AgCarolina Farm Credit, ACA

FIRST QUARTER 2013

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CERTIFICATION

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

S. Stuart Pierce, Jr.
Chairman of the Board

David W. Corum
President
Chief Executive Officer

Matthew J. Currin
Senior Vice President
Chief Financial Officer

May 9, 2013

AgCarolina Farm Credit, ACA

Report on Internal Control Over Financial Reporting

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

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

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of March 31, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association concluded that as of March 31, 2013, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of March 31, 2013.

David W. Corum
President
Chief Executive Officer

Matthew J. Currin
Senior Vice President
Chief Financial Officer

May 9, 2013

AgCarolina 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 AgCarolina Farm Credit, ACA (Association) for the three months ended March 31, 2013. Effective September 1, 2012, AgCarolina Financial, ACA, changed its name to AgCarolina Farm Credit, ACA. 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.

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. Predominant commodities in the portfolio are tobacco, cotton, and forestry, which constitute $381,421, or 43.83 percent, of the loan portfolio as of March 31, 2013. Other major farm commodities include landlords, swine, poultry, forestry, soybeans, corn, and farm services. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, somewhat reduces the level of dependency on a given commodity.

The net loan volume of the Association as of March 31, 2013, was $835,505, a decrease of $45,773 or 5.19 percent as compared to $881,278 at December 31, 2012. Net loans accounted for 93.80 percent of total assets at March 31, 2013 as compared to 91.24 percent of total assets at December 31, 2012. The decrease in net loan volume during the reporting period is primarily attributed to seasonal lending. The short-term portfolio, which is heavily influenced by operating-type loans, normally reaches a peak in August and declines in the fall and winter months as farm commodities are marketed and proceeds are applied to the operating loans.

There is an inherent risk in the extension of any type of credit. Portfolio credit quality continues to be maintained at an acceptable level, however, and credit administration remains satisfactory. Nonaccrual loans increased from $28,136 at December 31, 2012 to $28,182 at March 31, 2013, for an increase of $46 or 0.17 percent. The increase is due to net transfers to nonaccrual increasing slightly during the first quarter of 2013.

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 March 31, 2013 was $14,322 as compared to $14,669 at December 31, 2012, for a decrease of $347. This was a result of an increase in the provision for loan losses of $95 which was offset by net charge-offs of $442. The ratio of the allowance for loan losses to loans at March 31, 2013 was 1.69 percent, which was in line with the prior year end. The allowance was considered by management to be adequate to cover possible losses.

Other investments consists of tobacco buyout Successor-in-Interest Contracts (SIIC) which come under the FCA's Mission Related Investments. Under the SIIC, the tobacco quota holders and producers may assign their rights to receive tobacco buyout contract payments to a third party. The third party, or successor, purchases the entire contract and all related rights and obligations associated with the contract. As of March 31, 2013 the Association held tobacco buyout SIIC of $15,399, a decrease of $15,876 or 50.76 percent, as compared to $31,275 as of December 31, 2012. The decrease is due to the receipt of the scheduled annual payment from the government. The final government payment is expected to occur in January 2014.

Other property owned was $861 as of March 31, 2013, which was unchanged from the December 31, 2012 balance. The Association has the same properties in inventory as of March 31 and no adjustments have been made since year end. The Association is actively marketing all properties for resale.

RESULTS OF OPERATIONS

For the three months ended March 31, 2013

Net income for the three months ended March 31, 2013 totaled $4,255, an increase of $1,446, or 51.48 percent, as compared to the same period of 2012. The primary reason for the increase in net income as compared to the previous period is due to a $970 decrease in the provision for losses, a $260 increase in net interest income and a $201 decrease in noninterest expense. At March 31, 2013, total interest income decreased by $176 compared to March 31, 2011. The decrease in interest income is due primarily to reduced interest rates as compared to the same period in 2012.

Interest income from nonaccrual loans was $122 for the three months ended March 31, 2013, an increase of $44 from the same period of 2012. Interest expense decreased $435 for the three months ended March 31, 2013, as compared to the same period of 2012. The decrease in interest expense is attributed to a decline in funding rates.

Noninterest income for the three months ended March 31, 2013 totaled $2,723 as compared to $2,708 for the same period of 2012, an increase of $15. The increase is primarily due to an increase in other income of $86, offset by decreases in Loan fees of $34 and Fees for financially related services of $33.

