*Ag***Choice** *Farm Credit, ACA*

THIRD QUARTER 2013

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CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2013 quarterly report of *Ag***Choice** Farm Credit, ACA, that the report has been prepared under the oversight of the Audit Committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Darrell L. Curtis
Chief Executive Officer

Robert J. Kobzowicz, Jr.
Chief Financial Officer

Dennis B. Spangler
Chairman of the Board

November 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 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.

Darrell L. Curtis
Chief Executive Officer

Robert J. Kobzowicz, Jr.
Chief Financial Officer

November 7, 2013

*Ag*Choice *Farm Credit, ACA*

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of *Ag***Choice** Farm Credit ACA, (Association) for the period ended September 30, 2013. These comments should be read in conjunction with the accompanying financial statements, notes to the 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. Information in any part of this Quarterly Report may be incorporated by reference in answer or partial answer to any other item of the Quarterly Report.

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 dairy, livestock, poultry, forest products, and various crops, and also includes part-time farm and rural home loans. 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, impacts the level of dependency on a given commodity.

The gross loan volume of the Association as of September 30, 2013, was $1,454,333, an increase of $45,247 as compared to $1,409,086 at December 31, 2012. Net loans outstanding at September 30, 2013, were $1,441,376 as compared to $1,398,382 at December 31, 2012. Net loans accounted for 96.9 percent of total assets at September 30, 2013, as compared to 96.2 percent of total assets at December 31, 2012.

Both gross and net loan volume increased during the reporting period as new loan volume outpaced payoffs and paydowns.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, and credit administration remains satisfactory. Nonaccrual volume increased from $28,396 at December 31, 2012, to $32,908 at September 30, 2013, mainly due to the transfer of two large accounts into nonaccrual. The Association continues efforts to work out of nonaccrual accounts or to assist such operations to return to accrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses was $12,957 and $10,704 at September 30, 2013 and December 31, 2012, respectively. Also at September 30, 2013, the Association maintained a reserve for unfunded commitments of $884 related to a participation account. These reserves were considered by management to be adequate to cover possible losses. As a further means to reduce credit risk, as of September 30, 2013, the Association had loans amounting to $18,616 under a long-term standby commitment from Farmer Mac to purchase these loans in the event of loan defaults.

RESULTS OF OPERATIONS

For the three months ended September 30, 2013

Net income for the three months ended September 30, 2013, totaled $7,608, as compared to $7,263 for the same period in 2012. Net interest income increased by $309 for the three months ended September 30, 2013, as compared to the same period in 2012.

At September 30, 2013, interest income on accruing loans increased $46 compared to a year ago as loan volume increased. Nonaccrual interest income was $127 for the three months ended September 30, 2013, as compared to $34 for the same period in 2012. Interest expense decreased $170 for the three months ended September 30, 2013, as compared to the same period of 2012. The decrease in interest expense is mainly due to the decrease in rates seen in the market place.

The provision for loan losses was $815 in the third quarter of 2013, largely due to increases in specific reserves.

Noninterest income for the three months ended September 30, 2013, totaled $3,675, as compared to $3,427 for the same period of 2012, an increase of $248. This increase resulted primarily from a reserve for unfunded commitments booked in the third quarter of 2012 that did not repeat in 2013, offset by losses or lower gains on other property owned, rural home loans and the sales of equipment.

Noninterest expense for the three months ended September 30, 2013, increased $142 or 2.4 percent, compared to the same period of 2012. This increase is primarily due to higher personnel costs associated with increased staffing levels and higher insurance fund premium, offset by lower other operating expenses.

The benefit for income taxes was $18 for the third quarter of 2013 as compared to a $97 provision in the same period last year.

For the nine months ended September 30, 2013

Net income for the nine months ended September 30, 2013, totaled $24,217, as compared to $25,758 for the same period in 2012. Net interest income increased $160 for the nine months ended September 30, 2013, as compared to the same period one year ago.

At September 30, 2013, interest income on accruing loans increased $516 compared to a year ago. Nonaccrual interest income was $687 for the nine months ended September 30, 2013, as compared to $1,598 for the same period in 2012. Interest expense decreased $556 for the nine months ended September 30, 2013, as compared to the comparable period of 2012. The increase in interest income on accruing loans is primarily related to an increase in loan volume while the decrease in interest expense is due to the decrease in rates seen in the market place during the past year.

