FARM CREDIT

2012

ANNUAL REPORT

AGFIRST FARM CREDIT BANK
AND DISTRICT ASSOCIATIONS

AgFirst Farm Credit Bank and District Associations

2012 ANNUAL REPORT

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Leon T. Amerson ....President and Chief Executive Officer
Charl L. Butler....Senior Vice President and Chief Financial Officer
Benjamin F. Blakewood.... Senior Vice President and Chief Information Officer
William L. Melton.... Senior Vice President and Chief Lending Officer
Christopher L. Jones....Senior Vice President and Chief Credit Officer
Isvara M. A. Wilson.... Senior Vice President and General Counsel

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Message from the Chairman of the Board and the Chief Executive Officer

Over the past five years, both AgFirst and collectively our District have achieved record earnings while at the same time experiencing the most significant deterioration in credit quality in three decades. Although it's well worn, Charles Dickens' famous phrase, "It was the best of times, it was the worst of times...," describes this recent period very eloquently.

In 2008, the US experienced what is commonly referred to as the Financial Crisis. 2008 also marked the beginning of a period referred to as the Great Recession. Although economists generally agree the recession ended in 2009, the subsequent recovery has been slow and uneven, marked by stubbornly high unemployment. Indeed, from many perspectives, these have been the worst of times.

A significant portion of our portfolio consists of loans whose repayment is tied to the general economy. For example, the forestry and nursery segments are highly dependent on the health of the housing market. We also have many part-time farmers who have been adversely impacted by high unemployment rates. The natural result of the economic downturn was a decline in credit quality and a corresponding increase in our provisions for loan losses.

At the same time, the weak economy resulted in extraordinarily low interest rates, which has been very favorable from a funding perspective. High commodity prices have also been a boon for row crop farmers.

When we put it all into perspective, certain aspects of our business experienced the worst of times, while others experienced the best. The key is that the good has far outweighed the bad, with the result being very favorable overall financial performance throughout the period.

As a family of cooperatives, AgFirst and its related associations achieve the diversity required to withstand adverse conditions and take advantage of opportunities. In this context, the concept of diversity goes well beyond geographic or commodity diversification. A very important aspect of our success is the diversity of perspectives and ideas found among our 19 Associations and the Bank. We weave this diversity together, through cooperation, to create a very stable and well-performing organization.

As we move forward, we will no doubt experience some of the best and worst of times. However, the future is bright as we continue to cultivate the relationships and grow the partnerships that make the AgFirst family strong.

Robert H. Spiers, Jr.

Robert H. Spiers, Jr.
Chairman of the Board

Leon T. Amerson

Leon T. Amerson
President and Chief Executive Officer

March 13, 2013

Report of Management

The accompanying Combined Financial Statements and related financial information appearing throughout this Annual Report have been prepared by management of AgFirst Farm Credit Bank (Bank) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the Combined Financial Statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all Combined Financial Statements, and that the assets of the Bank are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Bank and each affiliated District Agricultural Credit Association (District Association) maintain an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Audit Committee of the Board of Directors and to the Chief Executive Officer.

The Bank has a Code of Ethics for its Chief Executive Officer, Senior Financial Officers, and other Senior Officers who are involved with preparation and distribution of financial statements and maintenance of the records supporting the financial statements. A copy of the Bank Code of Ethics may be viewed on the Bank's website at www.agfirst.com.

The Combined Financial Statements have been examined by independent certified public accountants, whose report appears elsewhere in this Annual Report. The Bank and each District Association are also subject to examination by the Farm Credit Administration.

The Combined Financial Statements, in the opinion of management, fairly present the combined financial condition of the Bank and District Associations. The undersigned certify that we have reviewed the 2012 Annual Report of the Bank and District Associations, 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.

Robert H. Spiers, Jr.
Chairman of the Board

Leon T. Amerson
President and Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 13, 2013

Report on Internal Control Over Financial Reporting

AgFirst Farm Credit Bank (Bank) and each affiliated District Agricultural Credit Association's (District Association) 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 Bank and each District Association's respective 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 Bank and each District 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 respective 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 Bank and each District 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 Bank and each District Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank and each District Association's assets that could have a material effect on its Consolidated Financial Statements.

The Bank and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2012. 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 Bank's and each District Association's management concluded that as of December 31, 2012, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Bank's and each District Association's management determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2012.

Leon T. Amerson
President and Chief Executive Officer

Charl L. Butler
Senior Vice President and Chief Financial Officer

March 13, 2013

Five-Year Summary of Selected Combined Financial Data

(dollars in thousands)	2012	2011	2010	2009	2008
	As of or for the year ended December 31,				
Combined Balance Sheet Data					
Cash and cash equivalents	**$ 925,448**	$ 1,340,167	$ 1,463,700	$ 981,041	$ 316,010
Investment securities	**7,649,417**	7,955,553	8,259,552	8,442,230	8,167,026
Loans	**22,929,205**	22,481,505	23,032,893	23,208,189	23,077,736
Less: allowance for loan losses	**213,500**	174,976	182,329	195,132	169,090
Net loans	**22,715,705**	22,306,529	22,850,564	23,013,057	22,908,646
Other property owned	**109,997**	158,144	146,416	73,354	14,228
Other assets	**698,578**	750,475	829,775	895,815	1,006,520
Total assets	**$ 32,099,145**	$ 32,510,868	$ 33,550,007	$ 33,405,497	$ 32,412,430
Obligations with maturities of one year or less	**$ 11,145,685**	$ 12,285,926	$ 12,734,829	$ 14,473,270	$ 14,284,135
Obligations with maturities greater than one year	**16,065,641**	15,703,763	16,433,498	15,080,200	14,781,569
Mandatorily redeemable preferred stock	**—**	—	225,000	225,000	225,000
Total liabilities	**27,211,326**	27,989,689	29,393,327	29,778,470	29,290,704
Perpetual preferred stock	**275,250**	400,000	400,000	400,000	400,000
Protected borrower equity	**1,351**	3,269	3,641	4,205	4,670
At-risk equity:					
Capital stock and participation certificates	**157,260**	159,334	150,031	138,504	129,529
Additional paid in capital	**60,270**	7,873	—	—	—
Retained earnings					
Allocated	**1,531,077**	1,415,359	1,318,996	1,199,441	1,126,994
Unallocated	**3,076,113**	2,756,592	2,575,592	2,323,523	2,191,324
Accumulated other comprehensive income (loss)	**(213,502)**	(221,248)	(291,580)	(438,646)	(730,791)
Total shareholders' equity	**4,887,819**	4,521,179	4,156,680	3,627,027	3,121,726
Total liabilities and shareholders' equity	**$ 32,099,145**	$ 32,510,868	$ 33,550,007	$ 33,405,497	$ 32,412,430
Combined Statement of Income Data					
Net interest income	**$ 1,131,058**	$ 1,118,449	$ 1,054,737	$ 940,418	$ 819,017
Provision for loan losses	**98,075**	215,852	138,228	162,893	121,023
Noninterest income (expense), net	**(399,324)**	(416,668)	(364,630)	(412,658)	(334,474)
Net income	**$ 633,659**	$ 485,929	$ 551,879	$ 364,867	$ 363,520
Combined Key Financial Ratios					
Rate of return on average:					
Total assets	**1.99%**	1.48%	1.66%	1.12%	1.17%
Total shareholders' equity	**13.30%**	10.93%	13.67%	10.79%	10.07%
Net interest income as a percentage of average earning assets	**3.70%**	3.57%	3.32%	2.94%	2.67%
Net (chargeoffs) recoveries to average loans	**(0.26)%**	(0.91)%	(0.66)%	(0.59)%	(0.14)%
Total shareholders' equity to total assets	**15.23%**	13.91%	12.39%	10.86%	9.63%
Debt to shareholders' equity (:1)	**5.57**	6.19	7.07	8.21	9.38
Allowance for loan losses to loans	**0.93%**	0.78%	0.79%	0.84%	0.73%
Net Income Distribution					
Estimated patronage refunds and dividends:					
Cash	**$ 99,645**	$ 91,015	$ 96,622	$ 78,191	$ 101,203
Qualified allocated surplus	**15,232**	10,136	24,726	20,779	20,734
Nonqualified allocated surplus	**63,802**	60,966	51,457	45,462	67,605
Nonqualified retained surplus	**100,756**	84,680	101,245	62,269	65,449
Dividends	**1,299**	1,363	1,203	1,168	1,202
Perpetual preferred stock dividend	**17,978**	27,413	27,413	27,413	27,413

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

The following commentary reviews the Combined Financial Statements of condition and results of operations of AgFirst Farm Credit Bank (AgFirst or the Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District), for the years ended December 31, 2012, 2011, and 2010. This information should be read in conjunction with the accompanying Combined Financial Statements, the Notes to the Combined Financial Statements, and other sections of this Annual Report. The accompanying Combined Financial Statements were prepared under the oversight of the Audit Committee of the Bank's Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" included in this Annual Report. See Note 1, *Organization and Operations*, in the Notes to the Combined Financial Statements for a discussion of the operations of the District.

The District is part of the Farm Credit System (the System), the country's oldest government-sponsored enterprise (GSE), created by Congress to provide sound, adequate, and constructive credit and closely related services to agriculture and rural America.

AgFirst and each Association are federally chartered instrumentalities of the United States and are individually regulated by the Farm Credit Administration (FCA). In creating the System, it was the stated objective of Congress to "*encourage farmer- and rancher-borrowers' participation in the management, control, and ownership of a permanent system of credit for agriculture which will be responsive to the credit needs of all types of agricultural producers having a basis for credit, and to modernize and improve the authorizations and means for furnishing such credit and credit for housing in rural areas made available through the institutions constituting the Farm Credit System."* Consequently, the Associations are structured as cooperatives, and each Association is owned by its borrowers. AgFirst also operates as a cooperative. The District Associations jointly own all of AgFirst's voting stock. As such, the benefits of ownership flow to the same farmer/rancher-borrowers that the System was created to serve. Additional information related to the District's structure is discussed in Note 1, *Organization and Operations,* in the Notes to the Combined Financial Statements in this Annual Report to shareholders.

As of December 31, 2012, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as Agricultural Credit Association (ACA) holding companies, with Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries. PCAs originate and service short- and intermediate-term loans; FLCAs originate and service long-term real estate mortgage loans; and ACAs originate both long-term and short- and intermediate-term loans. See Note 23, *District Merger Activity*, to the Notes to the Combined Financial Statements for a discussion of recent District Associations' merger activity.

AgFirst provides funding and related services to the District Associations, which, in turn, provide loans and related services to agricultural and rural borrowers. AgFirst has in place with each of the District Associations, a revolving line of credit, referred to as a "Direct Note." Each Association primarily funds its lending and general corporate activities by borrowing through its Direct Note. All assets of the Associations secure the Direct Notes. Lending terms are specified in a separate General Financing Agreement (GFA) between AgFirst and each Association, including the subsidiaries of the Associations.

AgFirst and the Associations are chartered to serve eligible borrowers in Alabama, Delaware, Florida, Georgia, Maryland, Mississippi, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia, Puerto Rico, and portions of Kentucky, Louisiana, Ohio, and Tennessee. As of December 31, 2012, two other Farm Credit Banks (FCBs) and an Agricultural Credit Bank (ACB), through a number of associations, provided loans and related services to eligible borrowers in the remaining portion of the United States. While owned by its related associations, each FCB manages and controls its own business activities and operations. The ACB is owned by its related associations as well as other agricultural and rural institutions, including agricultural cooperatives. Associations are not commonly owned or controlled and each manages and controls its own business activities and operations. Nevertheless, each FCB and its related associations operate in such an interdependent manner that the financial results of each bank are generally viewed on a combined basis with its related associations.

While combined District statements reflect the financial and operational interdependence of AgFirst and its Associations, AgFirst does not own or control the Associations and has limited access to Association capital. Therefore, Bank-only financial information (e.g. not combined with the Associations) has been set forth in Note 22, *Bank Only Financial Data,* in the Notes to the Combined Financial Statements for the purposes of additional analysis. In addition, AgFirst publishes a Bank-only financial report (electronic version of which is available on AgFirst's website at **www.agfirst.com**) that may be referred to for a more complete analysis of AgFirst's financial condition and results of operations.

FORWARD-LOOKING INFORMATION

Certain sections of this Annual Report contain forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from the District's expectations and predictions due to a number of risks and uncertainties, many of which are beyond the District's control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial markets, and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural infrastructure, international, and farm-related business sectors, as well as in the general economy;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income of District borrowers;
- changes in United States government support of the agricultural industry and the System as a GSE, as well as investor and rating agency reactions to events involving other GSEs and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary and fiscal policy, as well as other policies and actions of the federal government that impact the financial services industry and the debt markets.

AGRICULTURAL OUTLOOK

The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of AgFirst's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to conditions in the AgFirst District.

The February 2013 USDA forecast estimates 2012 farmers' net cash income, which is a measure of the cash income after payment of business expenses, at $135.6 billion, up $900 million from 2011 and up $51.8 billion from its 10-year average of $83.8 billion. The improvement in net cash income in 2012 was primarily due to increases in crop receipts of $11.3 billion, livestock receipts of $5.7 billion, and farm-related income of $5.2 billion, principally offset by a $21.7 billion increase in cash expenses.

The February 2013 USDA forecast for the farm economy, as a whole, forecasts 2013 farmers' net cash income to decrease to $123.5 billion, a $12.1 billion decrease from 2012, but $39.7 billion above the 10-year average. The forecasted decrease in farmers' net cash income for 2013 is primarily due to an expected increase in cash expenses of $18.8 billion.

For 2013, the USDA projects crop receipts will decrease, which would be the first decline since 2009. Crop yields, especially for corn, are anticipated to return to more normal levels as U.S. farmers recover from the 2012 drought. As a result, corn inventory is forecasted to grow significantly, putting downward pressure on prices. Livestock receipts are predicted to increase in 2013 primarily due to price increases.

The following table sets forth the commodity prices per bushel for certain crops and by hundredweight for beef cattle from December 31, 2009 to December 31, 2012:

Commodity	**12/31/12**	**12/31/11**	**12/31/10**	**12/31/09**
Corn	$6.87	$5.86	$4.82	$3.60
Soybeans	$14.30	$11.50	$11.60	$9.80
Wheat	$8.29	$7.19	$6.45	$4.87
Beef Cattle	$124.00	$120.00	$98.10	$78.50

The USDA's income outlook varies depending on farm size and commodity specialties. The USDA classifies all farms into three primary categories: commercial farms, intermediate farms and rural residential farms. Commercial farms (with more than $250 thousand in gross sales), represent about 10 percent of U.S. farms by number but represent over 80 percent of total U.S. farm production. Intermediate farms (where the primary occupation is farming and gross sales are between $10 thousand and $250 thousand) represent about 30 percent of U.S. farms by number and account for 18 percent of total production. About 60 percent of U.S. farms are classified as rural residential farms where the primary occupation is not farming and the farms produce less than $10 thousand in sales and only account for 2 percent of total production.

In addition to farmers' net cash income, off-farm income is an important source of funds for the repayment of farm debt obligations and is less subject to cycles in agriculture, but is more subject to general U.S. economic conditions. The USDA measures farm household income, which is defined as earnings from farming activities plus off-farm income. All farm household income for operators of rural residential farms and approximately 90 percent of farm household income for intermediate farms is generated from off-farm sources. Further, USDA data suggests that approximately 24 percent of farm household income for commercial farms is generated from off-farm income.

According to the USDA February 2013 forecast, the values of farm sector assets and farm debt are forecasted to rise in 2013. Farm sector assets are expected to rise from $2.54 trillion for 2012 to $2.73 trillion in 2013 (a 7.5 percent increase) primarily due to an increase in the value of farm real estate. The values of crops stored, machinery/equipment, purchased inputs and financial assets are expected to rise modestly in 2013. Despite the 2011 and 2012 droughts in various parts of the U.S., farmland values are expected to continue to rise, given the continued strength of commodity prices, low interest rates, and expectations of continued favorable net returns. Farm business equity (assets minus debt) is expected to rise from $2.27 trillion in 2012 to $2.46 trillion in 2013 (an 8.4 percent increase).

One measure of the financial health of the agricultural sector used by the USDA is farmers' utilization of their capacity to repay debt (actual debt as a percentage of maximum debt that can be supported by farmers' current income). Higher capacity utilization rates indicate tighter cash flow positions and, consequently, higher exposure to financial risk, while lower rates indicate healthier cash flow and financial positions. However, these estimates do not take into account off-farm income sources. Since 1970, debt repayment capacity utilization has ranged from a low of 37 percent in 1973 to a high of 110 percent in 1981, and has remained relatively stable since 1987, averaging about 50 percent. The forecast for 2013 predicts farmers' utilization to increase to approximately 41 percent.

As estimated by the USDA in February 2013, the System's market share of farm business debt (defined as debt incurred by those involved in on-farm agricultural production) grew to 42.8 percent at December 31, 2011 (the latest available data), as compared with 41.4 percent at December 31, 2010. Overall, farm sector debt is estimated to increase from $268.9 billion in 2012 to $277.4 billion in 2013.

In general, agriculture has experienced a sustained period of favorable economic conditions due to stronger commodity prices, higher farm land values, and, to a lesser extent, government support programs. AgFirst's financial results remain favorable as a result of these agricultural economic conditions. Production agriculture; however, remains a cyclical business that is heavily influenced by commodity prices. In an environment of less favorable economic conditions in agriculture and without sufficient government support programs, AgFirst's financial performance and credit quality measures would likely be negatively impacted. Conditions in the general economy remain more volatile given the state of the global economy. Certain agriculture sectors, as described more fully in this *Management's Discussion and Analysis*, recently have experienced significant financial stress and could continue to experience financial stress in 2013. Any negative impact from these less favorable conditions should be lessened by geographic and commodity diversification and the influence of off-farm income sources supporting agricultural-related debt. However, agricultural borrowers who are more reliant on off-farm income sources may be adversely impacted by the continuing weak general economy.

SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Consideration of the District's significant accounting policies is critical to the understanding of the District's results of operations and financial position because some accounting policies require complex or subjective judgments and estimates that may affect the value of certain assets or liabilities as well as the recognition of certain income and expense items. In many instances, management has to make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Combined Financial Statements. The following is a summary of certain critical accounting policies:

- *Allowance for loan losses* — The allowance for loan losses is management's best estimate of the amount of probable losses existing in and inherent in the District's 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.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses attributable to these loans is established by a process that estimates the probable loss inherent in the loans, taking into account various historical and current factors, internal risk ratings, regulatory oversight, and geographic, industry, and other factors.

  In addition to the allowance for loan losses attributable to specific loans, the District may also establish a general allowance for loan losses based on management's assessment of risk inherent in the loans in the District's portfolio that were not specifically evaluated. In establishing general reserves, factors affecting certain commodity types or industries may be taken into consideration, as well as other factors previously discussed. Certain loan pools purchased by the Bank from various Associations are analyzed in accordance with the selling Associations' allowance methodologies for assigning general and specific allowances. Allowances are established on these pools based on that analysis after Bank management's determination that the methodologies employed are appropriate.

Assessing the appropriateness of the allowance for loan losses is a dynamic process. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the level of the allowance for loan losses and have a direct impact on the provision for loan losses and the results of operations.

The overall adequacy of the allowance for loan losses is validated further through periodic evaluations of the loan portfolio, which generally consider historical charge-off experiences adjusted for relevant factors. These factors include types of loans, credit quality, specific industry conditions, collateral value, general economic and political conditions, and changes in the character, composition, and performance of the portfolio, among other factors.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable active market exists. Management utilizes third party valuation services to obtain fair value prices for the majority of the District's investment securities. Management also utilizes significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, pension and other postretirement benefit obligations, certain derivatives, certain investment securities and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on the District's results of operations.

- *Pensions* — The Bank and its related Associations participate in defined benefit retirement plans. These plans are noncontributory and benefits are based on salary and years of service. The Bank and its related Associations also participate in defined contribution retirement savings plans. Pension expense for all plans is recorded as part of salaries and employee benefits. Pension expense for the defined benefit retirement plans is determined by actuarial valuations based on certain assumptions, including the expected long-term rate of return on plan assets and a discount rate. The expected return on plan assets for the year is calculated based on the composition of assets at the beginning of the year and the expected long-term rate of return on that portfolio of assets. The discount rate is used to determine the present value of future benefit obligations. The discount rate for 2012 was selected by reference to analysis and yield curves developed by the plans' actuary and industry norms. The yield curve selected follows the accounting guidance that the basis for discount rates should be higher-quality zero-coupon bonds with durations that match the expected cash flows of the plans that underlie the obligation.

LOAN PORTFOLIO

The District's aggregate loan portfolio consists primarily of loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by type for each of the past three years at December 31 is illustrated in the following table:

Loan Types *(dollars in thousands)*	2012		2011		2010	
Real Estate Mortgage	$ 9,921,750	43%	$ 9,756,036	43%	$ 9,986,760	43%
Production and Intermediate-Term	7,760,377	34	7,924,627	36	8,105,060	35
Rural Residential Real Estate	2,634,609	12	2,470,742	11	2,258,480	10
Agribusiness						
Loans to Cooperatives	235,703	1	256,981	1	304,161	1
Processing and Marketing	1,053,247	5	1,115,490	5	1,355,811	6
Farm-Related Business	354,039	2	348,797	2	342,984	2
Total Agribusiness	1,642,989	8	1,721,268	8	2,002,956	9
Energy	497,050	2	280,700	1	342,614	2
Communication	319,320	1	213,501	1	200,578	1
Water and Waste Disposal	28,020	–	28,022	–	28,024	–
Loans to OFIs	60,479	–	5,250	–	5,000	–
Lease Receivables	2,880	–	2,986	–	10,697	–
Other (including Mission Related)	61,731	–	78,373	–	92,724	–
Total	$ 22,929,205	100%	$ 22,481,505	100%	$ 23,032,893	100%

Total loans outstanding were $22.929 billion at December 31, 2012, an increase of $447.7 million, or 1.99 percent, compared to total loans outstanding at December 31, 2011. Loans outstanding at the end of 2011 had decreased $551.4 million, or 2.39 percent, compared to December 31, 2010.

Loan volume has been impacted by a number of factors, including the slow recovery of the general economy and the impact of high feed cost in the meat complex. As a result, some customers in the timber and meat sectors have reduced production and taken a deliberate approach to expansion in order to preserve working capital. Relatively high unemployment and uncertainty of existing employment has decreased loan demand from borrowers dependent on non-farm income. Improved liquidity positions for grain farmers resulting from increased profitability have reduced their demand for credit. Drought conditions were prevalent in the Midwest during the summer of 2012 and resulted in higher grain prices which benefited those producers with grain to sell. Producers negatively impacted by the drought were compensated through crop insurance for lost production.

The resolution of adversely classified loans has impacted loan volume as loans are charged down to their fair values when transitioned to nonaccrual status, liquidated through voluntary or foreclosure sales, or moved to other property owned. Management also targeted decreases for certain high risk loan portfolio sectors. These factors also contributed to the minimal loan growth during 2012 for the District. Future loan demand is very difficult to predict; however, it is expected to remain weak through 2013.

Loan portfolio credit quality at the producer level reflected minor improvement with the exception of parts of Florida. These exceptions were principally the result of concentrations in landscape/tree nurseries and land in transition. Most distressed property sales are occurring at or near appraised values, indicating that values have stabilized. Production farm land maintained its value throughout the financial downturn. Other major segments of the District loan portfolio continued to perform well, including sugar, citrus, and row crops. High commodity prices for grains were very beneficial to row crop farmers.

Each loan in the District's portfolio is classified according to a Uniform Classification System, which is used by all System institutions. Below are the classification definitions.

- *Acceptable* – Assets are expected to be fully collectible and represent the highest quality.
- *Other Assets Especially Mentioned (OAEM)* – Assets are currently collectible but exhibit some potential weakness.
- *Substandard* – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- *Doubtful* – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- *Loss* – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of District loans including accrued interest at December 31:

Credit Quality	2012	2011	2010
Acceptable	90.19%	88.50%	86.87%
OAEM	4.07	5.66	6.65
Adverse*	5.74	5.84	6.48
Total	100.00%	100.00%	100.00%

* *Adverse loans include substandard, doubtful, and loss loans.*

Delinquencies (loans 90 days or more past due) were 1.46 percent of total loan assets at year-end 2012 compared to 1.85 percent and 2.05 percent at year-end 2011 and 2010, respectively.

Nonperforming assets for the District represented 3.44 percent of total loan assets or $797.9 million, compared to 4.08 percent or $931.8 million for 2011, and 4.30 percent or $1.003 billion for 2010. Nonperforming assets consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due, and other property owned.

District net loan charge-offs of $58.1 million, $207.1 million and $151.0 million were recognized in 2012, 2011 and 2010, respectively. As a percentage of total average loans, net charge-offs for the District were 0.26 percent for 2012, compared to 0.91 percent and 0.66 percent in 2011 and 2010, respectively. The Bank and each Association maintains an allowance for loan losses, determined by its management based upon its unique situation.

The District employs a number of risk management techniques to limit credit exposures. The District has adopted underwriting standards, individual borrower exposure limits, commodity exposure limits, and other risk management techniques. AgFirst and the Associations actively purchase and sell loan participations to enhance the diversification of their portfolios. The District utilizes guarantees from U.S. government agencies/departments, including the Federal Agricultural Mortgage Corporation (Farmer Mac), the Farm Service Agency, and the Small Business Administration to further limit credit exposures. At December 31, 2012, the District collectively had $3.873 billion under such government or GSE guarantee programs, compared to $3.757 billion and $3.347 billion, at December 31, 2011 and 2010, respectively.

Continued weakness in the general economy and certain agricultural sectors will have an impact on credit quality for some time. Improvement is dependent on general economic conditions, such as employment levels and housing market activity, the outlook for which is slightly more optimistic than one year ago. The uncertainty surrounding the nation's deficit is a concern for economic expansion.

The Associations serve primarily all or a portion of fifteen states and Puerto Rico. Additionally, AgFirst and the Associations actively purchase and sell loans and loan participations with non-District institutions. The resulting geographic diversity is a natural credit risk-reducing factor. The following table illustrates the geographic distribution of the District's loan volume outstanding by state for the past three years at December 31:

District Loan Volume by State

State	2012	2011	2010
North Carolina	16%	16%	15%
Georgia	11	12	12
Virginia	10	10	10
Florida	9	11	12
Pennsylvania	9	9	9
Ohio	7	6	6
Maryland	6	6	6
South Carolina	5	5	5
Alabama	3	3	3
Kentucky	3	3	3
Mississippi	2	3	2
Delaware	2	2	2
West Virginia	2	2	2
Louisiana	2	2	2
Tennessee	1	1	2
Texas	1	1	2
Missouri	1	1	1
California	1	1	1
Puerto Rico	1	1	1
Minnesota	1	1	1
New York	1	1	1
Colorado	1	1	1
Illinois	1	1	–
Connecticut	1	–	–
Arkansas	1	–	–
Other	2	1	1
Total	100%	100%	100%

Only three states have loan volume representing 10.00 percent or more of the total. Commodity diversification, guarantees, and borrowers with significant reliance on non-farm income further mitigate the geographic concentration risk in these states.

The diversity of commodity types and income sources supporting loan repayment further mitigates credit risk to the District. The District's credit portfolios are comprised of a number of segments having varying, and in some cases complementary, agricultural characteristics. Commodity and industry categories are based on the Standard Industrial Classification system published by the federal government. This system is used to assign commodity or industry categories based on the largest agricultural commodity of the customer. The following table illustrates the aggregate credit portfolio of the District by major commodity segments at December 31:

	Percent of Portfolio		
Commodity Group	**2012**	**2011**	**2010**
Rural Home	12%	12%	10%
Forestry	11	12	13
Poultry	11	11	10
Fruits and Vegetables	8	9	9
Cattle	7	7	7
Dairy	5	5	5
Grain	5	5	5
Other Real Estate	4	5	6
Nursery/Greenhouse	4	4	4
Corn	4	4	3
Swine	3	3	3
Cotton	3	2	2
Processing	3	4	4
Lumber	3	2	2
Tobacco	2	2	2
Citrus	2	2	2
Other	13	11	13
Total	100%	100%	100%

As illustrated in the above chart, the District had concentrations of 5.00 percent or greater in only seven commodities: rural home, forestry, poultry, fruits and vegetables, cattle, dairy, and grain. All seven commodities have geographic dispersion over the entire AgFirst footprint. Also, many of these producers have significant secondary income from off-farm employment by a family member.

Concentrations within the District are further limited through the number of farm units producing poultry or dairy products. Poultry concentration is further dispersed as production is segregated among chicken, turkey, and egg production. Dairy herds range in size from less than one hundred cows to approximately ten thousand.

Forestry is divided principally into hardwood and softwood production and value-added processing. The timber from hardwood production is further processed into furniture, flooring, and high-grade paper and is generally located at the more northern latitudes and higher elevations of the District. Softwood timber production is typically located in the coastal plains of the AgFirst footprint and is used for building materials for the housing market and pulp to make paper and hygiene products. Timber producers at the Associations range in size from less than fifty acres to thousands of acres, with value-added processing being conducted at sawmills planer mills, and paper mills.

The fruits and vegetables commodity group represents a diverse group of many different fruits and vegetables that are grown throughout the AgFirst District. Although cattle represents 7 percent of the District portfolio, these producers typically have other farm and non-farm income. Grain is grown throughout the District with only two Associations having a material exposure.

The District's rural home loans consist primarily of first lien residential mortgages purchased by the Bank's Correspondent Lending Unit. Essentially all of these loans are guaranteed by the Federal National Mortgage Association (Fannie Mae) and/or Farmer Mac, thereby limiting credit risk to AgFirst. The guarantees are in the form of Long-Term Standby Commitments to Purchase, which give AgFirst the right to deliver delinquent loans to the guarantor at par.

MISSION RELATED INVESTMENTS

The FCA initiated a program in 2005 to allow System institutions to make and hold investments that stimulate economic growth and development in rural areas. The investments are subject to approval by the FCA on a case-by-case basis. FCA approved the Rural Housing Mortgage-Backed Securities pilot program and the Rural America Bonds pilot program as described below. The FCA also approved System participation in the Tobacco Buyout Program as described below.

Rural Housing Mortgage-Backed Securities

Rural Housing Mortgage-Backed Securities (RHMS) must be fully guaranteed by a government agency or GSE. The rural housing loans backing the RHMS must be conforming first-lien residential mortgage loans originated by non-System lenders in "rural areas" as defined by the Farm Security and Rural Investment Act of 2002, or eligible rural housing loans originated by System lenders under FCA regulations. Investment securities at December 31, 2012 included $435.5 million in RHMS classified as held-to-maturity, compared to $683.1 million at December 31, 2011 and $902.6 million at December 31, 2010. In November 2009, the FCA approved a continuation of the RHMS program through December 31, 2014.

Rural America Bonds

In October 2005, the FCA approved the Rural America Bonds investment program for a three-year pilot period and in October 2008 approved a continuation of the program for an as yet undetermined time period. In recognition of the economic interdependence between agricultural and rural communities, AgFirst and the Associations seek to safely and soundly invest in debt obligations that support farmers, ranchers, agribusinesses, and their rural communities and businesses. In doing so, AgFirst and the Associations hope to increase the well-being and prosperity of American farmers, ranchers, and rural residents. As of December 31, 2012, the District had $292.4 million in the Rural America Bond program, compared to $319.0 million at December 31, 2011. Of the $292.4 million, the District had $242.7 million reflected in investment securities and $49.7 million reflected as loans on the Combined Balance Sheets at December 31, 2012. In order to purchase additional investments under this program, AgFirst must maintain a minimum net collateral ratio of 105.00 percent and AgFirst or the Association must maintain a minimum total surplus ratio of 9.00 percent.

Tobacco Buyout Program

On October 22, 2005, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2005" (Tobacco Act) as part of the "American Jobs Creation Act of 2005." The Tobacco Act repealed the federal tobacco price support and quota programs, provided for payments to tobacco "quota owners" and producers for the elimination of the quota, and provided an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2006, the United States Department of Agriculture (USDA) issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and were therefore eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout had significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal was to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities.

As of December 31, 2012, District Associations held Tobacco Buyout loan assignments of $27.8 million, which are reflected as loans on the Combined Balance Sheets, compared to $41.3 million at December 31, 2011. The District Associations also hold Successor-in-Interest Contracts (SIIC) which totaled $163.2 million, and were reflected as other investments on the Combined Balance Sheets at December 31, 2012, compared to $238.6 million at December 31, 2011.

FARMER MAC

At December 31, 2012, the District owned $865 thousand of class B voting restricted common stock, $391 thousand of class C non-voting unrestricted stock, and $6.5 million of Farmer Mac MBS investment securities. AgFirst had $90.0 million of loans guaranteed by Farmer Mac and the District Associations had $355.4 million of loans guaranteed by Farmer Mac at December 31, 2012.

RISK MANAGEMENT

Overview

The District is in the business of making agricultural and other loans that requires accepting certain risks in exchange for compensation for the risks undertaken. Proper management of the risks inherent in the District's business is essential for current and long-term financial performance. The objectives of risk management are to identify and assess risks, and to properly and effectively mitigate, measure, price, monitor, and report risks in the District's business activities.

Types of risks to which the District has exposure include:

- *structural risk* — risk inherent in the business and related to the System structures comprised of interdependent networks of cooperative lending institutions,
- *credit risk* — risk of loss arising from an obligor's failure to meet the terms of its contract or failure to perform as agreed,

- *interest rate risk* — risk that changes in interest rates may adversely affect the District's operating results and financial condition,
- *liquidity risk* — risk of loss arising from the inability to meet obligations when they come due,
- *operational and reputational risk*— risk of loss resulting from inadequate or failed internal processes or systems, errors by employees or external events, and
- *political risk* — risk of loss of support for the System and agriculture by federal and state governments.

Structural Risk Management

Structural risk results from the fact that AgFirst, along with its related Associations, is part of the System, which is comprised of banks and associations that are cooperatively owned, directly or indirectly, by their borrowers. Because System institutions are financially and operationally interdependent, this structure at times requires action by consensus or contractual agreement. The Federal Farm Credit Banks Funding Corporation (Funding Corporation) provides for the issuance, marketing, and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The System banks fund association loans with Systemwide debt. Refer to Note 9, *Bonds and Notes*, in the Notes to the Combined Financial Statements for further discussion. The banks are jointly and severally liable for the repayment of Systemwide Debt Securities, exposing each bank to the risk of default of the others. Although capital at the association level reduces the banks' credit exposures with respect to their related associations, that capital may not be available to support the payment of principal and interest on Systemwide Debt Securities.

In order to mitigate this risk, the System utilizes two integrated contractual agreements executed by and among the banks— the Amended and Restated Contractual Interbank Performance Agreement (CIPA) and the Second Amended and Restated Market Access Agreement (MAA). Under provisions of the CIPA, a score is calculated that measures the financial condition and performance of each district using various ratios that take into account each district's and bank's capital, asset quality, earnings, interest-rate risk, and liquidity. Based on these measures, the CIPA establishes an agreed-upon standard of financial condition and performance that each district must achieve and maintain. The CIPA also establishes monetary penalties if the performance standard is not met. These penalties will occur at the same point at which a bank would be required to provide additional monitoring information under the MAA.

The MAA establishes criteria and procedures for the banks that provide operational oversight and control over a bank's access to System funding if the creditworthiness of the bank declines below certain agreed-upon levels. The MAA provides for the identification and resolution of individual bank financial problems in a timely manner and discharges the Funding Corporation's statutory responsibility for determining conditions for each bank's participation in each issuance of Systemwide Debt Securities.

Credit Risk Management

Credit risk arises from the potential inability of an obligor to meet its repayment obligation and exists in outstanding loans, letters of credit, unfunded loan commitments, the investment portfolio and derivative counterparty credit exposures. The District manages credit risk associated with lending activities through an assessment of the credit risk profile of individual obligors. The Associations set underwriting standards and lending policies consistent with FCA regulations and Bank underwriting standards, which provide direction to loan officers and are approved by the respective boards of directors.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional loan rating structure, incorporating a 14-point risk-rating scale to identify and track a borrower's probability of default and a separate scale addressing loss given default. The loan rating structure reflects estimates of loss through two components, borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

Through their participation in loans or interests in loans to/from other institutions within the System and outside the System, the Bank and District Associations limit their exposure to both borrower and commodity concentrations. This also allows the Bank and District Associations to manage growth and capital, and to improve geographic diversification. Concentration risk is reviewed and measured by industry, product, geography and customer limits.