Noninterest expense for the three months ended March 31, 2013 was $4,417, a decrease of $201 as compared to the same period of 2012. The reason for the overall decrease is due primarily to a decrease in salaries and employee benefits and other operating expenses. Salaries and employee benefits totaled $3,170 for the three months ended March 31, 2013, for a decrease of $158, or 4.74 percent, as compared to the same period of 2012. The decrease in salaries and employee benefits is primarily due to a reduced overall salary base as a result of certain employee retirements and separations.

LIQUIDITY AND FUNDING SOURCES

Liquidity

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with AgFirst Farm Credit Bank (Bank) and from income generated by operations. Sufficient liquid funds have been available to meet all financial obligations.

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 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 March 31, 2013 was $669,616 as compared to $752,900 at December 31, 2012. The 11.06 percent decrease during the period is primarily attributed to a decline in loan volume during the period.

The Association has no lines of credit outstanding with third parties as of March 31, 2013.

CAPITAL RESOURCES

Total members' equity at March 31, 2013, increased 5.75 percent to $201,925 from the December 31, 2012, total of $190,947. The increase is attributed to the increase in retained earnings related to net income as well as an increase in preferred stock. Preferred stock was $34,132 as of March 31, 2013, as compared to $27,262 on December 31, 2012, for an increase of 25.20 percent.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2013, the Association's total surplus ratio and core surplus ratio were both 17.95 percent, and the permanent capital ratio was 22.00 percent. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com*. Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-919-250-9500, writing Linda Strickland, AgCarolina Farm Credit, ACA, P. O. Box 14789, Raleigh, NC 27620, or accessing the website, *www.agcarolina.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.

AgCarolina Farm Credit, ACA

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2013 *(unaudited)*	December 31, 2012 *(audited)*
Assets		
Cash	$ 606	$ 3,915
Loans	849,827	895,947
Less: allowance for loan losses	14,322	14,669
Net loans	835,505	881,278
Other investments	15,399	31,275
Accrued interest receivable	8,349	12,117
Investments in other Farm Credit institutions	10,861	10,861
Premises and equipment, net	8,636	8,661
Other property owned	861	861
Due from AgFirst Farm Credit Bank	1,330	7,432
Other assets	9,142	9,491
Total assets	$ 890,689	$ 965,891
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 669,616	$ 752,900
Accrued interest payable	1,166	1,380
Patronage refunds payable	278	6,557
Other liabilities	17,704	14,107
Total liabilities	688,764	774,944
Commitments and contingencies		
Members' Equity		
Preferred stock	34,132	27,262
Member capital stock and participation certificates	3,246	3,294
Retained earnings		
Allocated	96,259	96,256
Unallocated	68,288	64,135
Total members' equity	201,925	190,947
Total liabilities and members' equity	$ 890,689	$ 965,891

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

AgCarolina Farm Credit, ACA

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2013	2012
Interest Income		
Loans	$ 9,639	$ 9,732
Other investments	310	393
Total interest income	9,949	10,125
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	3,905	4,341
Net interest income	6,044	5,784
Provision for loan losses	95	1,065
Net interest income after provision for loan losses	5,949	4,719
Noninterest Income		
Loan fees	1,052	1,086
Fees for financially related services	158	192
Patronage refunds from other Farm Credit institutions	1,330	1,334
Gains (losses) on other property owned, net	—	28
Gains (losses) on sales of premises and equipment, net	28	—
Other noninterest income	155	68
Total noninterest income	2,723	2,708
Noninterest Expense		
Salaries and employee benefits	3,170	3,327
Occupancy and equipment	293	272
Insurance Fund premiums	167	88
Other operating expenses	787	931
Total noninterest expense	4,417	4,618
Net income	4,255	2,809
Other comprehensive income	—	—
Comprehensive income	$ 4,255	$ 2,809

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

AgCarolina Farm Credit, ACA

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Preferred Stock	Member Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2011	$ 32,344	$ 3,244	$ 86,845	$ 63,133	$ 185,566
Comprehensive income				2,809	2,809
Preferred stock issued(retired), net	(1,283)				(1,283)
Member stock/participation certificates issued/(retired), net		(14)			(14)
Dividends declared/paid	118			(118)	–
Patronage distribution adjustment			(199)	199	–
Balance at March 31, 2012	$ 31,179	$ 3,230	$ 86,646	$ 66,023	$ 187,078
Balance at December 31, 2012	$ 27,262	$ 3,294	$ 96,256	$ 64,135	$ 190,947
Comprehensive income				4,255	4,255
Preferred stock issued(retired), net	6,774				6,774
Member stock/participation certificates issued/(retired), net		(48)			(48)
Dividends declared/paid	96			(96)	–
Patronage distribution adjustment			3	(6)	(3)
Balance at March 31, 2013	$ 34,132	$ 3,246	$ 96,259	$ 68,288	$ 201,925

