Farm Credit of Florida, ACA

THIRD QUARTER 2013

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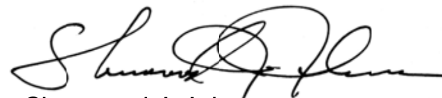
CERTIFICATION

The undersigned certify that we have reviewed the September 30, 2013 quarterly report of Farm Credit of Florida, 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.

Gregory M. Cunningham
Chief Executive Officer

Laura Craker
Chief Financial Officer



Sherwood J. Johnson
Chairman of the Board

November 7, 2013

Farm Credit of Florida, ACA

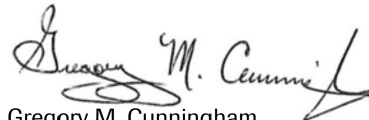
Report on Internal Control Over Financial Reporting

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 Consolidate 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.



Gregory M. Cunningham
Chief Executive Officer

Laura Craker
Chief Financial Officer

November 7, 2013

Farm Credit of Florida, 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 Farm Credit of Florida, 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.

Effective January 1, 2011, Farm Credit of North Florida and Farm Credit of Southwest Florida merged into Farm Credit of South Florida. The merged associations operate under the name of Farm Credit of Florida. The primary reason for the merger was based on a determination that the combined organization would be financially and operationally stronger than either of the associations on a stand-alone basis. The merger was accounted for under the acquisition method of accounting.

Additional information regarding the merger and the related impact to the Association's financial condition is contained in Note 8 of the Notes to the Consolidated Financial Statements.

The Association's CEO, Don Rice, retired during the month of November 2012. Effective November 5, 2012, the Board of Directors appointed Greg Cunningham the Association's Chief Executive Officer.

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 in the north and southern regions or Florida, including cattle, citrus, dairy, field crops, nurseries, sugar, timber, tropical fruits and vegetables. All commodity groups found in the portfolio have experienced generally favorable operating results with the exception of nursery which continues to be stressed. Farm size varies and many borrowers have diversified farming operations. This factor, along with numerous opportunities for non-farm income in the territory, reduced the level of dependency on a single agricultural commodity.

Land values in the north region appear to have stabilized over the last 12 months. Land values in the south region show stability with value increase in more urban areas. There have been no significant weather events in the territory that have adversely impacted borrower operations.

The gross loan volume of the Association as of September 30, 2013, was $801,564, a decrease of $8,223 as compared to $809,787 at December 31, 2012. Net loans outstanding at September 30, 2013, were $792,370 as compared to $798,021 at December 31, 2012, a decrease of $5,651 or 0.71 percent. Net loans accounted for 91.45 percent of total assets at September 30, 2013, as compared to 89.29 percent of total assets at December 31, 2012. The association has a significant level of adverse assets. The decrease in both gross and net loan volume during the period is primarily attributed to scheduled repayments in the loan portfolio as well as liquidation of assets in process of collection.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality has improved compared to year end 2012 as a result of the movement of loans from Substandard to OAEM and the liquidation of loans in process of collection. Acceptable and OAEM credit quality as a percentage of the total loan portfolio was 86.02% as of September 30, 2013 compared to 82.61% at December 31, 2012. During the nine months, nonaccrual loans decreased to $72,204 from the $92,871 balance at December 31, 2012. The nonaccrual loan decline is primarily attributed to liquidation of loans in process of collection. The balance of Other Property Owned at September 30, 2013 was $7,342 a decrease of $4,888 from the $12,230 balance at December 31, 2012. Sales of properties outpaced acquisitions during the period resulting in this decrease.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The allowance for loan losses at September 30, 2013, was $9,194 compared to $11,766 at December 31, 2012. This decrease is the result of recoveries of $4,396 recorded during the period offset by a provision for loan loss reversal of $2,495 and $4,473 in charge-offs recorded on loans transferred to nonaccrual or other property owned. Management considers the current level of allowance adequate to cover additional possible losses. The ratio of the allowance for loan losses to gross loans at September 30, 2013 was 1.15 percent.

RESULTS OF OPERATIONS

As a result of the merger on January 1, 2011, $551.5 million in non-impaired loans were purchased at a combined discount of approximately $30.3 million. In accordance with accounting guidance, this discount is to be accreted into interest income over the remaining life of each individual loan. For loans that are paid off early, any remaining discount would be accreted into income at time of pay off. The discount amount accreted into interest income for the nine months ended September 30, 2013, was $3,379.

For the three months ended September 30, 2013

The Association recorded net income for the three months ended September 30, 2013 of $3,781 as compared to a net loss of $2,451 for the same period in 2012. This $6,232 increase is primarily attributed to a reduction in provision for loan losses resulting from improvement in the Association's risk profile due to significant reduction in adverse assets during the period offset by a reduction in net interest income resulting from reduced loan volume. The improved risk profile during the quarter ended September 30, 2013 resulted in recording a reversal of provision for loan losses of $1,962 for the quarter.

Net interest income before provision for loan losses was $6,033 for the three months ended September 30, 2013 as compared to $6,778 during the same period in 2012. The change in net interest income represents a 10.99 percent decrease when compared to the same period last year and is attributed to the decrease in loan volume during the past 12 months.

Noninterest income for the three months ended September 30, 2013, totaled $2,054 as compared to $1,799 for the same period of 2012, an increase of $255 or 14.17 percent. This increase is attributed primarily to decreases in losses on sale of other property owned of $511 offset by decreases in patronage earnings of other Farm Credit institutions with which we participate loans of $153 and decreases in loan fees of $147.

