AgSouth Farm Credit, ACA

SECOND QUARTER 2013

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CERTIFICATION

The undersigned certify that we have reviewed the June 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

August 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 June 30, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

William P. Spigener

William P. Spigener
Chief Executive Officer

Alisa D. Gunter

Alisa D. Gunter
Chief Financial Officer

August 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 June 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 $1,279,481 or 86.1 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 second quarter of 2013 the Association originated $72,454 in loans for the secondary market. Originations at the same period 2012 were $63,732. The 13.7 percent increase is the result of the continued historically low rates and the stabilization of home values. This stabilization has encouraged existing home sales and led to an increase in new home construction. As of June 30, 2013, the Association held $1,818 in qualifying loans for sale.

Georgia Region

Rains have been a dominate factor throughout the Georgia region during late May and June. The southeastern area of AgSouth's footprint is the primary row crop region and rainfall amounts in this area are far exceeding average. Plantings of peanuts, cotton, and soybeans were delayed and wheat harvest was hampered by heavy rains; however, most farmers were able to complete their planned acreages, and Georgia winter wheat production was up 71 percent in 2013 over 2012 primarily due to a large increase in acres planted. Saturated soils are beginning to stress cotton and peanuts especially in lower areas; however, USDA still rates 60-80 percent of both crops in Georgia as good to excellent with the majority of the remainder rated fair. Most corn is also rated good to excellent. Application of fungicides and other chemicals to peanuts and cotton has been difficult due to the wet soils and many farmers are applying by air.

In Georgia, the cotton crop is significantly behind the normal schedule, with only 18 percent squaring as compared to 38 percent for the 5-year average. Blueberry production has been hurt by early season hail damage and late season excess rains. Too much rain causes the fruit to expand and burst. Yields are down, but prices in the early fresh market were extremely good, off-setting some of the production losses. The processed-berry market price is not expected to be very good, but there are no indications of repayment problems in the blueberry portfolio at this time. Peach production is good throughout central Georgia with some late season frost damage, but most expect around an 80 percent crop. Market prices have been good and should result in an overall good season for most growers.

The 2013 onion crop has been harvested and shipment of onions continues. Seed stem issues were a concern early in the season due to growing conditions; however, conditions improved and the onions responded positively. Yields increased to above average which off-set the majority of seed stem loss. Onion prices started out strong at $20 to $23 per 40lb equivalent and dropped slightly to $15 to $18. Prices are currently at $16 to $18 as onions are coming out of storage at this time. This level of price and above average yield should produce a good onion season.

Timber stumpage prices have remained fairly stable throughout 2013 trending slightly higher. Expectations are for additional price increases due to wet conditions limiting access to wood. The third quarter could see some spikes in stumpage prices given wet conditions. Prices ranged as follows in the various wood classes: Inland pulpwood ranged $9 to $10 per ton with coastal areas ranging $16 to $20 per ton; Chip-n-saw prices averaged $16 to $20 per ton with saw timber prices $25 to $28 per ton. Lumber prices had increased significantly through March with the composite price of southern pine reaching $447/mbf, up from $299/mbf in June 2012. Prices fell in the second quarter of 2013 with the composite price falling back to $352/mbf. Oversupply is blamed for the second quarter price decrease. U.S. paper and paperboard production was 33.5MM tons through May of 2013, unchanged from same period of 2012 according to the American Forest and Paper Association, but about 4MM tons under 2008 production levels.

The housing market appears to show signs of strengthening with lower supplies of existing homes. The foreclosure rate in Georgia dropped 47 percent for the first six months of 2013 compared to 2012; however it remained the fifth highest foreclosure rate in the nation with 34,743 foreclosures so far this year.

Unemployment in Georgia dropped slightly to 8.3 percent, down from 8.5 percent in the first quarter but well above the national average of 7.6 percent. Georgia's manufacturing continued to slow in June with a drop in the PMI, Purchasing Managers Index, to 52.1, down 3.4 points below its six-month average. An index above 50 indicates expansion; however, the rate of expansion of the state's manufacturing sector is slowing. According to the Governor's office, the federal budget released by the Obama administration contained a small percentage of the matching funds required for the deepening of the Savannah port, and while not fully funded this gives the go ahead for the project which will have significant economic impact on the region.

Overall, land values within AgSouth's footprint have stabilized according to the Association's most recent land value trend study. While cultivated farmland values have been stable to increasing over the last 3 years, other categories including woodland appear to have stabilized as well. The number of transactions sold continues to increase in the 5 to 50 acre category significantly over last year as well as the tracts exceeding 50 acres. This continues to provide lending opportunities to the Association.

South Carolina Region

The state of South Carolina has experienced a unique crop season thus far in 2013. Late spring and early summer rainfall in the state has been well above average in the Association's territory within the state. Temperatures have been high at times; but, overall, the second quarter has provided for mild temperatures compared to early summer months in recent years.

