 30, 2012	$ 940	$ 4,512	$ 505	$ 10	$ 4	$ 272	$ 6,243
Charge-offs	(6)	(199)	–	–	–	–	(205)
Recoveries	–	111	3	–	–	–	114
Provision for loan losses	775	2,794	732	3	1	(94)	4,211
Balance at September 30, 2012	$ 1,709	$ 7,218	$ 1,240	$ 13	$ 5	$ 178	$ 10,363
Balance at December 31, 2011	$ 724	$ 3,449	$ 598	$ 6	$ 2	$ 267	$ 5,046
Charge-offs	(344)	(820)	211	–	–	(76)	(1,029)
Recoveries	36	157	49	–	–	1	243
Provision for loan losses	1,293	4,432	382	7	3	(14)	6,103
Balance at September 30, 2012	$ 1,709	$ 7,218	$ 1,240	$ 13	$ 5	$ 178	$ 10,363
Loans individually evaluated for impairment	$ 65	$ 2,259	$ –	$ –	$ –	$ 191	$ 2,515
Loans collectively evaluated for impairment	778	2,001	53	17	7	49	2,905
Balance at September 30, 2013	$ 843	$ 4,260	$ 53	$ 17	$ 7	$ 240	$ 5,420
Loans individually evaluated for impairment	$ 1,259	$ 3,049	$ 1,919	$ –	$ –	$ 96	$ 6,323
Loans collectively evaluated for impairment	419	1,846	87	13	6	63	2,434
Balance at December 31, 2012	$ 1,678	$ 4,895	$ 2,006	$ 13	$ 6	$ 159	$ 8,757
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 20,862	$ 19,635	$ 3,159	$ –	$ –	$ 1,312	$ 44,968
Loans collectively evaluated for impairment	513,154	526,763	30,186	9,532	2,542	54,500	1,136,677
Ending balance at September 30, 2013	$ 534,016	$ 546,398	$ 33,345	$ 9,532	$ 2,542	$ 55,812	$ 1,181,645
Loans individually evaluated for impairment	$ 19,906	$ 22,879	$ 4,519	$ –	$ –	$ 1,232	$ 48,536
Loans collectively evaluated for impairment	513,556	533,799	36,969	9,241	2,114	55,520	1,151,199
Ending balance at December 31, 2012	$ 533,462	$ 556,678	$ 41,488	$ 9,241	$ 2,114	$ 56,752	$ 1,199,735

**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 months ended September 30, 2013.

	Nine months ended September 30, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 54	$ –	$ –	$ 54
Production and intermediate-term	–	1,394	–	1,394
Total	$ 54	$ 1,394	$ –	$ 1,448

	Nine months ended September 30, 2013					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 53	$ –	$ –	$ 53	$ –	$ –
Production and intermediate-term	–	1,329	–	1,329	(353)	–
Total	$ 53	$ 1,329	$ –	$ 1,382	$ (353)	$ –

	Three months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 1,258	$ –	$ 1,258
Production and intermediate-term	67	958	–	1,025
Total	$ 67	$ 2,216	$ –	$ 2,283

	Three months ended September 30, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 1,258	$ –	$ 1,258	$ –	$ –
Production and intermediate-term	67	949	–	1,016	5	–
Total	$ 67	$ 2,207	$ –	$ 2,274	$ 5	$ –

	Nine months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 5,528	$ –	$ 5,528
Production and intermediate-term	67	4,345	–	4,412
Farm-related business	694	–	–	694
Rural residential real estate	–	–	78	78
Total	$ 761	$ 9,873	$ 78	$ 10,712

	Nine months ended September 30, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 5,538	$ –	$ 5,538	$ 25	$ –
Production and intermediate-term	67	4,283	–	4,350	46	(1)
Farm-related business	692	–	–	692	(269)	–
Rural residential real estate	–	–	78	78	41	–
Total	$ 759	$ 9,821	$ 78	$ 10,658	$ (157)	$ (1)

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.

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Defaulted troubled debt restructurings:				
Real estate mortgage	$ –	$ 265	$ –	$ 265
Production and intermediate-term	–	744	–	776
Total	$ –	$ 1,009	$ –	$ 1,041

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	$ 2,893	$ 4,179	$ 1,466	$ 3,821
Production and intermediate-term	7,760	8,458	7,614	8,458
Processing and marketing	2,524		2,524	–
Farm-related business	628	665	–	–
Rural residential real estate	215	171	26	72
Total Loans	$ 14,020	$ 13,473	$ 11,630	$ 12,351
Additional commitments to lend	$ 15	$ 16		

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	$ 1,570	$ 1,507	$ 4,709	$ 4,523
401(k)	127	114	355	340
Other postretirement benefits	267	215	802	645
Total	$ 1,964	$ 1,836	$ 5,866	$ 5,508

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	$ 27	$ 5,957	$ 5,984
Other postretirement benefits	507	211	718
Total	$ 534	$ 6,168	$ 6,702

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

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

NOTE 5 — COMMITMENTS AND CONTINGENT LIABILITIES

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

NOTE 6 — NOTES PAYABLE TO AGFIRST FARM CREDIT BANK

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

NOTE 7 — FAIR VALUE MEASUREMENT

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost

plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 10.97 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 $489 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 has no Level 2 assets and 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 the expected future cash flows using current 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.

