AgSouth Farm Credit, ACA

THIRD QUARTER 2013

TABLE OF CONTENTS

CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2013 quarterly report of AgSouth 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.

William P. Spigener, Jr.
Chief Executive Officer

Alisa D. Gunter
Chief Financial Officer

Arthur Q. Black
Chairman of the Board

November 7, 2013

AgSouth 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 affected 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.

William P. Spigener

William P. Spigener
Chief Executive Officer

Alisa D. Gunter

Alisa D. Gunter
Chief Financial Officer

November 7, 2013

AgSouth 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 AgSouth Farm Credit, ACA (Association) for the period ended September 30, 2013. This information should be read in conjunction with the accompanying financial statements, notes to the financial statements, and the 2012 Annual Report of AgSouth Farm Credit. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

FORWARD LOOKING INFORMATION

This quarterly report contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry; and
- actions taken by the Federal Reserve System in implementing monetary policy.

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 wide range of agricultural commodities produced in our region, including poultry (broilers, turkeys and eggs), timber, sod and nursery, field crops and grains, cotton, horses, blueberries, fruits, nuts and beef cattle. Loans to producers of these commodities total $1,288,553 or 86.53 percent of the Association's portfolio. Farm size varies, and many of the Association customers have diversified farming operations. These factors, along with the numerous opportunities for non-farm income in the area, reduce to some degree the level of income dependency on any given commodity.

During the third quarter of 2013 the Association originated $30,738 in loans for the secondary market. Originations at the same period 2012 were $38,771. The 20.72 percent decrease is the result of a decrease in demand due to rapidly rising interest rates. As of September 30, 2013, the Association held $866 in qualifying loans for sale.

Georgia Region

Heavy rains in June and July subsided in August and the majority of crops within our territory made a substantial recovery from the initial very wet conditions. USDA has recently declared a fairly large number of Georgia counties and several in AgSouth's footprint as disaster areas due to excess rains. This will allow farmers within these regions to apply for low interest disaster assistance loans if funding is made available. Some of the cotton and peanuts within our region have been hurt by the excess moisture; however USDA's latest September crop progress report rates 84 percent of cotton in Georgia as fair, good or excellent with only 16 percent rated very poor to poor. Peanuts are slightly better with 92 percent of the crop rated fair to excellent with only 8 percent rated poor. Corn harvest is 92 percent complete as of mid-September with a very good overall crop yield. Cotton prices spiked in mid-August to $93.50 and have dropped back in the $83.00-$86.00 per hundred weight range as of September. Soybeans appear to be progressing very well with 90 percent of that crop rated fair to excellent. Corn prices have dropped considerably from $5.50 early July to the $4.40 range at mid September. Soybean prices which had dipped in early August have rebounded to the $14.00 per bushel range in early September.

Lumber markets also strengthened during the quarter moving from the $300 per thousand board feet range to $350/mbf range in mid-September. Area sawmills are generally operating profitably at this time. Prices of standing timber to landowners has also increased this year throughout all wood classes with pulpwood experiencing the most substantial increases.

Prices of both live cattle and feeder cattle remain very strong and at historical high levels. Lean hog prices have also rebounded into the mid-nineties per hundred weight range. Poultry producers as well as integrators are doing very well primarily due to substantial declines in feed cost. Integrator's margins are very good at this time. The blueberry season in our region is expected to be slightly below average as early rains hurt the quality of the crop; however, prices were fairly strong offsetting some lost production. The Vidalia onion season is almost 100 percent complete with the last stored onions being moved to market. Early concerns over seed stems in the onions were alleviated as the yields proved to be very good. Prices averaged around $14.00 per 40lb equivalent and should result in a profitable year for most growers.

Unemployment in Georgia which had dropped to as low as 8.3 percent, increased in August and September to 8.7 percent. Georgia's manufacturing continued to slow throughout the third quarter dropping from a PMI (Purchasing Managers Index) of 52.1 in June to 48.5 for August which was the fifth straight month of decline. This indicates manufacturing within the state has begun to contract and is a primary factor in the increase in unemployment for the quarter.

There are some bright spots within the manufacturing sector within our footprint. Hyundai announced this month it will make a $35 million investment to open a plant near West Point, Georgia to supply the KIA Motors plant located there. This will create 350 new jobs. A Chinese phosphate company (Hubei Xingfa Chemical Group) is opening its U. S. headquarters and manufacturing plant in Effingham County and will initially create 50 new jobs. Trident Seafoods, the largest vertically integrated seafood harvesting and processing company in North America has selected a site in Carroll County Georgia to open a new processing facility which will create 175 new jobs and bring a $41 million investment to the area.

Loan demand remains fairly strong with land sale transactions continuing to increase providing additional financing opportunities for the Association. Land values also continue to show stable to slight increases in value among all land types. The housing market continues to improve at a slow pace with much of the excess inventory beginning to be absorbed. Interest rates for home loans have moved up approximately 80 to 100 basis points from their lows; but, remain very favorable. It is expected that much of the refinance home loan market will slow considerably with the increase in rates.

South Carolina Region

After receiving excess rain during the late spring and early summer, South Carolina has now dried out and most crops have weathered the growing conditions relatively well. All areas of South Carolina report above average precipitation year to date. Corn harvest at quarter end was at the same pace as in the past with almost the entire crop harvested and with good yields being reported. Corn prices have regressed compared to earlier in the year and at quarter end projected in the $4.40 range. The South Carolina cotton crop was probably the hardest hit by the rainfall but 79 percent of the cotton crop is still rated fair to excellent. Virtually all the cotton has now set and about 56 percent of bolls are opened. South Carolina peanut harvest is just starting with about 27 percent of the crop harvest complete. The peanut crop is rated 92 percent fair to excellent. Soybeans in the state are starting to mature and approach harvest with 85 percent of the crop rated fair to excellent. South Carolina has some counties designated disaster counties due to the excess rain received during the growing season, and this will qualify some farmers for disaster loans at lower than normal interest rates, assuming funding is available.

The beef industry in South Carolina remains strong with prices at or approaching historical highs during the quarter. Rainfall received during the past quarter has provided for excellent pasture conditions. Winter grazing is now in the planting stage with about 38 percent planted. Poultry integrators are profiting from lower feed costs and continued demand, but minimal expansion has been observed within the service area. Some discussions have occurred as to poultry upgrades and the possible addition of new houses in late 2013 and early 2014.

Forest products marketed within the region have projected improvement over the past quarter as a result of the wetter than normal weather conditions and demand for wood products. Most mills operating within the area are projecting profits at this time and are optimistic about profitability over the next few quarters. Landowners have observed improvement in stumpage prices since 2012 with both pine and hardwood sawtimber and pulpwood prices improved year over year through the second quarter, and early indications reflect additional improvement in the third quarter. During the third quarter, Associated Hardwoods, a North Carolina based lumber products company, announced an investment in a new facility to process hardwood timber logs in Cherokee county. This investment meets a real forestry need for the upstate of South Carolina.

