

SECOND QUARTER 2013

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CERTIFICATION

The undersigned certify that we have reviewed the June 30, 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

August 7, 2013

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 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.



David E. Lawrence
Chief Executive Officer



David G. Sauer
Chief Financial Officer

August 7, 2013

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 June 30, 2013. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2012 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities 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 June 30, 2013, the gross loan volume of the Association was \$1,472,592 compared to \$1,466,371 at December 31, 2012. Net loans outstanding at June 30, 2013 were \$1,462,779 as compared to \$1,456,403 at December 31, 2012. This was an increase of \$6,376 or 0.44 percent. The increase was mainly to an increase in demand for loans during the Spring as the general economy continued to improve and interest rates were at historical lows.

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 June 30, 2013, nonaccrual loan volume was \$31,038. This was a decrease of \$8,672 compared to \$39,710 at December 31, 2012. The decrease in nonaccrual loan volume was mainly due to payments received on loans, loans being transferred to other property owned and fewer loans being downgraded to nonaccrual status.

Other property owned showed an increase of \$2,106 at June 30, 2013 compared to December 31, 2012. The increase was primarily due to several loans going thru the foreclosure process and the property securing the loans 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 June 30, 2013 was \$9,813. This was a decrease of \$155 compared to the allowance amount at December 31, 2012.

RESULTS OF OPERATIONS

For the three months ended June 30, 2013

Net income for the three months ended June 30, 2013, totaled \$9,127 as compared to \$11,953 for the same period in 2012. This was a decrease of \$2,826 or 23.64 percent. The decrease in net income was primarily due to last year, the Association received a refund from the Farm Credit System Insurance Corporation (Insurance Corporation) totaling \$2,645. This year, the Insurance Corporation did not issue a refund.

Net interest income increased \$844 or 10.69 percent for the three months ended June 30, 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 increased \$600 for the three months ended June 30, 2013, as compared to the same period in 2012. Overall, the credit quality has improved during the quarter.

Noninterest income for the three months ended June 30, 2013 totaled \$4,743 compared to \$7,664 for the same period last year. This was a decrease of \$2,921 or 38.11 percent. The decrease in noninterest income was primarily due to the Association receiving a refund of insurance premium last year. While this year, the Insurance Corporation did not issue a refund. Also, during this quarter, AgFirst Farm Credit Bank (Bank), as it has done in the previous two years, distributed an early patronage refund totaling \$929. The Bank was able to declare and pay the early patronage refund due to strong earnings during the first six months of the year.

Noninterest expenses for the three months ended June 30, 2013 totaled \$5,671. This was an increase of \$149 or 2.70 percent compared to the same period of 2012. The increase was mainly due to an increase in the insurance fund premium charged to the Association by the Insurance Corporation.

For the six months ended June 30, 2013

Net income for the six months ended June 30, 2013 totaled \$17,104 as compared to \$19,507 for the same period in 2012. This was a decrease of \$2,403 or 12.32 percent. The decrease was mainly due to the Insurance Corporation not issuing a refund of insurance premiums this year. Last year, the Insurance Corporation refunded \$2,645 in insurance premiums back to the Association.

Net interest income for the six months increased \$942 compared to the same period in 2012. The increase in net interest income was primarily due to higher margins on loans.

Provision for loan losses for the six months ended June 30, 2013, totaled \$1,600 compared to \$1,500 for the same period last year. The Association continues to experience improvement in loan credit quality over the first six months of 2013.

Noninterest income for the six months ended June 30, 2012, totaled \$8,696 as compared to \$11,728 for the same period of 2012. This was a decrease of \$3,032. The decrease was primarily due to not receiving a refund of insurance premium this year. Also, the patronage refund from AgFirst Farm Credit Bank (Bank) was less this year due to the Association borrowing less from the Bank.