Although neither the Bank nor any other System institution receives any direct government support, credit quality is indirectly enhanced by government support in the form of program payments to borrowers, which improve their ability to honor their commitments. However, due to the geographic location of the District and the resulting types of agriculture, government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

The District's loan portfolio is divided into performing and high-risk categories. Although high risk assets remain elevated compared to historical levels, as a result of the credit risk management process, the District's high-risk assets have declined in 2012 and 2011 and continue to be a small percentage of the total loan volume and total assets. High-risk assets, including accrued interest, at December 31 are detailed in the following table:

(dollars in thousands)	2012	2011	2010
High-risk Assets			
Nonaccrual loans	$ 580,908	$ 666,709	$ 795,076
Restructured loans	103,267	99,343	49,231
Accruing loans 90 days past due	3,725	7,556	12,716
Total high-risk loans	687,900	773,608	857,023
Other property owned	109,997	158,144	146,416
Total high-risk assets	$ 797,897	$ 931,752	$ 1,003,439
Ratios			
Nonaccrual loans to total loans	2.53%	2.97%	3.45%
High-risk assets to total assets	2.49%	2.87%	2.99%

Nonaccrual Loans

Nonaccrual loans represent all loans for which there is a reasonable doubt as to the collection of principal and/or interest under the contractual terms of the loan. Nonaccrual loans for the combined District at December 31, 2012, were $580.9 million compared to $666.7 million at December 31, 2011. Nonaccrual loans decreased $85.8 million during the twelve month period ended December 31, 2012 primarily due to repayments of $300.6 million, $88.1 million of charge-offs of uncollectible balances, transfers to other property owned of $76.0 million, and reinstatements to accrual status of $24.2 million. Offsetting these decreases were $331.0 million of loan balances transferred to nonaccrual status, advances of $34.8 million, and recoveries of charge-offs of $26.3 million. The ten largest nonaccrual borrower relationships accounted for 23.60 percent of the total nonaccrual balance. At December 31, 2012, total nonaccrual loans were primarily in the forestry (20.58 percent of the total), nursery/greenhouse (20.46 percent), poultry (7.82 percent), other real estate (7.41 percent), fruits and vegetables (6.58 percent), and cattle (5.92 percent) segments. The repayment of a number of these nonaccrual loans was dependent on the sale of real estate collateral, the value of which has been negatively impacted by the current economic environment as discussed previously. Nonaccrual loans were 2.53 percent of total loans outstanding at December 31, 2012.

Troubled Debt Restructurings

A troubled debt restructuring (TDR) occurs when a borrower is experiencing financial difficulties and a concession is granted to the borrower that the Bank and District Associations would not otherwise consider. Concessions are granted to borrowers based on either an assessment of the borrower's ability to return to financial viability or a court order. The concessions can be in the form of a modification of terms, rates, or amounts owed. Acceptance of other assets and/or equity as payment may also be considered a concession. The type of alternative financing granted is chosen in order to minimize the loss incurred by the Bank and District Associations. TDRs totaled $277.3 million at December 31, 2012, compared to $267.8 million at December 31, 2011. At December 31, 2012, TDRs were comprised of $103.3 million of accruing restructured loans and $174.0 million of nonaccruing restructured loans. Restructured loans were primarily in the forestry (24.60 percent of the total), nursery/greenhouse (13.85 percent), fruits and vegetables (9.03 percent), and poultry (7.47 percent) segments.

Other Property Owned

Other property owned (OPO) consists of assets once pledged as loan collateral that were acquired through foreclosure or deeded to the Bank and District Associations (or a lender group) in satisfaction of secured loans. OPO may be comprised of real estate, equipment, and equity interests in companies or partnerships. OPO decreased $48.1 million during 2012 to $110.0 million at December 31, 2012. For the twelve months ended December 31, 2012, property received in settlement of loans totaled $80.7 million. Offsetting this increase were disposals of $95.9 million and write-downs of OPO of $33.0 million. Disposals primarily included land holdings, with the two largest property disposals totaling $17.5 million. The largest property write-downs were two land holdings and an ethanol plant totaling $10.4 million. At December 31, 2012, the largest OPO holding was an ethanol facility totaling $16.3 million (14.78 percent of the total). See discussion of OPO expense in the *Noninterest Income* section below.

Interest Rate Risk Management

The objective of interest rate risk management is to generate a reliable level of net interest income in any interest rate environment. AgFirst uses a variety of analytical techniques to manage the complexities associated with offering numerous loan options. Interest rate sensitivity gap analysis is used to monitor the repricing characteristics of the District's interest-earning assets and interest-bearing liabilities. Simulation analysis is used to determine the potential change in net interest income and in the market value of equity under various possible future market interest rate environments.

The District adheres to a philosophy that loans should be priced competitively in the market and that loan rates and spreads should be contractually established at loan closing such that a borrower is not subject to rate changes at the discretion of management or boards of directors. Therefore, District Association variable rate and adjustable rate loans are generally indexed to market rates, and fixed rate loans are priced based on market rates. Loan products offered by the Associations include: prime-indexed variable rate loans, LIBOR-indexed variable rate loans, one-, three-, and five-year Treasury-indexed adjustable rate loans, and fixed rate loans. Variable rate and adjustable rate loans are offered with or without caps. Terms are available for up to 30 years. A variety of repayment options are offered, with the ability to pay on a monthly, quarterly, semi-annual or annual frequency. In addition, customized repayment schedules may be negotiated to fit a borrower's unique circumstances.

The following tables represent the District's projected change in net interest income and market value of equity for various rate movements as of December 31, 2012:

Net Interest Income
(dollars in thousands)

Scenarios	Net Interest Income	% Change
+4.0% Shock	$1,112,650	13.08%
+2.0% Shock	$1,082,989	10.07%
Base line	$983,932	–%
-50% of 3M Tbill **	$983,185	(0.08)%

Market Value of Equity
(dollars in thousands)

Scenarios	Assets	Liabilities*	Equity	% Change
Book Value	$32,099,145	$27,486,576	$4,612,569	– %
+4.0% Shock	$30,231,528	$25,684,675	$4,546,853	(8.15) %
+2.0% Shock	$31,642,340	$26,710,998	$4,931,342	(0.39) %
Base line	$32,780,163	$27,829,634	$4,950,529	– %
-50% of 3M Tbill **	$32,790,625	$27,842,952	$4,947,673	(0.06) %

* *For interest rate risk management, the $275.3 million perpetual preferred stock is included in liabilities rather than equity.*
** *When the three-month Treasury bill interest rate is less than 4 percent, both the minus 200 and minus 400 basis point shocks are replaced with a downward shock equal to one-half of the three-month Treasury bill rate.*

The following table sets forth the repricing characteristics of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2012. The amount of assets and liabilities shown in the table, which reprice or mature during a particular period, were determined in accordance with the earlier of term-to-repricing or contractual maturity, anticipated prepayments, and, in the case of liabilities, the exercise of call options.

	Repricing/Maturity Gap Analysis				
(dollars in thousands)	**0 to 6 months**	**6 months to 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
Floating Rate Loans					
Adjustable/Indexed Loans	$ 5,393,270	$ 28,338	$ 38,370	$ 1,170	$ 5,461,148
Fixed Rate Loans					
Fixed Rate Loans	55,316	30,014	108,920	26,481	220,731
Fixed Rate Prepayable	6,613,904	3,401,767	5,216,036	2,015,619	17,247,326
Total Loans	12,062,490	3,460,119	5,363,326	2,043,270	22,929,205
Total Investments *	3,534,055	944,979	2,963,487	356,484	7,799,005
Other Earning Assets	81,589	–	81,589	–	163,178
TOTAL INTEREST EARNING ASSETS	**$ 15,678,134**	**$ 4,405,098**	**$ 8,408,402**	**$ 2,399,754**	**$ 30,891,388**
Interest-Bearing Liabilities					
Systemwide bonds and notes	$ 9,523,749	$ 5,311,675	$ 11,182,793	$ 268,541	$ 26,286,758
Other interest-bearing liabilities	211,259	–	–	–	211,259
Interest rate swaps	310,000	(60,000)	(250,000)	–	–
TOTAL INTEREST-BEARING LIABILITIES	**$ 10,045,008**	**$ 5,251,675**	**$ 10,932,793**	**$ 268,541**	**$ 26,498,017**
Interest Rate Sensitivity Gap	**$ 5,633,126**	**$ (846,577)**	**$ (2,524,391)**	**$ 2,131,213**	
Sensitivity Gap as a % of Total Earning Assets	18.24%	(2.74)%	(8.17)%	6.90%	
Cumulative Gap	$ 5,633,126	$ 4,786,549	$ 2,262,158	$ 4,393,371	
Cumulative Gap as a % of Total Earning Assets	18.24%	15.49%	7.32%	14.22%	
Rate Sensitive Assets/Rate Sensitive Liabilities	1.56	0.84	0.77	8.94	

** includes cash equivalents*

At December 31, 2012, the Repricing/Maturity Gap showed the Bank with a cumulative asset sensitive position out to one year as repricing/maturing assets exceeded liabilities that mature or reprice during that time period. Asset sensitivity implies an increase in net interest income in rising interest rate scenarios and lower net interest income in falling interest rate scenarios. However, the Repricing/Maturity Gap Analysis is a "point in time" view and is representative of the interest rate environment at December 31, 2012. The Repricing/Maturity Gap Analysis must be used with other analysis methods as the maturity and repricing attributes of balance sheet accounts react differently in changing interest rate environments. During a period of rising interest rates, call options on fixed rate debt are not exercised and the debt terms extend to reflect the longer original maturity dates. Prepayment optionality on fixed rate assets also slows as the economic incentive for borrowers to refinance decreases and extends the asset's term. To supplement the Repricing Maturity Gap Analysis the Bank utilizes financial simulation modeling. The results of simulation analyses on the Bank balance sheet also reflect asset-sensitive positions in scenarios with higher interest rates. In a falling interest rate scenario, the balance sheet maturity/repricing position is relatively neutral. However, it should be noted that the low level of interest rates limits the falling interest rate scenario to a minimal change for the down interest rate shock.

At December 31, 2012, AgFirst had outstanding interest rate swaps with notional amounts totaling $360.0 million. All of these derivative transactions were executed to create synthetic floating-rate debt to achieve a lower cost of funding. The Bank may also use derivatives for asset/liability management purposes to reduce interest rate risk.

From time to time, the District may acquire when-issued securities, generally Agency guaranteed securities. The when-issued transactions are contracts to purchase securities that will not be delivered until 30, or more, days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Any difference in market value of the contracted securities, between the purchase and settlement date, represents the value of the forward contracts. These amounts are included in Other Comprehensive Income (OCI), and Other Liabilities or Other Assets as appropriate, as firm commitments in the District's Balance Sheet for each period end. At December 31, 2012, the District had not committed to purchase any when-issued bonds. At December 31, 2011, the District had committed to purchase $66.4 million in when-issued agency bonds that had a market value of $66.7 million, a $319 thousand increase in value.

AgFirst policy prohibits the use of derivatives for speculative purposes. See Note 18, *Derivative Financial Instruments and Hedging Activities*, in the Notes to the Combined Financial Statements for additional information. The following table shows the activity in derivatives during the year ended December 31, 2012:

Notional amounts *(dollars in millions)*	**Receive Fixed**	**Forward Contracts**
Balance at December 31, 2011	$ 535	$ 66
Additions	–	542
Maturities/amortizations	(175)	(608)
Terminations	–	–
Balance at December 31, 2012	$ 360	$ –

Liquidity Risk Management

AgFirst and the District Associations maintain adequate liquidity to satisfy the District's daily cash needs. Along with normal cash flows associated with lending operations, the District has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and cash and investments, including its available-for-sale portfolio. The Bank also maintains several lines of credit with commercial banks, as well as securities repurchase agreement facilities. Providing liquidity for the District's operations is primarily the responsibility of the Bank.

Cash, Cash Equivalents and Investments

Cash, cash equivalents, and investments outstanding as of December 31, 2012 for the District totaled $8.575 billion compared to $9.296 billion and $9.723 billion at December 31, 2011 and 2010, respectively.

The District's cash, cash equivalents and investment portfolio consisted of the following security types as of December 31:

(dollars in thousands)	Cash, Cash Equivalents and Investment Securities 2012		2011		2010	
Investment Securities						
Available for Sale						
U.S. Govt. GNMA MBS/CMOs	$ 5,000,613	65.37%	$ 5,002,501	62.88%	$ 4,947,011	59.89%
U.S. Govt. Agency MBS	1,644,227	21.49	1,650,829	20.75	1,747,391	21.16
Non-Agency Securities	204,699	2.68	241,756	3.04	295,526	3.58
Asset-Backed Securities	33,390	0.44	30,324	0.38	34,437	0.42
Commercial MBS	–	–	475	0.01	925	0.01
Mission Related Investments	53,491	0.70	54,220	0.68	–	–
Total Available for Sale	$ 6,936,420	90.68	$ 6,980,105	87.74	$ 7,025,290	85.06
Held to Maturity						
Rural Housing MBS	$ 435,534	5.69	$ 683,070	8.59	$ 902,557	10.93
MBS Guaranteed by Farmer Mac	6,497	0.08	8,261	0.10	11,091	0.13
Other Asset-Backed Securities	68,554	0.90	74,777	0.94	82,452	1.00
Mission Related Investments	202,412	2.65	209,340	2.63	238,162	2.88
Total Held to Maturity	712,997	9.32	975,448	12.26	1,234,262	14.94
Total Investment Securities	$ 7,649,417	100.00%	$ 7,955,553	100.00%	$ 8,259,552	100.00%
Cash and Cash Equivalents						
Cash	$ 775,859	83.84%	$ 1,256,345	93.75%	$ 1,402,956	95.85%
Master Notes	–	–	–	–	52,000	3.55
Repos	149,589	16.16	83,822	6.25	8,744	0.60
Total Cash and Cash Equivalents	$ 925,448	100.00%	$ 1,340,167	100.00%	$ 1,463,700	100.00%
Total Investment Securities and Cash and Cash Equivalents	$ 8,574,865		$ 9,295,720		$ 9,723,252	

At December 31, 2012, AgFirst's coverage was 218 days compared to 205 days at December 31, 2011. The Bank's cash and cash equivalents position provided 27 days of the total liquidity coverage. Investment securities fully backed by the U.S. government provided an additional 191 days of liquidity. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

Cash and cash equivalents, which decreased $414.7 million from December 31, 2011 to a total of $925.4 million at December 31, 2012, consist primarily of cash on deposit, but also include money market securities that are short term in nature (from overnight maturities to maturities that range up to 90 days). Money market securities must carry one of the two highest short-term ratings from a rating agency. Cash decreased due primarily to lower liquidity needs for upcoming maturing debt between the periods.

FCA regulations provide that a System bank may hold certain eligible available-for-sale investments in an amount not to exceed 35.00 percent of its total loans outstanding. These investments serve to provide liquidity to the Bank's operations, to manage short-term funds, and to manage interest rate risk. AgFirst maintains an investment portfolio for these purposes comprised primarily of short-duration, high-quality investments. At year-end 2012, the Bank's eligible available-for-sale investments were 34.10 percent of the total loans outstanding.

Investment securities totaled $7.649 billion, or 23.83 percent of total assets at December 31, 2012, compared to $7.956 billion, or 24.47 percent, as of December 31, 2011. Investment securities decreased $306.1 million, or 3.85 percent, compared to December 31, 2011 as management maintained the available-for-sale liquidity investment securities portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines.

Investment securities classified as being available-for-sale totaled $6.936 billion at December 31, 2012. Available-for-sale investments included $5.001 billion in Agency Collateralized Mortgage Obligations (CMOs), $1.644 billion in Agency Adjustable Rate Mortgages, $204.7 million in non-agency CMOs, $33.4 million in asset-backed securities, and $53.5 million in Mission Related Investments. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

For purposes of calculating the risk adjusted assets amount used in the permanent capital, total surplus, and core surplus regulatory ratios, certain ineligible securities are risk weighted between 50 percent and 200 percent, instead of 20 percent which is applicable to eligible non-agency securities, and other securities are deducted completely from the calculation. The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating by the Nationally Recognized Statistical Rating Organizations (NRSROs) and requires System institutions to provide notification to FCA when a security becomes ineligible. Ineligible securities risk weighted between 50 percent and 200 percent had a fair value of $106.0 million and amortized cost of $116.7 million at December 31, 2012. Ineligible securities deducted completely from both capital and risk adjusted assets based on the extent of their below investment grade rating from NRSROs had a fair value of $56.5 million and amortized cost of $67.2 million at December 31, 2012. The fair value and amortized cost of ineligible non-agency reperformer CMO securities covered by Federal Housing Administration insurance and therefore risk weighted at the standard 20 percent, was $67.2 million and $79.7 million, respectively, at December 31, 2012. See the *Regulatory Ratios* section below for further discussion of the regulatory ratios. In addition, all ineligible investments, except non-agency reperformer CMOs which meet certain conditions, are excluded from liquidity coverage as defined above.

Net unrealized gains related to the available-for-sale securities were $180.4 million at December 31, 2012, compared to $139.4 million at December 31, 2011. These net unrealized gains are reflected in Accumulated Other Comprehensive Income (AOCI) in the Financial Statements. The net unrealized gains stem from normal market factors such as the current interest rate environment.

The District also maintains a portfolio of investments that are not held for liquidity purposes and are accounted for as a held-to-maturity portfolio. These investments are authorized by FCA regulations that allow investments in Farmer Mac securities and also in specific investments approved by the FCA as Mission Related Investments. The vast majority of this portfolio is comprised of Mission Related Investments for a program to purchase RHMS, which when combined with eligible rural home loans, must not exceed 15.00 percent of total outstanding loans (see *Mission Related Investments* section above). Investment securities classified as being held-to-maturity totaled $713.0 million at December 31, 2012.