Increases in specific reserves, offset by a large recovery resulted in a $1,955 provision for loan losses in the first nine months of 2013.

Noninterest income for the nine months ended September 30, 2013, totaled $12,505, as compared to $12,539 for the same period of 2012, a decrease of $34. This decrease resulted primarily from the following factors; the receipt of the $1,648 FCSIC refund in 2012 that was not received in 2013, losses on other property owned decreased by $387, loan fees decreased by $194 and other noninterest income, which includes reserves for unfunded commitments, improved by $1,420.

Noninterest expense for the nine months ended September 30, 2013, increased $650, or 3.7 percent, compared to the same period of 2012. This increase was primarily due to higher personnel and FCSIC expenses.

The provision for income taxes was $148 for the nine months ended September 30, 2013 as compared to $183 in the same period last year.

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 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 $1,180,992 as compared to $1,160,477 at December 31, 2012. This increase resulted from growth in gross loan volume compared to the prior year end, offset by the receipt of the 2012 Equity in earnings of other Farm Credit institutions and cash generated from Association year-to-date 2013 earnings.

CAPITAL RESOURCES

Total members' equity at September 30, 2013, increased to $279,814 from the December 31, 2012, total of $264,229. The increase is primarily attributed to year-to-date 2013 net income, offset by retired surplus.

Total capital stock and participation certificates were $10,850 on September 30, 2013, compared to $10,895 on December 31, 2012.

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 permanent capital and total surplus ratios were 17.32 percent and 16.60 percent, respectively, and the core surplus ratio was 15.15 percent. All three ratios were well above the minimum regulatory requirements of 7.00 percent for the 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 1-800-349-3568 or writing AgChoice Farm Credit, ACA, 900 Bent Creek Blvd., Mechanicsburg, PA, 17050, or accessing the website *www.agchoice.com*. The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

*Ag*Choice Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2013	December 31, 2012
	(unaudited)	*(audited)*
Assets		
Cash	$ 79	$ 642
Investment securities:		
Held to maturity (fair value of $2,353 and $2,642, respectively)	2,342	2,392
Loans	1,454,333	1,409,086
Less: allowance for loan losses	12,957	10,704
Net loans	1,441,376	1,398,382
Accrued interest receivable	6,432	5,110
Investments in other Farm Credit institutions	21,422	22,401
Premises and equipment, net	3,691	3,697
Other property owned	—	1,055
Due from AgFirst Farm Credit Bank	8,965	14,382
Other assets	2,805	5,169
Total assets	$ 1,487,112	$ 1,453,230
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 1,180,992	$ 1,160,477
Accrued interest payable	1,702	1,788
Patronage refunds payable	692	12,485
Other liabilities	23,912	14,251
Total liabilities	1,207,298	1,189,001
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	10,850	10,895
Surplus		
Allocated	129,341	137,817
Unallocated	139,663	115,558
Accumulated other comprehensive income (loss)	(40)	(41)
Total members' equity	279,814	264,229
Total liabilities and members' equity	$ 1,487,112	$ 1,453,230

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

Ag Choice Farm Credit, ACA

Consolidated Statements of Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
Interest Income				
Investment securities	$ 37	$ 37	$ 111	$ 112
Loans	16,889	16,750	50,765	51,160
Total interest income	16,926	16,787	50,876	51,272
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	6,248	6,418	18,691	19,247
Net interest income	10,678	10,369	32,185	32,025
Provision for loan losses	815	630	1,955	876
Net interest income after provision for loan losses	9,863	9,739	30,230	31,149
Noninterest Income				
Loan fees	437	409	1,153	1,347
Fees for financially related services	372	399	1,034	988
Patronage refunds from other Farm Credit institutions	2,931	2,968	9,835	9,811
Gains (losses) on other property owned, net	(4)	38	(121)	(508)
Gains (losses) on sales of rural home loans, net	12	91	102	163
Gains (losses) on sales of premises and equipment, net	2	17	38	46
Insurance Fund refunds	—	—	—	1,648
Other noninterest income (loss)	(75)	(495)	464	(956)
Total noninterest income	3,675	3,427	12,505	12,539
Noninterest Expense				
Salaries and employee benefits	4,120	4,075	12,578	12,258
Occupancy and equipment	360	342	994	963
Insurance Fund premiums	285	137	831	405
Other operating expenses	1,183	1,252	3,967	4,094
Total noninterest expense	5,948	5,806	18,370	17,720
Income before income taxes	7,590	7,360	24,365	25,968
Provision (benefit) for income taxes	(18)	97	148	183
Net income	$ 7,608	$ 7,263	$ 24,217	$ 25,785