Noninterest expenses for the six months ended June 30, 2012 totaled \$11,865. This was an increase of \$313 or 2.71 percent compared to the same period of 2012. The increase was mainly due to an increase in the insurance fund 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 June 30, 2013 was \$1,217,445 as compared to \$1,229,830 at December 31, 2012.

CAPITAL RESOURCES

Total members' equity at June 30, 2013 totaled \$297,514, an increase of \$17,118, 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 June 30, 2013, the Association's total surplus ratio and core surplus ratio were 16.99 percent and 16.99 percent, respectively, and the permanent capital ratio was 18.19 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 six months ended June 30, 2013, the FCA took no enforcement action against the Association.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

<i>(dollars in thousands)</i>	June 30, 2013 <i>(unaudited)</i>	December 31, 2012 <i>(audited)</i>
Assets		
Cash	\$ 3,784	\$ 6,368
Loans	1,472,592	1,466,371
Less: allowance for loan losses	9,813	9,968
Net loans	1,462,779	1,456,403
Loans held for sale	1,109	2,158
Other investments	2,918	5,838
Accrued interest receivable	10,365	7,440
Investments in other Farm Credit institutions	26,870	27,589
Premises and equipment, net	7,801	7,880
Other property owned	5,763	3,657
Due from AgFirst Farm Credit Bank	6,556	16,609
Other assets	3,544	5,154
Total assets	\$ 1,531,489	\$ 1,539,096
Liabilities		
Notes payable to AgFirst Farm Credit Bank	\$ 1,217,445	\$ 1,229,830
Accrued interest payable	2,809	2,924
Patronage refunds payable	119	10,670
Other liabilities	13,602	15,276
Total liabilities	1,233,975	1,258,700
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	17,358	17,344
Retained earnings		
Allocated	92,568	92,568
Unallocated	187,605	170,501
Accumulated other comprehensive income (loss)	(17)	(17)
Total members' equity	297,514	280,396
Total liabilities and members' equity	\$ 1,531,489	\$ 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)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Interest Income				
Loans	\$ 19,569	\$ 19,673	\$ 38,737	\$ 39,864
Other investments	11	70	74	144
Total interest income	19,580	19,743	38,811	40,008
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	8,410	9,417	16,908	19,147
Net interest income	11,170	10,326	21,903	20,861
Provision for loan losses	1,100	500	1,600	1,500
Net interest income after provision for loan losses	10,070	9,826	20,303	19,361
Noninterest Income				
Loan fees	218	184	347	429
Fees for financially related services	12	14	18	20
Patronage refunds from other Farm Credit institutions	4,259	4,646	7,484	8,087
Gains (losses) on other property owned, net	2	(62)	209	(68)
Gains (losses) on sales of rural home loans, net	229	232	426	444
Gains (losses) on sales of premises and equipment, net	—	20	25	34
Insurance Fund refunds	—	2,645	—	2,645
Other noninterest income (expense)	23	(15)	187	137
Total noninterest income	4,743	7,664	8,696	11,728
Noninterest Expense				
Salaries and employee benefits	3,764	3,668	7,815	7,789
Occupancy and equipment	447	419	834	774
Insurance Fund premiums	305	159	606	316
Other operating expenses	1,155	1,276	2,610	2,673
Total noninterest expense	5,671	5,522	11,865	11,552
Income before income taxes	9,142	11,968	17,134	19,537
Provision for income taxes	15	15	30	30
Net income	\$ 9,127	\$ 11,953	\$ 17,104	\$ 19,507

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

Farm Credit of the Virginias, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Net income	\$ 9,127	\$ 11,953	\$ 17,104	\$ 19,507
Other comprehensive income net of tax				
Employee benefit plans adjustments (Note 6)	—	—	—	(2)
Comprehensive income	\$ 9,127	\$ 11,953	\$ 17,104	\$ 19,505

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)