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

AgCarolina 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

Effective September 1, 2012, AgCarolina Financial, ACA, changed its name to AgCarolina Farm Credit, ACA. The accompanying financial statements include the accounts of AgCarolina Farm Credit, ACA (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2012, are contained in the 2012 Annual Report to Shareholders. These unaudited first quarter 2013 consolidated financial statements should be read in conjunction with the 2012 Annual Report to Shareholders.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. The results for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013.

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

The Association maintains an allowance for loan losses in accordance with GAAP. The loan portfolio is reviewed quarterly to determine the adequacy of the allowance for losses. As of March 31, 2013, the allowance for losses is adequate in management's opinion to provide for possible losses on existing loans.

Recently Issued Accounting Pronouncements

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

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

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

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

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

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	March 31, 2013	December 31, 2012
Real estate mortgage	$ 356,898	$ 365,293
Production and intermediate-term	449,713	486,682
Agribusiness		
Loans to cooperatives	1,427	858
Processing and marketing	8,111	9,010
Farm-related business	6,865	8,394
Total agribusiness	16,403	18,262
Communication	1,341	1,340
Rural residential real estate	25,472	24,370
Total Loans	$ 849,827	$ 895,947

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with Farm Credit Administration regulations. Participation loan balances at period end were as follows:

March 31, 2013	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 6,927	$ 13,949	$ –	$ 1,240	$ –	$ –	$ 6,927	$ 15,189
Production and intermediate-term	26,761	186,127	1,725	15,423	170,399	–	198,885	201,550
Agribusiness								
Loans to cooperatives	1,355	–	–	–	–	–	1,355	–
Processing and marketing	7,150	–	962	–	–	–	8,112	–
Farm-related business	1,165	–	–	–	–	–	1,165	–
Total agribusiness	9,670	–	962	–	–	–	10,632	–
Communication	1,341	–	–	–	–	–	1,341	–
Total	$ 44,699	$ 200,076	$ 2,687	$ 16,663	$ 170,399	$ –	$ 217,785	$ 216,739

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	$ 2,940	$ 23,321	$ 2,032	$ –	$ –	$ –	$ 4,972	$ 23,321
Production and intermediate-term	26,868	36,508	431	7,474	12,084	–	39,383	43,982
Agribusiness								
Loans to cooperatives	827	–	–	–	–	–	827	–
Processing and marketing	10,685	–	1,121	–	–	–	11,806	–
Farm-related business	874	–	–	–	–	–	874	–
Total agribusiness	12,386	–	1,121	–	–	–	13,507	–
Communication	1,267	–	–	–	–	–	1,267	–
Total	$ 43,461	$ 59,829	$ 3,584	$ 7,474	$ 12,084	$ –	$ 59,129	$ 67,303

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at March 31, 2013 and indicates that approximately 22.00 percent of loans had maturities of less than one year:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 35,551	$ 92,201	$ 229,146	$ 356,898
Production and intermediate-term	137,107	172,315	140,291	449,713
Agribusiness				
Loans to cooperatives	1,272	155	–	1,427
Processing and marketing	7,160	855	96	8,111
Farm-related business	3,532	994	2,339	6,865
Total agribusiness	11,964	2,004	2,435	16,403
Communication	1,323	14	4	1,341
Rural residential real estate	1,015	2,221	22,236	25,472
Total Loans	$ 186,960	$ 268,755	$ 394,112	$ 849,827

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

	March 31, 2013	December 31, 2012
Real estate mortgage:		
Acceptable	82.79%	81.85%
OAEM	9.49	10.01
Substandard/doubtful/loss	7.72	8.14
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	90.35%	90.13%
OAEM	4.38	5.22
Substandard/doubtful/loss	5.27	4.65
	100.00%	100.00%
Agribusiness:		
Loans to cooperatives:		
Acceptable	99.34%	100.00%
OAEM	0.66	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Processing and marketing:		
Acceptable	100.00%	89.30%
OAEM	–	10.70
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Farm-related business:		
Acceptable	81.62%	50.92%
OAEM	18.38	49.08
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2013	December 31, 2012
Total agribusiness:		
Acceptable	92.24%	71.96%
OAEM	7.76	28.04
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Communication:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	94.38%	93.73%
OAEM	1.55	1.94
Substandard/doubtful/loss	4.07	4.33
	100.00%	100.00%
Total Loans:		
Acceptable	87.34%	86.50%
OAEM	6.50	7.54
Substandard/doubtful/loss	6.16	5.96
	100.00%	100.00%