Winter wheat harvest has been slow in 2013 as wet conditions delayed harvest. These conditions have led to some damage to wheat kernels, but reported yields have been good to excellent despite the test weight being somewhat lower than normal. With the slower harvest of wheat, plantings of crops behind wheat have been slowed. Planted soybean acreage is about 92 percent at quarter end 2013 compared to 98 percent at same quarter end 2012. The only soybeans not planted in South Carolina are double cropped soybeans following wheat. Both the corn and peanut crop in the South Carolina region appear to be in good condition given the moisture and mild temperatures. Cotton produced in the service area is squaring slower than in recent years due to the weather conditions; but, overall the crop still appears to be in good condition in most locations. Prices for row crop commodities remain favorable with the potential for profits high if production materializes.

Broilers continue to perform well with some expansion occurring with a few integrators. Broilers continue to be the largest commodity concentration in South Carolina which is repaid from agricultural income.

The largest commodity concentration in South Carolina is the timber forest products sector. The forest products concentration is repaid substantially from non-farm income. Profits by the forestry processing industry have improved significantly in 2013 and stumpage prices are likewise showing improvement. Timber located on higher ground not affected by late spring and early summer rainfall is generating premium prices as the second quarter ends.

Rural real estate sales are picking up in the state with more sales noted and at prices which are stable to slightly increasing. Available credit has impacted real estate sales in the recent past, but it now appears credit is becoming more accessible for financing rural property including both cropland and timberland.

South Carolina's economy continues to improve with the unemployment rate at 8.0 percent through mid second quarter. Unemployment decreased by almost one half of one percent since the end of the first quarter, the largest one month decrease in over three decades. Compared to the same period in the previous year, unemployment has decreased by approximately 1.3 percent. Unfortunately, the state's unemployment still trails the national rate of unemployment which stands at 7.6 percent.

Home sales in South Carolina climbed by approximately 21 percent midway through the second quarter as strong buyer demand served to tighten the supply of available properties on the market. Each of the metropolitan areas served by AgSouth projected higher home sales on a percentage basis in the quarter with Greenville home sales leading the state followed closely by the Columbia and Charleston markets. In addition, the second quarter foreclosure activity in the state slowed and decreased by 12.7 percent compared to the second quarter 2012. Despite the improvement in foreclosure activity across the state, SC still reports the seventh highest foreclosure rate in the country for the second quarter.

ASSOCIATION BALANCE SHEET

The gross loan volume of the Association as of June 30, 2013, was $1,486,739, a decrease of $4,228 or less than one percent as compared to $1,490,967 at December 31, 2012. Net loans outstanding at June 30, 2013 were $1,475,942 as compared to $1,480,094 at December 31, 2012. Net loans accounted for 94.92 percent of total assets at June 30, 2013, as compared to 93.48 percent of total assets at December 31, 2012.

The decrease in gross loan volume during the reporting period is attributed to payments and payoffs on operating lines in excess of advances on new or existing loans. Commercial bank competition for good, quality loans has also increased substantially within the Association's territory in the current reporting period.

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 June 30, 2013, investment securities totaled $4,089, a decrease of $70. The 1.7 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 $17,537 at June 30, 2013. This increase is the result of transfers to nonaccrual between December 2012 and June 2013. Nonaccrual loans are 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 $5,159 at June 30, 2013 from $12,565 at December 31, 2012. The decrease of $7,406 or 58.9 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 June 30, 2013, was $10,797 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 June 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 $233 from $15,802 at December 31, 2012 to $15,569 at June 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 $8,247 from $13,418 at December 31, 2012 to $5,171 at June 30, 2013. This line item includes the accrual of patronage income year to date from AgFirst to the Association. As of June 30, 2013 only two quarters of accrual had been recorded. The Association has no reason to expect that the patronage accrual for 2013 will differ significantly from the 2012 amount.

RESULTS OF OPERATIONS

For the three months ended June 30, 2013

Net income for the three months ended June 30, 2013, totaled $9,128 as compared to $11,089 for the same period in 2012. This is a decrease of $1,961 or 17.68 percent. The commentary below explains the variance.

At June 30, 2013, interest income decreased $1,561 from $23,488 at June 30, 2012 to $21,927. This change was due to the decrease in the loan volume earning interest income, a decrease in interest income earned on participation purchased loans and a decrease in interest income on investments in Rural America bonds recognized between the two reporting periods. Nonaccrual income, which is included in interest income, was $75 for the three months ended June 30, 2013, as compared to $974 for the same period in 2012. The significant decrease in nonaccrual income is from a large nonaccrual loan paying off during 2012 that did not reoccur during 2013.

Interest expense for the three months ended June 30, 2013 decreased $738 from $8,713 at June 30, 2012 to $7,975 at June 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 at AgFirst Farm Credit bank at lower rates.

Net interest income before the provision for loan loss decreased $823 for the three months ended June 30, 2013, as compared to the same period in 2012 due primarily to the decrease in nonaccrual income recorded and discussed above. Net interest income after the provision for loan losses decreased $1,101 during the quarter ending June 30, 2013. The decrease can be tied to the nonrecurring nonaccrual income in 2012 and to the lower rate environment and the decrease in loans outstanding.

A small reversal of the provision was made in the quarter ending June 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, a provision reversal entry was made totaling $300.