South Carolina continues to be rated as the number two state in the country for doing business by Area Development publication. South Carolina is tied for second in this category with Georgia trailing only Texas. The state's residential sales have improved over third quarter 2012 by over 5 percent in number of sales, and the median sales price for residential properties reported during August was

$136,000, up by 7 percent over last year. Residential units on the market are decreasing which is further fueling demand. South Carolina's unemployment rate remains stable at 8.1 percent compared to the previous quarter. Recently released second quarter personal income statistics indicate growth of 1.1 percent, which exceeded the national average. South Carolina is ranked 15th among the states in personal income growth as reported by the South Carolina Department of Commerce.

BMW announced during the quarter that it would expand and relocate export operations near the new inland port in Greer. The inland port, which is scheduled to open in mid-October, will allow for additional upstate growth similar to BMW as products produced can more effectively and efficiently be moved to the Charleston port 212 miles away. Connecting the Charleston port to the inland port is expected to boost container capacity in the Charleston port by 50 percent. The BMW expansion and inland port completion are just two of many present projects in South Carolina that indicate the commitment of the state to economic development and future employment opportunities.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of September 30, 2013, was $1,492,133, an increase of $1,166 or less than one percent as compared to $1,490,967 at December 31, 2012. Net loans outstanding at September 30, 2013 were $1,481,621 as compared to $1,480,094 at December 31, 2012. Net loans accounted for 94.70 percent of total assets at September 30, 2013, as compared to 93.48 percent of total assets at December 31, 2012.

The increase in gross loan volume during the reporting period is attributed to advances on operating funds as well as new term loans exceeding payments and payoffs on existing loans. Commercial bank competition for good, quality loans continues to be a challenge for the lending staff as it has increased substantially within the Association's territory.

The Association typically structures loans to meet the needs of the borrower. Many term loans are made for ten years or less allowing the borrower to build equity faster and thus reducing the risk in the loan portfolio.

At December 31, 2012, the Association held Investment securities totaling $4,159. These investments are Rural America bonds made under the authority for Mission Related Investments granted by the Farm Credit Administration. At September 30, 2013, investment securities totaled $4,054, a decrease of $105. The 2.52 percent decrease is from normal payments during the reporting period.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from $17,153 at December 31, 2012, to $22,882 at September 30, 2013. This increase is the result of transfers to nonaccrual between December 2012 and September 2013. The balance of nonaccrual loans is reduced by liquidations, returning loans to accrual status, or transferring assets to other property owned and increased when credits deteriorate and full collection is unlikely. Association staff is working diligently to work out all nonaccrual debt situations, and additional transfers may occur as the economy remains sluggish.

Other property owned decreased to $5,541 at September 30, 2013 from $12,565 at December 31, 2012. The decrease of $7,024 or 55.90 percent in other property owned is the result of the sale or write down of property during the reporting period. The Association is actively marketing all properties for sale. For details, please visit our website at www.agsouthfc.com and click on Property For Sale.

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 $10,512 compared to $10,873 at December 31, 2012, and was considered by management to be adequate to cover possible losses. The decrease in the allowance account is the result of a provision adjustment to other liabilities to cover potential losses on undrawn commitment. The Asset/Liability Committee (ALCO) of the Association, which is comprised of members of senior management and staff assigned to special assets management, met in September to review the allowance account. The ALCO determined that an addition to the allowance account was not needed at this time, but that additional funds needed to be set aside for potential losses on undrawn commitment balances which had increased during the reporting period. The ALCO considered the general economic conditions, the potential for further deterioration in the existing portfolio and the possibility for some loan growth in the next quarter in determining the level of allowance.

Premises and equipment, net decreased $199 from $15,802 at December 31, 2012 to $15,603 at September 30, 2013. The decrease is the result of normal activity within the premises and equipment accounts.

The amount due from AgFirst Farm Credit Bank decreased $5,622 from $13,418 at December 31, 2012 to $7,796 at September 30, 2013. This line item includes the accrual of patronage income year to date from AgFirst to the Association. As of September 30, 2013 only three quarters of accrual had been recorded.

On the liability side of the balance sheet, Patronage refunds payable decreased $8,332 from $8,555 at December 31, 2012 to $223 at September 30, 2013. The decrease is from the checks for the patronage distribution being presented for payment.

Other liabilities decreased $1,615 from $25,035 at December 31, 2012 to $23,420 at September 30, 2013. The 6.45 percent decrease is due to the liability established in December 2012 to pay the 2012 incentive to qualifying employees.

RESULTS OF OPERATIONS

For the three months ended September 30, 2013

Net income for the three months ended September 30, 2013, totaled $9,713 as compared to $10,619 for the same period in 2012. This is a decrease of $906 or 8.53 percent. The commentary below explains the variance.

At September 30, 2013, interest income decreased $883 from $23,242 at September 30, 2012 to $22,359. This change was due to the decrease in the loan volume earning interest income and a decrease in interest income earned on participation purchased and sold loans. Nonaccrual income, which is included in interest income, was $441 for the three months ended September 30, 2013, as compared to $134 for the same period in 2012. The significant increase in nonaccrual income is from a large nonaccrual loan paying off during 2013 that did not occur during 2012.

Interest expense for the three months ended September 30, 2013 decreased $313 from $8,507 at September 30, 2012 to $8,194 at September 30, 2013. The decrease is tied to the lower Notes Payable balance, the lower interest rate environment and the ability of the Association to reprice its debt to AgFirst Farm Credit bank at lower rates.

Net interest income before the provision for loan loss decreased $570 for the three months ended September 30, 2013, as compared to the same period in 2012 due primarily to the decrease in interest income as discussed above. Net interest income after the provision for loan losses decreased $503 during the quarter ending September 30, 2013. The decrease can be tied to the lower rate environment and the decrease in loans outstanding.

A small reversal of the provision was made in the quarter ending September 30, 2013. The reversal was necessary to move general allowance to Other Liabilities to cover potential losses on undrawn loan commitment. In the same period in 2012, no provision entry was necessary.

Noninterest income decreased $80 over the same period last year. Loan fees decreased $81 or 9.27 percent. The loan fee variance can be tied to the decrease in demand for new volume. Some fee income may be waived in order to obtain or retain a desirable credit.

Fees for financially related services decreased $77 from $340 at September 30, 2012 compared to $263 at September 30, 2013. The decrease of 22.65 percent is due to timing of collection of commissions from the sale of multi-peril insurance and an experience refund from the sale of life insurance between the two reporting periods.