Noninterest expense for the three months ended September 30, 2013, increased $482 or 8.33 percent compared to the same period of 2012. The primary reasons for the increase in noninterest expense are attributed to $406 increase in other operating expenses, and $58 increase in insurance fund premiums.

For the nine months ended September 30, 2013

Net income for the nine months ended September 30, 2013, totaled $10,764 compared to a net loss of $4,776 for the same period in 2012, an increase of $15,540 or 325.38 percent. The increase is primarily attributed to a significant reduction in provisions for loan losses during the period offset by a reduction in net interest income resulting from reduced loan volume. The decrease of $21,646 in provisions are primarily due to a significant reduction in charge-offs of non-performing loans during 2013 compared to the same period last year, increased recoveries of amounts previously charged-off and lower levels of reserves required due to improving risk profile as a result of improved credit quality. This resulted in recording a reversal of the provision for loan losses of $2,495 for the nine months ended September 30, 2013.

Net interest income before provision for loan losses decreased $3,863 for the nine months ended September 30, 2013, as compared to the same period in 2012. This decrease is attributed to the decreased loan volume over the last 12 months and reduction in the amount of discounts accreted into income related to loan payoffs during prior year periods.

Noninterest income for the nine months ended September 30, 2013, totaled $8,095 as compared to $8,336 for the same period of 2012, a decrease of $241 or 2.89 percent. This decrease is attributed to decreases in equity earnings from AgFirst Farm Credit Bank of $811, decreases in loan fees of $791 along with a one-time Farm Credit Insurance Fund refund of $1,235 received in 2012 as explained below. These decreases were offset by a significant decrease in losses on sales of other property owned of $2,083 and increases of $488 in other noninterest income.

In 2012, the Association recorded $1,235 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. The amount is reflected in Noninterest Income on the Consolidated Statements of Income. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest expense for the nine months ended September 30, 2013, increased $2,039 compared to the same period of 2012. The primary reasons for the increase is attributed to additional staffing cost increases totaling $1,175 related to nonperforming loan disposition and reorganization of the senior management team. Additional increases were realized in other operating expenses of $618, occupancy and equipment expense of $84, and insurance fund premiums of $162.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with AgFirst Farm Credit Bank (the Bank) through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. These funds are advanced by the Bank 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 $649,511 as compared to $688,853 at December 31, 2012. The decrease during the period of $39,342 is primarily attributed to the reduction in loan volume during the period and fluctuations in the usage of borrower SmartCash accounts. SmartCash accounts, a voluntary additional conditional payment fund, which can be either offset against the related loan outstanding in the portfolio or held in Other Liabilities against commitment balances, can influence fluctuations in volume and notes payable with the Bank. Total SmartCash balances at September 30, 2013 were $8,027 as compared to $3,600 at December 31, 2012. SmartCash funds, held in Other Liabilities against commitment balances, totaled $6,111 as of September 30, 2013 as compared to $2,796 at December 31, 2012.

CAPITAL RESOURCES

Total members' equity at September 30, 2013, increased to $196,535 from the December 31, 2012 total of $187,389. The increase is primarily attributed to the net income during the period.

Total capital stock and participation certificates were $2,823 on September 30, 2013, compared to $3,105 on December 31, 2012. This decrease is attributed to the retirement of protected stock and participation certificates on loans liquidated in the normal course of business.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of September 30, 2013, the Association's total surplus ratio and core surplus ratio were 19.97 percent and 19.15 percent, respectively, and the permanent capital ratio was 20.85 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

As previously disclosed, on June 15, 2012 the Farm Credit Administration (FCA) entered into a written supervisory agreement with the Board of Directors of the Association. The written supervisory agreement requires the Association to take corrective actions and other actions with respect to certain areas of its operations, including board governance, director fiduciary duties and standards of conduct, board consultant functions, staffing and succession planning, asset quality, collateral risk, allowance for loan losses, internal audit, board policies, compliance with requirements of the Financial Assistance Agreement, and business planning and reporting. In addition, the Association is operating under Supervisory Conditions of Merger and must maintain compliance with all requirements and conditions.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, inadequate management succession and human capital planning, perceived weaknesses in board governance, and reduced earnings.

As of November 7, 2013, the Association has taken action to correct the weaknesses in its board operations and policies, asset quality, collateral risk, capital contingency planning, credit policy direction and guidance, internal audit and management reporting, has conducted a staffing study and has adopted a human capital and succession plan.

On May 20, 2013, FCA communicated in a letter to the Board that Board and management actions resulted in significant improvements in direction and control, particularly in the areas of human capital and succession planning, strategic planning, and board policy direction. The Association has achieved full compliance in the areas of board policies, management reporting and disclosure to shareholders.

As required by the supervisory agreement, the Board will continue engaging an independent consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement. Both the Board and Senior Management are committed to continuing the administration of the Association in a sound manner.

On November 5, 2012, FCA communicated in a letter to the Board that the Association was found to be in violation of its Supervisory Conditions of Merger and the Supervisory Agreement as a result of an internal cost allocation that did not occur as required by the Financial Assistance Agreement with the Bank. The internal cost allocation does not impact the consolidated financial results presented in these financial statements. The Board took prompt corrective action by submitting a plan to the FCA to address the violation within 15 days of the date of the FCA letter and as of December 31, 2012, the Association had addressed the internal cost allocation violation.

The Association remained under written supervisory agreement as of the date of this report.

Please refer to Note 8, *Business Combination*, in the Notes to the Consolidated Financial Statements for additional information on the Financial Assistance Agreement with the Bank.

OTHER MATTERS

Effective September 2013, Eric Hopkins resigned from the Board of Directors.

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 $8,965 which will be recorded in October 2013 as patronage refunds from other Farm Credit institutions.