Noninterest income decreased $102 over the same period last year. Loan fees decreased $86 or 8.9 percent. During second quarter 2012, a significant fee amount was earned on the payoff of an investment. This did not reoccur in the second quarter of 2013.

Fees for financially related services increased $23 from $167 at June 30, 2012 compared to $190 at June 30, 2013. The increase of 13.8 percent is due to an increase in commissions earned on leasing activities between the two reporting periods. For the quarter ending June 30, 2013, financially related services income earned on the sale of crop insurance and life insurance stayed constant to the same period ending June 30, 2012.

The patronage refunds from other Farm Credit institutions increased $277 from $3,491 at June 30, 2012 to $3,768 at June 30, 2013. This is an increase of 7.9 percent and is tied to an increase in patronage earned on loans sold to other Farm Credit entities. Also, 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.

In the three months ending June 30, 2013, the Association experienced losses on the sale of Other Property Owned in the amount of $804. During the same period of 2012, the Association booked losses on the sale of Other Property Owned of $2,137. 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 increased $5 from $416 at June 30, 2012 compared to $421 at June 30, 2013. The increase in gains is the result of the increase in originations between the two reporting periods and the increase in yield spread earned on loans sold into the secondary market.

Gains on the sale of premises and equipment were $33 for the period ending June 30, 2013 compared to $122 for the period ending June 30, 2012. During the June 30, 2012 quarter, the Association recorded a gain on the sale of the Covington, Georgia office building.

Other noninterest income increased from a loss of $68 at June 30, 2012 to $16 at June 30, 2013. The loss in 2012 was due to the write off of a software asset. The slight gain in 2013 is related to the sale of Association automobiles in excess of their book value.

Noninterest expense for the three months ended June 30, 2013, increased $804 or 9.4 percent when compared to the same period of 2012. Salaries and employee benefit expense increased $489 between the two reporting periods. The increase in salaries and employee benefits is from merit increases tied to annual performance. 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 $903 in incentive in June 2013. Association staff will re-evaluate prior to the end of the third quarter 2013 to determine if an additional accrual is warranted.

Occupancy and equipment expense at June 30, 2013 was $568 compared to $561 for the same period in 2012. The increase of $7 is due to the increase in depreciation expense on new automobiles purchased for Association use.

The Insurance Fund premium increased $133 from $151 at June 30, 2012 to $284 at June 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 increased $175 from $1,310 at June 30, 2012, compared to $1,485 at June 30, 2013. The increase of 13.4 percent is attributed to an increase in director's expense due to an increase in the number of meetings, and an increase in purchased services expense due to some legal and consultant fees. Some of the variance can be explained as timing differences in the payment of advertising and public 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 six months ended June 30, 2013

Net income for the six months ended June 30, 2013, totaled $17,926 as compared to $21,519 for the same period in 2012. This is a decrease of $3,593 or 16.7 percent. The following narrative will explain the variance.

At June 30, 2013, interest income decreased $2,479 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 $100 for the six months ended June 30, 2013, as compared to $1,150 for the same period in 2012. The decrease of $1,050 or 91.3 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 $1,628 for the six months ended June 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 $851 or 3.0 percent for the six months ended June 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 $979 in the period ending June 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 $172 and a reversal of $300 for the June 30, 2013 and 2012 periods, respectively. In June 2013, the Association's ALCO made the decision that the allowance account was slightly higher than necessary and a provision reversal entry was needed after analyzing the risk in the current portfolio. The ALCO analysis included reviewing historical trends, loan size, loan performance and credit quality reports.

Noninterest income decreased $573 over the same period last year. Loan fees decreased $612 or 25.5 percent. In the first six months of 2012, the Association collected significant fee income on several large accounts. These fee income accounts did not reoccur in the 2013 reporting period.

Fees for financially related services decreased $14 from $488 at June 30, 2012 compared to $474 at June 30, 2013. The 2.9 percent decrease in fees for financially related services is the result of a decrease in fee appraisal income between the two reporting periods.

The patronage refunds from other Farm Credit institutions increased $295 from $6,212 at June 30, 2012 to $6,507 at June 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. Also, 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.

Losses on the sale or write down of other property owned totaled $1,061 for the six months ending June 30, 2013. When compared to the same period in 2012, losses on other property owned totaled $2,419. 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 $143 from $738 at June 30, 2012 to $881 at June 30, 2013. Gains increased due to the increase in loan originations to be sold between the reporting periods.

Gains on the sale of premises and equipment were $50 for the period ending June 30, 2013 compared to $122 for the period ending June 30, 2012. During the 2012 reporting period, the Covington building was sold and a gain of $77 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 $22 from a gain of $149 at June 30, 2012 compared to $127 at June 30, 2013. The variance of 14.8 percent is due to reserves set aside for unfunded commitment balances. For the period ending June 30, 2012 this amount was $15 and for June 30, 2013, the amount increased to $176. This amount was offset by income earned from the sale of crop insurance and life insurance.

Noninterest expense for the six months ended June 30, 2013, increased $2,059 compared to the same period of 2012. Salaries and employee benefit expense increased $1,188 between the two reporting periods. The 9.6 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.

