Farm Credit of the Virginias, ACA

THIRD QUARTER 2013

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CERTIFICATION

The undersigned certify that we have reviewed the September 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

November 7, 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 September 30, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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

David E. Lawrence
Chief Executive Officer

David G. Sauer
Chief Financial Officer

November 7, 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 September 30, 2013. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2012 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities 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 September 30, 2013, the gross loan volume of the Association was $1,467,442 compared to $1,466,371 at December 31, 2012. Net loans outstanding at September 30, 2013 were $1,455,677 as compared to $1,456,403 at December 31, 2012. Gross loan volume increased $1,071 or about 1% when compared to gross loan volume at December 31, 2012. Loan volume growth continues to be sluggish as the economy grows at a slow pace. There was more demand for real estate loans the first half of the year compared to last year. Loan volume growth declined slightly during the third quarter as long term interest rates increased.

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 September 30, 2013, nonaccrual loan volume was $27,926 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 totaled $4,559 at September 30, 2013. This was an increase of $902 when 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 September 30, 2013 was $11,765. This was an increase of $1,797 compared to the allowance amount at December 31, 2012.

RESULTS OF OPERATIONS

For the three months ended September 30, 2013

Net income for the three months ended September 30, 2013, totaled $8,417 as compared to $6,364 for the same period in 2012. This was an increase of $2,053 or 32 percent. The increase in net income was primarily due to lower provision for loan losses, net gains on sales of other property owned versus net losses last year, and higher net interest income.

Net interest income increased $513 or 5 percent for the three months ended September 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 for the three months ended September 30, 2013 was $1,000 compared to $2,500 for the three months ended September 30, 2012, a $1,500 decrease. The decrease was mainly due to an improvement in the loan portfolio credit quality and receiving payments on loans that were previously charged-off totaling $1,637.

Noninterest income for the three months ended September 30, 2013 totaled $4,172 compared to $3,660 for the same period last year. This was an increase of $512 or 14 percent. The increase in noninterest income was primarily due to having a net gain on sales of other property owned of $625 compared to net losses of $324 last year.

Noninterest expenses for the three months ended September 30, 2013 totaled $5,732. This was an increase of $454 or 9 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 Farm Credit System Insurance Corporation (Insurance Corporation) and higher other operating expenses.

For the nine months ended September 30, 2013

Net income for the nine months ended September 30, 2013 totaled $25,521 as compared to $25,871 for the same period in 2012. This was a decrease of $350 or 1 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 income was positively impacted by an increase in net interest income, lower provision for loan losses, and net gains on sales of other property owned.

Net interest income for the nine months ended September 30, 2013, totaled $32,899 compared to $31,344 for the same period last year. This was an increase of $1,555 or 5%. The increase in net interest income was primarily due to higher margins on loans.

Provision for loan losses for the six months ended September 30, 2013, totaled $2,600 compared to $4,000 for the same period last year. The Association continues to experience improvement in loan credit quality over the first nine months of 2013. Also, the Association had recorded several large recoveries on loans that were previously charged-off.

Noninterest income for the nine months ended September 30, 2013, totaled $12,868 as compared to $15,388 for the same period of 2012. This was a decrease of $2,520. 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. On a positive note, the Association recorded net gains on the sales of other property owned totaling $834 for 2013 compared to a net losses $392 for the first nine month last year.

Noninterest expenses for the nine months ended September 30, 2012 totaled $17,597. This was an increase of $767 or 5 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 September 30, 2013 was $1,203,647 as compared to $1,229,830 at December 31, 2012.