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 (561)-965-9001, or writing Laura Craker, CFO, Farm Credit of Florida, ACA, P. O. Box 213069, West Palm Beach, FL 33421, or accessing the website, *www.farmcreditfl.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.

Farm Credit of Florida, ACA

Consolidated Balance Sheets

(dollars in thousands)	September 30, 2013	December 31, 2012
	(unaudited)	(audited)
Assets		
Cash	$ 73	$ 1,156
Investment securities:		
Held to maturity (fair value of $25,155 and $30,375, respectively)	24,687	28,928
Loans	801,564	809,787
Less: allowance for loan losses	9,194	11,766
Net loans	792,370	798,021
Loans held for sale	168	—
Other investments	2,691	5,380
Accrued interest receivable	3,901	3,450
Investments in other Farm Credit institutions	16,154	17,464
Premises and equipment, net	7,187	7,413
Other property owned	7,342	12,230
Due from AgFirst Farm Credit Bank	4,476	8,629
Other assets	7,379	11,110
Total assets	$ 866,428	$ 893,781
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 649,511	$ 688,853
Accrued interest payable	1,265	1,391
Patronage refunds payable	234	328
Advanced conditional payments	6,111	2,796
Other liabilities	12,772	13,024
Total liabilities	669,893	706,392
Commitments and contingencies		
Members' Equity		
Protected borrower stock	824	946
Capital stock and participation certificates	1,999	2,159
Additional paid-in-capital	7,873	7,873
Retained earnings		
Allocated	95,855	97,197
Unallocated	90,186	79,422
Accumulated other comprehensive income (loss)	(202)	(208)
Total members' equity	196,535	187,389
Total liabilities and members' equity	$ 866,428	$ 893,781

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

Farm Credit of Florida, ACA

Consolidated Statements of Operations

(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	$ 218	$ 269	$ 673	$ 856
Loans	9,461	10,663	29,301	35,550
Other investments	21	27	62	73
Total interest income	9,700	10,959	30,036	36,479
Interest Expense				
Notes payable to AgFirst Farm Credit Bank	3,667	4,181	10,961	13,541
Net interest income	6,033	6,778	19,075	22,938
Provision for (reversal of allowance for) loan losses	(1,962)	5,242	(2,495)	19,151
Net interest income after provision for (reversal of allowance for) loan losses	7,995	1,536	21,570	3,787
Noninterest Income				
Loan fees	421	568	1,064	1,855
Fees for financially related services	5	23	865	871
Patronage refunds from other Farm Credit institutions	1,476	1,629	5,435	6,246
Gains (losses) on other property owned, net	(90)	(601)	(156)	(2,239)
Gains (losses) on sales of rural home loans, net	6	34	51	74
Gains (losses) on sales of premises and equipment, net	28	(7)	82	28
Insurance Fund refunds	—	—	—	1,235
Other noninterest income	208	153	754	266
Total noninterest income	2,054	1,799	8,095	8,336
Noninterest Expense				
Salaries and employee benefits	4,067	4,082	13,266	12,091
Occupancy and equipment	344	311	1,064	980
Insurance Fund premiums	169	111	515	353
Other operating expenses	1,688	1,282	4,093	3,475
Total noninterest expense	6,268	5,786	18,938	16,899
Income (loss) before income taxes	3,781	(2,451)	10,727	(4,776)
Provision (benefit) for income taxes	—	—	(37)	—
Net income (loss)	$ 3,781	$ (2,451)	$ 10,764	$ (4,776)

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

Farm Credit of Florida, ACA

Consolidated Statements of Comprehensive Income (Loss)

(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 (loss)	$ 3,781	$ (2,451)	$ 10,764	$ (4,776)
Other comprehensive income net of tax				
Employee benefit plan adjustments (Note 9)	2	1	6	(8)
Comprehensive income (loss)	$ 3,783	$ (2,450)	$ 10,770	$ (4,784)

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

Farm Credit of Florida, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Protected Borrower Stock	Capital Stock and Participation Certificates	Additional Paid In Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2011	$ 2,601	$ 2,326	$ 7,873	$ 97,197	$ 95,338	$ (152)	$ 205,183
Comprehensive income (loss)					(4,776)	(8)	(4,784)
Protected borrower equity retired	(43)						(43)
Capital stock/participation certificates issued/(retired), net		(191)					(191)
Balance at September 30, 2012	$ 2,558	$ 2,135	$ 7,873	$ 97,197	$ 90,562	$ (160)	$ 200,165
Balance at December 31, 2012	$ 946	$ 2,159	$ 7,873	$ 97,197	$ 79,422	$ (208)	$ 187,389
Comprehensive income					10,764	6	10,770
Protected borrower equity retired	(122)						(122)
Capital stock/participation certificates issued/(retired), net		(160)					(160)
Retained earnings retired				(1,342)			(1,342)
Balance at September 30, 2013	$ 824	$ 1,999	$ 7,873	$ 95,855	$ 90,186	$ (202)	$ 196,535

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

Notes to the Consolidated Financial Statements

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

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

Organization

The accompanying financial statements include the accounts of Farm Credit of Florida, 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 investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable Farm Credit Administration (FCA) regulatory guidelines related to government agency guaranteed investments.

Mission related investments consist primarily of Rural America Bonds, which are private placement securities purchased under the Mission Related Investment program approved by the 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.