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

	March 31, 2013					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 3,825	$ 4,190	$ 8,015	$ 352,454	$ 360,469	$ –
Production and intermediate-term	3,000	5,371	8,371	445,948	454,319	–
Agribusiness						
Loans to cooperatives	–	–	–	1,428	1,428	–
Processing and marketing	–	–	–	8,130	8,130	–
Farm-related business	–	–	–	6,895	6,895	–
Total agribusiness	–	–	–	16,453	16,453	–
Communication	–	–	–	1,341	1,341	–
Rural residential real estate	297	472	769	24,825	25,594	–
Total	$ 7,122	$ 10,033	$ 17,155	$ 841,021	$ 858,176	$ –

	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	$ 2,800	$ 5,635	$ 8,435	$ 361,479	$ 369,914	$ 121
Production and intermediate-term	2,604	4,285	6,889	486,980	493,869	–
Agribusiness						
Loans to cooperatives	–	–	–	858	858	–
Processing and marketing	–	–	–	9,028	9,028	–
Farm-related business	–	–	–	8,583	8,583	–
Total agribusiness	–	–	–	18,469	18,469	–
Communication	–	–	–	1,340	1,340	–
Rural residential real estate	223	–	223	24,249	24,472	–
Total	$ 5,627	$ 9,920	$ 15,547	$ 892,517	$ 908,064	$ 121

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

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

	March 31, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	$ 15,736	$ 18,062
Production and intermediate-term	11,698	9,317
Rural residential real estate	748	757
Total nonaccrual loans	$ 28,182	$ 28,136
Accruing restructured loans:		
Real estate mortgage	$ 2,744	$ 2,785
Production and intermediate-term	–	–
Rural residential real estate	–	–
Total accruing restructured loans	$ 2,744	$ 2,785
Accruing loans 90 days or more past due:		
Real estate mortgage	$ –	$ 121
Production and intermediate-term	–	–
Rural residential real estate	–	–
Total accruing loans 90 days or more past due	$ –	$ 121
Total nonperforming loans	$ 30,926	$ 31,042
Other property owned	861	861
Nonperforming assets	$ 31,787	$ 31,903
Nonaccrual loans as a percentage of total loans	3.32%	3.14%
Nonperforming assets as a percentage of total loans and other property owned	3.74%	3.56%
Nonperforming assets as a percentage of capital	15.74%	16.71%

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

	March 31, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	$ 16,351	$ 17,341
Past due	11,831	10,795
Total impaired nonaccrual loans	28,182	28,136
Impaired accrual loans:		
Restructured	2,744	2,785
90 days or more past due	–	121
Total impaired accrual loans	2,744	2,906
Total impaired loans	$ 30,926	$ 31,042

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	March 31, 2013			Quarter Ended March 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 8,904	$ 9,788	$ 4,384	$ 9,043	$ 35
Production and intermediate-term	2,282	2,606	916	2,318	9
Rural residential real estate	–	–	–	–	–
Total	$ 11,186	$ 12,394	$ 5,300	$ 11,361	$ 44
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 9,576	$ 11,270	$ –	$ 9,727	$ 38
Production and intermediate-term	9,416	13,274	–	9,563	37
Rural residential real estate	748	1,001	–	759	3
Total	$ 19,740	$ 25,545	$ –	$ 20,049	$ 78
Total impaired loans:					
Real estate mortgage	$ 18,480	$ 21,058	$ 4,384	$ 18,770	$ 73
Production and intermediate-term	11,698	15,880	916	11,881	46
Rural residential real estate	748	1,001	–	759	3
Total	$ 30,926	$ 37,939	$ 5,300	$ 31,410	$ 122