CAPITAL RESOURCES

Total members' equity at September 30, 2013 totaled $305,868, an increase of $25,472, 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 September 30, 2013, the Association's total surplus ratio and core surplus ratio were 17.27 percent and 17.27 percent, respectively, and the permanent capital ratio was 18.47 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 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)	September 30, 2013	December 31, 2012
	(unaudited)	*(audited)*
Assets		
Cash	$ 4,681	$ 6,368
Loans	1,467,442	1,466,371
Less: allowance for loan losses	11,765	9,968
Net loans	1,455,677	1,456,403
Loans held for sale	1,505	2,158
Other investments	2,953	5,838
Accrued interest receivable	11,204	7,440
Investments in other Farm Credit institutions	26,467	27,589
Premises and equipment, net	7,781	7,880
Other property owned	4,559	3,657
Due from AgFirst Farm Credit Bank	9,682	16,609
Other assets	2,674	5,154
Total assets	$ 1,527,183	$ 1,539,096
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,203,647	$ 1,229,830
Accrued interest payable	2,807	2,924
Patronage refunds payable	186	10,670
Other liabilities	14,675	15,276
Total liabilities	1,221,315	1,258,700
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	17,295	17,344
Retained earnings		
Allocated	92,568	92,568
Unallocated	196,022	170,501
Accumulated other comprehensive income (loss)	(17)	(17)
Total members' equity	305,868	280,396
Total liabilities and members' equity	$ 1,527,183	$ 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 September 30, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
Interest Income				
Loans	$ 19,398	$ 19,528	$ 58,135	$ 59,392
Other investments	35	63	109	207
Total interest income	19,433	19,591	58,244	59,599
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	8,437	9,108	25,345	28,255
Net interest income	10,996	10,483	32,899	31,344
Provision for loan losses	1,000	2,500	2,600	4,000
Net interest income after provision for loan losses	9,996	7,983	30,299	27,344
Noninterest Income				
Loan fees	270	161	617	590
Fees for financially related services	5	40	23	60
Patronage refunds from other Farm Credit institutions	3,142	3,423	10,626	11,510
Gains (losses) on other property owned, net	625	(324)	834	(392)
Gains (losses) on sales of rural home loans, net	105	321	531	765
Gains (losses) on sales of premises and equipment, net	15	—	40	34
Insurance Fund refunds	—	—	—	2,645
Other noninterest income	10	39	197	176
Total noninterest income	4,172	3,660	12,868	15,388
Noninterest Expense				
Salaries and employee benefits	3,778	3,630	11,593	11,419
Occupancy and equipment	350	353	1,184	1,127
Insurance Fund premiums	307	162	913	478
Other operating expenses	1,297	1,133	3,907	3,806
Total noninterest expense	5,732	5,278	17,597	16,830
Income before income taxes	8,436	6,365	25,570	25,902
Provision for income taxes	19	1	49	31
Net income	$ 8,417	$ 6,364	$ 25,521	$ 25,871

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 September 30, 2013**	**2012**	**For the nine months ended September 30, 2013**	**2012**
Net income	$ 8,417	$ 6,364	$ 25,521	$ 25,871
Other comprehensive income net of tax				
Employee benefit plans adjustments (Note 7)	–	–	–	(2)
Comprehensive income	$ 8,417	$ 6,364	$ 25,521	$ 25,869

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 Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2011	$ 17,523	$ 89,469	$ 148,576	$ (6)	$ 255,562
Comprehensive income			25,871	(2)	25,869
Capital stock/participation certificates issued/(retired), net	(184)				(184)
Patronage distribution adjustment		(8)	(95)		(103)
Balance at September 30, 2012	$ 17,339	$ 89,461	$ 174,352	$ (8)	$ 281,144
Balance at December 31, 2012	$ 17,344	$ 92,568	$ 170,501	$ (17)	$ 280,396
Comprehensive income			25,521	—	25,521
Capital stock/participation certificates issued/(retired), net	(49)				(49)
Balance at September 30, 2013	$ 17,295	$ 92,568	$ 196,022	$ (17)	$ 305,868

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

Organization

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

Basis of Presentation

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry.

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

The results of any interim period are not necessarily indicative of the results to be expected for a full year.

Significant Accounting Policies

The Association maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified.