The patronage refunds from other Farm Credit institutions decreased $129 from $2,803 at September 30, 2012 to $2,674 at September 30, 2013. This is a decrease of 4.60 percent and is the result of the lower balance of loans sold to other Farm Credit institutions on a patronage basis. Loans are typically sold if the balance exceeds the Association's hold limit or because of the need to price lower to meet market competition.

In the three months ending September 30, 2013, the Association experienced losses on the sale of Other Property Owned in the amount of $139. During the same period of 2012, the Association booked losses on the sale of Other Property Owned of $525. The losses were an accumulation of write downs on several pieces of Other Property Owned held by the Association as well as losses recorded at the time of the sale. Some pieces are under contract for less than the current carrying value, while other write downs were needed due to new appraisals.

Gains on the sale of rural home loans decreased $71 from $378 at September 30, 2012 compared to $307 at September 30, 2013. The decrease in gains is the result of the decrease in originations between the two reporting periods. Demand for home loans has declined due to the rate environment.

Gains on the sale of premises and equipment were $20 for the period ending September 30, 2013 compared to $2 for the period ending September 30, 2012. During the September 30, 2013 quarter, the Association recorded gains on the sale of several Association automobiles that were replaced.

Other noninterest income recorded a loss of $51 during the three months ended September 30, 2013, compared to a gain of $75 in the three months ending September 30, 2012. During the 2013 reporting period, the Association booked a contingent liability for potential losses on Unfunded Commitment loan balances. No entry was necessary in the three months ending September 30, 2012.

Noninterest expense for the three months ended September 30, 2013, increased $335 or 4.15 percent when compared to the same period of 2012. Salaries and employee benefit expense increased $348 between the two reporting periods. The increase in salaries and employee benefits is from merit increases tied to annual performance.

Occupancy and equipment expense at September 30, 2013 was $615 compared to $594 for the same period in 2012. The increase of $21 is the result of new computer and related hardware purchases which are below the minimum for depreciation.

The Insurance Fund premium increased $138 from $153 at September 30, 2012 to $291 at September 30, 2013. The variance is due to the higher premium on both accruing and nonaccruing loans assessed in 2013 by the Insurance Fund.

Other operating expenses decreased $172 from $1,470 at September 30, 2012, compared to $1,298 at September 30, 2013. The decrease of 11.70 percent is attributed to a decrease in expense for Farmer Mac in-portfolio guarantees, advertising, and public and member relations expenses. The Association continues to experience higher travel expense due to the increase in the cost of operating Association automobiles. Other operating expenses also include communications, data processing, and all other expenses necessary to run the business.

For the nine months ended September 30, 2013

Net income for the nine months ended September 30, 2013, totaled $27,639 as compared to $32,138 for the same period in 2012. This is a decrease of $4,499 or 14.0 percent. The following narrative will explain the variance.

At September 30, 2013, interest income decreased $3,362 compared to the same period in 2012. The decrease was due to the decrease in interest income on loans and a decrease in investment interest income. The investment interest income is generated from several Rural America Bonds made under the Farm Credit Administration's (FCA) Mission Related Investment Program. A significant Rural America Bond paid off during the 2012 reporting period. Nonaccrual income, which is included in interest income, was $541 for the nine months ended September 30, 2013, as compared to $1,284 for the same period in 2012. The decrease of $743 or 57.87 percent is the result of the recognition of interest income when nonaccrual loans pay off. During the 2012 reporting period a significant nonaccrual loan liquidated.

Interest expense decreased $1,941 for the nine months ended September 30, 2013. The decrease is attributable to the lower interest rate environment and the lower volume outstanding.

Net interest income before the provision for loan loss decreased $1,421 or 3.28 percent for the nine months ended September 30, 2013 as compared to the same period in 2012 primarily due to the decrease in loan volume and nonrecurring income earned in 2012. The decrease was offset some by focused repricing efforts on existing loan volume. Net interest income after the provision for loan losses decreased $1,482 in the period ending September 30, 2013. This decrease is the result of decreased loan volume and the lower interest rate environment as well as the nonaccrual income earned in 2012 described above offset by a higher provision reversal in the 2012 reporting period when compared to the 2013 reporting period.

The provision amounts were a reversal of $239 and a reversal of $300 for the September 30, 2013 and 2012 periods, respectively. In September 2013, the Association's ALCO made the decision that the allowance account was slightly higher than necessary due to the need to fund an Other Liability for reserves for unfunded commitments. The ALCO analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income decreased $653 compared to the same period last year. Loan fees decreased $693 or 21.20 percent. In the first nine months of 2012, the Association collected significant fee income on several large accounts. This fee income did not recur in the 2013 reporting period.

Fees for financially related services decreased $91 from $828 at September 30, 2012 compared to $737 at September 30, 2013. The 10.99 percent decrease in fees for financially related services is the result of timing differences in the collection of commissions on the sale of multi-peril crop insurance.

The patronage refunds from other Farm Credit institutions increased $166 from $9,015 at September 30, 2012 to $9,181 at September 30, 2013. The increase is the result of an increase in patronage distribution from other Farm Credit institutions for loans sold to those institutions on a patronage basis. In June 2013, AgFirst made a special patronage distribution of $859 due to their 2013 year-to-date earnings. The special distribution received in 2012 was $853. The amount of special distribution is determined by the AgFirst Farm Credit Board of Directors and based upon the financial results of the AgFirst Farm Credit Bank (See Note 10, Subsequent Events).

Losses on the sale or write down of other property owned totaled $1,200 for the nine months ending September 30, 2013. When compared to the same period in 2012, losses on other property owned totaled $2,944. The losses or write downs were required after new contracts, sale closings, and/or new appraisals were obtained and the book value needed to more accurately reflect current market value. The variance is due to the lower balance of other property owned held by the Association during the 2013 reporting period.

Gains on the sale of rural home loans increased $72 from $1,116 at September 30, 2012 to $1,188 at September 30, 2013. Gains increased due to the increase in yield premiums for loans sold in the secondary market between the two reporting periods.

Gains on the sale of premises and equipment were $70 for the period ending September 30, 2013 compared to $124 for the period ending September 30, 2012. During the 2012 reporting period, the Covington building was sold and a gain of $124 was recorded.

During the second quarter of 2012, the Association recorded $1,649 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in

Noninterest Income on the Consolidated Statements of Income. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Other noninterest income decreased $148 from a gain of $224 at September 30, 2012 compared to $76 at September 30, 2013. The variance of 66.07 percent is due to reserves set aside for unfunded commitment balances. For the period ending September 30, 2012 this amount was $7 and for September 30, 2013, the amount increased to $244. This amount was offset by income earned from the sale of crop insurance and life insurance.

Noninterest expense for the nine months ended September 30, 2013, increased $2,394 compared to the same period of 2012. Salaries and employee benefit expense increased $1,536 between the two reporting periods. The 8.40 percent increase in salaries and employee benefits is tied to the increase in merit pay and benefit expense, primarily retirement and medical benefits, between the two reporting periods. In addition, employees have been hired to train due to the current number of Association employees eligible to retire within the next two years.