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

*Ag*Choice Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended September 30, 2013	For the three months ended September 30, 2012	For the nine months ended September 30, 2013	For the nine months ended September 30, 2012
Net income	$ 7,608	$ 7,263	$ 24,217	$ 25,785
Other comprehensive income net of tax				
Employee benefit plans adjustments (Note 8)	1	–	1	(4)
Comprehensive income	$ 7,609	$ 7,263	$ 24,218	$ 25,781

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

*Ag*Choice Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Surplus: Allocated	Surplus: Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2011	$ 10,924	$ 128,951	$ 107,637	$ (17)	$ 247,495
Comprehensive income			25,785	(4)	25,781
Capital stock/participation certificates issued/(retired), net	(55)				(55)
Dividends declared/paid	14		(14)		–
Surplus retired		(8,014)			(8,014)
Patronage distribution adjustment		548	(542)		6
Balance at September 30, 2012	$ 10,883	$ 121,485	$ 132,866	$ (21)	$ 265,213
Balance at December 31, 2012	$ 10,895	$ 137,817	$ 115,558	$ (41)	$ 264,229
Comprehensive income			24,217	1	24,218
Capital stock/participation certificates issued/(retired), net	(59)				(59)
Dividends declared/paid	14		(14)		–
Surplus retired		(8,571)			(8,571)
Patronage distribution adjustment		95	(98)		(3)
Balance at September 30, 2013	$ 10,850	$ 129,341	$ 139,663	$ (40)	$ 279,814

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

*Ag***Choice** *Farm Credit, ACA*

Notes to the Consolidated Financial Statements

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

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

Organization

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

Basis of Presentation

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

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

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

Significant Accounting Policies

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

Recently Issued Accounting Pronouncements

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

The Association's held-to-maturity investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment program approved by the Farm Credit Administration (FCA). In its Conditions of Approval for the program, the FCA considers a Rural America Bond ineligible if its investment rating, based on the internal 14-point risk rating scale used to also grade loans, falls below 9 and requires System institutions to provide notification to FCA when a security becomes ineligible.

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

	September 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 2,342	$ 11	$ –	$ 2,353	6.23%

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 2,392	$ 250	$ –	$ 2,642	6.23%

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

	September 30, 2013		
	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ –	$ –	–%
After one year through five years	–	–	–
After five years through ten years	–	–	–
After ten years	2,342	2,353	6.23
Total	$ 2,342	$ 2,353	6.23%

A portion of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

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

FASB guidance contemplates numerous factors in determining whether an impairment is other-than-temporary. These factors include: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

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

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

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

A summary of loans outstanding at period end follows:

	September 30, 2013	December 31, 2012
Real estate mortgage	$ 646,079	$ 614,995
Production and intermediate-term	542,523	550,412
Loans to cooperatives	27,129	11,903
Processing and marketing	88,605	86,647
Farm-related business	19,034	23,796
Communication	67,053	55,318
Energy and water/waste disposal	27,062	26,418
Rural residential real estate	22,385	22,579
International	9,993	12,262
Lease receivables	432	786
Other (including mission-related)	4,038	3,970
Total loans	$ 1,454,333	$ 1,409,086

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

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

	September 30, 2013							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 5,381	$ 59,013	$ 17,500	$ –	$ –	$ –	$ 22,881	$ 59,013
Production and intermediate-term	27,027	61,363	44,481	3,304	6,975	–	78,483	64,667
Loans to cooperatives	8,171	–	18,892	–	–	–	27,063	–
Processing and marketing	26,074	–	21,223	–	39,800	–	87,097	–
Farm-related business	–	961	–	–	–	–	–	961
Communication	6,329	–	60,875	–	–	–	67,204	–
Energy and water/waste disposal	8,922	–	18,154	–	–	–	27,076	–
Rural residential real estate	–	616	–	–	–	–	–	616
Lease receivables	–	–	399	–	–	–	399	–
International	–	–	10,000	–	–	–	10,000	–
Total	$ 81,904	$ 121,953	$ 191,524	$ 3,304	$ 46,775	$ –	$ 320,203	$ 125,257