Recently Issued Accounting Pronouncements

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

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

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

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

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

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

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

A summary of loans outstanding at period end follows:

	September 30, 2013	December 31, 2012
Real estate mortgage	$ 999,588	$ 975,246
Production and intermediate-term	375,264	380,380
Loans to cooperatives	–	1,431
Processing and marketing	36,686	50,798
Farm-related business	11,887	12,504
Communication	7,598	8,185
Energy and water/waste disposal	–	1,947
Rural residential real estate	36,419	35,880
Total Loans	$ 1,467,442	$ 1,466,371

A substantial portion of the Association's lending activities is collateralized, and exposure to credit loss associated with lending activities is reduced accordingly.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration (FCA) regulations. The following tables present participation loan balances at periods ended:

	September 30, 2013							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 115,766	$ –	$ –	$ –	$ –	$ –	$ 115,766
Production and intermediate-term	8,688	9,605	468	–	–	–	9,156	9,605
Processing and marketing	9,153	475	–	–	–	–	9,153	475
Farm-related business	1,741	291	–	–	–	–	1,741	291
Communication	7,622	–	–	–	–	–	7,622	–
Total	$ 27,204	$ 126,137	$ 468	$ –	$ –	$ –	$ 27,672	$ 126,137

	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
Loans to cooperatives	1,435	–	–	–	–	–	1,435	–
Processing and marketing	19,496	–	8	–	–	–	19,504	–
Farm-related business	674	319	–	–	–	–	674	319
Communication	8,208	–	–	–	–	–	8,208	–
Energy and water/waste disposal	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 the latest period end:

	September 30, 2013			
	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 24,254	$ 54,508	$ 920,826	$ 999,588
Production and intermediate-term	142,254	130,240	102,770	375,264
Processing and marketing	25,112	4,819	6,755	36,686
Farm-related business	2,427	2,242	7,218	11,887
Communication	1,284	3,539	2,775	7,598
Rural residential real estate	2,586	1,300	32,533	36,419
Total Loans	$ 197,917	$ 196,648	$ 1,072,877	$ 1,467,442
Percentage	13.49%	13.40%	73.11%	100.00%

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

	September 30, 2013	December 31, 2012
Real estate mortgage:		
Acceptable	93.32%	91.96%
OAEM	2.61	3.05
Substandard/doubtful/loss	4.07	4.99
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	90.74%	88.59%
OAEM	5.10	5.21
Substandard/doubtful/loss	4.16	6.20
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	–%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	–%	100.00%
Processing and marketing:		
Acceptable	68.59%	58.77%
OAEM	6.49	5.88
Substandard/doubtful/loss	24.92	35.35
	100.00%	100.00%
Farm-related business:		
Acceptable	70.97%	69.95%
OAEM	–	0.62
Substandard/doubtful/loss	29.03	29.43
	100.00%	100.00%

	September 30, 2013	December 31, 2012
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Energy and water/waste disposal:		
Acceptable	–%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	–%	100.00%
Rural residential real estate:		
Acceptable	95.07%	92.53%
OAEM	1.76	3.62
Substandard/doubtful/loss	3.17	3.85
	100.00%	100.00%
Total Loans:		
Acceptable	91.94%	89.83%
OAEM	3.29	3.67
Substandard/doubtful/loss	4.77	6.50
	100.00%	100.00%

The following tables provide an age analysis of past due loans and related accrued interest as of:

	September 30, 2013					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 9,778	$ 5,661	$ 15,439	$ 990,866	$ 1,006,305	$ –
Production and intermediate-term	2,978	6,317	9,295	370,153	379,448	2
Processing and marketing	–	1,606	1,606	35,182	36,788	–
Farm-related business	–	100	100	11,814	11,914	–
Communication	–	–	–	7,599	7,599	–
Rural residential real estate	735	206	941	35,651	36,592	–
Total	$ 13,491	$ 13,890	$ 27,381	$ 1,451,265	$ 1,478,646	$ 2