<i>(dollars in thousands)</i>	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			19,507	(2)	19,505
Capital stock/participation certificates issued/(retired), net	(141)				(141)
Patronage distribution adjustment		(8)	(95)		(103)
Balance at June 30, 2012	<u>\$ 17,382</u>	<u>\$ 89,461</u>	<u>\$ 167,988</u>	<u>\$ (8)</u>	<u>\$ 274,823</u>
Balance at December 31, 2012	\$ 17,344	\$ 92,568	\$ 170,501	\$ (17)	\$ 280,396
Comprehensive income			17,104	-	17,104
Capital stock/participation certificates issued/(retired), net	14				14
Balance at June 30, 2013	<u>\$ 17,358</u>	<u>\$ 92,568</u>	<u>\$ 187,605</u>	<u>\$ (17)</u>	<u>\$ 297,514</u>

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 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 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:

	June 30, 2013	December 31, 2012
Real estate mortgage	\$ 985,728	\$ 975,246
Production and intermediate-term Agribusiness	391,388	380,380
Loans to cooperatives	-	1,431
Processing and marketing Farm-related business	40,637	50,798
Total agribusiness	11,859	12,504
Communication	52,496	64,733
Energy	7,761	8,185
Rural residential real estate	-	1,947
Total Loans	\$ 1,472,592	\$ 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:

	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	\$ -	\$ 121,633	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,633
Production and intermediate-term Agribusiness	13,422	10,859	416	-	-	-	13,838	10,859
Processing and marketing Farm-related business	12,254	-	-	-	-	-	12,254	-
Total agribusiness	598	301	-	-	-	-	598	301
Communication	12,852	-	-	-	-	-	12,852	-
Energy	7,781	-	-	-	-	-	7,781	-
Total	-	-	-	-	-	-	-	-
	\$ 34,055	\$ 132,793	\$ 416	\$ -	\$ -	\$ -	\$ 34,471	\$ 132,793

	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 Agribusiness	12,359	10,665	404	-	-	-	12,763	10,665
Loans to cooperatives	1,435	-	-	-	-	-	1,435	-
Processing and marketing Farm-related business	19,496	-	8	-	-	-	19,504	-
Total agribusiness	674	319	-	-	-	-	674	319
Communication	21,605	-	8	-	-	-	21,613	-
Energy	8,208	-	-	-	-	-	8,208	-
Total	1,947	-	-	-	-	-	1,947	-
	\$ 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 June 30, 2013 and indicates that approximately 15.43 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	\$ 27,783	\$ 53,487	\$ 904,458	\$ 985,728
Production and intermediate-term	162,901	128,309	100,178	391,388
Agribusiness				
Processing and marketing	29,477	6,220	4,940	40,637
Farm-related business	3,085	1,461	7,313	11,859
Total agribusiness	32,562	7,681	12,253	52,496
Communication	1,306	3,589	2,866	7,761
Rural residential real estate	2,647	1,905	30,667	35,219
Total Loans	\$ 227,199	\$ 194,971	\$ 1,050,422	\$ 1,472,592