	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	$ 5,250	$ 66,210	$ 17,100	$ –	$ –	$ –	$ 22,350	$ 66,210
Production and intermediate-term	55,504	80,513	45,579	2,790	14,211	–	115,294	83,303
Loans to cooperatives	–	–	9,648	–	–	–	9,648	–
Processing and marketing	1,165	–	42,383	–	18,567	–	62,115	–
Farm-related business	–	1,303	–	–	272	–	272	1,303
Communication	1,329	–	44,510	–	–	–	45,839	–
Energy and water/waste disposal	2,434	–	17,581	–	–	–	20,015	–
Rural residential real estate	–	631	–	–	–	–	–	631
International	2,273	–	10,000	–	–	–	12,273	–
Lease receivables	–	–	764	–	–	–	764	–
Total	$ 67,955	$ 148,657	$ 187,565	$ 2,790	$ 33,050	$ –	$ 288,570	$ 151,447

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	$ 14,399	$ 144,069	$ 487,611	$ 646,079
Production and intermediate-term	163,870	237,075	141,578	542,523
Loans to cooperatives	18,421	8,358	350	27,129
Processing and marketing	58,386	22,914	7,305	88,605
Farm-related business	3,631	10,231	5,172	19,034
Communication	57,489	9,633	(69)	67,053
Energy and water/waste disposal	16,344	1,198	9,520	27,062
Rural residential real estate	403	4,388	17,594	22,385
International	4,998	4,999	(4)	9,993
Lease receivables	230	202	–	432
Other (including mission-related)	–	832	3,206	4,038
Total Loans	$ 338,171	$ 443,899	$ 672,263	$ 1,454,333
Percentage	23.25%	30.52%	46.23%	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	95.83%	94.26%
OAEM	1.62	2.00
Substandard/doubtful/loss	2.55	3.74
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	90.66%	89.01%
OAEM	2.67	3.54
Substandard/doubtful/loss	6.67	7.45
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	100.00%	97.59%
OAEM	–	2.41
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	91.40%	97.79%
OAEM	8.54	2.15
Substandard/doubtful/loss	0.06	0.06
	100.00%	100.00%
Farm-related business:		
Acceptable	94.76%	93.28%
OAEM	4.45	1.31
Substandard/doubtful/loss	0.79	5.41
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	September 30, 2013	December 31, 2012
Energy and water/waste disposal:		
Acceptable	99.13%	100.00%
OAEM	–	–
Substandard/doubtful/loss	0.87	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	90.86%	93.25%
OAEM	2.66	2.44
Substandard/doubtful/loss	6.48	4.31
	100.00%	100.00%
International:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Lease receivables:		
Acceptable	57.54%	68.55%
OAEM	36.45	27.37
Substandard/doubtful/loss	6.01	4.08
	100.00%	100.00%
Other (including mission-related)		
Acceptable	7.23%	–%
OAEM	–	–
Substandard/doubtful/loss	92.77	100.00
	100.00%	100.00%
Total loans:		
Acceptable	93.65%	92.52%
OAEM	2.34	2.49
Substandard/doubtful/loss	4.01	4.99
	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 and Accrued Interest	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 3,682	$ 1,785	$ 5,467	$ 644,114	$ 649,581	$ –
Production and intermediate-term	5,210	7,779	12,989	531,899	544,888	122
Loans to cooperatives	–	–	–	27,154	27,154	–
Processing and marketing	–	–	–	88,743	88,743	–
Farm-related business	–	32	32	19,082	19,114	–
Communication	–	–	–	67,114	67,114	–
Energy and water/waste disposal	–	–	–	27,102	27,102	–
Rural residential real estate	227	209	436	22,049	22,485	–
International	–	–	–	10,063	10,063	–
Lease receivables	–	26	26	407	433	–
Other (including mission-related)	–	3,747	3,747	292	4,039	–
Total	$ 9,119	$ 13,578	$ 22,697	$ 1,438,019	$ 1,460,716	$ 122