	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
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	–
Communication	–	–	–	8,186	8,186	–
Energy and water/waste disposal	–	–	–	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, unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

Nonperforming assets (including related accrued interest) and related credit quality statistics at period end were as follows:

	September 30, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	$ 14,605	$ 20,454
Production and intermediate-term	7,521	9,217
Processing and marketing	1,606	5,484
Farm-related business	3,459	3,686
Rural residential real estate	735	869
Total nonaccrual loans	$ 27,926	$ 39,710
Accruing restructured loans:		
Real estate mortgage	$ 380	$ –
Total accruing restructured loans	$ 380	$ –
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ 16
Production and intermediate-term	2	16
Rural residential real estate	–	–
Total accruing loans 90 days or more past due	$ 2	$ 32
Total nonperforming loans	$ 28,308	$ 39,742
Other property owned	4,559	3,657
Total nonperforming assets	$ 32,867	$ 43,399
Nonaccrual loans as a percentage of total loans	1.90%	2.71%
Nonperforming assets as a percentage of total loans and other property owned	2.23%	2.95%
Nonperforming assets as a percentage of capital	10.75%	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.

	September 30, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	$ 10,955	$ 21,477
Past due	16,971	18,233
Total impaired nonaccrual loans	27,926	39,710
Impaired accrual loans:		
Restructured	380	–
90 days or more past due	2	32
Total impaired accrual loans	382	32
Total impaired loans	$ 28,308	$ 39,742

The following tables present additional impaired information at period end.

	September 30, 2013			Quarter Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 3,111	$ 3,166	$ 812	$ 3,374	$ 31	$ 3,767	$ 130
Production and intermediate-term	3,026	3,203	1,723	3,281	31	3,664	127
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	3,459	3,740	351	3,751	35	4,188	145
Rural residential real estate	231	268	16	251	2	280	10
Total	$ 9,827	$ 10,377	$ 2,902	$ 10,657	$ 99	$ 11,899	$ 412
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 11,874	$ 14,307	$ –	$ 12,879	$ 121	$ 14,379	$ 499
Production and intermediate-term	4,497	6,653	–	4,878	45	5,446	189
Processing and marketing	1,606	2,464	–	1,742	16	1,945	67
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	504	635	–	546	5	610	21
Total	$ 18,481	$ 24,059	$ –	$ 20,045	$ 187	$ 22,380	$ 776
Total impaired loans:							
Real estate mortgage	$ 14,985	$ 17,473	$ 812	$ 16,253	$ 152	$ 18,146	$ 629
Production and intermediate-term	7,523	9,856	1,723	8,159	76	9,110	316
Processing and marketing	1,606	2,464	–	1,742	16	1,945	67
Farm-related business	3,459	3,740	351	3,751	35	4,188	145
Rural residential real estate	735	903	16	797	7	890	31
Total	$ 28,308	$ 34,436	$ 2,902	$ 30,702	$ 286	$ 34,279	$ 1,188