The District performs periodic credit reviews, including other-than-temporary impairment analyses, on its entire investment securities portfolio. Based on the results of all analyses, the District recognized other-than-temporary credit related impairment of $3.9 million on asset-backed securities and non-agency CMOs in its portfolio for the year ended December 31, 2012, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Combined Statements of Income. See Note 3, *Investment Securities*, in the Notes to the Combined Financial Statements for further information.

Systemwide Debt Securities

The U.S. government does not guarantee, directly or indirectly, Systemwide Debt Securities. However, the Farm Credit System, as a GSE, has benefited from broad access to the domestic and global capital markets. This access has provided the System with a dependable source of competitively priced debt which is critical for supporting the System's mission of providing credit to agriculture and rural America. However, concerns regarding the government's borrowing limit and budget imbalances have further highlighted the risks to the System relating to the U.S. fiscal situation. These risks include the implied link between the credit rating of the System and the U.S. government given the System's status as a GSE.

AgFirst's primary source of liquidity comes from its ability to issue Systemwide Debt Securities, which are the general unsecured joint and several obligations of the System banks. AgFirst continually raises funds in the debt markets to support its mission, to repay maturing Systemwide Debt Securities, and to meet other obligations. As a GSE, AgFirst has access to the nation's and world's debt and capital markets.

During the third quarter of 2012, Standard & Poor's Ratings Services, Moody's Investor Service, and Fitch Ratings affirmed their long-term debt rating for the System at AA+, Aaa, and AAA and their short-term debt rating at A-1+, P-1, and F-1, respectively. Their outlook on the long-term debt rating of the System remained negative due to the negative outlook on the long-term rating for the U.S. Any future negative changes to the System's credit ratings and/or outlook could increase borrowing costs and limit access to the debt capital markets. Any future downgrades could also reduce earnings by increasing debt funding costs and have a material adverse effect on liquidity, ability to conduct normal business operations, and the District's overall financial condition and results of operations. However, AgFirst anticipates continued access to funding necessary to support the District's needs.

AgFirst's year-to-date average balance of Systemwide Debt Securities at December 31, 2012, was $26.333 billion. At December 31, 2012, AgFirst had $26.287 billion in total System debt outstanding compared to $27.086 billion at December 31, 2011 and $28.326 billion at December 31, 2010. Systemwide Debt decreased primarily due to the decrease in liquidity investments, as discussed above, which when combined with an increase in retained earnings, reduced funding requirements.

AgFirst's participation in outstanding Systemwide Debt Securities as of December 31, 2012 is shown in the following table:

	Bonds		Discount Notes		Total	
Maturities	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**	**Amortized Cost**	**Weighted Average Interest Rate**
			(dollars in thousands)			
2013	$ 8,633,780	0.37%	$ 1,993,590	0.19%	$ 10,627,370	0.34%
2014	4,814,775	0.45	–	–	4,814,775	0.45
2015	2,804,404	0.69	–	–	2,804,404	0.69
2016	1,922,801	1.09	–	–	1,922,801	1.09
2017	1,960,425	1.09	–	–	1,960,425	1.09
2018 and after	4,156,983	1.85	–	–	4,156,983	1.85
Total	$ 24,293,168	0.79%	$ 1,993,590	0.19%	$ 26,286,758	0.75%

In the preceding table, weighted average interest rates include the effect of related derivative financial instruments.

Refer to Note 9, *Bonds and Notes*, in the Notes to the Combined Financial Statements, for additional information related to debt.

Notes Payable to Other System Banks

In 2008, the Bank sold a total of $200.0 million of participations in its direct note receivable from a District Association to another System Bank. The $200.0 million at December 31, 2012 is included in Bonds and Notes in the Combined Balance Sheets and bears interest at an annual variable rate of one month LIBOR plus 47 basis points with maturity on December 31, 2013.

Operational and Reputational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events, including the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, breaches of the internal control system and the risk of fraud by employees or persons outside the System. AgFirst's and the Associations' boards of directors are required, by regulation, to adopt internal control policies that provide adequate direction to their respective institutions in establishing effective controls over and accountability for operations, programs, and resources. The policies must include, at a minimum, the following items:

- direction to management that assigns responsibility for the internal control function to an officer of the institution,
- adoption of internal audit and control procedures,
- direction for the operation of a program to review and assess an institution's assets,
- adoption of loan, loan-related assets and appraisal review standards, including standards for scope of review selection and standards for work papers and supporting documentation,
- adoption of asset quality classification standards,
- adoption of standards for assessing credit administration, including the appraisal of collateral, and
- adoption of standards for the training required to initiate a program.

In general, System institutions address operational risk through the organizations' internal frameworks which are subject to the review of internal auditors. Exposure to operational risk is typically identified with the assistance of senior management and internal audit plans developed with higher risk areas receiving more review.

Political Risk Management

Political risk to the System is the risk of loss of support for the System or agriculture by the U.S. government. System institutions are instrumentalities of the federal government and are intended to further governmental policy concerning the extension of credit to or for the benefit of agricultural and rural America. The System and its borrowers may be significantly affected by federal legislation that impacts the System directly, such as changes to the Farm Credit Act, or indirectly, such as agricultural appropriations bills. However, government programs account for a relatively small percentage of net farm income in the territory served by the District Associations.

The District addresses political risk by actively supporting the Farm Credit Council, which is a full-service, federal trade association representing the System before Congress, the Executive Branch, and others. The Council provides the mechanism for "grassroots'' involvement in the development of System positions and policies with respect to federal legislation and government actions that impact the System. Additionally, the District takes an active role in representing the individual interests of System institutions and their borrowers before Congress. In addition to the Farm Credit Council, each district has its own Council, which is a member of the Farm Credit Council. The district Councils represent the interests of their members on a local and state level, as well as on a federal level.

ALLOWANCE FOR LOAN LOSSES

Each District institution maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within its respective loan and finance lease portfolios as of each reported balance sheet date. The District increases the allowance by recording a provision for loan losses in the income statement. Loan losses are recorded against and serve to decrease the allowance when management determines that any portion of a loan or lease is uncollectible. Any subsequent recoveries are added to the allowance. Managements' evaluations consider factors which include, among other things, loan loss experience, portfolio quality, loan portfolio composition, current agricultural production conditions, and general economic conditions.

The allowance for loan losses was $213.5 million at December 31, 2012, as compared with $175.0 million and $182.3 million at December 31, 2011 and 2010, respectively. The increase during 2012 of $38.5 million was primarily due to the provision expense of $98.1 million and recoveries of $31.8 million, offset by loan charge-offs of $90.0 million. Charge-offs were related primarily to the nursery/greenhouse (35.86 percent of the total), forestry (16.69 percent) and other real estate (10.48 percent) segments. The allowance at December 31, 2012 included specific reserves of $92.0 million (43.09 percent of the total) and $121.5 million (56.91 percent) of general reserves. The total allowance at December 31, 2012 is comprised primarily of reserves for the forestry (17.83 percent of the total), nursery/greenhouse (17.05 percent), poultry (7.07 percent), cattle (6.94 percent) and fruits and vegetables (5.91percent) segments. The decline in real estate values impacted charge-offs and reserves in several of these loan segments. See Note 4, *Loans and Allowance for Loan Losses,* in the Notes to the Combined Financial Statements for further information. See *Provision for Loan Losses* section below for details regarding increases to the allowance from provision expense. The allowance for loan losses does not include purchased discounts or premiums related to District Association mergers. See Note 23, *District Merger Activity*, in the Notes to the Combined Financial Statements.

The following table presents the activity in the allowance for loan losses for the most recent three years at December 31:

Allowance for Loan Losses Activity	**Year Ended December 31,**		
(dollars in thousands)	**2012**	**2011**	**2010**
Balance at beginning of year	$ 174,976	$ 182,329	$ 195,132
Charge-offs:			
Real Estate Mortgage	(51,940)	(75,289)	(84,319)
Production and Intermediate-Term	(30,917)	(92,899)	(63,796)
Agribusiness	(4,645)	(31,564)	(12,611)
Communication	–	–	(2,554)
Energy/Water and Waste Disposal	–	(7,068)	–
Rural Residential Real Estate	(2,073)	(2,452)	(2,605)
Lease Receivables	–	(69)	(63)
Other (including Mission Related)	(397)	(10,082)	–
Total charge-offs	(89,972)	(219,423)	(165,948)
Recoveries:			
Real Estate Mortgage	8,464	6,967	3,398
Production and Intermediate-Term	16,795	4,022	10,448
Agribusiness	6,373	347	985
Communication	–	825	–
Energy/Water and Waste Disposal	–	1	–
Rural Residential Real estate	141	133	86
Lease Receivables	–	20	–
Other (including Mission Related)	57	–	–
Total recoveries	31,830	12,315	14,917
Net (charge-offs) recoveries	(58,142)	(207,108)	(151,031)
Adjustment due to merger	(1,409)	(16,097)	–
Provision for (reversal of allowance for) loan losses	98,075	215,852	138,228
Balance at end of year	$ 213,500	$ 174,976	$ 182,329

The allowance for loan losses by loan type for the most recent three years at December 31 is presented in the following table:

Allowance for Loan Losses by Loan Type	**December 31,**		
(dollars in thousands)	**2012**	**2011**	**2010**
Real Estate Mortgage	$ 76,832	$ 65,951	$ 73,636
Production and Intermediate-Term	110,409	89,155	83,759
Agribusiness	18,990	14,050	19,735
Communication	863	482	415
Energy/Water and Waste Disposal	1,364	672	599
Rural Residential Real Estate	3,968	4,015	3,117
Lease Receivables	40	20	67
Other (including Mission Related)	1,034	631	1,001
Total	$213,500	$174,976	$182,329

The allowance for loan losses as a percentage of loans outstanding and as a percentage of nonaccrual loans at December 31 is shown below:

	2012	**2011**	**2010**
Allowance for loan losses to loans	0.93%	0.78%	0.79%
Allowance for loan losses to nonaccrual loans	36.75%	26.24%	22.93%

Despite continuing relative weakness in the general economy, the financial positions of the Bank and District Associations' borrowers have generally remained strong as farmers' net cash income has been at favorable levels. This has been due, in part, to increases in commodity prices. With borrowers' generally strong financial positions and the continued management emphasis on underwriting standards, the credit quality of the District loan portfolio has remained sound. However, as discussed previously, uncertainty in the general economic environment creates the potential for prospective risks in the loan portfolio. See Note 4, *Loans and Allowance for Loan Losses*, in the Notes to the Combined Financial Statements and the *Significant Accounting Policies* section above for further information concerning the allowance for loan losses.

RESULTS OF OPERATIONS

Net Income

District net income totaled $633.7 million for the year ended December 31, 2012, an increase of $147.7 million from 2011. Net income of $485.9 million for the year ended December 31, 2011 was a decrease of $66.0 million from 2010. Major components of the changes in net income for the referenced periods are outlined in the following table and discussion:

Change in Net Income *(dollars in thousands)*	**Year Ended December 31, 2012**	**2011**
Net income (for prior year)	$ 485,929	$ 551,879
Increase (decrease) due to:		
Total interest income	(70,404)	(27,489)
Total interest expense	83,013	91,201
Net interest income	12,609	63,712
Provision for loan losses	117,777	(77,624)
Noninterest income	43,632	(47,459)
Noninterest expense	(25,736)	(4,533)
Provision for income taxes	(552)	(46)
Total increase (decrease) in net income	147,730	(65,950)
Net income	$ 633,659	$ 485,929

Key Results of Operations Comparisons

Key results of operations comparisons for years ended December 31 are shown in the following table:

Key Results of Operations Comparisons	**For the Year Ended December 31, 2012**	**2011**	**2010**
Return on average assets	1.99%	1.48%	1.66%
Return on average shareholders' equity	13.30%	10.93%	13.67%
Net interest income as a percentage of average earning assets	3.70%	3.57%	3.32%
Net (charge-offs) recoveries to average loans	(0.26)%	(0.91)%	(0.66)%

Interest Income

Total interest income for the year ended December 31, 2012 was $1.341 billion, a decrease of $70.4 million, as compared to the same period of 2011. Total interest income for the year ended December 31, 2011 was $1.411 billion, a decrease of $27.5 million, as compared to the same period of 2010. The decrease in 2012 was the result of lower earning asset yields due to the decline in the market interest rate environment as well as lower average interest earning assets resulting from the factors discussed in the *Loan Portfolio* section above. The decline in interest income in 2011 resulted primarily from a decrease in average interest earning assets. The volume of interest earning assets decreased in 2012 and 2011 by $780.3 million and $467.4 million, respectively. The average yield on interest earning assets decreased 11 basis points in 2012 and 2 basis points in 2011.

The following table illustrates the impact of volume and yield changes on interest income:

Net Change in Interest Income *(dollars in thousands)*	**Year Ended December 31, 2012-2011**	**2011-2010**
Current year increase (decrease) in average earning assets	$ (780,301)	$ (467,365)
Prior year average yield	4.50%	4.52%
Interest income variance attributed to change in volume	(35,150)	(21,148)
Current year average earning assets	30,552,145	31,332,446
Current year increase (decrease) in average yield	(0.11)%	(0.02)%
Interest income variance attributed to change in yield	(35,254)	(6,341)
Net change in interest income	$ (70,404)	$ (27,489)

Interest Expense

Total interest expense for the year ended December 31, 2012 was $210.0 million, a decrease of $83.0 million, as compared to the same period of 2011. Total interest expense for the year ended December 31, 2011 was $293.0 million, a decrease of $91.2 million, as compared to the same period of 2010. The decrease in both years was primarily attributed to the decrease in average rates paid on System debt obligations.

The following table illustrates the impact of volume and rate changes on interest expense:

Net Change in Interest Expense *(dollars in thousands)*	**Year Ended December 31, 2012-2011**	**2011-2010**
Current year increase (decrease) in average interest-bearing liabilities	$ (1,218,503)	$ (840,589)
Prior year average rate	1.05%	1.34%
Interest expense variance attributed to change in volume	(12,833)	(11,268)
Current year average interest-bearing liabilities	26,600,193	27,818,696
Current year increase (decrease) in average rate	(0.26)%	(0.29)%
Interest expense variance attributed to change in rate	(70,180)	(79,933)
Net change in interest expense	$ (83,013)	$ (91,201)

Net Interest Income

Net interest income increased from 2011 to 2012 and from 2010 to 2011, as illustrated by the following table:

District Analysis of Net Interest Income
Year Ended December 31,
(dollars in thousands)

	2012			**2011**			**2010**		
	Avg. Balance	**Interest**	**Avg. Yield**	**Avg. Balance**	**Interest**	**Avg. Yield**	**Avg. Balance**	**Interest**	**Avg. Yield**
Loans	$ 22,554,470	$ 1,142,703	5.07%	$ 22,840,383	$ 1,196,005	5.24%	$ 22,958,497	$ 1,223,277	5.33%
Cash & investments	7,997,675	198,322	2.48%	8,492,063	215,424	2.54%	8,841,314	215,641	2.44%
Total earning assets	$ 30,552,145	$ 1,341,025	4.39%	$ 31,332,446	$ 1,411,429	4.50%	$ 31,799,811	$ 1,438,918	4.52%
Interest-bearing liabilities	$ 26,600,193	$ (209,967)	0.79%	$ 27,818,696	$ (292,980)	1.05%	$ 28,659,285	$ (384,181)	1.34%
Spread			3.60%			3.45%			3.18%
Impact of capital	$ 3,951,952		0.10%	$ 3,513,750		0.12%	$ 3,140,526		0.14%
Net Interest Income (NII) & NII to average earning assets		$ 1,131,058	3.70%		$ 1,118,449	3.57%		$ 1,054,737	3.32%

Net interest income for the year ended December 31, 2012 was $1.131 billion compared to $1.118 billion for the same period of 2011, an increase of $12.6 million or 1.13 percent. The net interest margin was 3.70 percent and 3.57 percent in the current year and previous year, respectively, an improvement of 13 basis points. The increase in the net interest margins was primarily attributable to the ability to refinance outstanding debt at favorable interest rates in the current low interest rate environment. During 2012, 2011, and 2010, the Bank called debt totaling $23.010 billion, $21.490 billion, and $28.087 billion, respectively, and was able to lower cost of funds relative to assets, which did not repay or reprice as quickly. Over time, as interest rates change and as assets prepay or reprice in a manner more consistent with historical experience, the positive impact on the net interest margin that the Bank has experienced over the last several years from calling debt will likely diminish. Change in net interest income due to the decrease in balance sheet volume was minimal as a result of decreased loan demand previously discussed and was more than offset by the favorable impact of calling debt for the years ended December 31, 2012 and 2011.

Provision for Loan Losses

AgFirst and the Associations measure risks inherent in their individual portfolios on an ongoing basis and as necessary, recognize provision for loan loss expense so that appropriate reserves for loan losses are maintained. The net provision for loan losses was $98.1 million and $215.9 million for the years ended December 31, 2012 and 2011, respectively. Total provision expense for the year ended December 31, 2012 consisted primarily of specific reserve increases for thirteen borrower relationships primarily in the nursery/greenhouse segment. General reserve increases for the non-farm income, poultry, fruits and vegetables, and cattle industries were partially offset by reversals in the nursery/greenhouse segment as reserves moved from general to specific. The net provision expense of $98.1 million was due primarily to loans classified in the nursery/greenhouse (46.62 percent of the total), forestry (11.19 percent), ethanol (8.31 percent), and other real estate (8.17 percent) sectors, partially offset by reversals in the processing segment (12.24 percent).

See the *Allowance for Loan Losses* section above and Note 4, *Loans and Allowance for Loan Losses*, in the Notes to the Combined Financial Statements for further information.