	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	$ 10,640	$ 12,358	$ 4,858	$ 11,539	$ 165
Production and intermediate-term	1,959	2,274	857	2,125	30
Rural residential real estate	–	–	–	–	–
Total	$ 12,599	$ 14,632	$ 5,715	$ 13,664	$ 195
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 10,328	$ 11,601	$ –	$ 11,203	$ 160
Production and intermediate-term	7,358	9,728	–	7,980	114
Rural residential real estate	757	1,004	–	821	12
Total	$ 18,443	$ 22,333	$ –	$ 20,004	$ 286
Total impaired loans:					
Real estate mortgage	$ 20,968	$ 23,959	$ 4,858	$ 22,742	$ 325
Production and intermediate-term	9,317	12,002	857	10,105	144
Rural residential real estate	757	1,004	–	821	12
Total	$ 31,042	$ 36,965	$ 5,715	$ 33,668	$ 481

There were no material commitments to lend additional funds to debtors whose loans were classified as impaired at each reporting period.

A summary of changes in the allowance for loan losses and recorded investment in loans at period end were as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Rural Residential Real Estate	Total
Allowance for credit losses:						
Balance at December 31, 2012	$ 8,505	$ 5,727	$ 182	$ 13	$ 242	$ 14,669
Charge-offs	(217)	(229)	–	–	–	(446)
Recoveries	25	(21)	–	–	–	4
Provision for loan losses	(140)	216	(9)	1	27	95
Balance at March 31, 2013	$ 8,173	$ 5,693	$ 173	$ 14	$ 269	$ 14,322
Balance at December 31, 2011	$ 7,162	$ 5,317	$ 182	$ 13	$ 216	$ 12,890
Charge-offs	(836)	(32)	–	–	–	(868)
Recoveries	1	50	–	–	–	51
Provision for loan losses	1,054	(56)	37	2	28	1,065
Balance at March 31, 2012	$ 7,381	$ 5,279	$ 219	$ 15	$ 244	$ 13,138
Loans individually evaluated for impairment	$ 4,384	$ 916	$ –	$ –	$ –	$ 5,300
Loans collectively evaluated for impairment	3,789	4,777	173	14	269	9,022
Balance at March 31, 2013	$ 8,173	$ 5,693	$ 173	$ 14	$ 269	$ 14,322
Loans individually evaluated for impairment	$ 4,858	$ 857	$ –	$ –	$ –	$ 5,715
Loans collectively evaluated for impairment	3,647	4,870	182	13	242	8,954
Balance at December 31, 2012	$ 8,505	$ 5,727	$ 182	$ 13	$ 242	$ 14,669
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 15,825	$ 11,718	$ –	$ –	$ 749	$ 28,292
Loans collectively evaluated for impairment	344,644	442,601	16,453	1,341	24,845	829,884
Ending balance at March 31, 2013	$ 360,469	$ 454,319	$ 16,453	$ 1,341	$ 25,594	$ 858,176
Loans individually evaluated for impairment	$ 20,968	$ 9,317	$ –	$ –	$ 757	$ 31,042
Loans collectively evaluated for impairment	348,946	484,552	18,469	1,340	23,715	877,022
Ending balance at December 31, 2012	$ 369,914	$ 493,869	$ 18,469	$ 1,340	$ 24,472	$ 908,064

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information regarding TDRs as of the restructuring date that occurred during the periods presented. There were no TDRs for the three months ended March 31, 2013.

	Three months ended March 31, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ –	$ 82	$ –	$ 82
Production and intermediate-term	25	–	–	25
Total	$ 25	$ 82	$ –	$ 107

	Three months ended March 31, 2012					
	Post-modification Outstanding Recorded Investment				Effects of Modification	
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ –	$ 93	$ –	$ 93	$ –	$ –
Production and intermediate-term	30	–	–	30	–	–
Total	$ 30	$ 93	$ –	$ 123	$ –	$ –

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

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the three month periods ended March 31, 2013 or 2012. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Real estate mortgage	$ 12,129	$ 12,845	$ 9,385	$ 10,060
Production and intermediate-term	1,294	1,422	1,294	1,422
Rural residential real estate	–	–	–	–
Total Loans	$ 13,423	$ 14,267	$ 10,679	$ 11,482

Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings was $145 and $326 at March 31, 2013 and December 31, 2012, respectively.