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 $903 in incentive in June 2013. Association staff will re-evaluate prior to the end of the third quarter 2013 to determine if an additional accrual is warranted.

Occupancy and equipment expense at June 30, 2013 was $1,336 compared to $1,129 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.

The Insurance Fund premium increased from $301 at June 30, 2012 to $562 at June 30, 2013. The increase of 86.7 percent is tied to the increase in the premium on loans in both accrual and nonaccrual status. In 2012, the FCSIC 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 $403 from June 30, 2012, $2,790 compared to $3,193 at June 30, 2013. The increase is primarily timing differences between the two reporting periods. Additional director expense has been incurred due to additional meetings and 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 June 30, 2013 was $1,267,183 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 June 30, 2013 total member's equity had decreased by $4,603 to $261,962. The decrease is primarily attributed to the revolvement of allocated surplus in April 2013. In April, the Association revolved the 2007 series of allocated surplus that totaled $22,844. The revolvement was offset by the purchase of capital stock and participation certificates and year to date earnings during the reporting period. At December 31, 2012, allocated retained earnings totaled $113,193. At June 30, 2013, the allocated retained earnings had decreased to $90,552. Unallocated equities increased $17,960 from $146,871 at December 31, 2012 to $164,831 at June 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 $7,142 on June 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 June 30, 2013, the Association's total surplus ratio and core surplus ratio were 17.17 percent and 13.05 percent, respectively, and the permanent capital ratio was 17.69 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

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 June 30, 2013, the Association had loans totaling $27,878 in this program. The cost of the guarantees year to date was $82. 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 17.69 percent permanent capital at June 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 1st quarter 2013 SOCO report was presented to the Board of Directors at the April 2013 Board meeting.
- The 2nd quarter 2013 SOCO report was presented to the Board via conference call on July 30, 2013.
- A report of acquired property and other borrower's rights activities during the first quarter of 2013 was presented at the April 2013 Board meeting.

- A report of acquired property and other borrower's rights activities during the second quarter of 2013 was presented to Board via conference call on July 30, 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)	June 30, 2013	December 31, 2012
	(unaudited)	*(audited)*
Assets		
Cash	$ 446	$ 4,619
Investment securities:		
Held to maturity (fair value of $4,222 and $4,628, respectively)	4,089	4,159
Loans	1,486,739	1,490,967
Less: allowance for loan losses	10,797	10,873
Net loans	1,475,942	1,480,094
Loans held for sale	1,818	3,000
Accrued interest receivable	14,248	14,328
Investments in other Farm Credit institutions	21,720	21,686
Premises and equipment, net	15,569	15,802
Other property owned	5,159	12,565
Due from AgFirst Farm Credit Bank	5,171	13,418
Other assets	10,747	13,609
Total assets	$ 1,554,909	$ 1,583,280
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,267,183	$ 1,280,348
Accrued interest payable	2,660	2,777
Patronage refunds payable	240	8,555
Other liabilities	22,864	25,035
Total liabilities	1,292,947	1,316,715
Commitments and contingencies		
Members' Equity		
Protected borrower stock	60	78
Capital stock and participation certificates	7,082	7,030
Retained earnings		
Allocated	90,552	113,193
Unallocated	164,831	146,871
Accumulated other comprehensive income (loss)	(563)	(607)
Total members' equity	261,962	266,565
Total liabilities and members' equity	$ 1,554,909	$ 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 June 30, 2013	2012	For the six months ended June 30, 2013	2012
Interest Income				
Investment securities	$ 64	$ 107	$ 128	$ 219
Loans	21,863	23,381	43,534	45,922
Total interest income	21,927	23,488	43,662	46,141
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	7,970	8,685	15,918	17,524
Other	5	28	9	31
Total interest expense	7,975	8,713	15,927	17,555
Net interest income	13,952	14,775	27,735	28,586
Provision for (reversal of allowance for) loan losses	(22)	(300)	(172)	(300)
Net interest income after provision for (reversal of allowance for) loan losses	13,974	15,075	27,907	28,886
Noninterest Income				
Loan fees	880	966	1,783	2,395
Fees for financially related services	190	167	474	488
Patronage refunds from other Farm Credit institutions	3,768	3,491	6,507	6,212
Gains (losses) on other property owned, net	(804)	(2,137)	(1,061)	(2,419)
Gains (losses) on sales of rural home loans, net	421	416	881	738
Gains (losses) on sales of premises and equipment, net	33	122	50	122
Insurance Fund refunds	—	1,649	—	1,649
Other noninterest income (loss)	16	(68)	127	149
Total noninterest income	4,504	4,606	8,761	9,334
Noninterest Expense				
Salaries and employee benefits	7,010	6,521	13,624	12,436
Occupancy and equipment	568	561	1,336	1,129
Insurance Fund premiums	284	151	562	301
Other operating expenses	1,485	1,310	3,193	2,790
Total noninterest expense	9,347	8,543	18,715	16,656
Income before income taxes	9,131	11,138	17,953	21,564
Provision for income taxes	3	49	27	45
Net income	$ 9,128	$ 11,089	$ 17,926	$ 21,519