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	**For the Year Ended December 31,**			**Increase (Decrease)**	
(dollars in thousands)	**2012**	**2011**	**2010**	**2012/ 2011**	**2011/ 2010**
Loan fees	$ 36,717	$ 40,792	$ 43,736	$ (4,075)	$ (2,944)
Fees for financially related services	11,118	9,851	10,939	1,267	(1,088)
Gains (losses) from other property owned, net	(33,562)	(40,284)	(30,469)	6,722	(9,815)
Gains (losses) on investments, net	–	2,973	1,406	(2,973)	1,567
Net impairment losses on investments	(3,933)	(9,284)	(11,912)	5,351	2,628
Gains (losses) on sale of rural home loans, net	2,276	2,173	2,829	103	(656)
Gains from sale of premises and equipment, net	959	1,407	976	(448)	431
Patronage refunds from other Farm Credit Institutions	3,352	3,072	3,351	280	(279)
Insurance Fund refund	33,744	–	34,327	33,744	(34,327)
Other noninterest income	6,294	2,633	5,609	3,661	(2,976)
Total noninterest income	$ 56,965	$ 13,333	$ 60,792	$ 43,632	$ (47,459)

The decreases in loan fees of $4.1 million in 2012 and $2.9 million in 2011 resulted primarily from decreases in letters of credit, commitment, servicing, and late fees.

The increase in 2012 in fees for financially related services resulted primarily from increases in multi-peril and leasing services fees. The majority of the decrease in fees for financially related services in 2011 was the result of a decrease in crop hail insurance income.

The decrease in net losses from other property owned during 2012 primarily resulted from fewer losses on sales in 2012 compared with 2011 as real estate values began to stabilize. The increase in net losses for 2011 compared with 2010 resulted from higher write-downs in 2011. See discussion of 2012 expense in the *Other Property Owned* section above.

There were no gains or losses on investments for 2012. Gains on investments during 2011 and 2010 were the result of normal investment activities related to managing the composition and overall size of the District's portfolio. The net impairment losses on investments for all three years were due to the recognition of credit related other-than-temporary impairment on certain asset-backed and non-agency CMO securities in the District's investment portfolio. See further discussion in the Investments and *Cash and Cash Equivalents* section above.

Minimal changes were recognized in gains on the sale of rural home loans, gains from the sale of premises and equipment, and patronage refunds from other Farm Credit Institutions for the years presented.

The District recorded $33.7 million of insurance premium refunds during 2012 and $34.3 million in 2010 from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations. 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.

Other noninterest income was $6.3 million for the year ended December 31, 2012, or a $3.7 million increase compared to December 31, 2011. This increase was primarily due to $1.0 million gains realized on benefit trusts in 2012, $1.3 million in property and casualty insurance recoveries, and an $834 thousand reversal of loss reserve for unfunded commitments as commitments were funded and the reserve was reclassified to the allowance for loan losses. The $3.0 million decrease in 2011 compared to 2010 was primarily due to a $2.7 million loss reserve for unfunded commitments which was established in 2011.

Noninterest Expense

Noninterest expenses for each of the three years ended December 31 are shown in the following table:

Noninterest Expenses *(dollars in thousands)*	**For the Year Ended December 31,** 2012	2011	2010	**Increase (Decrease)** 2012/ 2011	2011/ 2010
Salaries and employee benefits	$ 264,678	$ 257,072	$ 248,824	$ 7,606	$ 8,248
Occupancy and equipment	37,186	36,458	37,502	728	(1,044)
Insurance Fund premiums	11,149	13,908	12,418	(2,759)	1,490
Other operating expenses	92,937	85,447	78,901	7,490	6,546
Called debt expense	39,445	27,450	38,419	11,995	(10,969)
Correspondent lending servicing expense	9,629	8,847	8,413	782	434
Other noninterest expense	–	106	278	(106)	(172)
Total noninterest expenses	$ 455,024	$ 429,288	$ 424,755	$ 25,736	$ 4,533

Salaries and employee benefits increased over the three year period of 2010 through 2012 due primarily to normal salary administration and a temporary increase in the number or employees for system enhancement projects.

The $728 thousand increase in occupancy and equipment expense for the year ended December 31, 2012, compared to the same period in 2011 was due primarily to increases in software expense for various maintenance agreements and database management. The $1.0 million decrease in 2011 compared to 2010 was primarily due to lower depreciation expense as a result of several capitalized projects which fully depreciated in 2010.

The $2.8 million decrease in 2012 and $1.5 million increase in 2011 in the Insurance Fund premiums, respectively, resulted primarily from a change in the premium rate, as determined by the Insurance Fund Board. The annual premium rates were 5 basis points in 2012, 6 basis points in 2011, and 5 basis points in 2010. The premium rate for 2013 is 10 basis points. Also contributing to the decrease in 2012, was the reduction of Systemwide Debt, which is the basis for the FCSIC premium computation.

Other operating expenses increased $7.5 million and $6.5 million for the twelve months ended December 31, 2012 and 2011, respectively. The majority of the increases resulted from additional purchased services expense required for certain system enhancements. Increases in consulting, professional fees, and service provider fees were $3.7 million and $3.4 million, for the twelve months ended December 31, 2012 and 2011, respectively. Increases in travel expense and public relations expense also contributed to the increase in other operating expenses in 2012 compared to 2011. The remainder of the increases in other operating expenses were comprised of numerous and varied expenses, none of which had a significant increase.

Concession or debt issuance expense is amortized over the life of the underlying debt security. When debt securities are called prior to maturity, any unamortized concession is expensed. Called debt expense increased $12.0 million and decreased $11.0 million for the years ended December 31, 2012 and 2011, respectively. Call options were exercised on bonds totaling $23.010 billion in 2012, $21.490 billion in 2011, and $28.087 billion in 2010. The called debt expense is more than offset by interest expense savings realized as called debt is replaced by new debt issued at a lower rate of interest. Over time, the favorable effect on net interest income is diminished as earning assets reprice downward.

The increases in correspondent lending servicing expense for 2012 and 2011 are due primarily to increased agency guarantee fees resulting from higher volume in the correspondent lending portfolio.

Other noninterest expense primarily consists of amortization of mandatorily redeemable preferred stock issuance costs, which fully amortized in May 2011.

Provision for Income Taxes

Provision for income taxes increased $552 thousand in 2012 and $46 thousand in 2011. See Note 12, *Income Taxes*, in the Notes to the Combined Financial Statements for further details.

CAPITAL

Capital serves to support future asset growth, investment in new products and services, and to provide protection against credit, interest rate, and other risks, and operating losses. A sound capital position is critical to provide protection to investors in Systemwide Debt Securities and to ensure long-term financial success.

The AgFirst Capitalization Plan (the "Plan") approved by the Bank's board of directors establishes guidelines to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. The Bank's capital objectives are considered adequate to support inherent risk. The only significant change to the Plan for 2012 was a reduction of the required minimum stock investment by Associations. The Associations are required to maintain ownership in the Bank in the form of Class B and Class C stock. The Associations' minimum stock requirement was reduced from 1.75 percent to 1.40 percent of Association Direct Note balances.

Total District shareholders' equity at December 31, 2012 was $4.888 billion, compared to $4.521 billion and $4.157 billion at December 31, 2011 and 2010, respectively. The $366.6 million increase in 2012 resulted primarily from an increase in retained earnings from net income of $633.7 million, increases of $41.0 million in net unrealized gains during 2012 on investments available-for-sale, and a change in the fair value of derivatives of $7.1 million. These increases in shareholders' equity were offset by decreases from cash distributions declared of $99.6 million, retained earnings retired of $65.7 million, a $40.4 million reduction for employee benefit plan adjustments, preferred stock dividends paid of $18.0 million, and the redemption of preferred stock referenced below. The $364.5 million increase in 2011 was related primarily to net income of $485.9 million and $96.0 million in net unrealized gains on investments available for sale, offset by decreases from cash distributions declared of $91.0 million, retained earnings retired of $58.9 million, preferred stock dividends paid of $27.4 million, and $23.6 million in net equity retired as a result of the Farm Credit of Florida, ACA merger. See Note 23, *District Merger Activity*, in the Notes to the Combined Financial Statements for further information concerning the merger.

During the twelve months ended December 31, 2012, the Bank repurchased, through privately negotiated transactions, and cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $124.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $124.8 million and to record $36.6 million of additional paid-in-capital.

On December 15, 2011, AgFirst redeemed $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock which was issued on May 17, 2001, at a par value of $1 thousand per share. The stock was redeemed at par value together with accrued and unpaid dividends. See Note 10, *Mandatorily Redeemable Preferred Stock*, in the Notes to the Combined Financial Statements for further information.

Regulatory Ratios

The Bank's regulatory ratios at December 31 are shown in the following table:

	Regulatory Minimum	AgFirst Ratio as of December 31, 2012	2011	2010
Permanent Capital Ratio	7.00%	23.58%	24.27%	21.22%
Total Surplus Ratio	7.00%	23.55%	24.24%	21.19%
Core Surplus Ratio	3.50%	20.04%	17.08%	13.79%
Net Collateral Ratio*	103.00%	107.03%	106.49%	106.44%

** The regulatory minimum net collateral ratio was 104.00% prior to the redemption of the Mandatorily Redeemable Cumulative Preferred Stock on December 15, 2011.*

FCA sets minimum regulatory capital requirements for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk-adjusted asset base. The total surplus ratio is calculated by dividing total surplus by a risk-adjusted asset base and the core surplus ratio is calculated by dividing core surplus by a risk-adjusted asset base. Risk-adjusted assets refer to the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. Generally, higher credit conversion factors are applied to assets with more inherent risk. Unlike the permanent capital, total surplus and core surplus ratios, the net collateral ratio does not incorporate any risk-adjusted weighting of assets. The net collateral ratio is calculated by dividing the Bank's collateral, as defined by FCA regulations, by total liabilities. The permanent capital, total surplus, and core surplus ratios are calculated using three-month average daily balances and the net collateral ratio is calculated using period end balances.

For all periods presented, AgFirst exceeded minimum regulatory standards for all of the ratios. The Bank's permanent capital and total surplus ratios decreased at December 31, 2012 compared to December 31, 2011, primarily as a result of the reduction in preferred stock discussed above, which impacted the December 31, 2012 ratios. The redemption of the $225.0 million of Mandatorily Redeemable Preferred Stock on December 15, 2011 minimally impacted the December 31, 2011 ratios but fully impacted the December 31, 2012 ratios. The Bank's core surplus ratio increased at December 31, 2012 as compared to December 31, 2011. Subsequent to the redemption of the $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock (which was excluded from the core surplus ratio) on December 15, 2011, the FCA notified AgFirst that the October 2003 issuance of $150.0 million of Perpetual Non-Cumulative Preferred Stock could be included in core surplus subject to certain potential limitations. Prior to December 15, 2011, the $150.0 million Perpetual Non-Cumulative Preferred Stock was not included in core surplus. This inclusion minimally impacted the December 31, 2011 ratio but fully impacted the December 31, 2012 ratio, which contributed to the higher core surplus ratio at December 31, 2012. The Bank's net collateral ratio increased at December 31, 2012 compared to December 31, 2011 as the minimal negative impact from the repurchase of the preferred stock was more than offset by the increase in the proportion of collateral funded by common equity.

The following table illustrates the risk bearing capacity of the District Associations at December 31, 2012:

Association	Regulatory Permanent Capital Ratio	Regulatory Core Surplus Ratio	Regulatory Total Surplus Ratio	Allowance/ Loans
AgCarolina	19.85%	16.21%	16.21%	1.64%
AgChoice	16.51%	14.13%	15.75%	0.76%
Ag Credit	19.36%	15.25%	17.39%	1.27%
AgGeorgia	18.20%	16.48%	17.80%	1.19%
AgSouth	17.05%	12.50%	16.54%	0.73%
ArborOne	20.22%	17.19%	19.80%	1.58%
Cape Fear	20.66%	20.41%	20.41%	0.98%
Carolina	18.64%	14.67%	17.95%	0.74%
Central Florida	19.15%	16.42%	18.85%	3.26%
Central Kentucky	14.18%	12.69%	12.80%	1.13%
Colonial	22.26%	21.52%	21.52%	0.95%
Farm Credit of Florida	18.98%	17.74%	18.11%	1.45%
Farm Credit of the Virginias	16.95%	15.73%	15.73%	0.68%
First South	16.12%	14.12%	14.86%	0.57%
MidAtlantic	18.12%	17.57%	17.73%	0.83%
Northwest Florida	22.79%	21.60%	22.48%	1.66%
Puerto Rico	20.67%	20.29%	20.29%	2.60%
River Valley	17.41 %	14.32%	16.28%	0.73%
Southwest Georgia	21.35%	17.39%	21.00%	0.93%

All Associations met all of the regulatory minimum capital requirements at December 31, 2012. AgFirst and each Association maintain an allowance for loan losses determined by its management and are capitalized to serve their unique markets.

See Note 11, *Protected Borrower Equity and Shareholders' Equity*, in the Notes to the Combined Financial Statements for additional information regarding regulatory capitalization requirements and restrictions.

ECONOMIC CAPITAL

As discussed previously (see *Risk Management* section above), risk is an inherent part of the District's business activities. The District's capital management framework is intended to ensure there is sufficient capital to support the underlying risks of our business activities, exceed all regulatory capital requirements, and achieve certain capital adequacy objectives. The District has implemented an economic capital measurement process, including appropriate methodologies and assumptions, to quantify the capital requirements related to our primary areas of risk. The District periodically quantifies the economic capital requirements, based on the credit risk, interest rate risk, operational risk, and market risk inherent in its operations. For a further discussion of these risks, see the *Risk Management* section above. Due to the evolving nature of the economic capital concept, the District anticipates these methodologies and assumptions will continue to be refined.

THE DISTRICTWIDE YOUNG, BEGINNING, AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The District is committed to providing sound and dependable credit to young, beginning, and small (YBS) farmers and ranchers. Because of the unique needs of these individuals, and their importance to the future growth of the Associations, the Associations have established annual marketing goals to increase market shares of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers' access to a stable source of credit. AgFirst and the District Associations recognize that YBS farmers are vitally important to the future of agriculture and are committed to continue offering programs to help educate, assist, and provide quality financial services to YBS farmers.

The FCA regulatory definitions for YBS farmers and ranchers are as follows:

Young Farmer – A farmer, rancher, or producer or harvester of aquatic products who was age 35 or younger as of the date the loan was originally made.

Beginning Farmer – A farmer, rancher, or producer or harvester of aquatic products who had 10 years or less farming or ranching experience as of the date the loan was originally made.

Small Farmer – A farmer, rancher, or producer or harvester of aquatic products who normally generated less than $250 thousand in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

It is important to note that due to the regulatory definitions a farmer/rancher may be included in multiple categories as they would be included in each category in which the definition was met.

The following table summarizes information regarding the combined District's loans outstanding to Young and Beginning Farmers and Ranchers as of December 31, 2012:

Young, and Beginning Farmers and Ranchers
Number/Volume of Loans Outstanding
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total loans and commitments outstanding at year-end	138,194	–%	$ 29,648,604	–%
2. Young farmers and ranchers	20,953	15.16%	$ 2,403,881	8.11%
3. Beginning farmers and ranchers	31,390	22.71%	$ 3,788,188	12.78%

The following table summarizes information regarding the combined District's loans outstanding to Small Farmers and Ranchers as of December 31, 2012:

Small Farmers and Ranchers
Number/Volume of Loans Outstanding by Loan Size
(dollars in thousands)

Number/Volume Outstanding	$0-$50,000	$50,001-$100,000	$100,001-$250,000	$250,001-and greater
1. Total number of loans and commitments outstanding at year-end	70,215	23,438	24,594	19,947
2. Total number of loans to small farmers and ranchers	48,092	14,119	12,607	5,800
3. Number of loans to small farmers and ranchers as a % of total number of loans	68.49%	60.24%	51.26%	29.08%
4. Total loan volume outstanding at year-end	$ 1,390,962	$ 1,740,953	$ 3,952,601	$ 22,564,088
5. Total loan volume to small farmers and ranchers	$ 923,274	$ 1,033,369	$ 1,974,016	$ 2,963,092
6. Loan volume to small farmers and ranchers as a % of total loan volume	66.38%	59.36%	49.94%	13.13%

The following table summarizes information regarding the combined District's new loans made to Young, and Beginning Farmers and Ranchers for the year ended December 31, 2012:

Young, and Beginning Farmers and Ranchers
Gross New Business During 2012, Number/Volume of Loans
(dollars in thousands)

Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total gross new loans and commitments made during 2012	52,489	–%	$ 13,211,342	–%
2. Total loans and commitments made during 2012 to young farmers and ranchers	8,141	15.51%	$ 1,229,746	9.30%
3. Total loans and commitments made during 2012 to beginning farmers and ranchers	11,241	21.42%	$ 1,705,301	12.91%

The following table summarizes information regarding the combined District's new loans made to Small Farmers and Ranchers for the year ended December 31, 2012:

Small Farmers and Ranchers
Gross New Business by Loan Size, Number/Volume of Loans
(dollars in thousands)

Number/Volume	$0-$50,000	$50,001 -$100,000	$100,001-$250,000	$250,001-and greater
1. Total number of new loans and commitments made during 2012	22,472	9,015	11,112	9,890
2. Total number of loans made to small farmers and ranchers during 2012	15,017	4,982	5,282	2,901
3. Number of loans to small farmers and ranchers as a % of total number of loans	66.83%	55.26%	47.53%	29.33%
4. Total gross loan volume of all new loans and commitments made during 2012	$ 483,231	$ 674,072	$ 1,831,406	$ 10,222,633
5. Total gross loan volume to small farmers and ranchers	$ 312,879	$ 367,332	$ 842,294	$ 1,508,467
6. Loan volume to small farmers and ranchers as a % of total gross new loan volume	64.75%	54.49%	45.99%	14.76%

COMMITMENTS AND CONTINGENCIES

On the basis of information presently available, management and legal counsel are of the opinion that the ultimate liability, if any, from legal actions pending against AgFirst would be immaterial in relation to the financial position of AgFirst. Refer to Note 16, *Commitments and Contingencies*, in the Notes to the Combined Financial Statements for additional information.

See Note 23, *District Merger Activity*, in the Notes to the Combined Financial Statements for information related to a financial assistance agreement between the Bank and a District Association.

FINANCIAL REGULATORY REFORM

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law on July 21, 2010. While the Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, many of the statutory provisions of the Dodd-Frank Act are not applicable to the Farm Credit System. The Dodd-Frank Act requires various federal agencies to adopt a broad range of new implementing rules and regulations, and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for many more months or years.