The Association booked an accrual for the 2013 incentive payment based upon plan results which is included in salary and benefit expense. The Association evaluated 2013 performance measures for incentive purposes and determined that some employees would earn incentive in 2013. Based upon this information, the Association accrued $859 in incentive in June 2013. Association staff will re-evaluate prior to the end of the fourth quarter 2013 to determine if an additional accrual is warranted.

Occupancy and equipment expense at September 30, 2013 was $1,951 compared to $1,753 for the same period in 2012. The increase is from the normal cost of operations and some timing differences as it relates to payment of property taxes in 2013. Property taxes were paid in the first quarter of 2013 instead of the fourth quarter of 2012 in error. Also contributing to the variance is the purchase of new computers and related hardware in 2013. Some of these amounts were below the minimum amount for depreciation purposes and were expensed.

The Insurance Fund premium increased from $454 at September 30, 2012 to $853 at September 30, 2013. The increase of 87.89 percent is tied to the increase in the premium on loans in both accrual and nonaccrual status. In 2012, the FCSIC premium was 5 basis points for accruing volume and 15 basis points for nonaccrual volume. In 2013, the charge for accruing volume increased to 10 basis points.

Other operating expenses increased $231 from September 30, 2012, $4,260 compared to $4,491 at September 30, 2013. The increase is primarily timing differences between the two reporting periods. Additional director expense has been incurred due to additional meetings. Purchased services expense for legal and consulting fees also increased in 2013 when compared to the same period in 2012.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (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 Bank advances the funds to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at September 30, 2013 was $1,266,353 as compared to $1,280,348 at December 31, 2012. The decline in the notes payable correlates to the decrease in gross loans during the reporting period.

See Note 5 in the Notes to the Consolidated Financial Statements for information on the status of compliance with covenants under the General Financing Agreement.

CAPITAL RESOURCES

Total members' equity at December 31, 2012 totaled $266,565. At September 30, 2013 total member's equity had increased by $5,203 to $271,768. In April, the Association revolved the 2007 series of allocated surplus that totaled $22,222. The revolvement was offset by the purchase of capital stock and participation certificates and year to date earnings during the reporting period which led to the increase in member's equity. At December 31, 2012, allocated retained earnings totaled $113,193. At September 30, 2013, the allocated retained earnings had decreased to $90,545. Unallocated equities increased $27,673 from $146,871 at December 31, 2012 to $174,544 at September 30, 2013. The increase is the result of earnings retained for capital purposes at year end 2012 and year to date earnings in 2013.

Total capital stock and participation certificates were $7,220 on September 30, 2013, compared to $7,108 on December 31, 2012. The increase is attributed to the purchase of new stock and participation certificates for new borrowing entities offset by the retirement of stock and participation certificates on loans liquidated in the normal course of business.

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 17.13 percent and 13.36 percent, respectively, and the permanent capital ratio was 17.64 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.

The Association has a portion of the portfolio in an in-portfolio guarantee program with Farmer Mac. The purpose of these guarantees is to improve the Association's capital position. At September 30, 2013, the Association had loans totaling $26,494 in this program. The cost of the guarantees year to date was $124. The use of the Farmer Mac in-portfolio guarantee has a positive effect on the Association's capital ratios.

At the present time, the Association's capital position remains strong and well above regulatory minimums. At December 31, 2012, the Association's permanent capital ratio was 17.05 percent. The increase to 17.64 percent permanent capital at September 30, 2013 is the result of the Association's decision to retain income in unallocated surplus, the limited growth on the balance sheet, and the use of various loan guarantee programs, including FSA, SBA and Farmer Mac. The Association has other tools available to strengthen the capital position. These options include selling additional loans to AgFirst and others, placing additional pools of loans with Farmer Mac in the in-portfolio guarantee program, and participating with AgFirst in a capitalized participation pool. Should additional measures be needed to improve the Association's capital ratios, Association management will study all options and make a recommendation to the Board for consideration.

REGULATORY MATTERS

On October 11, 2012, the Board entered into a Supervisory Agreement with the FCA. The Supervisory Agreement requires the Association to take corrective actions with respect to certain areas of its operations including standards of conduct, acquired property, borrower rights and board policies. Conditions and events that led to the need for this agreement include ineffective controls that resulted in the failure to comply with FCA Regulations in the sale of acquired property; violations of FCA Borrower Rights Regulations at 12 C.F.R. Part 612, Subpart G; ineffective controls over board and employee standards of conduct; an inadequate Standards of Conduct program which resulted in violations of FCA Regulations; and a lack of controls regarding standards of conduct for agents. The requirements of this agreement include, but are not limited to:

- Appointment of a new Standards of Conduct Official (SOCO)
- Appointment of a Board Compliance Committee as it relates to the Supervisory Agreement and ongoing Standards of Conduct issues
- Establishment of a standards of conduct program for directors, employees, and agents of the Association which is to include a review of applicable policies and procedures, training for directors and employees and comprehensive audits
- Establishment for a defined process for handling borrower rights issues, including updates to Association policy and procedures
- Policies and procedures revisions and updates around the disposition of other property owned
- Special requirements for properties under contract as of the date of the agreement
- Board approval and certification of future contracts on other properties owned to ensure compliance with FCA Regulations and Association policies and procedures

The Association has developed action plans to correct the weaknesses identified with assignments and due dates. The following action steps are complete as of this writing:

- A Compliance Committee was appointed by the Board of Directors. This committee is comprised of the Board chairman and vice chairman, Audit Committee chairman, and two other directors. The Board chairman will serve as the chairman of the Compliance Committee.
- The Board named Wesley D. Sutton as the Association Standards of Conduct Official. This action was approved by the Director, Risk Supervision Division at the FCA.
- Reports of required task completion outlined in the Supervisory Agreement have been made and published to the Director, Risk Supervision Division.
- Standards of Conduct policies and procedures have been updated, revised, and approved by the Board of Directors.
- Training on Standards of Conduct policies and procedures for all directors and employees has been completed.
- Director disclosures were completed and meetings were held with the SOCO to discuss the same. Following completion of the meetings, the SOCO presented a comprehensive report to the Board.
- Employee disclosures were completed and meetings were held with the SOCO to discuss the same. The SOCO presented a comprehensive report to the Board at the April 2013 meeting.
- Both the Board of Directors and employees completed their July 2013 disclosures.
- The 4th quarter 2012 SOCO report was presented to the Board of Directors at the January 2013 Board meeting.
- The SOCO report was presented quarterly to the Board of Directors at the Board meetings held in April, July and October 2013..
- A report of acquired property and other borrower's rights activities during each quarter was presented to the Board of Directors at the April, July and October 2013 Board meetings.
- The Board adopted a revised Code of Ethics and all board members signed on 8/5/2013. All employees completed the same Code of Ethics as of 8/5/2013.