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	$ 9,383	$ 486	$ (190)	$ 9,679	5.83%
Asset-backed securities	15,304	293	(121)	15,476	0.24
Total	$ 24,687	$ 779	$ (311)	$ 25,155	2.37%

	December 31, 2012				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
Mission-related investments	$ 9,493	$ 1,540	$ (7)	$ 11,026	6.12%
Asset-backed securities	19,435	212	(298)	19,349	0.45
Total	$ 28,928	$ 1,752	$ (305)	$ 30,375	2.31%

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	$ 91	$ 86	-9.27%
After one year through five years	7,436	7,314	-0.06
After five years through ten years	5,504	5,621	1.03
After ten years	11,656	12,134	4.64
Total	$ 24,687	$ 25,155	2.37%

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. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	September 30, 2013			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	$ 3,499	$ (153)	$ 84	$ (37)
Asset-backed securities	1,010	(4)	5,552	(117)
Total	$ 4,509	$ (157)	$ 5,636	$ (154)

	December 31, 2012			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mission-related investments	$ 116	$ (7)	$ –	$ –
Asset-backed securities	430	(10)	11,571	(288)
Total	$ 546	$ (17)	$ 11,571	$ (288)

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.

A substantial portion of these investments were in U. S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

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	$ 529,620	$ 532,126
Production and intermediate-term	158,818	246,886
Loans to cooperatives	7,666	325
Processing and marketing	71,532	14,629
Farm-related business	11,952	9,888
Communication	15,240	-
Energy and water/waste disposal	3,003	-
Rural residential real estate	3,733	5,933
Total Loans	$ 801,564	$ 809,787

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	$ –	$ 81,280	$ –	$ –	$ 5,902	$ 1,862	$ 5,902	$ 83,142
Production and intermediate-term	27,990	96,854	8,650	2,682	60,800	–	97,440	99,536
Loans to cooperatives	7,593	–	82	–	–	–	7,675	–
Processing and marketing	68,586	–	1,423	–	–	–	70,009	–
Farm-related business	6,200	–	791	–	274	–	7,265	–
Communication	15,267	–	–	–	–	–	15,267	–
Energy and waste/water disposal	3,006	–	–	–	–	–	3,006	–
Total	$ 128,642	$ 178,134	$ 10,946	$ 2,682	$ 66,976	$ 1,862	$ 206,564	$ 182,678

	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	$ 101	$ 89,101	$ –	$ 7,615	$ 6,799	$ 2,323	$ 6,900	$ 99,039
Production and intermediate-term	105,402	103,760	4,888	4,691	58,800	–	169,090	108,451
Loans to cooperatives	–	–	326	–	–	–	326	–
Processing and marketing	7,249	–	2,637	–	–	–	9,886	–
Farm-related business	674	–	1,098	–	283	–	2,055	–
Total	$ 113,426	$ 192,861	$ 8,949	$ 12,306	$ 65,882	$ 2,323	$ 188,257	$ 207,490

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	$ 73,446	$ 184,600	$ 271,574	$ 529,620
Production and intermediate term	45,907	79,410	33,501	158,818
Loans to cooperatives	82	7,584	–	7,666
Processing and marketing	3,185	40,462	27,885	71,532
Farm-related business	4,562	6,515	875	11,952
Communication	–	5,295	9,945	15,240
Energy and water/waste disposal	–	3,003	–	3,003
Rural residential real estate	107	589	3,037	3,733
Total Loans	$ 127,289	$ 327,458	$ 346,817	$ 801,564
Percentage	15.88%	40.85%	43.27%	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	77.56%	70.53%
OAEM	7.86	9.55
Substandard/doubtful/loss	14.58	19.92
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	76.35%	83.00%
OAEM	3.46	4.94
Substandard/doubtful/loss	20.19	12.06
	100.00%	100.00%
Loans to cooperatives:		
Acceptable	99.15%	60.68%
OAEM	–	39.32
Substandard/doubtful/loss	0.85	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	88.73%	77.00%
OAEM	8.23	1.50
Substandard/doubtful/loss	3.04	21.50
	100.00%	100.00%
Farm-related business:		
Acceptable	99.03%	95.25%
OAEM	0.67	0.83
Substandard/doubtful/loss	0.30	3.92
	100.00%	100.00%
Communication:		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	–%
Energy and water/waste disposal:		
Acceptable	100.00%	–%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00	–%
Rural residential real estate:		
Acceptable	83.20%	70.16%
OAEM	4.35	4.34
Substandard/doubtful/loss	12.45	25.50
	100.00%	100.00%
Total Loans:		
Acceptable	79.37%	74.74%
OAEM	6.65	7.87
Substandard/doubtful/loss	13.98	17.39
	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	$ 7,602	$ 23,303	$ 30,905	$ 501,512	$ 532,417	$ –
Production and intermediate-term	1,000	9,518	10,518	148,925	159,443	–
Loans to cooperatives	–	–	–	7,674	7,674	–
Processing and marketing	–	2,178	2,178	69,508	71,686	–
Farm-related business	–	–	–	11,981	11,981	–
Communication	–	–	–	15,252	15,252	–
Energy and water/waste disposal	–	–	–	3,004	3,004	–
Rural residential real estate	201	53	254	3,497	3,751	–
Total	$ 8,803	$ 35,052	$ 43,855	$ 761,353	$ 805,208	$ –

	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	$ 15,300	$ 35,285	$ 50,585	$ 483,936	$ 534,521	$ –
Production and intermediate-term	3,442	10,560	14,002	233,604	247,606	–
Loans to cooperatives	–	–	–	327	327	–
Processing and marketing	–	1,797	1,797	12,883	14,680	–
Farm-related business	51	276	327	9,599	9,926	–
Rural residential real estate	313	1,126	1,439	4,511	5,950	–
Total	$ 19,106	$ 49,044	$ 68,150	$ 744,860	$ 813,010	$ –