The Dodd-Frank Act creates new regulators and expands the authority of the Federal Reserve Board over non-bank financial companies previously not subject to its or other bank regulators' direct jurisdiction, particularly those that are considered systemically important to the U.S. financial system. The legislation created the Financial Oversight Council, a coordinating body of financial regulators, which is designed to monitor and pinpoint systemic risks across the financial spectrum. Nevertheless, the Dodd-Frank Act largely preserves the authority of the Farm Credit Administration as the System's independent federal regulator by excluding System institutions from being considered non-bank financial companies and providing other exemptions and exclusions from certain of the law's provisions. Also, the rules prohibiting banking entities from engaging in proprietary trading under the so-called Volcker Rule do not apply to the debt securities issued by the System.

The provisions of the Dodd-Frank Act pertaining to the regulation of derivatives transactions will require more of these transactions to be cleared through a third-party central clearinghouse and traded on regulated exchanges or otherwise, and margin or cash collateral will be required for these transactions. Also, derivative transactions that will not be subject to mandatory trading and clearing requirements may also be subject to minimum margin and capital requirements. The Dodd-Frank Act requires the Commodity Futures Trading Commission (CFTC) to consider whether to exempt System institutions from certain of these new requirements. These new requirements, whether or not System institutions are required to abide by them, have the potential of making derivative transactions more costly and less attractive as risk management tools for System institutions; and thus may impact the System's funding and hedging strategies.

The Dodd-Frank Act also created a new federal agency called the Consumer Financial Protection Bureau (CFPB). The CFPB has the responsibility to regulate the offering of consumer financial products or services under federal consumer financial laws. The Farm Credit Administration retains the responsibility to oversee and enforce compliance by System institutions with relevant rules adopted by the CFPB.

In light of the foregoing, it is difficult to predict at this time the extent to which the Dodd-Frank Act or the forthcoming implementing rules and regulations will have an impact on the System. However, it is possible they could affect funding and hedging strategies and increase funding and hedging costs.

Farm Bill

The "Farm Bill" is an omnibus, multi-year piece of Congressional legislation that governs an array of federal farm and food programs, including commodity price and support payments, farm credit, agricultural conservation, research, rural development, and foreign and domestic food programs. Normally, the Farm Bill governs most federal agriculture and related programs for five years.

The last "Farm Bill" enacted into law was the 2008 Farm Bill, which expired on September 30, 2012. The American Taxpayer Relief Act of 2012, signed into law on January 2, 2013, extends certain provisions of the 2008 Farm Bill for one year to September 30, 2013. In general, the extension of the 2008 Farm Bill maintains the programs authorized by that law, including commodity price and support payments, with certain exceptions.

The federally-supported multi-peril crop insurance program is governed by separate stand-alone law that did not expire with the 2008 Farm Bill and currently does not contain a sunset date in its authorization. While a new Farm Bill may make changes to federal crop insurance law, the Farm Bill typically has not been the vehicle for doing so.

As Congress begins to address the issues deferred by the American Taxpayer Relief Act, there will be continued pressure to address the U.S. budget deficit. Left unchanged automatic spending cuts may impact certain agricultural programs. Moreover, even if the U.S. Congress passes a measure to offset the automatic spending cuts, it is possible that an offset measure, or other budget reduction efforts, could impact funding available for the 2008 Farm Bill when its renewal is considered.

DISTRICT MERGER ACTIVITY

Please refer to Note 23, *District Merger Activity*, in the Notes to the Combined Financial Statements for information regarding merger activity in the District.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Combined Financial Statements for recently issued accounting pronouncements.

Additional Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations,* to the Combined Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *Management's Discussion & Analysis of Financial Condition & Results of Operations* included in this Annual Report to shareholders.

Description of Property

The Bank and the Associations own land and buildings throughout the District. The various facilities owned or leased by the Associations are described in the individual Association annual reports. The following table sets forth certain information regarding the properties owned by the reporting entity, AgFirst Farm Credit Bank, all of which are located in Columbia, South Carolina:

Location	Description
1401 Hampton Street	Bank building and adjacent parking
1441 Hampton Street	Vacant
1443 Hampton Street	AgFirst Federal Credit Union
1447 Hampton Street	Vacant
1428 Taylor Street	AgFirst training center
1436 Taylor Street	Vacant
1115 Calhoun Street	Future bank operations facility
1901 Main Street	Future bank office building and adjacent parking facility, partially leased to tenants

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 16, *Commitments and Contingencies,* to the Combined Financial Statements included in this Annual Report to shareholders.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 11, *Protected Borrower Equity and Shareholders' Equity,* to the Combined Financial Statements included in this Annual Report to shareholders.

Description of Liabilities

The description of liabilities and contingent liabilities to be disclosed in this section is incorporated herein by reference to Notes 2, 8, 9, 10, 13, and 16 to the Combined Financial Statements included in this Annual Report to shareholders.

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

Management's Discussion & Analysis of Financial Condition & Results of Operations, which appears in this Annual Report to shareholders and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the directors and senior officers of the Bank. Information regarding the directors and senior officers of the District Associations is disclosed in the individual Association annual reports.

The chief executive officer and all other senior officers of the Bank, together with their length of service at their present position, as well as positions held currently and during the last five years, are as follows:

Name and Title	Time in Position	Prior Experience	Other Business Interests
Leon T. Amerson, *President and Chief Executive Officer*	6 months	Chief Financial Officer from March 1998 to September 2006. Chief Operating Officer from September 2006 to April 2010. President from April 2010 to Present.	Member of the Presidents Planning Committee of the Farm Credit System serving as Chairman of the Finance Committee; member of the Board of Directors of the Federal Farm Credit Banks Funding Corporation serving on the Governance Committee; council member of the National Council of Farm Cooperatives; member of the Board of Directors for Midlands Business Leadership Group; member of the Board of Directors for Palmetto Agribusiness Council; member of the Finance Committee for United Way of the Midlands; member of the AgFirst Plan Sponsor Committee and the AgFirst/FCBT Plan Sponsor Committee.
Charl L. Butler, *Senior Vice President and Chief Financial Officer*	6 years	Chief Financial Officer and Secretary at The National Bank of South Carolina from 1991 until 2007.	Advisory Board Member of the Farm Credit System Captive Insurance Company; Chairman of the AgFirst/FCBT Plan Fiduciary Committee; Board Member of Midlands Housing Alliance; Board Member of City Center Partnership.
Benjamin F. Blakewood, *Senior Vice President and Chief Information Officer*	14 years	Director of Information Technology from 1996 to 1998 at Affinity Technology Group.	
William L. Melton, *Senior Vice President and Chief Lending Officer*	9 years	Senior Executive Officer/Bank Lending from January to July 2003, prior to that Lending Services Manager.	At Large Board Member of the National Chicken Council; Member of Fannie Mae's Affordable Housing Advisory Council.
Christopher L. Jones, *Senior Vice President and Chief Credit Officer*	2 years	Senior Vice President and Chief Credit Officer South at United Community Banks from 2004 until 2011.	
Isvara M. A. Wilson, *Senior Vice President and General Counsel*	1 month	Managing Director and Associate General Counsel at Bank of America from 2010 until December 2012, prior to that Assistant General Counsel and Senior Vice President at Bank of America from 2003 to 2010.	Board Member of the Harvey B. Gantt Center for African-American Arts + Culture.

The total amount of compensation earned by the Chief Executive Officer (CEO) and the senior officers as a group during the years ended December 31, 2012, 2011 and 2010, is as follows:

Name of Individual or Number in Group	Year	Annual Salary	Annual Bonus	Deferred Comp.	Perq./ Other*	Total
Leon T. Amerson	2012	$ 526,799	$ 363,082	$ 11,965	$ 17,570	$ 919,416
F. A. Lowrey	2012	$ 327,962	$ 500	$ 133,820	$ 735,420 **	$ 1,197,702
F. A. Lowrey	2011	$ 636,824	$ 257,213	$ 138,688	$ 22,783	$ 1,055,508
F. A. Lowrey	2010	$ 615,285	$ 344,621	$ 14,862	$ 22,601	$ 997,369
6 Officers	2012	$ 1,277,003	$ 808,278	$ 13,280	$ 147,102 ***	$ 2,245,663
6 Officers	2011	$ 1,661,852	$ 771,973	$ 25,394	$ 99,640	$ 2,558,859
6 Officers	2010	$ 1,682,943	$ 905,678	$ 17,865	$ 144,854	$ 2,751,340

** Generally comprised of company contributions to thrift plan (see Note 13, Employee Benefit Plans, to the Combined Financial Statements), group life insurance premiums and bank-provided automobile.*

***Upon retirement, Mr. Lowery received a one-time payment of $570,000, payment of accrued annual leave of $117,684, and ownership of his company automobile valued at $28,396.*

****Includes payment of accrued annual leave upon the retirement of one officer of $55,451.*

Executive Incentive Compensation Plan

In addition to a base salary, senior officers may earn additional compensation under the Bank's Executive Incentive Plan, which has a short-term and long-term component. The objectives of this plan are to provide a market-competitive financial rewards package to executives, provide incentive for the achievement of the AgFirst short- and long-term business objectives, and to provide the Bank the ability to attract and retain key executives. The plan's payments are based upon the Bank's achievement of minimum performance thresholds for net collateral ratio and patronage and dividend distributions, achievement of a targeted threshold customer satisfaction score, and the senior officers' overall performance achievement as determined by an individual performance rating. Incentive awards are shown in the year earned. Short-term incentive award payments are made in the first quarter of the following year. The long-term component of the plan is subject to forfeiture based upon AgFirst's performance during the two-year period immediately following the plan year. Specifically, the long-term award for a particular plan year will be reduced by an amount equal to one-half of the original award for each subsequent year during the two-year period in which any one of the performance thresholds are not achieved. Participation in the plan is at the sole discretion of the CEO or in the case of the CEO at the sole discretion of the Board of Directors. Long-term incentive award amounts are shown in the year accrued and are vested over a full three-year period. Incentive awards are forfeited if the participant fails to remain employed until the end of the two-year period subsequent to the end of the plan year.

Retirement and Deferred Compensation Plans

The Bank's compensation programs include retirement and deferred compensation plans designed to provide income following an employee's retirement. Although retirement benefits are paid following an employee's retirement, the benefits are earned while employed. The objective of the Bank is to offer benefit plans that are market competitive and aligned with the Bank's strategic objectives. The plans are designed to enable the Bank to proactively attract, retain, recognize and reward a highly skilled, motivated and diverse staff that supports the Bank's mission and that allows the Bank to align the human capital needs with the Bank's overall strategic plan.

Chief Executive Officer

Mr. Amerson participates in the AgFirst Farm Credit Retirement Plan, a qualified defined benefit retirement plan. He is eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Mr. Lowery also participated in the AgFirst Farm Credit Retirement Plan until his retirement on June 30, 2012 at which time he was eligible to begin drawing unreduced pension benefits. Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards or non-equity incentive plan compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Mr. Amerson participates in the AgFirst Farm Credit Bank Supplemental Retirement Plan, a nonqualified supplemental executive retirement plan. Mr. Lowery also participated in the AgFirst Farm Credit Bank Supplemental Retirement Plan until his retirement on June 30, 2012 at which time he was eligible to begin drawing benefits. Benefits that would have accrued in the qualified defined benefit retirement plan in the absence of Internal Revenue Code limitations are made up through the nonqualified supplemental executive retirement plan. At the election of the retiree, benefits are paid based upon various annuity terms.

Mr. Amerson participates in, and until his retirement on June 30, 2012, Mr. Lowery participated in, the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan which has an employer matching contribution. The maximum employer matching contribution is equal to $0.50 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitations.

Mr. Amerson participates in, and until his retirement on June 30, 2012, Mr. Lowery participated in, the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows deferral of compensation and which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also contains a provision for discretionary contributions to be made by the Bank.

Mr. Amerson was employed pursuant to an employment retention agreement that expired on July 1, 2012, the date he assumed his current CEO position. There is currently no employment agreement for Mr. Amerson.

Senior Officers

Senior officers participate in one of two qualified defined benefit retirement plans.

Employees hired prior to January 1, 2003 participate in the AgFirst Farm Credit Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 or when years of credited service plus age equal "85." Upon retirement, annual payout is equal to 2 percent of the highest three years average compensation times years of credited service, subject to the Internal Revenue Code limitations. For purposes of determining the payout, "average compensation" is defined as regular salary (i.e., does not include incentive awards or non-equity incentive plan compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Employees hired on or after January 1, 2003 participate in the AgFirst Farm Credit Cash Balance Retirement Plan. Employees are eligible to retire and begin drawing unreduced pension benefits at age 65 with a minimum of 5 years of credited service or at age 55 with a minimum of 10 years of credited service. Upon retirement, payout is determined using a percent of eligible compensation formula, subject to the Internal Revenue Code limitation on compensation, and regular interest credits. For purposes of determining the payout, "compensation" is defined as regular salary (i.e., does not include incentive awards or non-equity incentive plan compensation). At the election of the retiree, benefits are paid based upon various annuity terms or on a lump sum basis. Benefits under the plan are not subject to an offset for Social Security.

Senior officers participate in the Farm Credit Benefits Alliance 401(k) Plan, a qualified 401(k) defined contribution plan which has an employer matching contribution determined by the employee's date of hire. Employees hired prior to January 1, 2003 receive a maximum employer matching contribution equal to $0.50 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation. Employees hired on or after January 1, 2003 receive a maximum employer matching contribution equal to $1.00 for each $1.00 of employee compensation contributed up to 6 percent, subject to the Internal Revenue Code limitation on compensation.

Senior officers participate in the Farm Credit Benefits Alliance Nonqualified Supplemental 401(k) Plan, a nonqualified deferred compensation plan that allows certain key employees to defer compensation and which restores the benefits limited in the qualified 401(k) plan as a result of restrictions in the Internal Revenue Code. The plan also includes a provision for discretionary contributions to be made by the Bank.

Bank compensation plans are reviewed annually by the Board of Directors' Compensation Committee.

Additionally, senior officers as well as all employees are reimbursed for all direct travel expenses incurred when traveling on Bank business.

A copy of the travel policy is available to shareholders upon written request.

Disclosure of information on the total compensation paid during 2012 to any senior officer, or to any other individual included in the aggregate, is available to shareholders upon request.

AgFirst Farm Credit Bank Board of Directors

Name	Position	Term of Office
M. Wayne Lambertson	Chairman	December 31, 2013
Robert H. Spiers, Jr.	Vice Chairman	December 31, 2013
Gary L. Alexander	Director	December 31, 2015**
Jack W. Bentley, Jr.	Director	December 31, 2013
James C. Carter, Jr.	Director	December 31, 2014
Bonnie V. Hancock	Director	December 31, 2013
Curtis R. Hancock, Jr.	Director	December 31, 2016*
Dale R. Hershey	Director	December 31, 2015
Walter C. Hopkins	Director	December 31, 2016*
Paul M. House	Director	December 31, 2015
William K. Jackson	Director	December 31, 2016*
Thomas W. Kelly	Director	December 31, 2012
Lyle Ray King	Director	December 31, 2012
John S. Langford	Director	December 31, 2015
S. Alan Marsh	Director	December 31, 2013
James L. May	Director	December 31, 2013
Bobby E. McCollum, Jr.	Director	December 31, 2013
James M. Norsworthy, III	Director	December 31, 2015
Katherine A. Pace	Director	December 31, 2015
Jimmy D. Poston	Director	December 31, 2014
Walter L. Schmidlen, Jr.	Director	December 31, 2012
Robert G. Sexton	Director	December 31, 2016*
Ellis W. Taylor	Director	December 31, 2015***
William H. Voss	Director	December 31, 2014
J. Mark Wheeler	Director	December 31, 2012

* *These directors were newly elected in 2012 to a 4-year term commencing January 1, 2013.*
** *This director resigned from the Board on July 12, 2012.*
*** *This director was appointed by the Bank Board beginning December 1, 2012, to fulfill the unexpired term of the vacant seat.*

M. Wayne Lambertson, Chairman of the Board, from Pocomoke City, Maryland, owns and operates with his son a 2,700-acre farm of corn, soybeans, and wheat, and a 300,000 capacity pullet operation. He is co-owner of a restaurant, Don's Seafood and Chicken House, and partner in a development and construction company, J.W.L. Enterprise, LLC. He currently serves on the boards of the national Farm Credit Council (the Farm Credit System's national trade organization), the Federal Farm Credit Funding Corporation, MidAtlantic Farm Credit, ACA, and the Delmarva Poultry Industry (DPI), a trade organization. As Chairman of the Board, Mr. Lambertson served as an ex-officio member of all Board Committees. Mr. Lambertson serves on the Governance Committee for 2013.

Robert H. Spiers, Jr., Vice Chairman of the Board, is a full-time farmer, with a tobacco, corn, and wheat operation on 1,400 acres in Dinwiddie County, Virginia. He currently serves on the boards of Colonial Farm Credit, ACA, The Farm Credit Council, Tobacco Associates, Inc. and Dinwiddie County Farm Bureau. He is also a director on the Virginia Flue-cured Tobacco Board, and a governor appointed member of the Virginia Tobacco Indemnification Commission. He has been active on a number of Virginia Farm Bureau advisory committees. Mr. Spiers served on the Board Compensation Committee in 2012. He is Vice Chairman of the AgFirst/FCBT Plan Sponsor Committee. Mr. Spiers was elected as Chairman of the Board for 2013, and will serve as an ex-officio member of all Board Committees.

Gary L. Alexander from Westminster, South Carolina is owner and operator of Alexander Farms, Inc., a poultry production and property development business. He markets 3.2 million broilers a year through his 18-broiler house farm and develops residential properties. He is a member of AgSouth Farm Credit, ACA and is a director of the S.C. Poultry Federation. Mr. Alexander served on the Board Governance Committee. Mr. Alexander resigned from the Board on July 12, 2012.

Jack W. Bentley, Jr., a dairy farmer in Tignall, Georgia, owns and operates A&J Dairy, a 300-cow dairy that includes 668 acres of pasture, crops and timberland, and an additional 500 acres of leased farmland. Mr. Bentley is a director of AgGeorgia Farm Credit, ACA, Southeast United Dairy Industry Association, and the Wilkes County Farm Bureau. He is also a member of the Wilkes County Board of Tax Assessors and is past board chair for Farm Service Agency. Mr. Bentley serves on the Board Compensation Committee. Mr. Bentley is also the Board appointed member of the AgFirst/FCBT Plan Sponsor Committee.