- An independent accounting firm has been hired to complete a comprehensive audit of all acquired property sales from December 31, 2009 forward. The final report was presented to the Board at its' March 2013 meeting. No new exceptions to policy or regulation were identified.
- An independent law firm was hired to complete a comprehensive review of the Association's Standard of Conduct programs for directors, employees and agents, including policies and procedures, training materials, and disclosure documents. The final report was presented to the Board of Directors at the February 2013 Board meeting. Additional suggested revisions to Standards of Conduct policies and procedures have been made and approved by the Board of Directors.

Both the Board and Senior Management are committed to continuing the administration of the Association in a safe and sound manner, compliant with all FCA Regulations.

The Association remained under written Supervisory Agreement as of the date of this report.

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 1-800-310-4805, ext. 6737, writing Alisa D. Gunter, CFO, AgSouth Farm Credit, ACA, PO Box 4966, Spartanburg, SC 29305, or accessing the website *www.agsouthfc.com*. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual report to Shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

AgSouth Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2013 (unaudited)	December 31, 2012 (audited)
Assets		
Cash	$ 2,158	$ 4,619
Investment securities:		
Held to maturity (fair value of $4,163 and $4,628, respectively)	4,054	4,159
Loans	1,492,133	1,490,967
Less: allowance for loan losses	10,512	10,873
Net loans	1,481,621	1,480,094
Loans held for sale	866	3,000
Accrued interest receivable	15,564	14,328
Investments in other Farm Credit institutions	21,720	21,686
Premises and equipment, net	15,603	15,802
Other property owned	5,541	12,565
Due from AgFirst Farm Credit Bank	7,796	13,418
Other assets	9,550	13,609
Total assets	$ 1,564,473	$ 1,583,280
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,266,353	$ 1,280,348
Accrued interest payable	2,709	2,777
Patronage refunds payable	223	8,555
Other liabilities	23,420	25,035
Total liabilities	1,292,705	1,316,715
Commitments and contingencies		
Members' Equity		
Protected borrower stock	59	78
Capital stock and participation certificates	7,161	7,030
Retained earnings		
Allocated	90,545	113,193
Unallocated	174,544	146,871
Accumulated other comprehensive income (loss)	(541)	(607)
Total members' equity	271,768	266,565
Total liabilities and members' equity	$ 1,564,473	$ 1,583,280

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

AgSouth 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	$ 62	$ 67	$ 190	$ 286
Loans	22,297	23,175	65,831	69,097
Total interest income	22,359	23,242	66,021	69,383
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	8,193	8,493	24,111	26,017
Other	1	14	10	45
Total interest expense	8,194	8,507	24,121	26,062
Net interest income	14,165	14,735	41,900	43,321
Provision for (reversal of allowance for) loan losses	(67)	—	(239)	(300)
Net interest income after provision for (reversal of allowance for) loan losses	14,232	14,735	42,139	43,621
Noninterest Income				
Loan fees	793	874	2,576	3,269
Fees for financially related services	263	340	737	828
Patronage refunds from other Farm Credit institutions	2,674	2,803	9,181	9,015
Gains (losses) on other property owned, net	(139)	(525)	(1,200)	(2,944)
Gains (losses) on sales of rural home loans, net	307	378	1,188	1,116
Gains (losses) on sales of premises and equipment, net	20	2	70	124
Insurance Fund refunds	—	—	—	1,649
Other noninterest income (loss)	(51)	75	76	224
Total noninterest income	3,867	3,947	12,628	13,281
Noninterest Expense				
Salaries and employee benefits	6,196	5,848	19,820	18,284
Occupancy and equipment	615	594	1,951	1,723
Insurance Fund premiums	291	153	853	454
Other operating expenses	1,298	1,470	4,491	4,260
Total noninterest expense	8,400	8,065	27,115	24,721
Income before income taxes	9,699	10,617	27,652	32,181
Provision (benefit) for income taxes	(14)	(2)	13	43
Net income	$ 9,713	$ 10,619	$ 27,639	$ 32,138

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

AgSouth 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	$ 9,713	$ 10,619	$ 27,639	$ 32,138
Other comprehensive income net of tax				
Employee benefit plans adjustments (Note 8)	22	15	66	2
Comprehensive income	$ 9,735	$ 10,634	$ 27,705	$ 32,140

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

AgSouth 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	$ 104	$ 6,679	$ 113,878	$ 132,426	$ (474)	$ 252,613
Comprehensive income				32,138	2	32,140
Protected borrower stock retired	(26)					(26)
Capital stock/participation certificates issued/(retired), net		251				251
Retained earnings retired			(20,081)			(20,081)
Patronage distribution adjustment			21	(30)		(9)
Balance at September 30, 2012	$ 78	$ 6,930	$ 93,818	$ 164,534	$ (472)	$ 264,888
Balance at December 31, 2012	$ 78	$ 7,030	$ 113,193	$ 146,871	$ (607)	$ 266,565
Comprehensive income				27,639	66	27,705
Protected borrower stock retired	(19)					(19)
Capital stock/participation certificates issued/(retired), net		131				131
Retained earnings retired			(22,624)			(22,624)
Patronage distribution adjustment			(24)	34		10
Balance at September 30, 2013	$ 59	$ 7,161	$ 90,545	$ 174,544	$ (541)	$ 271,768

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

AgSouth 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 AgSouth 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 Associations' 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	$ 4,054	$ 109	$ –	$ 4,163	6.03%

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 4,159	$ 469	$ –	$ 4,628	5.97%

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

	September 30, 2013		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	– %
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	4,054	4,163	6.03
Total	$ 4,054	$ 4,163	6.03 %

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. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position at September 30, 2013 or December 31, 2012.