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	$ 46,842	$ 64,606
Production and intermediate-term	22,889	23,445
Loans to cooperatives	8	–
Processing and marketing	2,178	3,157
Farm-related business	–	337
Rural residential real estate	287	1,326
Total nonaccrual loans	$ 72,204	$ 92,871
Accruing restructured loans:		
Real estate mortgage	$ 2,675	$ 2,208
Production and intermediate-term	1,914	1,746
Total accruing restructured loans	$ 4,589	$ 3,954
Accruing loans 90 days or more past due:		
Total accruing loans 90 days or more past due	$ –	$ –
Total nonperforming loans	$ 76,793	$ 96,825
Other property owned	7,342	12,230
Total nonperforming assets	$ 84,135	$ 109,055
Nonaccrual loans as a percentage of total loans	9.01%	11.47%
Nonperforming assets as a percentage of total loans and other property owned	10.40%	13.27%
Nonperforming assets as a percentage of capital	42.81%	58.20%

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	$ 31,649	$ 32,167
Past due	40,555	60,704
Total impaired nonaccrual loans	72,204	92,871
Impaired accrual loans:		
Restructured	4,589	3,954
90 days or more past due	–	–
Total impaired accrual loans	4,589	3,954
Total impaired loans	$ 76,793	$ 96,825

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	$ 11,815	$ 19,267	$ 1,950	$ 12,747	$ 64	$ 13,877	$ 182
Production and intermediate-term	4,576	9,057	260	4,936	25	5,375	70
Loans to cooperatives	–	–	–	–	–	–	–
Processing and marketing	–	–	–	–	–	–	–
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	–	–	–	–	–	–	–
Total	$ 16,391	$ 28,324	$ 2,210	$ 17,683	$ 89	$ 19,252	$ 252
Impaired loans with no related allowance for credit losses:							
Real estate mortgage	$ 37,702	$ 65,726	$ –	$ 40,672	$ 204	$ 44,283	$ 580
Production and intermediate-term	20,227	34,853	–	21,820	109	23,756	311
Loans to cooperatives	8	9		9	–	10	
Processing and marketing	2,178	3,310	–	2,350	12	2,559	34
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	287	531	–	309	2	337	4
Total	$ 60,402	$ 104,429	$ –	$ 65,160	$ 327	$ 70,945	$ 929
Total impaired loans:							
Real estate mortgage	$ 49,517	$ 84,993	$ 1,950	$ 53,419	$ 268	$ 58,160	$ 762
Production and intermediate-term	24,803	43,910	260	26,756	134	29,131	381
Loans to cooperatives	8	9	–	9	–	10	–
Processing and marketing	2,178	3,310	–	2,350	12	2,559	34
Farm-related business	–	–	–	–	–	–	–
Rural residential real estate	287	531	–	309	2	337	4
Total	$ 76,793	$ 132,753	$ 2,210	$ 82,843	$ 416	$ 90,197	$ 1,181

	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	$ 20,192	$ 39,981	$ 3,423	$ 23,244	$ 261
Production and intermediate-term	4,862	7,240	444	5,597	63
Processing and marketing	2,824	3,310	889	3,250	36
Farm-related business	275	953	26	317	4
Rural residential real estate	999	2,453	68	1,150	13
Total	$ 29,152	$ 53,937	$ 4,850	$ 33,558	$ 377
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 46,622	$ 63,714	$ –	$ 53,669	$ 603
Production and intermediate-term	20,329	39,893	–	23,402	263
Processing and marketing	333	–	–	384	5
Farm-related business	62	135	–	71	–
Rural residential real estate	327	203	–	377	4
Total	$ 67,673	$ 103,945	$ –	$ 77,903	$ 875
Total impaired loans:					
Real estate mortgage	$ 66,814	$ 103,695	$ 3,423	$ 76,913	$ 864
Production and intermediate-term	25,191	47,133	444	28,999	326
Processing and marketing	3,157	3,310	889	3,634	41
Farm-related business	337	1,088	26	388	4
Rural residential real estate	1,326	2,656	68	1,527	17
Total	$ 96,825	$ 157,882	$ 4,850	$ 111,461	$ 1,252