NOTE 3 – EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31,	
	2013	2012
Pension	$ 675	$ 676
401(k)	111	101
Other postretirement benefits	113	94
Total	$ 899	$ 871

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

	Actual YTD Through 3/31/13	Projected Contributions For Remainder of 2013	Projected Total Contributions 2013
Pension	$ –	$ 2,619	$ 2,619
Other postretirement benefits	92	299	391
Total	$ 92	$ 2,918	$ 3,010

Contributions in the above table include allocated estimates of funding for multi-employer plans in which the Association participates. These amounts may change when a total funding amount and allocation is determined by the respective Plan's Sponsor Committee. Also, market conditions could impact discount rates and return on plan assets which could change contributions necessary before the next plan measurement date of December 31, 2013.

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

NOTE 4 – FAIR VALUE MEASUREMENT

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 3.94 percent of the issued stock of the Bank as of March 31, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $27.7 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $121 million for the first three months of 2013. In addition, the Association has an investment of $81 related to other Farm Credit institutions.

The classifications of the Association's financial instruments within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association's Level 1 assets at March 31, 2013 consist of assets held in trust funds and liabilities related to deferred compensation plans and assets held in mutual funds related to the Association's Corporate Giving Fund. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

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

Level 3

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

Level 3 assets at March 31, 2013 include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent loans. 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. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

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 (see Level 3 below).

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

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

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

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

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

	Standby Letters Of Credit
Balance at January 1, 2013	$ 15
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other Comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	(5)
Transfers in and/or out of level 3	–
Balance at March 31, 2013	$ 10

	Standby Letters Of Credit
Balance at January 1, 2012	$ 27
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other Comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	(6)
Transfers in and/or out of level 3	–
Balance at March 31, 2012	$ 21

INFORMATION ABOUT SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Other Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 8,883	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

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

At or for the Three Months Ended March 31, 2013	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Assets held in Mutual funds	$ 2,334	$ 2,334	$ –	$ –	$ 2,334	
Recurring Assets	$ 2,334	$ 2,334	$ –	$ –	$ 2,334	
Liabilities:						
Standby letters of credit	$ 10	$ –	$ –	$ 10	$ 10	
Recurring Liabilities	$ 10	$ –	$ –	$ 10	$ 10	
Nonrecurring Measurements						
Assets:						
Impaired loans*	$ 7,955	$ –	$ –	$ 7,955	$ 7,955	$ (26)
Other property owned	861	–	–	928	928	–
Nonrecurring Assets	$ 8,816	$ –	$ –	$ 8,883	$ 8,883	$ (26)
Other Financial Instruments						
Assets:						
Cash	$ 606	$ 606	$ –	$ –	$ 606	
Loans	829,619	–	–	825,144	825,144	
Other investments	15,399	–	–	15,998	15,998	
Other Assets	$ 845,624	$ 606	$ –	$ 841,142	$ 841,748	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 669,616	$ –	$ –	$ 668,964	$ 668,964	
Other Liabilities	$ 669,616	$ –	$ –	$ 668,964	$ 668,964	

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 Mutual funds	$ 2,908	$ 2,908	$ –	$ –	$ 2,908	
Recurring Assets	$ 2,908	$ 2,908	$ –	$ –	$ 2,908	
Liabilities:						
Standby letters of credit	$ 15	$ –	$ –	$ 15	$ 15	
Recurring Liabilities	$ 15	$ –	$ –	$ 15	$ 15	
Nonrecurring Measurements						
Assets:						
Impaired loans**	$ 7,772	$ –	$ –	$ 7,772	$ 7,772	$ (3,015)
Other property owned	861	–	–	928	928	(748)
Nonrecurring Assets	$ 8,633	$ –	$ –	$ 8,700	$ 8,700	$ (3,763)
Other Financial Instruments						
Assets:						
Cash	$ 3,915	$ 3,915	$ –	$ –	$ 3,915	
Loans	873,506	–	–	870,685	870,685	
Other investments	31,275	–	–	32,110	32,110	
Other Assets	$ 908,696	$ 3,915	$ –	$ 902,795	$ 906,710	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 752,900	$ –	$ –	$ 753,587	$ 753,587	
Deferred compensation liability	1,945	1,945	–	–	1,945	
Other Liabilities	$ 754,845	$ 1,945	$ –	$ 753,587	$ 755,532	

**Carrying value of impaired loans is the balance of loans with a related specific reserve ($11,186) less related specific reserves ($5,300) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($2,069).*

***Carrying value of impaired loans is the balance of loans with a related specific reserve ($12,599) less related specific reserves ($5,715) associated with impaired loans plus impaired loans with no specific reserve with an associated charge-off ($888).*

NOTE 5 – SUBSEQUENT EVENTS

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