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	$ 1,203,873	$ 1,196,680
Production and intermediate-term	235,747	234,859
Loans to cooperatives	–	597
Processing and marketing	6,216	12,010
Farm-related business	8,869	10,339
Rural residential real estate	36,863	35,901
Other (including mission-related)	565	581
Total Loans	$ 1,492,133	$ 1,490,967

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	$ 436	$ 84,398	$ –	$ 7,391	$ –	$ –	$ 436	$ 91,789
Production and intermediate-term	–	26,860	1,098	–	1,725	40	2,823	26,900
Processing and marketing	294	7,902	–	7,031	–	–	294	14,933
Total	$ 730	$ 119,160	$ 1,098	$ 14,422	$ 1,725	$ 40	$ 3,553	$ 133,622

	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	$ 474	$ 102,606	$ –	$ 4,309	$ –	$ –	$ 474	$ 106,915
Production and intermediate-term	247	40,173	821	1,236	2,561	(125)	3,629	41,284
Processing and marketing	1,596	19,836	–	6,611	–	–	1,596	26,447
Total	$ 2,317	$ 162,615	$ 821	$ 12,156	$ 2,561	$ (125)	$ 5,699	$ 174,646

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	$ 76,744	$ 255,740	$ 871,389	$ 1,203,873
Production and intermediate-term	102,744	89,999	43,004	235,747
Processing and marketing	2,884	833	2,499	6,216
Farm-related business	2,748	3,153	2,968	8,869
Rural residential real estate	3,561	4,133	29,169	36,863
Other (including mission-related)	–	–	565	565
Total Loans	$ 188,681	$ 353,858	$ 949,594	$ 1,492,133
Percentage	12.65%	23.71%	63.64%	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	94.17%	94.27%
OAEM	3.33	3.46
Substandard/doubtful/loss	2.50	2.27
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	92.62%	90.53%
OAEM	2.80	3.77
Substandard/doubtful/loss	4.58	5.70
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	–%	16.52%
OAEM	–	83.48
Substandard/doubtful/loss	–	–
	–%	100.00%
Processing and marketing:		
Acceptable	95.29%	90.20%
OAEM	–	–
Substandard/doubtful/loss	4.71	9.80
	100.00%	100.00%

	September 30, 2013	December 31, 2012
Farm-related business:		
Acceptable	99.91%	98.06%
OAEM	–	1.93
Substandard/doubtful/loss	0.09	0.01
	100.00%	100.00%
Rural residential real estate:		
Acceptable	97.20%	97.38%
OAEM	1.60	1.73
Substandard/doubtful/loss	1.20	0.89
	100.00%	100.00%
Other (including mission-related):		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	94.04%	93.72%
OAEM	3.17	3.46
Substandard/doubtful/loss	2.79	2.82
	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	$ 11,344	$ 3,717	$ 15,061	$ 1,200,590	$ 1,215,651	$ –
Production and intermediate-term	2,943	909	3,852	235,342	239,194	–
Processing and marketing	–	294	294	5,946	6,240	–
Farm-related business	–	1	1	8,974	8,975	–
Rural residential real estate	233	135	368	36,682	37,050	–
Other (including mission-related)	–	–	–	568	568	–
Total	$ 14,520	$ 5,056	$ 19,576	$ 1,488,102	$ 1,507,678	$ –

	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	$ 6,098	$ 3,233	$ 9,331	$ 1,197,758	$ 1,207,089	$ 280
Production and intermediate-term	398	5,770	6,168	232,106	238,274	–
Loans to cooperatives	–	–	–	601	601	–
Processing and marketing	–	–	–	12,205	12,205	–
Farm-related business	10	1	11	10,458	10,469	–
Rural residential real estate	595	64	659	35,397	36,056	–
Other (including mission-related)	–	–	–	582	582	–
Total	$ 7,101	$ 9,068	$ 16,169	$ 1,489,107	$ 1,505,276	$ 280

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	$ 12,094	$ 6,956
Production and intermediate-term	10,066	9,820
Processing and marketing	293	295
Farm-related business	8	1
Rural residential real estate	421	81
Total nonaccrual loans	$ 22,882	$ 17,153
Accruing restructured loans:		
Real estate mortgage	$ 13,956	$ 8,269
Production and intermediate-term	1,034	1,026
Processing and marketing	–	–
Farm-related business	197	202
Rural residential real estate	–	–
Total accruing restructured loans	$ 15,187	$ 9,497
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ 280
Production and intermediate-term	–	–
Processing and marketing	–	–
Farm-related business	–	–
Rural residential real estate	–	–
Total accruing loans 90 days or more past due	$ –	$ 280
Total nonperforming loans	$ 38,069	$ 26,930
Other property owned	5,541	12,565
Total nonperforming assets	$ 43,610	$ 39,495
Nonaccrual loans as a percentage of total loans	1.53%	1.15%
Nonperforming assets as a percentage of total loans and other property owned	2.91%	2.63%
Nonperforming assets as a percentage of capital	16.05%	14.82%

The following table presents information relating to impaired loans (including accrued interest) at period end. Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan.

	September 30, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	$ 11,625	$ 7,177
Past due	11,257	9,976
Total impaired nonaccrual loans	22,882	17,153
Impaired accrual loans:		
Restructured	15,187	9,497
90 days or more past due	–	280
Total impaired accrual loans	15,187	9,777
Total impaired loans	$ 38,069	$ 26,930

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	$ 1,656	$ 1,786	$ 366	$ 1,264	$ 24	$ 1,223	$ 39
Production and intermediate-term	3,056	3,808	902	2,333	45	2,256	71
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	135	168	13	103	2	100	3
Total	$ 4,847	$ 5,762	$ 1,281	$ 3,700	$ 71	$ 3,579	$ 113
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 24,394	$ 26,525	$ –	$ 18,624	$ 360	$ 18,013	$ 565
Production and intermediate-term	8,044	9,573	–	6,142	119	5,941	187
Processing and marketing	293	840	–	224	4	216	7
Farm-related business	205	228	–	157	3	151	5
Rural residential real estate	286	360	–	218	4	211	7
Total	$ 33,222	$ 37,526	$ –	$ 25,365	$ 490	$ 24,532	$ 771
Total impaired loans:							
Real estate mortgage	$ 26,050	28,311	366	$ 19,888	$ 384	$ 19,236	$ 604
Production and intermediate-term	11,100	13,381	902	8,475	164	8,197	258
Processing and marketing	293	840	–	224	4	216	7
Farm-related business	205	228	–	157	3	151	5
Rural residential real estate	421	528	13	321	6	311	10
Total	$ 38,069	$ 43,288	$ 1,281	$ 29,065	$ 561	$ 28,111	$ 884

	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	$ 814	$ 926	$ 310	$ 1,078	$ 53
Production and intermediate-term	3,186	3,784	964	4,219	209
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Rural residential real estate	–	–	–	–	–
Total	$ 4,000	$ 4,710	$ 1,274	$ 5,297	$ 262
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 14,691	$ 17,862	$ –	$ 19,459	$ 962
Production and intermediate-term	7,660	8,868	–	10,146	500
Processing and marketing	295	840	–	390	19
Farm-related business	203	226	–	268	13
Rural residential real estate	81	135	–	108	5
Total	$ 22,930	$ 27,931	$ –	$ 30,371	$ 1,499
Total impaired loans:					
Real estate mortgage	$ 15,505	$ 18,788	$ 310	$ 20,537	$ 1,015
Production and intermediate-term	10,846	12,652	964	14,365	709
Processing and marketing	295	840	–	390	19
Farm-related business	203	226	–	268	13
Rural residential real estate	81	135	–	108	5
Total	$ 26,930	$ 32,641	$ 1,274	$ 35,668	$ 1,761