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		June 30, 2013	December 31, 2012
Real estate mortgage:			Total agribusiness:		
Acceptable	92.73%	91.96%	Acceptable	69.35%	61.83%
OAEM	2.77	3.05	OAEM	3.15	4.74
Substandard/doubtful/loss	4.50	4.99	Substandard/doubtful/loss	27.50	33.43
	100.00%	100.00%		100.00%	100.00%
Production and intermediate-term:			Communication:		
Acceptable	90.01%	88.59%	Acceptable	100.00%	100.00%
OAEM	4.69	5.21	OAEM	-	-
Substandard/doubtful/loss	5.30	6.20	Substandard/doubtful/loss	-	-
	100.00%	100.00%		100.00%	100.00%
Agribusiness:			Energy:		
Loans to cooperatives:			Acceptable	-0%	100.00%
Acceptable	-0%	100.00%	OAEM	-	-
OAEM	-	-	Substandard/doubtful/loss	-	-
Substandard/doubtful/loss	-	-		-0%	100.00%
	-0%	100.00%	Rural residential real estate:		
Processing and marketing:			Acceptable	94.72%	92.53%
Acceptable	69.12%	58.77%	OAEM	1.87	3.62
OAEM	4.07	5.88	Substandard/doubtful/loss	3.41	3.85
Substandard/doubtful/loss	26.81	35.35		100.00%	100.00%
	100.00%	100.00%	Total Loans:		
Farm-related business:			Acceptable	91.26%	89.83%
Acceptable	70.15%	69.95%	OAEM	3.26	3.67
OAEM	-	0.62	Substandard/doubtful/loss	5.48	6.50
Substandard/doubtful/loss	29.85	29.43		100.00%	100.00%
	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	\$ 10,273	\$ 5,358	\$ 15,631	\$ 976,267	\$ 991,898	\$ -	
Production and intermediate-term Agribusiness	5,762	4,182	9,944	385,243	395,187	477	
Processing and marketing Farm-related business	-	-	-	40,820	40,820	-	
Total agribusiness	-	100	100	11,798	11,898	-	
Communication	-	-	-	52,618	52,718	-	
Rural residential real estate	1,082	164	1,246	7,763	7,763	-	
Total	\$ 17,117	\$ 9,804	\$ 26,921	\$ 1,456,036	\$ 1,482,957	\$ 477	

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 Agribusiness	2,912	4,174	7,086	376,066	383,152	16	
Loans to cooperatives	-	-	-	1,431	1,431	-	
Processing and marketing Farm-related business	-	272	272	50,682	50,954	-	
Total agribusiness	-	100	100	12,425	12,525	-	
Communication	-	372	372	64,538	64,910	-	
Energy	-	-	-	8,186	8,186	-	
Rural residential real estate	1,016	641	1,657	1,950	1,950	-	
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:

	June 30, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	\$ 15,741	\$ 20,454
Production and intermediate-term Agribusiness	7,686	9,217
Processing and marketing Farm-related business	3,367	5,484
Total agribusiness	3,552	3,686
Rural residential real estate	6,919	9,170
Total nonaccrual loans	\$ 31,038	\$ 39,710
Accruing restructured loans:		
Total accruing restructured loans	\$ -	\$ -
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ -	\$ 16
Production and intermediate-term Rural residential real estate	477	16
Total accruing loans 90 days or more past due	\$ 477	\$ 32
Total nonperforming loans	\$ 31,515	\$ 39,742
Other property owned	5,763	3,657
Total nonperforming assets	\$ 37,278	\$ 43,399
Nonaccrual loans as a percentage of total loans	2.11%	2.71%
Nonperforming assets as a percentage of total loans and other property owned	2.52%	2.95%
Nonperforming assets as a percentage of capital	12.53%	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.

	June 30, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 15,600	\$ 21,477
Past due	15,438	18,233
Total impaired nonaccrual loans	<u>31,038</u>	<u>39,710</u>
Impaired accrual loans:		
Restructured	-	-
90 days or more past due	477	32
Total impaired accrual loans	<u>477</u>	<u>32</u>
Total impaired loans	<u>\$ 31,515</u>	<u>\$ 39,742</u>