	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 and Accrued Interest	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,804	$ 4,051	$ 5,855	$ 611,691	$ 617,546	$ –
Production and intermediate-term	1,199	4,564	5,763	546,673	552,436	–
Loans to cooperatives	–	–	–	11,926	11,926	–
Processing and marketing	–	–	–	86,847	86,847	–
Farm-related business	–	32	32	23,845	23,877	–
Communication	–	–	–	55,404	55,404	–
Energy and water/waste disposal	–	–	–	26,435	26,435	–
Rural residential real estate	240	205	445	22,220	22,665	–
International	–	–	–	12,291	12,291	–
Lease receivables	40	32	72	715	787	–
Other (including mission-related)	–	3,970	3,970	–	3,970	–
Total	$ 3,283	$ 12,854	$ 16,137	$ 1,398,047	$ 1,414,184	$ –

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	$ 9,084	$ 7,964
Production and intermediate-term	19,451	16,030
Processing and marketing	52	58
Farm-related business	32	32
Energy and water/waste disposal	236	–
Rural residential real estate	305	332
Lease receivables	26	32
Other (including mission-related)	3,722	3,948
Total nonaccrual loans	$ 32,908	$ 28,396
Accruing restructured loans:		
Real estate mortgage	$ 2,527	$ 3,896
Production and intermediate-term	6,985	7,411
Total accruing restructured loans	$ 9,512	$ 11,307
Accruing loans 90 days or more past due:		
Production and intermediate-term	$ 122	$ –
Total accruing loans 90 days or more past due	$ 122	$ –
Total nonperforming loans	$ 42,542	$ 39,703
Other property owned	–	1,055
Total nonperforming assets	$ 42,542	$ 40,758
Nonaccrual loans as a percentage of total loans	2.26%	2.02%
Nonperforming assets as a percentage of total loans and other property owned	2.93%	2.89%
Nonperforming assets as a percentage of capital	15.20%	15.43%

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

	September 30, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	$ 17,478	$ 14,984
Past due	15,430	13,412
Total impaired nonaccrual loans	32,908	28,396
Impaired accrual loans:		
Restructured	9,512	11,307
90 days or more past due	122	–
Total impaired accrual loans	9,634	11,307
Total impaired loans	$ 42,542	$ 39,703

The following tables present additional impaired loan information at period end.

	September 30, 2013			Quarter Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:							
Real estate mortgage	$ 113	$ 142	$ 27	$ 117	$ –	$ 107	$ 2
Production and intermediate-term	11,501	12,342	3,560	11,844	34	10,911	188
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Energy and water/waste disposal	236	241	236	243	1	224	4
Rural residential real estate	142	210	51	146	–	135	2
Lease receivables	–	–	–	–	–	–	–
Other (including mission-related)	3,207	3,262	78	3,303	10	3,042	52
Total	$ 15,199	$ 16,197	$ 3,952	$ 15,653	$ 45	$ 14,419	$ 248
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 11,498	$ 12,502	$ –	$ 11,841	$ 35	$ 10,908	$ 187
Production and intermediate-term	15,057	16,506	–	15,506	45	14,283	245
Processing and marketing	52	50	–	54	–	50	1
Farm-related business	32	34	–	33	–	30	1
Energy and water/waste disposal	–	–	–	–	–	–	–
Rural residential real estate	163	288	–	168	1	154	3
Lease receivables	26	78	–	27	–	25	–
Other (including mission-related)	515	590	–	530	1	489	9
Total	$ 27,343	$ 30,048	$ –	$ 28,159	$ 82	$ 25,939	$ 446
Total impaired loans:							
Real estate mortgage	$ 11,611	$ 12,644	$ 27	$ 11,958	$ 35	$ 11,015	$ 189
Production and intermediate-term	26,558	28,848	3,560	27,350	79	25,194	433
Processing and marketing	52	50	–	54	–	50	1
Farm-related business	32	34	–	33	–	30	1
Energy and water/waste disposal	236	241	236	243	1	224	4
Rural residential real estate	305	498	51	314	1	289	5
Lease receivables	26	78	–	27	–	25	–
Other (including mission-related)	3,722	3,852	78	3,833	11	3,531	61
Total	$ 42,542	$ 46,245	$ 3,952	$ 43,812	$ 127	$ 40,358	$ 694