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	$ 8,920	$ 1,665	$ 795	$ –	$ –	$ 35	$ 11,415
Charge-offs	(514)	(14)	(463)	–	–	(2)	(993)
Recoveries	691	42	–	–	–	1	734
Provision for loan losses	(1,935)	(142)	100	16	4	(5)	(1,962)
Balance at September 30, 2013	$ 7,162	$ 1,551	$ 432	$ 16	$ 4	$ 29	$ 9,194
Balance at December 31, 2012	$ 8,908	$ 1,385	$ 1,373	$ –	$ –	$ 100	$ 11,766
Charge-offs	(3,167)	(325)	(979)	–	–	(2)	(4,473)
Recoveries	3,159	1,091	–	–	–	146	4,396
Provision for loan losses	(1,738)	(600)	38	16	4	(215)	(2,495)
Balance at September 30, 2013	$ 7,162	$ 1,551	$ 432	$ 16	$ 4	$ 29	$ 9,194
Balance at June 30, 2012	$ 8,018	$ 1,905	$ 258	$ –	$ –	$ 95	$ 10,276
Charge-offs	(5,854)	(3,226)	(186)	–	–	(335)	(9,601)
Recoveries	970	14	–	–	–	(1)	983
Provision for loan losses	2,270	1,812	833	–	–	327	5,242
Balance at September 30, 2012	$ 5,404	$ 505	$ 905	$ –	$ –	$ 86	$ 6,900
Balance at December 31, 2011	$ 9,437	$ 2,574	$ 520	$ 1	$ 1	$ 133	$ 12,666
Charge-offs	(21,068)	(5,536)	(186)	–	–	(367)	(27,157)
Recoveries	2,087	150	–	–	–	3	2,240
Provision for loan losses	14,948	3,317	571	(1)	(1)	317	19,151
Balance at September 30, 2012	$ 5,404	$ 505	$ 905	$ –	$ –	$ 86	$ 6,900
Loans individually evaluated for impairment	$ 1,910	$ 260	$ –	$ –	$ –	$ –	$ 2,170
Loans collectively evaluated for impairment	5,212	1,291	432	16	4	29	6,984
Loans acquired with deteriorated credit quality	40	–	–	–	–	–	40
Balance at September 30, 2013	$ 7,162	$ 1,551	$ 432	$ 16	$ 4	$ 29	$ 9,194
Loans individually evaluated for impairment	$ 3,066	$ 444	$ 889	$ –	$ –	$ 8	$ 4,407
Loans collectively evaluated for impairment	5,485	941	458	–	–	32	6,916
Loans acquired with deteriorated credit quality	357	–	26	–	–	60	443
Balance at December 31, 2012	$ 8,908	$ 1,385	$ 1,373	$ –	$ –	$ 100	$ 11,766
Recorded investment in loans outstanding:							
Loans individually evaluated for impairment	$ 39,168	$ 19,859	$ 2,186	$ –	$ –	$ 185	$ 61,398
Loans collectively evaluated for impairment	485,575	136,555	89,155	15,252	3,004	3,464	733,005
Loans acquired with deteriorated credit quality	7,674	3,029	–	–	–	102	10,805
Ending balance at September 30,	$ 532,417	$ 159,443	$ 91,341	$ 15,252	$ 3,004	$ 3,751	$ 805,208
Loans individually evaluated for impairment	$ 50,842	$ 19,850	$ 3,225	$ –	$ –	$ 143	$ 74,060
Loans collectively evaluated for impairment	469,962	224,116	21,438	–	–	4,623	720,139
Loans acquired with deteriorated credit quality	13,717	3,640	270	–	–	1,184	18,811
Ending balance at December 31, 2012	$ 534,521	$ 247,606	$ 24,933	$ –	$ –	$ 5,950	$ 813,010

**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	$ 413	$ 442	$ –	$ 855
Production and intermediate-term	3,985	250	–	4,235
Total	$ 4,398	$ 692	$ –	$ 5,090

	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	$ 413	$ 442	$ –	$ 855	$ –	$ –
Production and intermediate-term	3,985	250	–	4,235	–	–
Total	$ 4,398	$ 692	$ –	$ 5,090	$ –	$ –

	Nine months ended September 30, 2013			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 5,897	$ 2,152	$ –	$ 8,049
Production and intermediate-term	4,218	1,682	271	6,171
Total	$ 10,115	$ 3,834	$ 271	$ 14,220

	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	$ 5,902	$ 1,983	$ –	$ 7,885	$ 63	$ –
Production and intermediate-term	4,218	1,684	271	6,173	16	(4)
Total	$ 10,120	$ 3,667	$ 271	$ 14,058	$ 79	$ (4)

	Three months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 230	$ 8,393	$ 483	$ 9,106
Production and intermediate-term	–	113	52	165
Total	$ 230	$ 8,506	$ 535	$ 9,271

	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	$ 230	$ 6,972	$ 483	$ 7,685	$ 1,527	$ (877)
Production and intermediate-term	–	113	52	165	296	(296)
Total	$ 230	$ 7,085	$ 535	$ 7,850	$ 1,823	$ (1,173)

	Nine months ended September 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 1,972	$ 17,006	$ 483	$ 19,461
Production and intermediate-term	–	2,206	52	2,258
Total	$ 1,972	$ 19,212	$ 535	$ 21,719

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	$ 1,971	$ 15,427	$ 483	$ 17,881	$ 1,910	$ (1,227)
Production and intermediate-term	–	2,208	52	2,260	296	(296)
Farm-related business	–	–	–	–	1	–
Total	$ 1,971	$ 17,635	$ 535	$ 20,141	$ 2,207	$ (1,523)

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	$ 3,693	$ 215	$ 3,693	$ 1,894
Production and intermediate-term	384	3,251	384	5,945
Rural residential real estate	–	41	–	41
Total	$ 4,077	$ 3,507	$ 4,077	$ 7,880

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	$ 21,064	$ 21,223	$ 18,389	$ 19,015
Production and intermediate-term	13,726	9,743	11,812	7,997
Processing and marketing	2,178	3,157	2,178	3,157
Farm-related business	–	(6)	–	(6)
Rural residential real estate	8	1,085	8	1,085
Total Loans	$ 36,976	$ 35,202	$ 32,387	$ 31,248
Additional commitments to lend	$ –	$ –		

Purchased Credit Impaired (PCI) Loans

The Association acquires loans individually and in groups or portfolios. For certain acquired loans that experienced deterioration in credit quality between origination and acquisition, the amount paid for the loan will reflect this fact. At acquisition, each loan is reviewed to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Association would be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the purchaser determines whether each such loan is to be accounted for individually or whether such loans would be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination, for example). Considerations of value should include expected prepayments, the estimated amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and the subsequently aggregated pool of loans. Any excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all of the cash flows expected at acquisition is an amount that should not be accreted to income (nonaccretable difference). The remaining amount, representing the excess of the loan's cash flows expected to be collected over the amount paid, is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Accounting guidance requires that the purchaser continue to estimate cash flows expected to be collected over the life of the loan or pool. It then evaluates at the balance sheet date whether the present value of its loans, determined using the effective interest rate, has decreased and if so, recognizes a loss. For loans or pools that are not accounted for as debt securities, the present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, or for loans or pools

accounted for as debt securities, a purchaser adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Valuation allowances for all PCI loans reflect only those losses incurred after acquisition, that is, the present value of cash flows expected at acquisition that are not expected to be collected. Valuation allowances are established only subsequent to acquisition of the loans.