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 June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
Net income	$ 9,128	$ 11,089	$ 17,926	$ 21,519
Other comprehensive income net of tax				
Employee benefit plans adjustments (Note 8)	22	15	44	(13)
Comprehensive income	$ 9,150	$ 11,104	$ 17,970	$ 21,506

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				21,519	(13)	21,506
Protected borrower stock retired	(23)					(23)
Capital stock/participation certificates issued/(retired), net		163				163
Retained earnings retired			(19,945)			(19,945)
Patronage distribution adjustment			21	(30)		(9)
Balance at June 30, 2012	$ 81	$ 6,842	$ 93,954	$ 153,915	$ (487)	$ 254,305
Balance at December 31, 2012	$ 78	$ 7,030	$ 113,193	$ 146,871	$ (607)	$ 266,565
Comprehensive income				17,926	44	17,970
Protected borrower stock retired	(18)					(18)
Capital stock/participation certificates issued/(retired), net		52				52
Retained earnings retired			(22,617)			(22,617)
Patronage distribution adjustment			(24)	34		10
Balance at June 30, 2013	$ 60	$ 7,082	$ 90,552	$ 164,831	$ (563)	$ 261,962

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

Recently Issued Accounting Pronouncements

In February 2013 the FASB issued Accounting Standards Update (ASU) 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date," which addresses the recognition, measurement and disclosure of certain obligations including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The amendments are to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the Update's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in the Update) and should disclose that fact. The amendments are effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 2014, and interim periods and annual periods thereafter. Early application is permitted. It is not anticipated the adoption of this guidance will have a material impact on the Associations' financial condition or results of operations but will result in additional disclosures.

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

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

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

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

NOTE 2 — INVESTMENT SECURITIES

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

	June 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 4,089	$ 133	$ –	$ 4,222	6.15%

	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 at June 30, 2013 follows:

	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	– %
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	4,089	4,222	6.15
Total	$ 4,089	$ 4,222	6.15 %

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

An investment is considered impaired if its fair value is less than its cost. A continuous unrealized loss position for an investment is based on the date the impairment was first identified. The Association had no investments that were in a continuous unrealized loss position at June 30, 2013 or December 31, 2012.

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

Based on the results of all analyses, the Association has not recognized any other-than-temporary impairment in connection with its investment securities. The Association has the ability and intent to hold these investments until maturity and at this time expects to collect the full principal amount and interest due on these securities. The Association does not intend to sell these investments and it is not more likely than not that the Association would be required to sell these investments before recovering its costs.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	June 30, 2013	December 31, 2012
Real estate mortgage	$ 1,199,492	$ 1,196,680
Production and intermediate-term	232,678	234,859
Agribusiness		
Loans to cooperatives	–	597
Processing and marketing	7,187	12,010
Farm-related business	9,443	10,339
Total agribusiness	16,630	22,946
Rural residential real estate	37,370	35,901
Other (including mission-related)	569	581
Total Loans	$ 1,486,739	$ 1,490,967

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

June 30, 2013	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 449	$ 128,338	$ –	$ 3,887	$ –	$ –	$ 449	$ 132,225
Production and intermediate-term	30	29,334	867	3,276	1,773	(139)	2,670	32,471
Agribusiness								
Processing and marketing	294	18,451	–	7,201	–	–	294	25,652
Total agribusiness	294	18,451	–	7,201	–	–	294	25,652
Total	$ 773	$ 176,123	$ 867	$ 14,364	$ 1,773	$ (139)	$ 3,413	$ 190,348

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
Agribusiness								
Processing and marketing	1,596	19,836	–	6,611	–	–	1,596	26,447
Total agribusiness	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 June 30, 2013 and indicates that approximately 11.73 percent of loans had maturities of less than one year:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 64,751	$ 257,735	$ 877,006	$ 1,199,492
Production and intermediate-term	98,637	93,193	40,848	232,678
Agribusiness				
Loans to cooperatives	–	–	–	–
Processing and marketing	3,336	893	2,958	7,187
Farm-related business	3,337	3,150	2,956	9,443
Total agribusiness	6,673	4,043	5,914	16,630
Rural residential real estate	4,373	5,136	27,861	37,370
Other (including mission-related)	–	–	569	569
Total Loans	$ 174,434	$ 360,107	$ 952,198	$ 1,486,739

The following table shows loans and related accrued interest classified under the Farm Credit Administration Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type.

