Farm Credit of the Virginias, ACA

FIRST QUARTER 2013

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2013 quarterly report of Farm Credit of the Virginias, 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.

David E. Lawrence
Chief Executive Officer

David G. Sauer
Chief Financial Officer

Barry W. Shelor
Chairman of the Board

May 9, 2013

Farm Credit of the Virginias, ACA

Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 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 March 31, 2013, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2013.

David E. Lawrence
Chief Executive Officer

David G. Sauer
Chief Financial Officer

May 9, 2013

Farm Credit of the Virginias, ACA

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

(dollars in thousands)

The following commentary reviews the consolidated financial condition and results of operations of Farm Credit of the Virginias, ACA (Association) for the period ended March 31, 2013. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2012 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities including livestock, timber, poultry and field crops. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat impacts the level of dependency on a given commodity.

As of March 31, 2013, the gross loan volume of the Association was $1,457,805 compared to $1,466,371 at December 31, 2012. Net loans outstanding at March 31, 2013 were $1,448,211 as compared to $1,456,403 at December 31, 2012. This was a decrease of $8,192 or 0.56 percent. The decrease was mainly due to a decrease in loan volume from participation loans purchased from outside the Association's territory. Since 2009, the Association has and continues to reduce the exposure in participation loans.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. As of March 31, 2013, nonaccrual loan volume was $34,495. This was a decrease of $5,215 compared to $39,710 at December 31, 2012. The decrease in nonaccrual loan volume was mainly due to payments received on loans, a loan being transferred to other property owned and fewer loans being downgraded to nonaccrual status.

Other property owned showed an increase of $1,963 at March 31, 2013 compared to December 31, 2012. The increase was primarily due to a loan going thru the foreclosure process and the property securing the loan being acquired by the Association.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio. Factors considered in determining the allowance for loan losses were generally based on recent historical charge-off experience adjusted for relevant environmental factors. The allowance for loan losses at March 31, 2013 was $9,594. This was a decrease of $374 compared to the allowance amount at December 31, 2012.

RESULTS OF OPERATIONS

For the three months ended March 31, 2013

Net income for the three months ended March 31, 2013, totaled $7,977 as compared to $7,554 for the same period in 2012. This was an increase of $423 or 5.60 percent. The increase in net income was primarily due an increase in net interest income and lower provision for loan losses.

Net interest income increased $198 or 1.88 percent for the three months ended March 31, 2013, as compared to the same period in 2012. The increase in net interest income was primarily due to higher margins on loans.

The provision for loan losses decreased $500 for the three months ended March 31, 2013, as compared to the same period in 2012. The decrease in provision for loan losses was primarily due to overall credit quality remaining stable.

Noninterest income for the three months ended March 31, 2013 totaled $3,953 compared to $4,064 for the same period last year. This was a decrease of $111 or 2.73 percent. The decrease in noninterest income was primarily due to a decrease in income from loan fees.

Noninterest expenses for the three months ended March 31, 2013 totaled $6,194. This was an increase of $164 or 2.72 percent compared to the same period of 2012. The increase was mainly due to an increase in the Farm Credit System insurance premium.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The 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 March 31, 2013 was $1,200,305 as compared to $1,229,830 at December 31, 2012.

CAPITAL RESOURCES

Total members' equity at March 31, 2013 totaled $288,356, an increase of 7,960, as compared to $280,396 at December 31, 2012. The increase in members' equity was primarily attributed to earnings.

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 March 31, 2013, the Association's total surplus ratio and core surplus ratio were 16.73 percent and 16.73 percent, respectively, and the permanent capital ratio was 17.94 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