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*	Rural Residential Real Estate	Other (including mission related)	Total
Allowance for credit losses:						
Balance at June 30, 2013	$ 8,017	$ 2,430	$ 109	$ 237	$ 4	$ 10,797
Charge-offs	(213)	(4)	–	(37)	–	(254)
Recoveries	27	2	1	6	–	36
Provision for loan losses	(23)	(60)	(17)	34	(1)	(67)
Balance at September 30, 2013	$ 7,808	$ 2,368	$ 93	$ 240	$ 3	$ 10,512
Balance at December 31, 2012	$ 8,008	$ 2,483	$ 148	$ 230	$ 4	$ 10,873
Charge-offs	(432)	(84)	–	(37)	–	(553)
Recoveries	257	88	30	56	–	431
Provision for loan losses	(25)	(119)	(85)	(9)	(1)	(239)
Balance at September 30, 2013	$ 7,808	$ 2,368	$ 93	$ 240	$ 3	$ 10,512
Balance at June 30, 2012	$ 7,638	$ 3,058	$ 152	$ 230	$ 25	$ 11,103
Charge-offs	(87)	(53)	(4)	(68)	–	(212)
Recoveries	56	28	1	5	–	90
Provision for loan losses	(197)	(92)	249	42	(2)	–
Balance at September 30, 2012	$ 7,410	$ 2,941	$ 398	$ 209	$ 23	$ 10,981
Balance at December 31, 2011	$ 4,282	$ 4,833	$ 83	$ 701	$ 1	$ 9,900
Charge-offs	(510)	(211)	(5)	(701)	–	(1,427)
Recoveries	260	2,516	23	9	–	2,808
Provision for loan losses	3,378	(4,197)	297	200	22	(300)
Balance at September 30, 2012	$ 7,410	$ 2,941	$ 398	$ 209	$ 23	$ 10,981
Loans individually evaluated for impairment	$ 366	$ 902	$ –	$ 13	$ –	$ 1,281
Loans collectively evaluated for impairment	7,442	1,466	93	227	3	9,231
Balance at September 30, 2013	$ 7,808	$ 2,368	$ 93	$ 240	$ 3	$ 10,512
Loans individually evaluated for impairment	$ 310	$ 964	$ –	$ –	$ –	$ 1,274
Loans collectively evaluated for impairment	7,698	1,519	148	230	4	9,599
Balance at December 31, 2012	$ 8,008	$ 2,483	$ 148	$ 230	$ 4	$ 10,873
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 12,124	$ 10,111	$ 286	$ 420	$ –	$ 22,941
Loans collectively evaluated for impairment	1,203,527	229,083	14,929	36,630	568	1,484,737
Ending balance at September 30, 2013	$ 1,215,651	$ 239,194	$ 15,215	$ 37,050	$ 568	$ 1,507,678
Loans individually evaluated for impairment	$ 13,774	$ 10,087	$ 492	$ 79	$ –	$ 24,432
Loans collectively evaluated for impairment	1,193,315	$ 228,187	$ 22,783	$ 35,977	$ 582	$ 1,480,844
Ending balance at December 31, 2012	$ 1,207,089	$ 238,274	$ 23,275	$ 36,056	$ 582	$ 1,505,276

**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.

Three months ended September 30, 2013	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 461	$ 5,754	$ 6,215
Total	$ –	$ 461	$ 5,754	$ 6,215

Three months ended September 30, 2013	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 238	$ 5,815	$ 6,053	$ –	$ –
Total	$ –	$ 238	$ 5,815	$ 6,053	$ –	$ –

Nine months ended September 30, 2013	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 2,504	$ 555	$ 6,182	$ 9,241
Production and intermediate-term	–	41	48	89
Rural residential real estate	139	–	–	139
Total	$ 2,643	$ 596	$ 6,230	$ 9,469

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	$ 2,509	$ 333	$ 6,237	$ 9,079	$ –	$ –
Production and intermediate-term	–	42	41	83	–	–
Rural residential real estate	139	–	–	139	–	–
Total	$ 2,648	$ 375	$ 6,278	$ 9,301	$ –	$ –

Three months ended September 30, 2012	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 2,696	$ –	$ 615	$ 3,311
Total	$ 2,696	$ –	$ 615	$ 3,311

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	$ 2,696	$ –	$ 600	$ 3,296	$ –	$ –
Total	$ 2,696	$ –	$ 600	$ 3,296	$ –	$ –

Nine months ended September 30, 2012	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 4,157	$ 298	$ 936	$ 5,391
Production and intermediate-term	336	–	–	336
Farm-related business	–	–	321	321
Total	$ 4,493	$ 298	$ 1,257	$ 6,048

	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	$ 4,150	$ 298	$ 922	$ 5,370	$ –	$ –
Production and intermediate-term	334	–	–	334	(24)	–
Farm-related business	–	–	321	321	–	–
Total	$ 4,484	$ 298	$ 1,243	$ 6,025	$ (24)	$ –

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	$ 227	$ 561	$ 591	$ 585
Production and intermediate-term	82	–	200	626
Processing and marketing	–	–	–	–
Farm-related business	–	–	–	–
Total	$ 309	$ 561	$ 791	$ 1,211

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. 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	$ 16,853	$ 10,005	$ 2,897	$ 1,736
Production and intermediate-term	1,400	1,941	366	915
Processing and marketing	294	294	294	294
Farm-related business	198	203	1	1
Rural residential real estate	133	–	133	–
Total Loans	$ 18,878	$ 12,443	$ 3,691	$ 2,946
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	$ 1,577	$ 1,592	$ 4,731	$ 4,779
401(k)	129	118	416	392
Other postretirement benefits	256	210	767	631
Total	$ 1,962	$ 1,920	$ 5,914	$ 5,802

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	$ 64	$ 5,786	$ 5,850
Other postretirement benefits	563	234	797
Total	$ 627	$ 6,020	$ 6,647

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 – 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 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.

Certain conditions and events that led to the need for the Association to enter into a Supervisory Agreement with the Farm Credit Administration (FCA) as discussed in Note 9, *Regulatory Enforcement Matters*, constituted events of default under the GFA as the Association was not able to remedy the defaults within 30 days of written notice from the Bank. The Bank has waived the Association's events of default under the GFA provided the Association remains compliant with the requirements of the Supervisory Agreement with the FCA.

NOTE 6 – 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 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 6.61 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 $3,501 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.

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

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

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

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

	Standby Letters Of Credit
Balance at January 1, 2013	$ 5
Issuances	–
Settlements	(1)
Transfers in and/or out of level 3	–
Balance at September 30, 2013	$ 4

	Standby Letters Of Credit
Balance at January 1, 2012	$ 7
Issuances	–
Settlements	(1)
Transfers in and/or out of level 3	–
Balance at September 30, 2012	$ 6

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).