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	\$ 4,137	\$ 4,294	\$ 867	\$ 4,314	\$ 82	\$ 4,737	\$ 117
Production and intermediate-term Agribusiness	2,480	2,642	1,242	2,587	49	2,841	71
Processing and marketing Farm-related business	2,011	2,464	400	2,098	40	2,303	58
Total agribusiness	3,553	3,768	271	3,706	71	4,070	102
Rural residential real estate	5,564	6,232	671	5,804	111	6,373	160
Total	<u>242</u>	<u>271</u>	<u>19</u>	<u>252</u>	<u>5</u>	<u>277</u>	<u>7</u>
	<u>\$ 12,423</u>	<u>\$ 13,439</u>	<u>\$ 2,799</u>	<u>\$ 12,957</u>	<u>\$ 247</u>	<u>\$ 14,228</u>	<u>\$ 355</u>
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	\$ 11,604	\$ 13,862	\$ -	\$ 12,103	\$ 231	\$ 13,292	\$ 332
Production and intermediate-term Agribusiness	5,683	7,707	-	5,927	113	6,508	163
Processing and marketing Farm-related business	1,356	1,430	-	1,414	27	1,554	38
Total agribusiness	(1)	-	-	(1)	-	(2)	-
Rural residential real estate	1,355	1,430	-	1,413	27	1,552	38
Total	450	574	-	470	9	516	13
	<u>\$ 19,092</u>	<u>\$ 23,573</u>	<u>\$ -</u>	<u>\$ 19,913</u>	<u>\$ 380</u>	<u>\$ 21,868</u>	<u>\$ 546</u>
Total impaired loans:							
Real estate mortgage	\$ 15,741	\$ 18,156	\$ 867	\$ 16,417	\$ 313	\$ 18,029	\$ 449
Production and intermediate-term Agribusiness	8,163	10,349	1,242	8,514	162	9,349	234
Processing and marketing Farm-related business	3,367	3,894	400	3,512	67	3,857	96
Total agribusiness	3,552	3,768	271	3,705	71	4,068	102
Rural residential real estate	6,919	7,662	671	7,217	138	7,925	198
Total	692	845	19	722	14	793	20
	<u>\$ 31,515</u>	<u>\$ 37,012</u>	<u>\$ 2,799</u>	<u>\$ 32,870</u>	<u>\$ 627</u>	<u>\$ 36,096</u>	<u>\$ 901</u>

	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 Agribusiness	5,509	5,703	1,322	5,075	122
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 Agribusiness	3,724	5,447	-	3,431	82
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 Agribusiness	9,233	11,150	1,322	8,506	204
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 March 31, 2013	\$ 3,541	\$ 4,466	\$ 1,372	\$ -	\$ -	\$ 215	\$ 9,594
Charge-offs	(253)	(107)	(453)	-	-	(94)	(907)
Recoveries	9	17	-	-	-	-	26
Provision for loan losses	438	567	52	-	-	43	1,100
Balance at June 30, 2013	\$ 3,735	\$ 4,943	\$ 971	\$ -	\$ -	\$ 164	\$ 9,813
Balance at December 31, 2012	\$ 3,469	\$ 4,621	\$ 1,684	\$ -	\$ -	\$ 194	\$ 9,968
Charge-offs	(1,003)	(294)	(453)	-	-	(94)	(1,844)
Recoveries	69	20	-	-	-	-	89
Provision for loan losses	1,200	596	(260)	-	-	64	1,600
Balance at June 30, 2013	\$ 3,735	\$ 4,943	\$ 971	\$ -	\$ -	\$ 164	\$ 9,813
Balance at March 31, 2012	\$ 2,811	\$ 4,368	\$ 1,239	\$ 15	\$ -	\$ 227	\$ 8,660
Charge-offs	-	(229)	-	-	-	(10)	(239)
Recoveries	9	24	-	-	-	-	33
Provision for loan losses	469	452	(394)	-	-	(27)	500
Balance at June 30, 2012	\$ 3,289	\$ 4,615	\$ 845	\$ 15	\$ -	\$ 190	\$ 8,954
Balance at December 31, 2011	\$ 2,408	\$ 4,379	\$ 748	\$ 15	\$ -	\$ 204	\$ 7,754
Charge-offs	(71)	(314)	-	-	-	(10)	(395)
Recoveries	22	73	-	-	-	-	95
Provision for loan losses	930	477	97	-	-	(4)	1,500
Balance at June 30, 2012	\$ 3,289	\$ 4,615	\$ 845	\$ 15	\$ -	\$ 190	\$ 8,954
Loans individually evaluated for impairment	\$ 867	\$ 1,242	\$ 671	\$ -	\$ -	\$ 19	\$ 2,799
Loans collectively evaluated for impairment	2,868	3,701	300	-	-	145	7,014
Balance at June 30, 2013	\$ 3,735	\$ 4,943	\$ 971	\$ -	\$ -	\$ 164	\$ 9,813
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	\$ 16,265	\$ 8,166	\$ 6,919	\$ -	\$ -	\$ 692	\$ 32,042
Loans collectively evaluated for impairment	975,633	387,021	45,799	7,763	-	34,699	1,450,915
Ending balance at June 30, 2013	\$ 991,898	\$ 395,187	\$ 52,718	\$ 7,763	\$ -	\$ 35,391	\$ 1,482,957
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.