	June 30, 2013	December 31, 2012
Real estate mortgage:		
Acceptable	94.33%	94.27%
OAEM	3.21	3.46
Substandard/doubtful/loss	2.46	2.27
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	92.63%	90.53%
OAEM	2.24	3.77
Substandard/doubtful/loss	5.13	5.70
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	–%	16.52%
OAEM	–	83.48
Substandard/doubtful/loss	–	–
	–%	100.00%
Processing and marketing:		
Acceptable	95.93%	90.20%
OAEM	–	–
Substandard/doubtful/loss	4.07	9.80
	100.00%	100.00%

	June 30, 2013	December 31, 2012
Farm-related business:		
Acceptable	97.83%	98.06%
OAEM	2.08	1.93
Substandard/doubtful/loss	0.09	0.01
	100.00%	100.00%
Total agribusiness:		
Acceptable	97.01%	91.84%
OAEM	1.19	3.02
Substandard/doubtful/loss	1.80	5.14
	100.00%	100.00%
Rural residential real estate:		
Acceptable	97.18%	97.38%
OAEM	1.60	1.73
Substandard/doubtful/loss	1.22	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	94.16%	93.72%
OAEM	3.00	3.46
Substandard/doubtful/loss	2.84	2.82
	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest.

	June 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	$ 7,857	$ 3,862	$ 11,719	$ 1,198,881	$ 1,210,600	$ –
Production and intermediate-term	483	922	1,405	234,056	235,461	–
Agribusiness						
Loans to cooperatives	–	–	–	–	–	–
Processing and marketing	–	279	279	6,953	7,232	–
Farm-related business	58	1	59	9,481	9,540	–
Total agribusiness	58	280	338	16,434	16,772	–
Rural residential real estate	260	–	260	37,301	37,561	–
Other (including mission-related)	–	–	–	572	572	–
Total	$ 8,658	$ 5,064	$ 13,722	$ 1,487,244	$ 1,500,966	$ –

	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	–
Agribusiness						
Loans to cooperatives	–	–	–	601	601	–
Processing and marketing	–	–	–	12,205	12,205	–
Farm-related business	10	1	11	10,458	10,469	–
Total agribusiness	10	1	11	23,264	23,275	–
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 and 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:

	June 30, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	$ 8,785	$ 6,956
Production and intermediate-term	8,184	9,820
Agribusiness		
Processing and marketing	294	295
Farm-related business	8	1
Total agribusiness	302	296
Rural residential real estate	266	81
Total nonaccrual loans	$ 17,537	$ 17,153
Accruing restructured loans:		
Real estate mortgage	$ 9,010	$ 8,269
Production and intermediate-term	1,026	1,026
Agribusiness		
Processing and marketing	–	–
Farm-related business	199	202
Total agribusiness	199	202
Rural residential real estate	–	–
Total accruing restructured loans	$ 10,235	$ 9,497
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ 280
Production and intermediate-term	–	–
Agribusiness		
Processing and marketing	–	–
Farm-related business	–	–
Total agribusiness	–	–
Rural residential real estate	–	–
Total accruing loans 90 days or more past due	$ –	$ 280
Total nonperforming loans	$ 27,772	$ 26,930
Other property owned	5,159	12,565
Total nonperforming assets	$ 32,931	$ 39,495
Nonaccrual loans as a percentage of total loans	1.18%	1.15%
Nonperforming assets as a percentage of total loans and other property owned	2.21%	2.63%
Nonperforming assets as a percentage of capital	12.57%	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.

	June 30, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	$ 11,232	$ 7,177
Past due	6,305	9,976
Total impaired nonaccrual loans	17,537	17,153
Impaired accrual loans:		
Restructured	10,235	9,497
90 days or more past due	–	280
Total impaired accrual loans	10,235	9,777
Total impaired loans	$ 27,772	$ 26,930

The following tables present additional information concerning impaired loans and related allowance by loan type at period end.

	June 30, 2013			Quarter Ended June 30, 2013		Six Months Ended June 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 2,986	$ 3,662	$ 386	$ 2,962	$ 20	$ 2,971	$ 35
Production and intermediate-term	3,109	3,815	951	3,084	22	3,094	36
Agribusiness							
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Total agribusiness	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 6,095	$ 7,477	$ 1,337	$ 6,046	$ 42	$ 6,065	$ 71
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 14,809	$ 17,331	$ –	$ 14,689	$ 102	$ 14,737	$ 173
Production and intermediate-term	6,101	8,986	–	6,052	41	6,071	71
Agribusiness							
Processing and marketing	294	840	–	291	2	292	3
Farm-related business	207	230	–	206	1	206	2
Total agribusiness	501	1,070	–	497	3	498	5
Rural residential real estate	266	335	–	264	2	265	3
Total	$ 21,677	$ 27,722	$ –	$ 21,502	$ 148	$ 21,571	$ 252
Total impaired loans:							
Real estate mortgage	$ 17,795	20,993	386	$ 17,651	$ 122	$ 17,708	$ 208
Production and intermediate-term	9,210	12,801	951	9,136	63	9,165	107
Agribusiness							
Processing and marketing	294	840	–	291	2	292	3
Farm-related business	207	230	–	206	1	206	2
Total agribusiness	501	1,070	–	497	3	498	5
Rural residential real estate	266	335	–	264	2	265	3
Total	$ 27,772	$ 35,199	$ 1,337	$ 27,548	$ 190	$ 27,636	$ 323