	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	$ 764	$ 747	$ 102	$ 809	$ 33
Production and intermediate-term	7,241	7,964	1,529	7,660	315
Rural residential real estate	132	207	22	140	6
Other (including mission-related)	3,366	3,262	180	3,561	147
Total	$ 11,503	$ 12,180	$ 1,833	$ 12,170	$ 501
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 11,096	$ 11,844	$ –	$ 11,739	$ 483
Production and intermediate-term	16,200	17,736	–	17,141	705
Processing and marketing	58	58	–	61	3
Farm-related business	32	34	–	34	1
Rural residential real estate	200	389	–	212	9
Lease receivables	32	83	–	33	1
Other (including mission-related)	582	589	–	616	25
Total	$ 28,200	$ 30,733	$ –	$ 29,836	$ 1,227
Total impaired loans:					
Real estate mortgage	$ 11,860	$ 12,591	$ 102	$ 12,548	$ 516
Production and intermediate-term	23,441	25,700	1,529	24,801	1,020
Processing and marketing	58	58	–	61	3
Farm-related business	32	34	–	34	1
Rural residential real estate	332	596	22	352	15
Lease receivables	32	83	–	33	1
Other (including mission-related)	3,948	3,851	180	4,177	172
Total	$ 39,703	$ 42,913	$ 1,833	$ 42,006	$ 1,728

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	International	Lease receivables	Other (Including Mission Related)	Total
Allowance for credit losses:										
Balance at June 30, 2013	$ 1,674	$ 8,343	$ 520	$ 249	$ 653	$ 451	$ 25	76	$ 181	$ 12,172
Charge-offs	–	(42)	–	–	–	–	–	–	–	(42)
Recoveries	–	12	–	–	–	–	–	–	–	12
Provision for loan losses	124	397	347	59	(43)	31	(9)	9	(100)	815
Balance at September 30, 2013	$ 1,798	$ 8,710	$ 867	$ 308	$ 610	$ 482	$ 16	$ 85	$ 81	$ 12,957
Balance at December 31, 2012	$ 1,926	$ 6,533	$ 810	$ 288	$ 487	$ 417	$ 25	$ 37	$ 181	$ 10,704
Charge-offs	(11)	(119)	–	–	–	–	–	(5)	–	(135)
Recoveries	78	46	309	–	–	–	–	–	–	433
Provision for loan losses	(195)	2,250	(252)	20	123	65	(9)	53	(100)	1,955
Balance at September 30, 2013	$ 1,798	$ 8,710	$ 867	$ 308	$ 610	$ 482	$ 16	$ 85	$ 81	$ 12,957
Balance at June 30, 2012	$ 1,389	$ 5,164	$ 817	$ 252	$ 325	$ 191	$ –	$ 9	$ –	$ 8,147
Charge-offs	(1)	(20)	(6)	–	–	–	–	–	–	(27)
Recoveries	1	130	–	–	–	–	–	–	–	131
Provision for loan losses	250	117	(96)	47	19	262	–	31	–	630
Balance at September 30, 2012	$ 1,639	$ 5,391	$ 715	$ 299	$ 344	$ 453	$ –	$ 40	$ –	$ 8,881
Balance at December 31, 2011	$ 1,380	$ 5,566	$ 543	$ 176	$ 271	$ 136	$ –	$ 16	$ –	$ 8,088
Charge-offs	(5)	(238)	(6)	–	–	(15)	–	–	–	(264)
Recoveries	6	175	–	–	–	–	–	–	–	181
Provision for loan losses	258	(112)	178	123	73	332	–	24	–	876
Balance at September 30, 2012	$ 1,639	$ 5,391	$ 715	$ 299	$ 344	$ 453	$ –	$ 40	$ –	$ 8,881
Loans individually evaluated for impairment	$ 27	$ 3,560	$ –	$ –	$ 236	$ 51	$ –	$ –	$ 78	$ 3,952
Loans collectively evaluated for impairment	1,771	5,150	867	308	374	431	16	85	3	9,005
Balance at September 30, 2013	$ 1,798	$ 8,710	$ 867	$ 308	$ 610	$ 482	$ 16	$ 85	$ 81	$ 12,957
Loans individually evaluated for impairment	$ 102	$ 1,529	$ –	$ –	$ –	$ 22	$ –	$ –	$ 180	$ 1,833
Loans collectively evaluated for impairment	1,824	5,004	810	288	487	395	25	37	1	8,871
Balance at December 31, 2012	$ 1,926	$ 6,533	$ 810	$ 288	$ 487	$ 417	$ 25	$ 37	$ 181	$ 10,704
Recorded investment in loans outstanding:										
Loans individually evaluated for impairment	$ 5,928	$ 18,066	$ –	$ –	$ 236	$ 142	$ –	$ –	$ 3,747	$ 28,119
Loans collectively evaluated for impairment	643,653	526,822	135,011	67,114	26,866	22,343	10,063	433	292	1,432,597
Ending balance at September 30, 2013	$ 649,581	$ 544,888	$ 135,011	$ 67,114	$ 27,102	$ 22,485	$ 10,063	$ 433	$ 4,039	$ 1,460,716
Loans individually evaluated for impairment	$ 6,100	$ 13,037	$ 32	$ –	$ –	$ 132	$ –	$ –	$ 3,971	$ 23,272
Loans collectively evaluated for impairment	611,445	539,399	122,618	55,404	26,435	22,533	12,291	787	–	1,390,912
Ending balance at December 31, 2012	$ 617,545	$ 552,436	$ 122,650	$ 55,404	$ 26,435	$ 22,665	$ 12,291	$ 787	$ 3,971	$ 1,414,184