For the three months ended March 31, 2013, the FCA took no enforcement action against the Association.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 540-886-3435, ext. 5020, or writing David Sauer, Farm Credit of the Virginias, ACA, P.O. Box 899, Staunton, VA 24402, or accessing the website, *www.farmcreditofvirginias.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Farm Credit of the Virginias, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2013	December 31, 2012
	(unaudited)	*(audited)*
Assets		
Cash	$ 2,669	$ 6,368
Loans	1,457,805	1,466,371
Less: allowance for loan losses	9,594	9,968
Net loans	1,448,211	1,456,403
Loans held for sale	3,305	2,158
Other investments	2,907	5,838
Accrued interest receivable	9,894	7,440
Investments in other Farm Credit institutions	27,230	27,589
Premises and equipment, net	7,906	7,880
Other property owned	5,620	3,657
Due from AgFirst Farm Credit Bank	3,225	16,609
Other assets	4,369	5,154
Total assets	$ 1,515,336	$ 1,539,096
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,200,305	$ 1,229,830
Accrued interest payable	2,813	2,924
Patronage refunds payable	504	10,670
Other liabilities	23,358	15,276
Total liabilities	1,226,980	1,258,700
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	17,327	17,344
Retained earnings		
Allocated	92,568	92,568
Unallocated	178,478	170,501
Accumulated other comprehensive income (loss)	(17)	(17)
Total members' equity	288,356	280,396
Total liabilities and members' equity	$ 1,515,336	$ 1,539,096

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

Farm Credit of the Virginias, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2013	2012
Interest Income		
Loans	$ 19,168	$ 20,191
Other investments	63	74
Total interest income	19,231	20,265
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	8,498	9,730
Net interest income	10,733	10,535
Provision for loan losses	500	1,000
Net interest income after provision for loan losses	10,233	9,535
Noninterest Income		
Loan fees	129	245
Fees for financially related services	6	6
Patronage refunds from other Farm Credit institutions	3,225	3,441
Gains (losses) on other property owned, net	207	(6)
Gains (losses) on sales of rural home loans, net	197	212
Gains (losses) on sales of premises and equipment, net	25	14
Other noninterest income	164	152
Total noninterest income	3,953	4,064
Noninterest Expense		
Salaries and employee benefits	4,051	4,121
Occupancy and equipment	387	355
Insurance Fund premiums	301	157
Other operating expenses	1,455	1,397
Total noninterest expense	6,194	6,030
Income before income taxes	7,992	7,569
Provision for income taxes	15	15
Net income	$ 7,977	$ 7,554

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

Farm Credit of the Virginias, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2013	2012
Net income	$ 7,977	$ 7,554
Other comprehensive income net of tax		
Employee benefit plans adjustments	–	(2)
Comprehensive income	$ 7,977	$ 7,552

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

Farm Credit of the Virginias, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	**Unallocated**		
Balance at December 31, 2011	$ 17,523	$ 89,469	$ 148,576	$ (6)	$ 255,562
Comprehensive income			7,554	(2)	7,552
Capital stock/participation certificates issued/(retired), net	(69)				(69)
Patronage distribution adjustment		(8)	(95)		(103)
Balance at March 31, 2012	$ 17,454	$ 89,461	$ 156,035	$ (8)	$ 262,942
Balance at December 31, 2012	$ 17,344	$ 92,568	$ 170,501	$ (17)	$ 280,396
Comprehensive income			7,977	—	7,977
Capital stock/participation certificates issued/(retired), net	(17)				(17)
Balance at March 31, 2013	$ 17,327	$ 92,568	$ 178,478	$ (17)	$ 288,356

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

Farm Credit of the Virginias, ACA

Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of Farm Credit of the Virginias, 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 first 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 three months ended March 31, 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 March 31, 2013, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Recently Issued Accounting Pronouncements

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

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

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

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

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

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	March 31, 2013	December 31, 2012
Real estate mortgage	$ 973,350	$ 975,246
Production and intermediate-term	383,930	380,380
Agribusiness		
Loans to cooperatives	–	1,431
Processing and marketing	44,679	50,798
Farm-related business	12,837	12,504
Total agribusiness	57,516	64,733
Communication	7,901	8,185
Energy	–	1,947
Rural residential real estate	35,108	35,880
Total Loans	$ 1,457,805	$ 1,466,371

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:

March 31, 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	$ –	$ 126,182	$ –	$ –	$ –	$ –	$ –	$ 126,182
Production and intermediate-term	14,996	10,289	401	–	–	–	15,397	10,289
Agribusiness								
Processing and marketing	15,061	–	–	–	–	–	15,061	–
Farm-related business	636	310	–	–	–	–	636	310
Total agribusiness	15,697	310	–	–	–	–	15,697	310
Communication	7,923	–	–	–	–	–	7,923	–
Energy	–	–	–	–	–	–	–	–
Total	$ 38,616	$ 136,781	$ 401	$ –	$ –	$ –	$ 39,017	$ 136,781