	Three months ended June 30, 2013			
	Pre-modification Outstanding			Recorded Investment
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	\$ 520	\$ -	\$ -	\$ 520
Total	\$ 520	\$ -	\$ -	\$ 520

Three months ended June 30, 2013							Effects of Modification	
	Post-modification Outstanding Recorded Investment						Provisions	Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total				
Troubled debt restructurings:								
Real estate mortgage	\$ 520	\$ -	\$ -	\$ 520			\$ -	\$ -
Total	\$ 520	\$ -	\$ -	\$ 520			\$ -	\$ -

Six months ended June 30, 2013						
Pre-modification Outstanding Recorded Investment						
	Interest Concessions	Principal Concessions	Other Concessions	Total		
Troubled debt restructurings:						
Real estate mortgage	\$ 520	\$ -	\$ -	\$ 520		
Total	\$ 520	\$ -	\$ -	\$ 520		

Six months ended June 30, 2013							Effects of Modification	
	Post-modification Outstanding Recorded Investment						Provisions	Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total				
Troubled debt restructurings:								
Real estate mortgage	\$ 520	\$ -	\$ -	\$ 520			\$ -	\$ -
Total	\$ 520	\$ -	\$ -	\$ 520			\$ -	\$ -

Three months ended June 30, 2012						
Pre-modification Outstanding Recorded Investment						
	Interest Concessions	Principal Concessions	Other Concessions	Total		
Troubled debt restructurings:						
Real estate mortgage	\$ -	\$ 2,160	\$ -	\$ 2,160		
Farm-related business	-	3,722	-	3,722		
Total	\$ -	\$ 5,882	\$ -	\$ 5,882		

Three months ended June 30, 2012							Effects of Modification	
	Post-modification Outstanding Recorded Investment						Provisions	Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total				
Troubled debt restructurings:								
Real estate mortgage	\$ -	\$ 2,160	\$ -	\$ 2,160			\$ -	\$ -
Farm-related business	-	3,722	-	3,722			-	-
Total	\$ -	\$ 5,882	\$ -	\$ 5,882			\$ -	\$ -

Six months ended June 30, 2012						
Pre-modification Outstanding Recorded Investment						
	Interest Concessions	Principal Concessions	Other Concessions	Total		
Troubled debt restructurings:						
Real estate mortgage	\$ -	\$ 2,322	\$ -	\$ 2,322		
Farm-related Business	-	3,722	-	3,722		
Total	\$ -	\$ 6,044	\$ -	\$ 6,044		

Six months ended June 30, 2012							Effects of Modification	
	Post-modification Outstanding Recorded Investment						Provisions	Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total				
Troubled debt restructurings:								
Real estate mortgage	\$ -	\$ 2,270	\$ -	\$ 2,270			\$ -	\$ -
Farm-related Business	-	3,722	-	3,722			-	-
Total	\$ -	\$ 5,992	\$ -	\$ 5,992			\$ -	\$ -