James "Jimmy" C. Carter, Jr., owns and operates with his son, Southern Belle Farm, Inc., located in McDonough, Georgia. The 200-acre beef cattle and hay farm, includes fruit and vegetable crops, and agriculturally related educational activities. Mr. Carter also operates a feed, mineral, and supplement business from the farm and provides artificial insemination services and supplies for cattle. Mr. Carter is a director of AgSouth Farm Credit and serves as chairman of the Henry County Water and Sewage Authority. He is a representative on the Ocmulgee River Basin Advisory Council and serves as vice president of the Henry County Farm Bureau. He is a member of the board for the Henry County Cattleman's Association. Mr. Carter serves as chair of the Board Audit Committee.

Bonnie V. Hancock is Executive Director of the Enterprise Risk Management Initiative at North Carolina State University (NCSU). She also teaches courses in financial management, enterprise risk management, strategy and financial statement analysis. Prior to joining NCSU, she worked with Progress Energy as senior vice president of finance and information technology and later as president of Progress Fuels, a subsidiary that produces and markets gas, coal and synthetic fuels, and operates fuel terminals and ash management facilities. Ms. Hancock is a graduate of Georgetown University with a master's degree in taxation. She is also a graduate of the College of William and Mary with a bachelor's degree in business administration with an accounting major. She lives in Wake Forest, North Carolina, and is a member of the boards of Powell Industries, designer and manufacturer of electrical equipment systems that monitor the flow of electricity in industrial facilities, where she serves on the audit and compensation committees, the Office of Mortgage Settlement Oversight, where she serves as chair of the audit committee, and the North Carolina Coastal Pines Girl Scout Council, where she serves as chair of the audit committee. Ms. Hancock is a board designated financial expert. She served as chair of the Board Credit Committee in 2012, and will serve as chair of the Board Risk Policy Committee, which replaces the Board Credit Committee in 2013.

Curtis R. Hancock, Jr., from Fulton, Kentucky, is owner and operator of Hancock Farms. His operations consist of 1,400 acres of row crops, including corn, wheat and soybeans. He serves on the board of River Valley ACA; the national Farm Credit Council, a trade organization; Farm Credit Council Services, a Farm Credit System service provider; and Kentucky Small Grain Growers. He is also a member of Hickman County Farm Bureau, the local Southern States Cooperative and a former member of Hickman County FSA. Mr. Hancock was elected to the Board effective January 1, 2013, and will serve on the Board Risk Policy Committee.

Dale R. Hershey from Manheim, Pennsylvania is the senior partner in Hershey Brothers Dairy Farms, managing the operations' real estate and cropping enterprises. The operation includes a dairy operation which milks 300 cows, raises 250 dairy replacements, and grows 650 acres of corn, alfalfa, soybeans, barley, and rye and grass hay. He serves on the board of directors of MidAtlantic Farm Credit, ACA. He is a member of Pennsylvania Farm Bureau, the Pennsylvania Holstein Association, Lancaster County Blue Ribbon Commission for Agriculture and the Penn Township Ag Advisory Committee. Mr. Hershey served on the Board Credit Committee in 2012, and serves on the Board Compensation Committee. Mr. Hershey was elected as Vice Chairman of the Board for 2013.

Walter C. Hopkins is from Lewes, Delaware, and he along with his son operates a dairy and grain farm, Green Acres Farm, consisting of 570 cows, 500 replacement heifers and 1,000 acres of crops. He is also manager of Lyons LLC, a land holding company. He serves on the board of directors of MidAtlantic Farm Credit and is chair of the AgFirst/FCBT Plan Sponsor Committee. He is a member of Delaware Farm Bureau, Land O' Lakes Cooperative, Genex Cooperative and Delaware Holstein Association. Mr. Hopkins was elected to the Board effective January 1, 2013, and will serve on the Board Compensation Committee.

Paul M. House, is from Nokesville, Virginia, where he grows corn, soybeans, wheat, hay and turf grass. He also operates a dairy. He serves as a director of Farm Credit of the Virginias, ACA. Mr. House serves on the Board Compensation Committee.

William K. Jackson, from New Salem, Pennsylvania, is co-owner and operator of Jackson Farms, an 800-acre dairy that milks 160 registered Holsteins and processes, wholesales and retails dairy products via an on-farm processing plant and convenience store. He also grows corn and alfalfa. He is president of Jackson Farms 2, LLC, a bottling plant and convenience store; Jackson Farms 3, LLC, natural gas production; and Jackson Farms Limited Partnership, a dairy farm and crop production. He serves on the boards of AgChoice Farm Credit, ACA; the Fayette Chamber of Commerce; the Fay Penn Economic Development Council; the Fayette County Fair Board; and the Penn State Fayette Campus Advisory Board. Mr. Jackson was elected to the Board effective January 1, 2013, and will serve on the Board Risk Policy Committee.

Thomas W. Kelly from Tyrone, Pennsylvania, is owner and manager of a livestock and crop farm, raising dairy heifers and growing corn and soybeans. Along with his son, he handles land management for Spring Lane Hunt Club. He currently is an elected delegate to the Penn State Agricultural Council and a director of Mid-Atlantic Master Farmer Association and is a former director of Holstein Association, USA. He is a member of AgChoice Farm Credit, ACA. Mr. Kelly served as chair of the Board Governance Committee. Mr. Kelly's term on the Board expired on December 31, 2012.

Lyle Ray King of Ash, North Carolina, owns and operates a farm where he grows timber, corn, soybeans and wheat. He currently serves on the boards of Cape Fear Farm Credit, ACA, Atlantic Telephone Membership Cooperative, and Landbank Resource Management, a real estate company. Mr. King served on the Board Credit Committee. Mr. King's term on the Board expired on December 31, 2012.

John S. Langford, from Lakeland, Florida, has been a citrus grower for 45 years. Mr. Langford has also been a realtor for 32 years, specializing in agricultural lands. He currently serves as a director on the Farm Credit of Central Florida board and the boards of Community Southern Bank, Lake Wales Citrus Growers Association, and Polk County Florida Farm Bureau. Mr. Langford obtained his B.A. degree from Emory University and his MBA from Harvard Business School. He is a board designated financial expert and serves on the Board Audit Committee.

S. Alan Marsh is a third-generation farmer, and partner in Marsh Farms in Madison, Alabama. His operation consists of 3,000 acres of row crops, including cotton, soybeans, wheat and corn. Mr. Marsh is a director of First South Farm Credit, ACA and Limestone County Farmers Federation, and is president and stockholder of South Limestone Co-op Gin, an Association borrower. He is also an advisory board member for Staplecotn, a cotton cooperative association. Mr. Marsh served on the Board Credit Committee in 2012 and serves on the Board Risk Policy Committee, which replaces the Credit Committee in 2013.

James L. May is owner and operator of Mayhaven Farm in Waynesburg, Kentucky, where he owns 650 acres and leases another 350 acres. His farming program consists of a 150 beef cow herd, and a back grounding program of 200 head of feeder cattle. The operation also includes 100 acres of alfalfa hay, 400 acres of corn and soybeans, and 100 acres of wheat. He also operates Mayhaven Seed Sales, an agricultural seed sales business. He currently serves as a member of the Central Kentucky Ag Credit board, Lincoln County Extension Council, and the Lincoln County Farm Bureau Board. He is a former director of the Lincoln County Ag Development Board and the local cattleman's association. Mr. May served on the Board Credit Committee in 2012 and serves as chair of the Board Governance Committee.

Bobby E. McCollum, Jr., is a poultry operator in Polkton, North Carolina. His operation includes eight broiler houses that produce 750,000 heavy broilers per year. Mr. McCollum also has a 100-head brood cow/calf commercial herd, and grows 100 acres of timber as well as hay, soybeans, wheat and corn. Mr. McCollum is a licensed North Carolina Property and Casualty insurance agent specializing in farm insurance. He is a member of Anson County Cattlemen's Association and serves on the Anson County Agriculture Advisory Board. He is a member of Carolina Farm Credit, ACA. Mr. McCollum served on the Board Audit Committee in 2012, and serves on the Board Risk Policy Committee.

James M. Norsworthy, III, from Jackson, Louisiana runs 100 Cedars Cattle Farm, a 250-head cow-calf operation. He also has a commercial hay operation with 250 acres in Alicia Bermuda hay and 150 acres in Bahia Grass hay and manages a 500 acre pine and hardwood timber operation. He is a member of the board of directors of First South Farm Credit, ACA, and serves on the board of Louisiana State Farm Bureau. He is a member of Feliciana Farm Bureau, East Feliciana Cattlemen's Association, American Angus Association and the Feliciana Forestry Association. Mr. Norsworthy served as a former mayor of the town of Jackson, Louisiana. Mr. Norsworthy serves on the Board Governance Committee.

Katherine A. Pace from Orlando, Florida, is a certified public accountant. Prior to forming her company, Family Business Consulting, LLC, she was a tax partner with KPMG, LLP, an audit, tax and advisory service firm, from 1985-2005. While at KPMG, her practice included a variety of cooperative and agribusiness clients as well as participation in trade associations such as the National Society of Accountants for Cooperatives. Ms. Pace obtained her B.S. degree in accounting from Furman University. She is a member of the American Institute of Certified Public Accountants, the Florida Institute of Certified Public Accountants and current and past member and director of numerous trade and charitable organizations. Ms. Pace serves as a member of and is the board designated financial expert on the Board Audit Committee.

Jimmy D. Poston from Johnsonville, South Carolina, owns and operates Triple P Farms together with his brother. His operation consists of 2,500 acres of corn, peanuts, soybeans, tobacco, turf grass, strawberries and timber. Mr. Poston is a director of ArborOne Farm Credit, chairman of the Florence County Farm Service Agency Committee, a member of the Florence County Soil and Water Conservation District and a member of the SC Corn Growers Association and the SC Soybean Growers Association. Mr. Poston serves on the Board Governance Committee.

Walter L. Schmidlen, Jr., from Elkins, West Virginia, is a past dairy farmer and now continues his cow-calf operation along with growing hay and corn on a 700 acre farm with leased/rented land. He is owner/operator of a farm equipment business. He is a member of Farm Credit of the Virginias, ACA, and was a former director of Southern States Cooperative and Sire Power. Mr. Schmidlen served on the Board Compensation Committee. Mr. Schmidlen's term on the Board expired on December 31, 2012.

Robert G. Sexton is from Vero Beach, Florida. He is President of Oslo Citrus Growers Association and co-owner of Lost Legend, LLC, and owner of Orchid Island Juice Company. He serves as a director of Farm Credit of Florida, ACA; Oslo Citrus Growers Association; Lost Legend, LLC; Florida Citrus Packers; Indian River Citrus League; Highland Exchange Service Co-op, a packinghouse supply cooperative; McArthur Management Company, a management company for a large dairy, cattle and citrus agribusiness, and an association borrower; Sexton Grove Holdings, a family citrus company; Sexton Properties, Oslo Packing Company, Patio Restaurant and Sexton, Inc., family commercial real estate companies; and Dancing Pigs, LLC, which owns Red, Hot and Blue BBQ restaurants. In addition, he is a member of the Indian River Farm Bureau. He obtained both his B.S. degree in business administration and his MBA finance from the University of Florida. Mr. Sexton was elected to the Board effective January 1, 2013, and will serve on the Board Audit Committee.

Ellis W. Taylor, from Roanoke Rapids, North Carolina, is an owner/operator of a row crop operation, Mush Island Farms, LLC, which consists of cotton, soybeans, wheat, corn and timber. He also is part owner of Roanoke Cotton Company, LLC, which operates three cotton gins and one warehouse. He is a director on the boards of AgCarolina Farm Credit, ACA, Northampton County Farm Bureau and Northampton County Voluntary Ag District. He is also a member of the NC Farm Bureau, the National Cotton Council, and the Southern Risk Management Education Center. Mr. Taylor serves on the Board Audit Committee for 2013.

William H. Voss is from McComb, Mississippi. He has commercial cattle, hay and timber operations in Southwest Mississippi and is involved in land and commercial property management. His career includes production agriculture, agribusiness and real estate. He obtained his B.S. degree from the University of Southern Mississippi, and currently serves on the board of directors of First South Farm Credit, ACA, and the national Farm Credit Council. He is a former agricultural commodities and securities broker and has served as Chairman of the Mississippi Real Estate Commission and Chairman of the Pike County Farm Service Committee. Mr. Voss serves as chair of the Board Compensation Committee and is a member of the AgFirst/FCBT Plan Sponsor Committee.

J. Mark Wheeler from Bradenton, Florida is chief financial officer of Wheeler Farms, Inc., which grows citrus in several counties in Florida. He serves on the boards of Florida Citrus Mutual, an industry trade association, and Wheeler Brothers, Inc., a family-held citrus contract harvesting corporation. Mr. Wheeler is president of Boston Mining Company, a citrus, real estate and cash investment organization. Mr. Wheeler is a board member of Hardee Livestock Market (HLM), a wholly-owned subsidiary of Wheeler Farms, Inc., a cattle auction company. He is a member of Farm Credit of Florida, ACA. Mr. Wheeler was a board designated financial expert, served on the Board Audit Committee and was a member of the AgFirst/FCBT Plan Sponsor Committee. Mr. Wheeler's term expired on December 31, 2012.

Committees

The board has established an audit committee, compensation committee, risk policy committee (formerly credit committee), and governance committee. All members of the board, other than the chairman, serve on a committee. The chairman of the board serves as an ex-officio member of all board committees, and the vice chairman serves as a member of the board compensation committee. The Board had four designated financial experts, two of which serve on the audit committee. The responsibilities for each committee are set forth in its respective board approved charter.

Compensation of Directors

Directors were compensated in 2012 in cash at the rate of $54,000 per year, payable at $4,500 per month. This is compensation for attendance at board meetings, board committee meetings, certain other meetings pre-approved by the board, and other duties as assigned. Farm Credit Administration (FCA) regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. In this regard, the Chairman of the Board and the Chair of the Board Audit Committee were paid an additional $1,250 per quarter for their service. In 2012, a special committee of the Board was formed with respect to certain governance issues. Four members of the Board served on the special committee and were each compensated an additional $9,000 for their service. Total cash compensation paid to all directors as a group during 2012 was $1,099,000. Directors received no non-cash compensation during 2012.

Additional information for each director who served during 2012 is provided in the following table.

	Number of Days Served			
Name of Director	**Board Meetings**	**Other Official Activities***	**Farm Credit Council Bd. Activities**	**Total Comp. Paid During 2012**
Gary L. Alexander	11.00	3.00	5.00	$ 22,500
Jack W. Bentley, Jr.**	25.75	15.25	5.75	54,000
James C. Carter, Jr.	25.75	18.25	5.75	59,000
Bonnie V. Hancock	25.75	26.00	5.75	63,000
Dale R. Hershey	25.50	17.25	5.75	54,000
Paul M. House	24.00	11.75	5.75	54,000
Thomas W. Kelly	25.75	14.25	5.75	54,000
Lyle Ray King	23.75	13.25	5.75	54,000
M. Wayne Lambertson	25.75	27.25	5.75	68,000
John S. Langford	25.50	18.25	5.75	54,000
S. Alan Marsh	25.25	15.25	5.75	54,000
James L. May	25.75	14.25	5.75	54,000
Bobby E. McCollum, Jr.	25.75	18.25	5.75	54,000
James M. Norsworthy, III	24.75	13.00	3.75	54,000
Katherine A. Pace	25.50	23.75	5.75	63,000
Jimmy D. Poston	25.75	13.25	5.75	54,000
Walter L. Schmidlen, Jr.	25.00	14.75	5.75	54,000
Robert H. Spiers, Jr.	25.75	31.50	5.75	63,000
Ellis W. Taylor	3.00	0.25	0.00	4,500
William H. Voss	25.75	12.25	5.75	54,000
J. Mark Wheeler	25.25	13.00	5.75	54,000
Total				$ 1,099,000

* *Other official activities include board committee meetings and board training.*

** *Does not include 3.5 days served on AgFirst and AgFirst/FCBT Plan Sponsor Committees.*

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $265,496 for 2012, $243,537 for 2011, and $218,331 for 2010.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section, are incorporated herein by reference to Note 14, *Related Party Transactions*, to the Combined Financial Statements included in this Annual Report to shareholders. There have been no transactions between the Bank and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Certified Public Accountants

There were no changes in or material disagreements with our independent certified public accountants on any matter of accounting principles or financial statement disclosure during this period.

Information regarding the fees for services rendered by independent certified public accountants for the District Associations is disclosed in the individual Association annual reports. Aggregate fees expensed by the Bank for services rendered by its independent certified public accountants for the year ended December 31, 2012 were as follows:

	2012
Independent Certified Public Accountants	
PricewaterhouseCoopers LLP	
Audit services	$ 478,508
Non-audit services	138,386
Total	$ 616,894

Audit fees were for the annual audits of financial statements.

Non-audit fees were for agreed upon procedures for Financial Institution Shared Assessments Program, Farmer Mac minimum servicing standards attestation, and agreed upon procedures for Board of Directors elections.

All non-audit service engagements of $50,000 or more for the Bank require pre-approval by the Audit Committee.

Combined Financial Statements

The Combined Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP, dated March 13, 2013, and the Report of Management, which appear in this Annual Report to shareholders are incorporated herein by reference.

Borrower Information Regulations

FCA regulations require that borrower information be held in strict confidence by Farm Credit institutions, their directors, officers, and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires Farm Credit institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the annual report to shareholders. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Shareholder Investment

Shareholder investment in a District 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, Financial Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Report to shareholders within 90 days after the end of the fiscal year. The Bank prepares an electronic version of each Quarterly Report within 40 days after the end of each fiscal quarter, except that no report is prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Bank's Board of Directors (the Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of AgFirst Farm Credit Bank (the Bank) and in the opinion of the Board of Directors, each is free of any relationship with the Bank or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the audited financial statements with management, which has primary responsibility for the financial statements. The financial statements were prepared under the oversight of the Committee.