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	$ –	$ 135,187	$ –	$ –	$ –	$ –	$ –	$ 135,187
Production and intermediate-term	12,359	10,665	404	–	–	–	12,763	10,665
Agribusiness								
Loans to cooperatives	1,435	–	–	–	–	–	1,435	–
Processing and marketing	19,496	–	8	–	–	–	19,504	–
Farm-related business	674	319	–	–	–	–	674	319
Total agribusiness	21,605	319	8	–	–	–	21,613	319
Communication	8,208	–	–	–	–	–	8,208	–
Energy	1,947	–	–	–	–	–	1,947	–
Total	$ 44,119	$ 146,171	$ 412	$ –	$ –	$ –	$ 44,531	$ 146,171

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 March 31, 2013 and indicates that approximately 16.02 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	$ 30,373	$ 39,979	$ 902,998	$ 973,350
Production and intermediate-term	160,917	123,033	99,980	383,930
Agribusiness				
Loans to cooperatives	–	–	–	–
Processing and marketing	34,142	6,509	4,028	44,679
Farm-related business	2,402	3,031	7,404	12,837
Total agribusiness	36,544	9,540	11,432	57,516
Communication	2,819	3,712	1,370	7,901
Energy	–	–	–	–
Rural residential real estate	2,921	1,365	30,822	35,108
Total Loans	$ 233,574	$ 177,629	$ 1,046,602	$ 1,457,805

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.

	March 31, 2013	December 31, 2012
Real estate mortgage:		
Acceptable	92.43%	91.96%
OAEM	3.02	3.05
Substandard/doubtful/loss	4.55	4.99
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	89.37%	88.59%
OAEM	5.04	5.21
Substandard/doubtful/loss	5.59	6.20
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	59.03%	58.77%
OAEM	0.04	5.88
Substandard/doubtful/loss	40.93	35.35
	100.00%	100.00%
Farm-related business:		
Acceptable	71.08%	69.95%
OAEM	0.60	0.62
Substandard/doubtful/loss	28.32	29.43
	100.00%	100.00%

	March 31, 2013	December 31, 2012
Total agribusiness:		
Acceptable	61.72%	61.83%
OAEM	0.16	4.74
Substandard/doubtful/loss	38.12	33.43
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy:		
Acceptable	–%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	–%	100.00%
Rural residential real estate:		
Acceptable	93.82%	92.53%
OAEM	2.09	3.62
Substandard/doubtful/loss	4.09	3.85
	100.00%	100.00%
Total Loans:		
Acceptable	90.49%	89.83%
OAEM	3.40	3.67
Substandard/doubtful/loss	6.11	6.50
	100.00%	100.00%

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

	March 31, 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	$ 13,585	$ 6,973	$ 20,558	$ 958,680	$ 979,238	$ 315
Production and intermediate-term	3,253	4,019	7,272	380,173	387,445	–
Agribusiness						
Loans to cooperatives	–	–	–	–	–	–
Processing and marketing	–	2,612	2,612	42,352	44,964	–
Farm-related business	3,546	100	3,646	9,225	12,871	–
Total agribusiness	3,546	2,712	6,258	51,577	57,835	–
Communication	–	–	–	7,904	7,904	–
Energy	–	–	–	–	–	–
Rural residential real estate	823	515	1,338	33,939	35,277	7
Total	$ 21,207	$ 14,219	$ 35,426	$ 1,432,273	$ 1,467,699	$ 322

	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	$ 13,821	$ 9,763	$ 23,584	$ 956,013	$ 979,597	$ 16
Production and intermediate-term	2,912	4,174	7,086	376,066	383,152	16
Agribusiness						
Loans to cooperatives	–	–	–	1,431	1,431	–
Processing and marketing	–	272	272	50,682	50,954	–
Farm-related business	–	100	100	12,425	12,525	–
Total agribusiness	–	372	372	64,538	64,910	–
Communication	–	–	–	8,186	8,186	–
Energy	–	–	–	1,950	1,950	–
Rural residential real estate	1,016	641	1,657	34,359	36,016	–
Total	$ 17,749	$ 14,950	$ 32,699	$ 1,441,112	$ 1,473,811	$ 32