	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
Processing and marketing		2,735		2,754		801			2,520		60
Farm-related business		3,686		3,825		358			3,396		81
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
Processing and marketing		2,749		2,955		–			2,533		61
Farm-related business		–		–		–			–		–
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
Processing and marketing		5,484		5,709		801			5,053		121
Farm-related business		3,686		3,825		358			3,396		81
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 for each reporting period follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Total
Allowance for credit losses:							
Balance at June 30, 2013	$ 3,735	$ 4,943	$ 971	$ –	$ –	$ 164	$ 9,813
Charge-offs	(192)	(88)	(405)	–	–	–	(685)
Recoveries	1,633	4	–	–	–	–	1,637
Provision for loan losses	(947)	465	1,485	–	–	(3)	1,000
Balance at September 30, 2013	$ 4,229	$ 5,324	$ 2,051	$ –	$ –	$ 161	$ 11,765
Balance at December 31, 2012	$ 3,469	$ 4,621	$ 1,684	$ –	$ –	$ 194	$ 9,968
Charge-offs	(1,195)	(382)	(858)	–	–	(94)	(2,529)
Recoveries	1,702	24	–	–	–	–	1,726
Provision for loan losses	253	1,061	1,225	–	–	61	2,600
Balance at September 30, 2013	$ 4,229	$ 5,324	$ 2,051	$ –	$ –	$ 161	$ 11,765
Balance at June 30, 2012	$ 3,289	$ 4,615	$ 845	$ 15	$ –	$ 190	$ 8,954
Charge-offs	(118)	(487)	(57)	–	–	(5)	(667)
Recoveries	3	118	6	–	–	–	127
Provision for loan losses	1,936	(150)	724	(15)	–	5	2,500
Balance at September 30, 2012	$ 5,110	$ 4,096	$ 1,518	$ –	$ –	$ 190	$ 10,914
Balance at December 31, 2011	$ 2,408	$ 4,379	$ 748	$ 15	$ –	$ 204	$ 7,754
Charge-offs	(189)	(801)	(57)	–	–	(15)	(1,062)
Recoveries	25	191	6	–	–	–	222
Provision for loan losses	2,866	327	821	(15)	–	1	4,000
Balance at September 30, 2012	$ 5,110	$ 4,096	$ 1,518	$ –	$ –	$ 190	$ 10,914
Loans individually evaluated for impairment	$ 812	$ 1,723	$ 351	$ –	$ –	$ 16	$ 2,902
Loans collectively evaluated for impairment	3,417	3,601	1,700	–	–	145	8,863
Balance at September 30, 2013	$ 4,229	$ 5,324	$ 2,051	$ –	$ –	$ 161	$ 11,765
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	$ 15,445	$ 7,525	$ 5,065	$ –	$ –	$ 852	$ 28,887
Loans collectively evaluated for impairment	990,859	371,923	43,637	7,599	–	35,740	1,449,758
Ending balance at September 30, 2013	$ 1,006,304	$ 379,448	$ 48,702	$ 7,599	$ –	$ 36,592	$ 1,478,645
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

**Includes the loan types; Loans to cooperatives, Processing and marketing, and Farm-related business.*

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information about activity that occurred during the periods presented related to TDRs.

	Three months ended September 30, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 114	$ –	$ 114
Total	$ –	$ 114	$ –	$ 114

	Three months ended September 30, 2013					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 114	$ –	$ 114	$ –	$ –
Total	$ –	$ 114	$ –	$ 114	$ –	$ –

	Nine months ended September 30, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 520	$ 114	$ –	$ 634
Total	$ 520	$ 114	$ –	$ 634

	Nine months ended September 30, 2013					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 520	$ 114	$ –	$ 634	$ –	$ –
Total	$ 520	$ 114	$ –	$ 634	$ –	$ –

	Three months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Production and Intermediate-term	$ –	$ 24	$ –	$ 24
Total	$ –	$ 24	$ –	$ 24

	Three months ended September 30, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Production and Intermediate-term	$ –	$ 24	$ –	$ 24	$ 24	$ –
Total	$ –	$ 24	$ –	$ 24	$ 24	$ –

	Nine months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,322	$ –	$ 2,322
Production and Intermediate-term	–	24	–	24
Farm-related Business	–	3,722	–	3,722
Total	$ –	$ 6,068	$ –	$ 6,068

	Nine months ended September 30, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 2,270	$ –	$ 2,270	$ –	$ –
Production and Intermediate-term	–	24	–	24	24	–
Farm-related Business	–	3,722	–	3,722	–	–
Total	$ –	$ 6,016	$ –	$ 6,016	$ 24	$ –

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

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	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Real estate mortgage	$ 477	$ 1,996	$ 97	$ 1,996
Production and intermediate-term	28	29	28	29
Processing and marketing	1,606	–	1,606	–
Farm-related business	3,359	3,586	3,359	3,586
Total Loans	$ 5,470	$ 5,611	$ 5,090	$ 5,611
Additional commitments to lend	$ –	$ –		