	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
Agribusiness					
Processing and marketing	–	–	–	–	–
Farm-related business	–	–	–	–	–
Total agribusiness	–	–	–	–	–
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
Agribusiness					
Processing and marketing	295	840	–	390	19
Farm-related business	203	226	–	268	13
Total agribusiness	498	1,066	–	658	32
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
Agribusiness					
Processing and marketing	295	840	–	390	19
Farm-related business	203	226	–	268	13
Total agribusiness	498	1,066	–	658	32
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 at period end were as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Residential Real Estate	Other (including mission related)	Total
Allowance for credit losses:						
Balance at March 31, 2013	$ 8,154	$ 2,255	$ 106	$ 232	$ 4	$ 10,751
Charge-offs	(194)	(80)	–	–	–	(274)
Recoveries	223	72	28	19	–	342
Provision for loan losses	(166)	183	(25)	(14)	–	(22)
Balance at June 30, 2013	$ 8,017	$ 2,430	$ 109	$ 237	$ 4	$ 10,797
Balance at December 31, 2012	$ 8,008	$ 2,483	$ 148	$ 230	$ 4	$ 10,873
Charge-offs	(219)	(80)	–	–	–	(299)
Recoveries	230	86	29	50	–	395
Provision for loan losses	(2)	(59)	(68)	(43)	–	(172)
Balance at June 30, 2013	$ 8,017	$ 2,430	$ 109	$ 237	$ 4	$ 10,797
Balance at March 31, 2012	$ 4,272	$ 4,604	$ 71	$ 705	$ 1	$ 9,653
Charge-offs	(270)	(13)	(1)	(633)	–	(917)
Recoveries	161	2,480	22	4	–	2,667
Provision for loan losses	3,475	(4,013)	60	154	24	(300)
Balance at June 30, 2012	$ 7,638	$ 3,058	$ 152	$ 230	$ 25	$ 11,103
Balance at December 31, 2011	$ 4,282	$ 4,833	$ 83	$ 701	$ 1	$ 9,900
Charge-offs	(423)	(158)	(1)	(633)	–	(1,215)
Recoveries	204	2,488	22	4	–	2,718
Provision for loan losses	3,575	(4,105)	48	158	24	(300)
Balance at June 30, 2012	$ 7,638	$ 3,058	$ 152	$ 230	$ 25	$ 11,103
Loans individually evaluated for impairment	$ 386	$ 951	$ –	$ –	$ –	$ 1,337
Loans collectively evaluated for impairment	7,631	1,479	109	237	4	9,460
Balance at June 30, 2013	$ 8,017	$ 2,430	$ 109	$ 237	$ 4	$ 10,797
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	$ 8,778	$ 8,199	$ 297	$ 265	$ –	$ 17,539
Loans collectively evaluated for impairment	1,201,822	227,262	16,475	37,296	572	1,483,427
Ending balance at June 30, 2013	$ 1,210,600	$ 235,461	$ 16,772	$ 37,561	$ 572	$ 1,500,966
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

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 regarding TDRs as of the restructuring date that occurred during the periods presented.

Three months ended June 30, 2013	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 100	$ 94	$ 428	$ 622
Production and intermediate-term	–	–	48	48
Rural residential real estate	139	–	–	139
Total	$ 239	$ 94	$ 476	$ 809

Three months ended June 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	$ 103	$ 95	$ 422	$ 620	$ –	$ –
Production and intermediate-term	–	–	41	41	–	–
Rural residential real estate	139	–	–	139	–	–
Total	$ 242	$ 95	$ 463	$ 800	$ –	$ –

Six months ended June 30, 2013	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 2,504	$ 94	$ 428	$ 3,026
Production and intermediate-term	–	41	48	89
Rural residential real estate	139	–	–	139
Total	$ 2,643	$ 135	$ 476	$ 3,254

Six months ended June 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	$ 95	$ 422	$ 3,026	$ –	$ –
Production and intermediate-term	–	42	41	83	–	–
Rural residential real estate	139	–	–	139	–	–
Total	$ 2,648	$ 137	$ 463	$ 3,248	$ –	$ –

Three months ended June 30, 2012	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 157	$ 321	$ 478
Production and intermediate-term	336	–	–	336
Agribusiness				
Farm-related business	–	–	321	321
Total	$ 336	$ 157	$ 642	$ 1,135

Three months ended June 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	$ –	$ 157	$ 321	$ 478	$ –	$ –
Production and intermediate-term	334	–	–	334	(24)	–
Agribusiness						
Farm-related business	–	–	321	321	–	–
Total	$ 334	$ 157	$ 642	$ 1,133	$ (24)	$ –

	Six months ended June 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 1,461	$ 298	$ 321	$ 2,080
Production and intermediate-term	336	–	–	336
Agribusiness				
Farm-related business	–	–	321	321
Total	$ 1,797	$ 298	$ 642	$ 2,737

	Six months ended June 30, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 1,454	$ 298	$ 321	$ 2,073	$ –	$ –
Production and intermediate-term	334	–	–	334	(24)	–
Agribusiness						
Farm-related business	–	–	321	321	–	–
Total	$ 1,788	$ 298	$ 642	$ 2,728	$ (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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Defaulted troubled debt restructurings:				
Real estate mortgage	$ 3,087	$ –	$ 3,113	$ 25
Production and intermediate-term	118	27	118	625
Agribusiness				
Farm-related business	–	–	–	1
Total	$ 3,205	$ 27	$ 3,231	$ 651