The carrying amounts of loans acquired in a 2011 business combination included in the balance sheet amounts of loans receivable at period end were as follows:

	September 30, 2013
Real estate mortgage	$ 7,674
Production and intermediate-term	3,029
Farm-related business	–
Rural residential real estate	102
Total Loans	$ 10,805

At September 30, 2013, the allowance for loan losses related to these loans was $40 compared with $443 at December 31, 2012. During the three and nine month periods ended September 30, 2013, provision for loan losses on these loans was an expense of $245 and an expense reversal of $617, respectively, compared with expense of $376 and $681 for the three and nine month periods ended September 30, 2012, respectively. See above for a summary of changes in the total allowance for loan losses for the period ended September 30, 2013. There were no loans acquired during 2013 or 2012 for which it was probable at acquisition that all contractually required payments would not be collected.

Certain of the loans acquired by the Association in the 2011 business combination that were within the scope of PCI loan guidance are accounted for using a cash basis method of income recognition because the Association cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans. The real estate market in Florida was extremely unstable, making the estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate. As such, the Association did not have the information necessary to reasonably estimate cash flows expected to be collected to compute a yield. Management determined a nonaccrual classification would be the most appropriate and that no income would be recognized on these loans as is allowed under accounting guidance. These amounts are included in the carrying values, net of allowance, described above.

NOTE 4 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2013	2012	2013	2012
Pension	$ 890	$ 875	$ 2,672	$ 2,624
401(k)	103	92	330	265
Other postretirement benefits	107	90	321	271
Total	$ 1,100	$ 1,057	$ 3,323	$ 3,160

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	$ 32	$ 3,570	$ 3,602
Other postretirement benefits	219	92	311
Total	$ 251	$ 3,662	$ 3,913

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 Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2013.

Further details regarding employee benefit plans are contained in the 2012 Annual Report to Shareholders.

NOTE 5 – 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 4.31 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 $4,258 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 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.

For Level 2 investment securities, fair value is generally determined by discounting the expected future cash flows using appropriate interest rates for similar instruments.

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 Level 3 investment securities, the fair value is determined by discounting estimated future cash flows using prevailing interest 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	$ 60
Issuances	–
Settlements	(32)
Transfers in and/or out of level 3	–
Balance at September 30, 2013	$ 28

	Standby Letters Of Credit
Balance at January 1, 2012	$ 240
Issuances	–
Settlements	(185)
Transfers in and/or out of level 3	–
Balance at September 30, 2012	$ 55

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	$ 82,660	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
Mission-related investments	Discounted cash flow	Risk adjusted discount rate
Asset-backed securities	Vendor priced	**
Other investments	Discounted cash flow	Rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

*** The inputs used to estimate fair value for assets and liabilities that are obtained from third party vendors are not included in the table as the specific inputs applied are not provided by the vendor.*

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	$ 875	$ 875	$ –	$ –	$ 875	
Recurring Assets	$ 875	$ 875	$ –	$ –	$ 875	
Liabilities:						
Standby letters of credit	$ 28	$ –	$ –	$ 28	$ 28	
Recurring Liabilities	$ 28	$ –	$ –	$ 28	$ 28	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 74,583	$ –	$ –	$ 74,583	$ 74,583	$ 2,562
Other property owned	7,342	–	–	8,077	8,077	(34)
Nonrecurring Assets	$ 81,925	$ –	$ –	$ 82,660	$ 82,660	$ 2,528
Other Financial Instruments						
Assets:						
Cash	$ 73	$ 73	$ –	$ –	$ 73	
Mission-related investments	9,383	–	–	9,679	9,679	
Asset-backed securities	15,304	–	15,476	–	15,476	
Loans	717,955	–	–	722,973	722,973	
Other investments	2,691	–	–	2,740	2,740	
Other Assets	$ 745,406	$ 73	$ 15,476	$ 735,392	$ 750,941	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 649,511	$ –	$ –	$ 643,300	$ 643,300	
Other Liabilities	$ 649,511	$ –	$ –	$ 643,300	$ 643,300	

	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	$ 1,992	$ 1,992	$ –	$ –	$ 1,992	
Recurring Assets	$ 1,992	$ 1,992	$ –	$ –	$ 1,992	
Liabilities:						
Standby letters of credit	$ 60	$ –	$ –	$ 60	$ 60	
Recurring Liabilities	$ 60	$ –	$ –	$ 60	$ 60	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 91,975	$ –	$ –	$ 91,975	$ 91,975	$ (36,777)
Other property owned	12,230	–	–	13,454	13,454	(2,902)
Nonrecurring Assets	$ 104,205	$ –	$ –	$ 105,429	$ 105,429	$ (39,679)
Other Financial Instruments						
Assets:						
Cash	$ 1,156	$ 1,156	$ –	$ –	$ 1,156	
Mission-related investments	9,493	–	–	11,026	11,026	
Asset-backed securities	19,435	–	19,349	–	19,349	
Loans	706,046	–	–	724,841	724,841	
Other investments	5,380	–	–	5,458	5,458	
Other Assets	$ 741,510	$ 1,156	$ 19,349	$ 741,325	$ 761,830	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 688,853	$ –	$ –	$ 685,525	$ 685,525	
Other Liabilities	$ 688,853	$ –	$ –	$ 685,525	$ 685,525	