**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	$ 204	$ 220	$ –	$ 424
Production and intermediate-term	–	701	–	701
Total	$ 204	$ 921	$ –	$ 1,125

	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	$ 204	$ 220	$ –	$ 424	$ –	$ –
Production and intermediate-term	–	696	–	696	–	–
Total	$ 204	$ 916	$ –	$ 1,120	$ –	$ –

	Nine months ended September 30, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 324	$ 220	$ –	$ 544
Production and intermediate-term	–	1,056	–	1,056
Total	$ 324	$ 1,276	$ –	$ 1,600

	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	$ 320	$ 220	$ –	$ 540	$ 8	$ (11)
Production and intermediate-term	–	1,051	–	1,051	–	–
Total	$ 320	$ 1,271	$ –	$ 1,591	$ 8	$ (11)

	Three months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 758	$ –	$ 758
Production and intermediate-term	–	2,538	–	2,538
Total	$ –	$ 3,296	$ –	$ 3,296

	Three months ended September 30, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 758	$ –	$ 758	$ –	$ –
Production and intermediate-term	–	2,515	–	2,515	(164)	(20)
Total	$ –	$ 3,273	$ –	$ 3,273	$ (164)	$ (20)

	Nine months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 2,611	$ –	$ 2,611
Production and intermediate-term	–	4,004	–	4,004
Farm-related business	–	258	–	258
Total	$ –	$ 6,873	$ –	$ 6,873

	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	$ –	$ 2,611	$ –	$ 2,611	$ –	$ –
Production and intermediate-term	–	3,981	–	3,981	(164)	(20)
Farm-related business	–	258	–	258	–	–
Total	$ –	$ 6,850	$ –	$ 6,850	$ (164)	$ (20)

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

The following table presents outstanding recorded investment for TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the period. Payment default is defined as a payment that was thirty days or more past due.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Defaulted troubled debt restructurings:				
Real estate mortgage	$ –	$ –	$ –	$ 136
Production and intermediate-term	–	669	–	1,194
Farm-related business	–	–	–	8
Total	$ –	$ 669	$ –	$ 1,338

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	$ 4,459	$ 5,401	$ 1,932	$ 1,505
Production and intermediate-term	16,295	15,935	9,310	8,524
Total Loans	$ 20,754	$ 21,336	$ 11,242	$ 10,029
Additional commitments to lend	$ 870	$ 1,604		

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 – 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	$ 804	$ 794	$ 2,412	$ 2,381
401(k)	124	120	375	356
Other postretirement benefits	125	103	375	310
Total	$ 1,053	$ 1,017	$ 3,162	$ 3,047

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	$ 15	$ 3,183	$ 3,198
Other postretirement benefits	326	136	462
Total	$ 341	$ 3,319	$ 3,660

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 7 – FAIR VALUE MEASUREMENT

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 7.72 percent of the issued stock of the Bank as of September 30, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $28.5 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $350 million for the first nine months of 2013. In addition, the Association has an investment of $132 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.