	Standby Letters Of Credit
Balance at January 1, 2013	$ 34
Issuances	–
Settlements	(12)
Transfers in and/or out of level 3	–
Balance at September 30, 2013	$ 22

	Standby Letters Of Credit
Balance at January 1, 2012	$ 34
Issuances	3
Settlements	–
Transfers in and/or out of level 3	–
Balance at September 30, 2012	$ 37

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	$ 46,798	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principle and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecast Probability of default Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Risk adjusted discount rate
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

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	$ 1,027	$ 1,027	$ –	$ –	$ 1,027	
Recurring Assets	$ 1,027	$ 1,027	$ –	$ –	$ 1,027	
Liabilities:						
Standby letters of credit	$ 22	$ –	$ –	$ 22	$ 22	
Recurring Liabilities	$ 22	$ –	$ –	$ 22	$ 22	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 42,542	$ –	$ –	$ 42,542	$ 42,542	$ 113
Other property owned	3,916	–	–	4,256	4,256	(1,805)
Nonrecurring Assets	$ 46,458	$ –	$	$ 46,798	$ 46,798	$ (1,692)
Other Financial Instruments						
Assets:						
Cash	$ 3,848	$ 3,848	$ –	$ –	$ 3,848	
Investment securities, held-to-maturity	3,207	–	–	3,190	3,190	
Loans	1,122,471	–	–	1,127,017	1,127,017	
Other investments	11,987	–	–	12,089	12,089	
Other Assets	$ 1,141,513	$ 3,848	$ –	$ 1,142,296	$ 1,146,144	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 968,444	$ –	$ –	$ 960,375	$ 960,375	
Other Liabilities	$ 968,444	$ –	$ –	$ 960,375	$ 960,375	

	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	$ 755	$ 755	$ –	$ –	$ 755	
Recurring Assets	$ 755	$ 755	$ –	$ –	$ 755	
Liabilities:						
Standby letters of credit	$ 34	$ –	$ –	$ 34	$ 34	
Recurring Liabilities	$ 34	$ –	$ –	$ 34	$ 34	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 42,213	$ –	$ –	$ 42,213	$ 42,213	$ (6,958)
Other property owned	4,252	–	–	4,465	4,465	(2,208)
Nonrecurring Assets	$ 46,465	$ –	$ –	$ 46,678	$ 46,678	$ (9,166)
Other Financial Instruments						
Assets:						
Cash	$ 2,246	$ 2,246	$ –	$ –	$ 2,246	
Investment securities, held-to-maturity	2,791	–	–	3,109	3,109	
Loans	1,144,447	–	–	1,155,278	1,155,278	
Other investments	23,669	–	–	24,074	24,074	
Other Assets	$ 1,173,153	$ 2,246	$ –	$ 1,182,461	$ 1,184,707	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,023,213	$ –	$ –	$ 1,025,404	$ 1,025,404	
Other Liabilities	$ 1,023,213	$ –	$ –	$ 1,025,404	$ 1,025,404	

NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Changes in Accumulated Other Comprehensive income by Component *(a)*			
	Three Months		Year to Date	
	2013	2012	2013	2012
Employee Benefit Plans:				
Balance at beginning of period	$ (834)	$ (940)	$ (1,075)	$ (1,066)
Other comprehensive income before reclassifications	–	–	–	(41)
Amounts reclassified from AOCI	120	84	361	251
Net current period other comprehensive income	120	84	361	210
Balance at end of period	$ (714)	$ (856) $	$ (714)	$ (856)

	Reclassifications Out of Accumulated Other Comprehensive Income *(b)*				
	Three Months		Year to Date		
	2013	2012	2013	2012	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (120)	$ (84)	$ (361)	$ (251)	See footnote 4.
Net amounts reclassified	$ (120)	$ (84)	$ (361)	$ (251)	

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

NOTE 9 – SUBSEQUENT EVENTS

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

On October 21, 2013, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2014. The Association will receive approximately $16,071 which will be recorded in October 2013 as patronage refunds from other Farm Credit institutions.