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	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Real estate mortgage	\$ 2,483	\$ 1,996	\$ 2,483	\$ 1,996
Production and intermediate-term Agribusiness	28	29	28	29
Farm-related business	3,452	3,586	3,452	3,586
Total agribusiness	3,452	3,586	3,452	3,586
Total Loans	\$ 5,963	\$ 5,611	\$ 5,963	\$ 5,611

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 3 – 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	\$ 882	\$ 850	\$ 1,762	\$ 1,700
401(k)	85	82	225	233
Other postretirement benefits	164	130	328	260
Total	\$ 1,131	\$ 1,062	\$ 2,315	\$ 2,193

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	\$ 4	\$ 3,414
Other Postretirement benefits	212	240	452
Total	\$ 216	\$ 3,654	\$ 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 – 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 5 – 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 9.64 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 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 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.

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 June 30, 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	(7)
Transfers in and/or out of level 3	-
Balance at June 30, 2013	<u>\$ 64</u>

	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	9
Settlements	-
Transfers in and/or out of level 3	-
Balance at June 30, 2012	<u>\$ 58</u>

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	\$ 35,056	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 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	\$ 1,048	\$ 1,048	\$ -	\$ -	\$ 1,048		
Recurring Assets	\$ 1,048	1,048	\$ -	\$ -	\$ 1,048		
Liabilities:							
Standby letters of credit	\$ 64	\$ -	\$ -	\$ 64	\$ 64		
Recurring Liabilities	\$ 64	\$ -	\$ -	\$ 64	\$ 64		
Nonrecurring Measurements							
Assets:							
Impaired loans	\$ 28,716	\$ -	\$ -	\$ 28,716	\$ 28,716	\$	(719)
Other property owned	5,763	-	-	6,340	6,340		294
Nonrecurring Assets	\$ 34,479	\$ -	\$ -	\$ 35,056	\$ 35,056	\$	(425)
Other Financial Instruments							
Assets:							
Cash	\$ 3,784	\$ 3,784	\$ -	\$ -	\$ 3,784		
Loans	1,435,172	-	-	1,421,876	1,421,876		
Other investments	2,918	-	-	2,970	2,970		
Other Assets	\$ 1,441,874	\$ 3,784	\$ -	\$ 1,424,846	\$ 1,428,630		
Liabilities:							
Notes payable to AgFirst Farm Credit Bank	\$ 1,217,445	\$ -	\$ -	\$ 1,195,387	\$ 1,195,387		
Other Liabilities	\$ 1,217,445	\$ -	\$ -	\$ 1,195,387	\$ 1,195,387		
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 6 - ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in Accumulated Other Comprehensive income by Component ^(a)	
Employee Benefit Plans	
Balance at March 31, 2013	\$ (17)
Other comprehensive income before reclassifications	-
Amounts reclassified from AOCI	-
Net current period other comprehensive income	-
Balance at June 30, 2013	<u>\$ (17)</u>
Balance at December 31, 2012	\$ (17)
Other comprehensive income before reclassifications	-
Amounts reclassified from AOCI	-
Net current period other comprehensive income	-
Balance at June 30, 2013	<u>\$ (17)</u>
Balance at March 31, 2012	\$ (8)
Other comprehensive income before reclassifications	-
Amounts reclassified from AOCI	-
Net current period other comprehensive income	-
Balance at June 30, 2012	<u>\$ (8)</u>
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 June 30, 2012	<u>\$ (8)</u>

Reclassifications Out of Accumulated Other Comprehensive Income ^(b)

	For the three months ended June 30,		For the six months ended June 30,		Income Statement Line Item
	2013	2012	2013	2012	
Defined Benefit Pension Plans:					
Periodic pension costs	\$ -	\$ -	\$ -	\$ -	See footnote 3.
Net amounts reclassified	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

(a) Amounts in parentheses indicate debits to AOCI.

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

NOTE 7 - SUBSEQUENT EVENT

The Association has evaluated subsequent events and has determined there are none requiring disclosure through August 7, 2013, which is the date the financial statements were issued.