NOTE 6 – COMMITMENTS AND CONTINGENT LIABILITIES

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On 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 7 — 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 and 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 8 – BUSINESS COMBINATION

Effective January 1, 2011, Farm Credit of North Florida, ACA, and Farm Credit of Southwest Florida, ACA, merged with and into Farm Credit of South Florida, ACA. Farm Credit of South Florida then changed its name to Farm Credit of Florida, ACA. As part of the merger, those Associations entered into an agreement with the Bank under which the Bank would provide limited financial assistance to the merged Association in the event of substantial further deterioration in the combined high risk asset portfolio of the merged Association. This agreement relates only to a finite pool of high risk assets of the merged Association existing at the merger date, which had a net book value at January 1, 2011 of $250.0 million. At September 30, 2013, those assets had a net book value of $84.2 million. This agreement with the Bank does not include losses that are sustained outside of the high risk asset pool. The agreement provides for imposing limits on the merged Association's ability to make patronage distributions and certain other restrictions if certain merged Association capital ratios fail to meet minimum established levels.

Under the financial assistance agreement, if specified minimum levels of capital allocated to the high risk asset pool are not maintained by the merged Association, the Bank would provide financial assistance as stipulated in the agreement. The assistance consists of three components.

First, the Bank would allow the Association to include up to $10.1 million of Bank allocated stock owned by the merged Association in its capital ratio computations. This Bank allocated stock had been counted entirely by the Bank in its capital ratio computations under an existing capital sharing arrangement. Second, the Bank would redeem purchased

stock held by the merged Association, up to the total amount outstanding, which was $1.3 million at September 30, 2013, and the redeemed amount would be included in capital ratio computations by the merged Association. This purchased stock had been counted entirely by the Bank in its capital ratio computations under an existing capital sharing arrangement. The third and final level of assistance, if elected by the Association, would be a purchase by the Bank of the high risk asset pool from the Association at net book value. Sale of the asset pool by the Association would be conditioned upon the purchase and or reallocation of Bank stock by the merged Association in an amount necessary to satisfy the capitalization requirement under the Bank's capitalization plan then in effect.

Beginning December 31, 2012 and at each subsequent 2013 quarter end date, capital allocated to the high risk asset pool failed to meet specified minimum levels due to losses in the pool from resolution efforts, provisions, and write-downs subsequent to the merger date. This resulted in the Association receiving assistance from the Bank in the form(s) specified under the agreement, which totaled $3.3 million at December 31, 2012, increasing to $11.0 million at March 31, 2013, decreasing to $10.5 million at June 30, 2013, and further decreasing to $7.2 million at September 30, 2013. The $7.2 million of assistance at September 30, 2013 was in the form of the Bank allowing the merged Association to include Bank allocated stock owned by the merged Association in its capital ratio computations. Based on projected performance of the high risk asset pool, the merged Association is likely to continue to require assistance under the agreement at December 31, 2013.

NOTE 9 - 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	$ (204)	$ (161)	$ (208)	$ (152)
Other comprehensive income before reclassifications	–	–	–	(11)
Amounts reclassified from AOCI	2	1	6	3
Net current period other comprehensive income	2	1	6	(8)
Balance at end of period	$ (202)	$ (160)	$ (202)	$ (160)

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	$ (2)	$ (1)	$ (6)	$ (3)	See footnote 4.
Net amounts reclassified	$ (2)	$ (1)	$ (6)	$ (3)	

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

NOTE 10 – REGULATORY ENFORCEMENT MATTERS

As previously disclosed, on June 15, 2012 the FCA entered into a written supervisory agreement with the Board of Directors of the Association. The written supervisory agreement requires the Association to take corrective actions and other actions with respect to certain areas of its operations, including board governance, director fiduciary duties and standards of conduct, board consultant functions, staffing and succession planning, asset quality, collateral risk, allowance for loan losses, internal audit, board policies, compliance with requirements of the Financial Assistance Agreement, and business planning and reporting. In addition, the Association is operating under Supervisory Conditions of Merger and must maintain compliance with all requirements and conditions.

Conditions and events that led to the need for this agreement include portfolio credit quality deterioration, inadequate management succession and human capital planning, perceived weaknesses in board governance, and reduced earnings.

As of November 7, 2013, the Association has taken action to correct the weaknesses in its board operations and policies, asset quality, collateral risk, capital contingency planning, credit policy direction and guidance, internal audit and management reporting, has conducted a staffing study and has adopted a human capital and succession plan.

On May 20, 2013, FCA communicated in a letter to the Board that Board and management actions resulted in significant improvements in direction and control, particularly in the areas of human capital and succession planning, strategic

planning, and board policy direction. The Association has achieved full compliance in the areas of board policies, management reporting and disclosure to shareholders.

As required by the supervisory agreement, the Board will continue engaging an independent consultant to provide advice in understanding and fulfilling its fiduciary responsibilities and to perform other advisory functions as specified in the agreement. Both the Board and Senior Management are committed to continuing the administration of the Association in a sound manner.

On November 5, 2012, FCA communicated in a letter to the Board that the Association was found to be in violation of its Supervisory Conditions of Merger and the Supervisory Agreement as a result of an internal cost allocation that did not occur as required by the Financial Assistance Agreement with the Bank. The internal cost allocation does not impact the consolidated financial results presented in these financial statements. The Board took prompt corrective action by submitting a plan to the FCA to address the violation within 15 days of the date of the FCA letter and as of December 31, 2012, the Association had addressed the internal cost allocation violation.

The Association remained under written supervisory agreement as of the date of this report.

NOTE 11 – 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 $8,965 which will be recorded in October 2013 as patronage refunds from other Farm Credit institutions.