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:

	March 31, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	$ 16,355	$ 20,454
Production and intermediate-term	7,792	9,217
Agribusiness		
Processing and marketing	5,885	5,484
Farm-related business	3,644	3,686
Total agribusiness	9,529	9,170
Rural residential real estate	819	869
Total nonaccrual loans	$ 34,495	$ 39,710
Accruing restructured loans:		
Total accruing restructured loans	$ –	$ –
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 315	$ 16
Production and intermediate-term	–	16
Rural residential real estate	7	–
Total accruing loans 90 days or more past due	$ 322	$ 32
Total nonperforming loans	$ 34,817	$ 39,742
Other property owned	5,620	3,657
Total nonperforming assets	$ 40,437	$ 43,399
Nonaccrual loans as a percentage of total loans	2.37%	2.71%
Nonperforming assets as a percentage of total loans and other property owned	2.76%	2.95%
Nonperforming assets as a percentage of capital	14.02%	15.48%

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

	March 31, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	$ 13,052	$ 21,477
Past due	21,443	18,233
Total impaired nonaccrual loans	34,495	39,710
Impaired accrual loans:		
Restructured	–	–
90 days or more past due	322	32
Total impaired accrual loans	322	32
Total impaired loans	$ 34,817	$ 39,742

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

	March 31, 2013			Quarter Ended March 31, 2013	
	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	$ 3,791	$ 3,896	$ 721	$ 4,284	$ 30
Production and intermediate-term	2,250	2,383	966	2,544	18
Agribusiness					
Processing and marketing	2,706	2,754	801	3,059	21
Farm-related business	3,644	3,806	271	4,120	29
Total agribusiness	6,350	6,560	1,072	7,179	50
Rural residential real estate	347	364	65	392	3
Total	$ 12,738	$ 13,203	$ 2,824	$ 14,399	$ 101
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 12,879	$ 15,222	$ –	$ 14,558	$ 102
Production and intermediate-term	5,542	7,480	–	6,264	43
Agribusiness					
Processing and marketing	3,179	3,391	–	3,594	25
Farm-related business	–	–	–	–	–
Total agribusiness	3,179	3,391	–	3,594	25
Rural residential real estate	479	590	–	542	4
Total	$ 22,079	$ 26,683	$ –	$ 24,958	$ 174
Total impaired loans:					
Real estate mortgage	$ 16,670	$ 19,118	$ 721	$ 18,842	$ 132
Production and intermediate-term	7,792	9,863	966	8,808	61
Agribusiness					
Processing and marketing	5,885	6,145	801	6,653	46
Farm-related business	3,644	3,806	271	4,120	29
Total agribusiness	9,529	9,951	1,072	10,773	75
Rural residential real estate	826	954	65	934	7
Total	$ 34,817	$ 39,886	$ 2,824	$ 39,357	$ 275

	December 31, 2012						Year Ended December 31, 2012			
	Recorded Investment		Unpaid Principal Balance		Related Allowance		Average Impaired Loans		Interest Income Recognized on Impaired Loans	
Impaired loans with a related allowance for credit losses:										
Real estate mortgage	$	7,039	$	9,188	$	1,311	$	6,485	$	156
Production and intermediate-term		5,509		5,703		1,322		5,075		122
Agribusiness										
Processing and marketing		2,735		2,754		801		2,520		60
Farm-related business		3,686		3,825		358		3,396		81
Total agribusiness		6,421		6,579		1,159		5,916		141
Rural residential real estate		290		338		44		267		6
Total	$	19,259	$	21,808	$	3,836		17,743		425
Impaired loans with no related allowance for credit losses:										
Real estate mortgage	$	13,431	$	16,376	$	–	$	12,373	$	295
Production and intermediate-term		3,724		5,447		–		3,431		82
Agribusiness										
Processing and marketing		2,749		2,955		–		2,533		61
Farm-related business		–		–		–		–		–
Total agribusiness		2,749		2,955		–		2,533		61
Rural residential real estate		579		659		–		534		13
Total	$	20,483	$	25,437	$	–		18,871		451
Total impaired loans:										
Real estate mortgage	$	20,470	$	25,564	$	1,311	$	18,858	$	451
Production and intermediate-term		9,233		11,150		1,322		8,506		204
Agribusiness										
Processing and marketing		5,484		5,709		801		5,053		121
Farm-related business		3,686		3,825		358		3,396		81
Total agribusiness		9,170		9,534		1,159		8,449		202
Rural residential real estate		869		997		44		801		19
Total	$	39,742	$	47,245	$	3,836		36,614		876