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	$ 42,829	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/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

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

	At or for the Nine Months Ended September 30, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 955	$ 955	$ –	$ –	$ 955	
Recurring Assets	$ 955	$ 955	$ –	$ –	$ 955	
Liabilities:						
Standby letters of credit	$ 4	$ –	$ –	$ 4	$ 4	
Recurring Liabilities	$ 4	$ –	$ –	$ 4	$ 4	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 36,788	$ –	$ –	$ 36,788	$ 36,788	$ (130)
Other property owned	5,541	–	–	6,041	6,041	(1,117)
Nonrecurring Assets	$ 42,329	$ –	$ –	$ 42,829	$ 42,829	$ (1,247)
Other Financial Instruments						
Assets:						
Cash	$ 2,158	$ 2,158	$ –	$ –	$ 2,158	
Investment securities, held-to-maturity	4,054	–	–	4,163	4,163	
Loans	1,445,699	–	–	1,449,170	1,449,170	
Other Assets	$ 1,451,911	$ 2,158	$ –	$ 1,453,333	$ 1,455,491	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,266,353	$ –	$ –	$ 1,255,620	$ 1,255,620	
Other Liabilities	$ 1,266,353	$ –	$ –	$ 1,255,620	$ 1,255,620	

	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	$ 679	$ 679	$ –	$ –	$ 679	
Recurring Assets	$ 679	$ 679	$ –	$ –	$ 679	
Liabilities:						
Standby letters of credit	$ 5	$ –	$ –	$ 5	$ 5	
Recurring Liabilities	$ 5	$ –	$ –	$ 5	$ 5	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 25,656	$ –	$ –	$ 25,656	$ 25,656	$ 3,325
Other property owned	12,565	–	–	13,875	13,875	(3,953)
Nonrecurring Assets	$ 38,221	$ –	$ –	$ 39,531	$ 39,531	$ (628)
Other Financial Instruments						
Assets:						
Cash	$ 4,619	$ 4,619	$ –	$ –	$ 4,619	
Investment securities, held-to-maturity	4,159	–	–	4,628	4,628	
Loans	1,457,003	–	–	1,464,971	1,464,971	
Other Assets	$ 1,465,781	$ 4,619	$ –	$ 1,469,599	$ 1,474,218	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,280,348	$ –	$ –	$ 1,285,484	$ 1,285,484	
Other Liabilities	$ 1,280,348	$ –	$ –	$ 1,285,484	$ 1,285,484	

NOTE 8 - 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**
Employee Benefit Plans:				
Balance at beginning of period	$ (563)	$ (487)	$ (607)	$ (474)
Other comprehensive income before reclassifications	–	–	–	(43)
Amounts reclassified from AOCI	22	15	66	45
Net current period other comprehensive income	22	15	66	2
Balance at end of period	$ (541)	$ (472)	$ (541)	$ (472)

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	$ (22)	$ (15)	$ (66)	$ (45)	See footnote 4.
Net amounts reclassified	$ (22)	$ (15)	$ (66)	$ (45)	

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

NOTE 9 - REGULATORY ENFORCEMENT MATTERS

On October 11, 2012, the Board entered into a Supervisory Agreement with the FCA. The Supervisory Agreement requires the Association to take corrective actions with respect to certain areas of its operations including standards of conduct, acquired property, borrower rights and board policies. Conditions and events that led to the need for this agreement include ineffective controls that resulted in the failure to comply with FCA Regulations in the sale of acquired property; violations of FCA Borrower Rights Regulations at 12 C.F.R. Part 612, Subpart G; ineffective controls over board and employee standards of conduct; an inadequate Standards of Conduct program which resulted in violations of FCA Regulations; and a lack of controls regarding standards of conduct for agents. The requirements of this agreement include, but are not limited to:

- Appointment of a new Standards of Conduct Official (SOCO)
- Appointment of a Board Compliance Committee as it relates to the Supervisory Agreement and ongoing Standards of Conduct issues
- Establishment of a standards of conduct program for directors, employees, and agents of the Association which is to include a review of applicable policies and procedures, training for directors and employees and comprehensive audits
- Establishment for a defined process for handling borrower rights issues, including updates to Association policy and procedures
- Policies and procedures revisions and updates around the disposition of other property owned
- Special requirements for properties under contract as of the date of the agreement
- Board approval and certification of future contracts on other properties owned to ensure compliance with FCA Regulations and Association policies and procedures

The Association has developed action plans to correct the weaknesses identified with assignments and due dates. The following action steps are complete as of this writing:

- A Compliance Committee was appointed by the Board of Directors. This committee is comprised of the Board chairman and vice chairman, Audit Committee chairman, and two other directors. The Board chairman will serve as the chairman of the Compliance Committee.
- The Board named Wesley D. Sutton as the Association Standards of Conduct Official. This action was approved by the Director, Risk Supervision Division at the FCA.
- Reports of required task completion outlined in the Supervisory Agreement have been made and published to the Director, Risk Supervision Division.
- Standards of Conduct policies and procedures have been updated, revised, and approved by the Board of Directors.
- Training on Standards of Conduct policies and procedures for all directors and employees has been completed.
- Director disclosures were completed and meetings were held with the SOCO to discuss the same. Following completion of the meetings, the SOCO presented a comprehensive report to the Board.
- Employee disclosures were completed and meetings were held with the SOCO to discuss the same. The SOCO presented a comprehensive report to the Board at the April 2013 meeting.
- Both the Board of Directors and employees completed their July 2013 disclosures.

- The 4th quarter 2012 SOCO report was presented to the Board of Directors at the January 2013 Board meeting.
- The SOCO report was presented quarterly to the Board of Directors at the Board meetings held in April, July and October 2013.
- A report of acquired property and other borrower's rights activities during each quarter was presented to the Board of Directors at the April, July and October 2013 Board meetings.
- The Board adopted a revised Code of Ethics and all board members signed on 8/5/2013. All employees completed the same Code of Ethics as of 8/5/2013.
- An independent accounting firm has been hired to complete a comprehensive audit of all acquired property sales from December 31, 2009 forward. The final report was presented to the Board at its' March 2013 meeting. No new exceptions to policy or regulation were identified.
- An independent law firm was hired to complete a comprehensive review of the Association's Standard of Conduct programs for directors, employees and agents, including policies and procedures, training materials, and disclosure documents. The final report was presented to the Board of Directors at the February 2013 Board meeting. Additional suggested revisions to Standards of Conduct policies and procedures have been made and approved by the Board of Directors.

Both the Board and Senior Management are committed to continuing the administration of the Association in a safe and sound manner, compliant with all FCA Regulations.

The Association remained under written Supervisory Agreement as of the date of this report.

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 21, 2013, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2014. The Association will receive approximately $17,046 which will be recorded in October 2013 as patronage refunds from other Farm Credit institutions.