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

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 instruments.

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

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

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

	Standby Letters Of Credit
Balance at January 1, 2013	$ 228
Issuances	–
Settlements	(109)
Transfers in and/or out of level 3	–
Balance at September 30, 2013	$ 119

	Standby Letters Of Credit
Balance at January 1, 2012	$ 293
Issuances	–
Settlements	(133)
Transfers in and/or out of level 3	–
Balance at September 30, 2012	$ 160

SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Investment Securities

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

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

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

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

Quoted market prices are generally not available for 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	$ 38,590	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement cost	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying Value	Par/Principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Prepayment forecasts
		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	$ 418	$ 418	$ –	$ –	$ 418	
Recurring Assets	$ 418	$ 418	$ –	$ –	$ 418	
Liabilities:						
Standby letters of credit	$ 119	$ –	$ –	$ 119	$ 119	
Recurring Liabilities	$ 119	$ –	$ –	$ 119	$ 119	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 38,590	$ –	$ –	$ 38,590	$ 38,590	$ (1,819)
Other property owned	–	–	–	–	–	(68)
Nonrecurring Assets	$ 38,590	$ –	$ –	$ 38,590	$ 38,590	$ (1,887)
Other Financial Instruments						
Assets:						
Cash	$ 79	$ 79	$ –	$ –	$ 79	
Investment securities, held-to-maturity	2,342	–	–	2,353	2,353	
Loans	1,402,786	–	–	1,396,005	1,396,005	
Other Assets	$ 1,405,207	$ 79	$ –	$ 1,398,358	$ 1,398,437	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,180,992	$ –	$ –	$ 1,167,740	$ 1,167,740	
Other Liabilities	$ 1,180,992	$ –	$ –	$ 1,167,740	$ 1,167,740	

	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	$ 333	$ 333	$ –	$ –	$ 333	
Recurring Assets	$ 333	$ 333	$ –	$ –	$ 333	
Liabilities:						
Standby letters of credit	$ 228	$ –	$ –	$ 228	$ 228	
Recurring Liabilities	$ 228	$ –	$ –	$ 228	$ 228	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 37,870	$ –	$ –	$ 37,870	$ 37,870	$ 2,566
Other property owned	1,055	–	–	1,142	1,142	127
Nonrecurring Assets	$ 38,925	$ –	$ –	$ 39,012	$ 39,012	$ 2,693
Other Financial Instruments						
Assets:						
Cash	$ 642	$ 642	$ –	$ –	$ 642	
Investment securities, held-to-maturity	2,392	–	–	2,642	2,642	
Loans	1,360,512	–	–	1,366,984	1,366,984	
Other Assets	$ 1,363,546	$ 642	$ –	$ 1,369,626	$ 1,370,268	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 1,160,477	$ –	$ –	$ 1,161,397	$ 1,161,397	
Other Liabilities	$ 1,160,477	$ –	$ –	$ 1,161,397	$ 1,161,397	

NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

	Three Months		Year to Date	
	2013	2012	2013	2012
Employee Benefit Plans:				
Balance at beginning of period	$ (41)	$ (21)	$ (41)	$ (17)
Other comprehensive income before reclassifications	–	–	–	(4)
Amounts reclassified from AOCI	1	–	1	–
Net current period other comprehensive income	1	–	1	(4)
Balance at end of period	$ (40)	$ (21)	$ (40)	$ (21)

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	$ (1)	$ –	$ (1)	$ –	See footnote 6.
Net amounts reclassified	$ (1)	$ –	$ (1)	$ –	

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

NOTE 9 – SUBSEQUENT EVENTS

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

On October 21, 2013, AgFirst's Board of Directors declared a special patronage distribution to be paid on January 1, 2014. The Association will receive approximately $17,005 which will be recorded in October 2013 as patronage refunds from other Farm Credit institutions.