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	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at December 31, 2012	$ 3,469	$ 4,621	$ 1,684	$ –	$ –	$ 194	$ 9,968
Charge-offs	(750)	(187)	–	–	–	–	(937)
Recoveries	60	3	–	–	–	–	63
Provision for loan losses	762	29	(312)	–	–	21	500
Balance at March 31, 2013	$ 3,541	$ 4,466	$ 1,372	$ –	$ –	$ 215	$ 9,594
Balance at December 31, 2011	$ 2,408	$ 4,379	$ 748	$ 15	$ –	$ 204	$ 7,754
Charge-offs	(71)	(85)	–	–	–	–	(156)
Recoveries	13	49	–	–	–	–	62
Provision for loan losses	461	25	491	–	–	23	1,000
Balance at March 31, 2012	$ 2,811	$ 4,368	$ 1,239	$ 15	$ –	$ 227	$ 8,660
Loans individually evaluated for impairment	$ 721	$ 966	$ 1,072	$ –	$ –	$ 65	$ 2,824
Loans collectively evaluated for impairment	2,820	3,500	300	–	–	150	6,770
Balance at March 31, 2013	$ 3,541	$ 4,466	$ 1,372	$ –	$ –	$ 215	$ 9,594
Loans individually evaluated for impairment	$ 1,311	$ 1,322	$ 1,159	$ –	$ –	$ 44	$ 3,836
Loans collectively evaluated for impairment	2,158	3,299	525	–	–	150	6,132
Balance at December 31, 2012	$ 3,469	$ 4,621	$ 1,684	$ –	$ –	$ 194	$ 9,968
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 17,972	$ 8,276	$ 9,530	$ –	$ –	$ 974	$ 36,752
Loans collectively evaluated for impairment	961,266	379,169	48,305	7,904	–	34,303	1,430,947
Ending balance at March 31, 2013	$ 979,238	$ 387,445	$ 57,835	$ 7,904	$ –	$ 35,277	$ 1,467,699
Loans individually evaluated for impairment	$ 21,925	$ 9,728	$ 9,170	$ –	$ –	$ 891	$ 41,714
Loans collectively evaluated for impairment	957,672	373,424	55,740	8,186	1,950	35,125	1,432,097
Ending balance at December 31, 2012	$ 979,597	$ 383,152	$ 64,910	$ 8,186	$ 1,950	$ 36,016	$ 1,473,811

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 period presented. There were no TDRs that occurred during the quarter ended March 31, 2013.

	Three months ended March 31, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 162	$ –	$ 162
Total	$ –	$ 162	$ –	$ 162

	Three months ended March 31, 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	$ –	$ 110	$ –	$ 110	$ –	$ –
Total	$ –	$ 110	$ –	$ 110	$ –	$ –

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

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

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Real estate mortgage	$ 1,988	$ 1,996	$ 1,988	$ 1,996
Production and intermediate-term	29	29	29	29
Agribusiness				
Farm-related business	3,545	3,586	3,545	3,586
Total agribusiness	3,545	3,586	3,545	3,586
Total Loans	$ 5,562	$ 5,611	$ 5,562	$ 5,611

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

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31,	
	2013	2012
Pension	$ 880	$ 850
401(k)	140	151
Other postretirement benefits	164	130
Total	$ 1,184	$ 1,131

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

	Actual YTD Through 3/31/13	Projected Contributions For Remainder of 2013	Projected Total Contributions 2013
Pension	$ 2	$ 3,416	$ 3,418
Other Postretirement benefits	106	346	452
Total	$ 108	$ 3,762	$ 3,870

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 4 – 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 9.96 percent of the issued stock of the Bank as of March 31, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $27.7 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $121 million for the first three months of 2013. In addition, the Association has no investment 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 March 31, 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.