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 September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Pension	$ 880	$ 850	$ 2,642	$ 2,550
401(k)	82	79	307	312
Other postretirement benefits	164	131	492	391
Total	$ 1,126	$ 1,060	$ 3,441	$ 3,253

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

	Actual YTD Through 9/30/13	Projected Contributions For Remainder of 2013	Projected Total Contributions 2013
Pension	$ 7	$ 3,619	$ 3,626
Other Postretirement benefits	314	131	445
Total	$ 321	$ 3,750	$ 4,071

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

NOTE 5 – NOTES PAYABLE TO AGFIRST FARM CREDIT BANK

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

NOTE 6 – FAIR VALUE MEASUREMENT

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 9.60 percent of the issued stock of the Bank as of September 30, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.5 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $350 million for the first nine months of 2013. In addition, the Association has 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.

Assets held in trust funds, related to deferred compensation and supplemental retirement plans, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

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

Level 3

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

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

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

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

For other investments, which consist of Tobacco Buyout Successor-in-Interest Contracts (SIIC), fair value is determined by discounting estimated future cash flows using prevailing rates for similar instuments.

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
Issuances	–
Settlements	(14)
Transfers in and/or out of level 3	–
Balance at September 30, 2013	$ 57

	Standby Letters Of Credit
Balance at January 1, 2012	$ 49
Issuances	13
Settlements	–
Transfers in and/or out of level 3	–
Balance at September 30, 2012	$ 62

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 30,421	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Other investments	Discounted cash flow	Prepayment rates
		Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity

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

	At or for the Nine Months Ended September 30, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Trust funds	$ 1,044	$ 1,044	$ –	$ –	$ 1,044	
Recurring Assets	$ 1,044	1,044	$ –	$ –	$ 1,044	
Liabilities:						
Standby letters of credit	$ 57	$ –	$ –	$ 57	$ 57	
Recurring Liabilities	$ 57	$ –	$ –	$ 57	$ 57	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 25,406	$ –	$ –	$ 25,406	$ 25,406	$ 130
Other property owned	4,559	–	–	5,015	5,015	966
Nonrecurring Assets	$ 29,965	$ –	$ –	$ 30,421	$ 30,421	$ 1,096
Other Financial Instruments						
Assets:						
Cash	$ 4,681	$ 4,681	$ –	$ –	$ 4,681	
Loans	1,431,776	–	–	1,417,646	1,417,646	
Other investments	2,953	–	–	2,982	2,982	
Other Assets	$ 1,439,410	$ 4,681	$ –	$ 1,420,628	$ 1,425,309	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,203,647	$ –	$ –	$ 1,182,451	$ 1,182,451	
Other Liabilities	$ 1,203,647	$ –	$ –	$ 1,182,451	$ 1,182,451	

	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 7 – ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

	Three Months		Year to Date	
	2013	**2012**	**2013**	**2012**
Employee Benefit Plans:				
Balance at beginning of period	$ (17)	$ (8)	$ (17)	$ (6)
Other comprehensive income before reclassifications	–	–	–	(2)
Amounts reclassified from AOCI	–	–	–	–
Net current period other comprehensive income	–	–	–	(2)
Balance at end of period	$ (17)	$ (8)	$ (17)	$ (8)

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

	Three Months		Year to Date		
	2013	**2012**	**2013**	**2012**	**Income Statement Line Item**
Defined Benefit Pension Plans:					
Periodic pension costs	$ –	$ –	$ –	$ –	See footnote 3.
Net amounts reclassified	$ –	$ –	$ –	$ –	

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

NOTE 8– SUBSEQUENT EVENT

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

On October 21, 2013, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2014. The Association will receive approximately $18,253 which will be recorded in October 2013 as patronage refunds from other Farm Credit institutions.