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	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Real estate mortgage	$ 11,388	$ 10,005	$ 2,378	$ 1,736
Production and intermediate-term	1,841	1,941	815	915
Agribusiness				
Processing and marketing	294	294	294	294
Farm-related business	200	203	1	1
Total agribusiness	494	497	295	295
Rural residential real estate	134	–	134	–
Total Loans	$ 13,857	$ 12,443	$ 3622	$ 2,946

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

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Pension	$ 1,577	$ 1,594	$ 3,154	$ 3,187
401(k)	149	143	287	274
Other postretirement benefits	255	210	511	421
Total	$ 1,981	$ 1,947	$ 3,952	$ 3,882

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

	Actual YTD Through 6/30/13	Projected Contributions For Remainder of 2013	Projected Total Contributions 2013
Pension	$ 43	$ 5,954	$ 5,997
Other postretirement benefits	379	428	807
Total	$ 422	$ 6,382	$ 6,804

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 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 and the terms of the revolving lines of credit are governed by the General Financing Agreement (GFA). The GFA contains requirements and covenants with which the Association must comply. 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 the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association.

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 6.54 percent of the issued stock of the Bank as of June 30, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.1 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $232 million for the first six months of 2013. In addition, the Association has an investment of $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. The Association's Level 1 assets at June 30, 2013 consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets and liabilities measured at fair value on a recurring basis at June 30, 2013.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than the third-party valuation or internal model pricing.

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Level 3 assets include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

The notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

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

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

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

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

	Standby Letters Of Credit
Balance at January 1, 2013	$ 5
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	–
Transfers in and/or out of level 3	–
Balance at June 30, 2013	$ 5

	Standby Letters Of Credit
Balance at January 1, 2012	$ 7
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	2
Settlements	–
Transfers in and/or out of level 3	–
Balance at June 30, 2012	$ 9

INFORMATION ABOUT SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

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

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

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

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Mission Related Investments	$ 4,222	Discounted cash flow	Risk adjusted spread	2.00%–8.25%
Impaired loans and other property owned	$ 32,062	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

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

At or for the Six Months Ended June 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	$ 721	$ 721	$ –	$ –	$ 721	
Recurring Assets	$ 721	$ 721	$ –	$ –	$ 721	
Liabilities:						
Standby letters of credit	$ 5	$ –	$ –	$ 5	$ 5	
Recurring Liabilities	$ 5	$ –	$ –	$ 5	$ 5	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 26,435	$ –	$ –	$ 26,435	$ 26,435	$ 33
Other property owned	5,159	–	–	5,627	5,627	(1,013)
Nonrecurring Assets	$ 31,594	$ –	$ –	$ 32,062	$ 32,062	$ (980)
Other Financial Instruments						
Assets:						
Cash	$ 446	$ 446	$ –	$ –	$ 446	
Investment securities, held-to-maturity	4,089	–	–	4,222	4,222	
Loans	1,451,325	–	–	1,453,975	1,453,975	
Other Assets	$ 1,455,860	$ 446	$ –	$ 1,458,197	$ 1,458,643	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,267,183	$ –	$ –	$ 1,252,790	$ 1,252,790	
Other Liabilities	$ 1,267,183	$ –	$ –	$ 1,252,790	$ 1,252,790	

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

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

	Employee Benefit Plans	
Balance at March 31, 2013	$	(585)
Other comprehensive income before reclassifications		–
Amounts reclassified from AOCI		22
Net current period other comprehensive income		22
Balance at June 30, 2013	$	(563)
Balance at December 31, 2012	$	(607)
Other comprehensive income before reclassifications		–
Amounts reclassified from AOCI		44
Net current period other comprehensive income		44
Balance at June 30, 2013	$	(563)
Balance at March 31, 2012	$	(502)
Other comprehensive income before reclassifications		–
Amounts reclassified from AOCI		15
Net current period other comprehensive income		15
Balance at June 30, 2012	$	(487)
Balance at December 31, 2011	$	(474)
Other comprehensive income before reclassifications		(43)
Amounts reclassified from AOCI		30
Net current period other comprehensive income		(13)
Balance at June 30, 2012	$	(487)

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

	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012	Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$ (22)	$ (15)	$ (44)	$ (30)	See footnote 4.
Net amounts reclassified	$ (22)	$ (15)	$ (44)	$ (30)	

(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 1st quarter 2013 SOCO report was presented to the Board of Directors at the April 2013 Board meeting.
- The 2nd quarter 2013 SOCO report was presented to the Board via conference call on July 30, 2013.
- A report of acquired property and other borrower's rights activities during the first quarter of 2013 was presented at the April 2013 Board meeting.
- A report of acquired property and other borrower's rights activities during the second quarter of 2013 was presented to Board via conference call on July 30, 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 in Note 8 above, there are none requiring disclosure through August 7, 2013, which is the date the financial statements were issued.