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 at March 31, 2013 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 other investments, which consist of Tobacco Buyout SIIC, fair value is determined by discounting the expected future cash flows using current interest rates for similar assets.

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

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

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

	Standby Letters Of Credit
Balance at January 1, 2013	$ 71
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	(3)
Transfers in and/or out of level 3	–
Balance at March 31, 2013	$ 68

	Standby Letters Of Credit
Balance at January 1, 2012	$ 49
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	5
Settlements	–
Transfers in and/or out of level 3	–
Balance at March 31, 2012	$ 54

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.

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
Impaired loans and other property owned	$ 38,175	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
Other investments	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 Three Months Ended March 31, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,025	$ 1,025	$ –	$ –	$ 1,025	
Recurring Assets	$ 1,025	1,025	$ –	$ –	$ 1,025	
Liabilities:						
Standby letters of credit	$ 68	$ –	$ –	$ 68	$ 68	
Recurring Liabilities	$ 68	$ –	$ –	$ 68	$ 68	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 31,993	$ –	$ –	$ 31,993	$ 31,993	$ 137
Other property owned	5,620	–	–	6,182	6,182	220
Nonrecurring Assets	$ 37,613	$ –	$ –	$ 38,175	$ 38,175	$ 357
Other Financial Instruments						
Assets:						
Cash	$ 2,669	$ 2,669	$ –	$ –	$ 2,669	
Loans	1,419,523	–	–	1,425,428	1,425,428	
Other investments	2,907	–	–	2,959	2,959	
Other Assets	$ 1,425,099	$ 2,669	$ –	$ 1,428,387	$ 1,431,056	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,200,305	$ –	$ –	$ 1,203,151	$ 1,203,151	
Other Liabilities	$ 1,200,305	$ –	$ –	$ 1,203,151	$ 1,203,151	

	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	$ 968	$ 968	$ –	$ –	$ 968	
Recurring Assets	$ 968	968	$ –	$ –	$ 968	
Liabilities:						
Standby letters of credit	$ 71	$ –	$ –	$ 71	$ 71	
Recurring Liabilities	$ 71	$ –	$ –	$ 71	$ 71	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 35,906	$ –	$ –	$ 35,906	$ 35,906	$ (5,655)
Other property owned	3,657	–	–	4,022	4,022	(362)
Nonrecurring Assets	$ 39,563	$ –	$ –	$ 39,928	$ 39,928	$ (6,017)
Other Financial Instruments						
Assets:						
Cash	$ 6,368	$ 6,368	$ –	$ –	$ 6,368	
Loans	1,422,655	–	–	1,432,050	1,432,050	
Other investments	5,838	–	–	5,940	5,940	
Other Assets	$ 1,434,861	$ 6,368	$ –	$ 1,437,990	$ 1,444,358	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,229,830	$ –	$ –	$ 1,235,589	$ 1,235,589	
Other Liabilities	$ 1,229,830	$ –	$ –	$ 1,235,589	$ 1,235,589	

NOTE 5 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

		Employee Benefit Plans
Balance at December 31, 2012	$	(17)
Other comprehensive income before reclassifications		–
Amounts reclassified from AOCI		–
Net current period other comprehensive income		–
Balance at March 31, 2013	$	(17)
Balance at December 31, 2011	$	(6)
Other comprehensive income before reclassifications		(2)
Amounts reclassified from AOCI		–
Net current period other comprehensive income		(2)
Balance at March 31, 2012	$	(8)

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

	For the three months ended March 31,				
	2013		2012		Income Statement Line Item
Defined Benefit Pension Plans:					
Periodic pension costs	$	–	$	–	See footnote 3.
Net amounts reclassified	$	–	$	–	

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

NOTE 6 – SUBSEQUENT EVENT

The Association has evaluated subsequent events and has determined there are none requiring disclosure through May 9, 2013, which is the date the financial statements were issued.