PricewaterhouseCoopers LLP (PwC), the Bank and District Associations combined independent certified public accountant for 2012, is responsible for expressing an opinion on the conformity of the Bank and District Associations combined audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. PwC has provided to the Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 *(Independence Discussions with Audit Committees)*, and the Committee has discussed with PwC that firm's independence.

The Committee has also concluded that PwC's provision of non-audit services to the Bank is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Bank and District Associations combined Annual Report for 2012. The foregoing report is provided by the following independent directors, who constitute the Committee:

James C. Carter, Jr.
Chairman of the Audit Committee

Members of Audit Committee

John S. Langford
Katherine A. Pace
Robert G. Sexton
Ellis W. Taylor

March 13, 2013

Report of Independent Certified Public Accountants

pwc

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders
of AgFirst Farm Credit Bank and District Associations

We have audited the accompanying combined financial statements of AgFirst Farm Credit Bank and District Associations (together, the "District"), which comprise the combined balance sheets as of December 31, 2012, 2011, and 2010, and the related combined statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the District's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of AgFirst Farm Credit Bank and District Associations at December 31, 2012, 2011, and 2010, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 13, 2013

PricewaterhouseCoopers LLP, 401 E. Las Olas Boulevard, Suite 1800, Fort Lauderdale, FL 33301
T: (954) 764-7111, F: (954)525-4453, www.pwc.com/us

Combined Balance Sheets

(dollars in thousands)	As of December 31, 2012	2011	2010
Assets			
Cash and cash equivalents	**$ 925,448**	$ 1,340,167	$ 1,463,700
Investment securities:			
Available for sale (amortized cost of $6,756,026, $6,840,738, and $6,981,952, respectively)	**6,936,420**	6,980,105	7,025,290
Held to maturity (fair value of $774,275, $1,053,277, and $1,298,088, respectively)	**712,997**	975,448	1,234,262
Total investment securities	**7,649,417**	7,955,553	8,259,552
Loans	**22,929,205**	22,481,505	23,032,893
Less: allowance for loan losses	**213,500**	174,976	182,329
Net loans	**22,715,705**	22,306,529	22,850,564
Loans held for sale	**18,132**	10,201	11,340
Other investments	**163,178**	238,552	305,959
Accrued interest receivable	**182,472**	197,782	195,966
Investments in other Farm Credit System institutions	**13,871**	12,680	11,479
Premises and equipment, net	**156,315**	127,445	125,695
Other property owned	**109,997**	158,144	146,416
Other assets	**164,610**	163,815	179,336
Total assets	**$ 32,099,145**	$ 32,510,868	$ 33,550,007
Liabilities			
Bonds and notes	**$ 26,488,875**	$ 27,288,439	$ 28,525,569
Mandatorily redeemable preferred stock	—	—	225,000
Accrued interest and dividends payable	**40,804**	42,570	57,943
Dividends and patronage refunds payable	**103,062**	93,665	98,694
Pension and other postretirement benefits liability	**406,253**	370,568	336,741
Advanced conditional payments	**9,019**	5,553	6,842
Other liabilities	**163,313**	188,894	142,538
Total liabilities	**27,211,326**	27,989,689	29,393,327
Commitments and contingencies (Note 16)			
Shareholders' Equity			
Perpetual preferred stock (Note 11)	**275,250**	400,000	400,000
Protected borrower equity	**1,351**	3,269	3,641
Capital stock and participation certificates	**157,260**	159,334	150,031
Additional paid in capital (Notes 11 and 23)	**60,270**	7,873	—
Retained earnings			
Allocated	**1,531,077**	1,415,359	1,318,996
Unallocated	**3,076,113**	2,756,592	2,575,592
Accumulated other comprehensive income (loss)	**(213,502)**	(221,248)	(291,580)
Total shareholders' equity	**4,887,819**	4,521,179	4,156,680
Total liabilities and equity	**$ 32,099,145**	$ 32,510,868	$ 33,550,007

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

Combined Statements of Income

(dollars in thousands)	2012	2011	2010
	For the year ended December 31,		
Interest Income			
Investment securities	**$ 190,499**	$ 203,992	$ 200,156
Loans	**1,142,703**	1,196,005	1,223,277
Other	**7,823**	11,432	15,485
Total interest income	**1,341,025**	1,411,429	1,438,918
Interest Expense	**209,967**	292,980	384,181
Net interest income	**1,131,058**	1,118,449	1,054,737
Provision for loan losses	**98,075**	215,852	138,228
Net interest income after provision for loan losses	**1,032,983**	902,597	916,509
Noninterest Income			
Loan fees	**36,717**	40,792	43,736
Fees for financially related services	**11,118**	9,851	10,939
Gains (losses) from other property owned, net	**(33,562)**	(40,284)	(30,469)
Gains (losses) on investments, net (Note 3)	**—**	2,973	1,406
Total other-than-temporary impairment losses on investments (Note 3)	**(22,585)**	(7,368)	(9,250)
Portion of loss recognized in other comprehensive income (loss) (Note 3)	**18,652**	(1,916)	(2,662)
Net other-than-temporary impairment losses on investments	**(3,933)**	(9,284)	(11,912)
Gains (losses) on sale of rural home loans, net	**2,276**	2,173	2,829
Gains from sale of premises and equipment, net	**959**	1,407	976
Patronage refunds from other Farm Credit System institutions	**3,352**	3,072	3,351
Insurance Fund refund	**33,744**	—	34,327
Other noninterest income	**6,294**	2,633	5,609
Total noninterest income	**56,965**	13,333	60,792
Noninterest Expenses			
Salaries and employee benefits	**264,678**	257,072	248,824
Occupancy and equipment	**37,186**	36,458	37,502
Insurance Fund premiums	**11,149**	13,908	12,418
Other operating expenses	**92,937**	85,447	78,901
Called debt expense	**39,445**	27,450	38,419
Correspondent lending servicing expense	**9,629**	8,847	8,413
Other noninterest expense	**—**	106	278
Total noninterest expenses	**455,024**	429,288	424,755
Income before income taxes	**634,924**	486,642	552,546
Provision for income taxes	**1,265**	713	667
Net income	**$ 633,659**	$ 485,929	$ 551,879

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

Combined Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2012	2011	2010
Net income	**$ 633,659**	$ 485,929	$ 551,879
Other comprehensive income, net of tax			
Unrealized gains (losses) on investments available for sale:			
Other-than-temporarily impaired (Note 3)	**(1,127)**	2,449	14,460
Not other-than-temporarily impaired (Note 3)	**42,154**	93,581	150,759
Change in value of firm commitments - when issued securities (Note 18)	**7,080**	3,185	(8,751)
Employee benefit plans adjustments (Note 13)	**(40,361)**	(28,883)	(9,402)
Other comprehensive income (Note 20)	**7,746**	70,332	147,066
Net income	**$ 641,405**	$ 556,261	$ 698,945

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

Combined Statements of Changes in Shareholders' Equity

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Additional Paid in Capital	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at December 31, 2009	$ 400,000	$ 4,205	$138,504	$ —	$ 1,199,441	$ 2,323,523	$ (438,646)	$ 3,627,027
Comprehensive income						551,879	147,066	698,945
Protected borrower equity retired		(564)						(564)
Capital stock/participation certificates issued (retired), net			10,608					10,608
Dividends declared/paid			919			(1,203)		(284)
Perpetual preferred stock dividends paid						(27,413)		(27,413)
Patronage distribution								
Cash						(96,622)		(96,622)
Qualified allocated retained earnings					24,726	(24,726)		—
Nonqualified allocated retained earnings					51,457	(51,457)		—
Nonqualified retained earnings					101,245	(101,245)		—
Retained earnings retired					(56,654)			(56,654)
Patronage distribution adjustment					(1,219)	2,856		1,637
Balance at December 31, 2010	$ 400,000	$ 3,641	$150,031	$ —	$ 1,318,996	$ 2,575,592	$ (291,580)	$ 4,156,680
Comprehensive income						485,929	70,332	556,261
Protected borrower equity retired		(372)						(372)
Capital stock/participation certificates issued (retired), net			7,996					7,996
Dividends declared/paid			1,314			(1,363)		(49)
Perpetual preferred stock dividends paid						(27,413)		(27,413)
Patronage distribution								
Cash						(91,015)		(91,015)
Qualified allocated retained earnings					10,136	(10,136)		—
Nonqualified allocated retained earnings					60,966	(60,966)		—
Nonqualified retained earnings					84,680	(84,680)		—
Retained earnings retired					(59,607)	701		(58,906)
Equity issued as result of merger (Note 23)		267	1,936	7,873				10,076
Equity retired as result of merger (Note 23)		(267)	(1,936)			(31,458)		(33,661)
Patronage distribution adjustment			(7)		188	1,401		1,582
Balance at December 31, 2011	$ 400,000	$ 3,269	$159,334	$ 7,873	$ 1,415,359	$ 2,756,592	$ (221,248)	$ 4,521,179
Comprehensive income						**633,659**	**7,746**	**641,405**
Preferred stock issued								**—**
Protected borrower equity retired		**(1,918)**						**(1,918)**
Capital stock/participation certificates issued (retired), net			**(3,175)**					**(3,175)**
Redemption of perpetual preferred stock (Note 11)	**(124,750)**			**36,580**				**(88,170)**
Dividends declared/paid			**1,101**			**(1,299)**		**(198)**
Perpetual preferred stock dividends paid						**(17,978)**		**(17,978)**
Patronage distribution								
Cash						**(99,645)**		**(99,645)**
Qualified allocated retained earnings					**15,232**	**(15,232)**		**—**
Nonqualified allocated retained earnings					**63,802**	**(63,802)**		**—**
Nonqualified retained earnings					**100,756**	**(100,756)**		**—**
Retained earnings retired					**(66,052)**	**304**		**(65,748)**
Equity issued as result of merger (Note 23)			**3,163**	**15,817**	**10,463**			**29,443**
Equity retired as result of merger (Note 23)			**(3,163)**		**(10,463)**	**(14,509)**		**(28,135)**
Patronage distribution adjustment					**1,980**	**(1,221)**		**759**
Balance at December 31, 2012	**$ 275,250**	**$ 1,351**	**$157,260**	**$ 60,270**	**$ 1,531,077**	**$ 3,076,113**	**$ (213,502)**	**$ 4,887,819**

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

Combined Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2012	2011	2010
Cash flows from operating activities:			
Net income	**$ 633,659**	$ 485,929	$ 551,879
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation on premises and equipment	**16,752**	16,691	18,262
Amortization of net deferred loan origination (fees) costs	**(8,700)**	(10,130)	(10,253)
Premium amortization (discount accretion) on investment securities	**4,646**	7,126	23,889
(Premium amortization) discount accretion on bonds and notes	**5,350**	144	(4,670)
Amortization (accretion) of yield mark resulting from merger	**(7,808)**	(13,740)	—
Provision for loan losses	**98,075**	215,852	138,228
(Gains) losses on other property owned	**30,181**	36,203	28,269
(Gains) losses from sale of premises and equipment, net	**(959)**	(1,407)	(976)
Net impairment losses on investments	**3,933**	9,284	11,912
(Gains) losses on investments, net	**—**	(2,973)	(1,406)
(Gains) losses on sales of rural home loans, net	**(2,276)**	(2,173)	(2,829)
Net change in loans held for sale	**21,445**	26,367	30,052
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	**15,310**	(1,816)	10,504
(Increase) decrease in other assets	**(11,795)**	5,604	(19,146)
Increase (decrease) in accrued interest and dividends payable	**(1,766)**	(15,373)	(25,221)
Increase (decrease) in pension and other postretirement benefits liability	**(4,676)**	4,824	2,605
Increase (decrease) in other liabilities	**(25,581)**	37,072	(21,208)
Total adjustments	**132,131**	311,555	178,012
Net cash provided by (used in) operating activities	**765,790**	797,484	729,891
Cash flows from investing activities:			
Investment securities purchased	**(1,441,356)**	(1,184,116)	(2,073,150)
Investment securities sold or matured	**1,779,141**	1,571,081	2,362,416
Net (increase) decrease in loans	**(579,001)**	174,446	(154,601)
(Increase) decrease in investments in other Farm Credit System institutions	**(1,191)**	(1,201)	10,595
Purchases of other investments	**(484)**	(3,274)	(4,359)
Proceeds from payments received on other investments	**83,683**	82,542	81,346
Purchase of premises and equipment, net	**(45,344)**	(19,347)	(17,449)
Proceeds from sale of premises and equipment, net	**2,196**	2,313	1,318
Proceeds from sale of other property owned	**78,855**	85,682	54,199
Net cash provided by (used in) investing activities	**(123,501)**	708,126	260,315
Cash flows from financing activities:			
Bonds and notes issued	**40,926,661**	41,648,716	56,271,307
Bonds and notes retired	**(41,720,459)**	(42,878,364)	(56,627,514)
Net increase (decrease) in advanced conditional payments	**3,466**	(1,289)	(1,120)
Redemption of mandatorily redeemable preferred stock	**—**	(225,000)	—
Protected borrower equity retired	**(1,918)**	(372)	(564)
Capital stock and participation certificates issued/retired, net	**(3,175)**	7,996	10,608
Patronage refunds and dividends paid	**(89,687)**	(94,511)	(76,197)
Redemption of perpetual preferred stock (Note 11)	**(88,170)**	—	—
Dividends paid on perpetual preferred stock	**(17,978)**	(27,413)	(27,413)
Retained earnings retired	**(65,748)**	(58,906)	(56,654)
Net cash provided by (used in) financing activities	**(1,057,008)**	(1,629,143)	(507,547)
Net increase (decrease) in cash and cash equivalents	**(414,719)**	(123,533)	482,659
Cash and cash equivalents, beginning of period	**1,340,167**	1,463,700	981,041
Cash and cash equivalents, end of period	**$ 925,448**	$ 1,340,167	$ 1,463,700
Supplemental schedule of non-cash investing and financing activities:			
Financed sales of other property owned	**$ 19,794**	$ 7,565	$ 6,442
Receipt of property in settlement of loans	**80,683**	141,178	161,972
Change in unrealized gains (losses) on investments, net	**41,027**	96,030	165,219
Employee benefit plans adjustments (Note 13)	**40,361**	28,883	9,402
Equity issued as result of merger (Note 23)	**29,443**	10,076	—
Equity retired as result of merger (Note 23)	**(28,135)**	(33,661)	—
Adjustment of allowance for loan losses related to Association mergers (Note 4)	**(1,409)**	(16,097)	—
Change in fair value of derivative instruments	**—**	(9,100)	8,781
Non-cash changes related to hedging activities:			
Increase (decrease) in bonds and notes	**$ (10,943)**	$ (9,917)	$ (7,567)
Decrease (increase) in other assets	**10,943**	9,917	7,796
Increase (decrease) in other liabilities	**—**	—	(229)
Supplemental information:			
Interest paid	**$ 207,648**	$ 309,770	$ 414,072
Taxes paid, net	**552**	828	1,032

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

Notes to the Combined Financial Statements

Note 1 — Organization and Operations

A. **Organization:** AgFirst Farm Credit Bank (the Bank or AgFirst) is one of the banks of the Farm Credit System (the System), a nationwide system of cooperatively owned banks and associations and related service organizations. The System was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (the Farm Credit Act).

The nation is currently served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities. AgFirst is chartered to serve the states of Pennsylvania, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Alabama, Mississippi, the Commonwealth of Puerto Rico and portions of the states of Ohio, Tennessee, Kentucky and Louisiana.

Each FCB and the ACB serves one or more Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans, and/or Agricultural Credit Associations (ACAs) that originate both long-term and short- and intermediate-term loans. PCAs, FLCAs, and ACAs are collectively referred to as associations. AgFirst and its related associations (Associations or District Associations) are collectively referred to as the District. The District Associations jointly own all of AgFirst's voting stock. As of December 31, 2012, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with FLCA and PCA subsidiaries. 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, which then changed its name to Farm Credit of Florida, ACA. Effective July 1, 2012, Chattanooga , ACA, merged with and into Jackson Purchase, ACA, which then changed its name to River Valley AgCredit, ACA, reducing the number of Associations in the District to nineteen.

Each FCB and the ACB are responsible for supervising the activities of the Associations within their districts. The FCBs and Associations make loans for the benefit of eligible borrowers/shareholders for qualified agricultural and rural purposes. District Associations borrow the majority of their funds from their related bank. The FCBs and the ACB obtain a substantial majority of funds for their lending operations through the sale of consolidated Systemwide bonds and notes to the public, but also obtain a portion of their funds from internally generated earnings, from the issuance of common and preferred stock and, to a lesser extent, from the issuance of subordinated debt.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of System institutions to ensure their compliance with the Farm Credit Act, FCA regulations, and safe and sound banking practices.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used: (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Associations, into the Insurance Fund, based on its annual average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions.

Premiums are charged based upon each bank's pro rata share of outstanding Insured Debt. Premiums of up to 20 basis points on adjusted Insured Debt obligations can be assessed along with a risk surcharge of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments. For 2010, 2011 and 2012, the premium was 5, 6, and 5 basis points, respectively. Effective January 1, 2013, the premium was increased to 10 basis points.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity, persons eligible to borrow and financial services which can be offered by AgFirst and the District Associations.

AgFirst and/or the District Associations are authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, rural residents, and farm-related businesses. AgFirst may also lend to other financial institutions qualified to engage in lending to eligible borrowers. The District Associations may also serve as an intermediary in offering credit life insurance and multi-peril crop insurance, and in providing additional services to borrowers.

The District Associations borrow from AgFirst and in turn may originate and service both long-term real estate mortgage and short- and intermediate-term loans to their members. As noted above, as of January 1, 2006, all Associations have reorganized into parent-subsidiary structures and operate their long-term mortgage activities through FLCA subsidiaries and their short- and intermediate-term lending activities through PCA subsidiaries or the ACA.

AgFirst, in conjunction with other System banks, jointly owns service organizations, which were created to provide a variety of services for the System:

- *Federal Farm Credit Banks Funding Corporation (Funding Corporation)* — provides for the issuance, marketing and processing of Systemwide Debt Securities using a network of investment dealers and dealer banks. The Funding Corporation also provides financial management and reporting services.

- *FCS Building Association* — leases premises and equipment to the FCA, as required by the Farm Credit Act.

- *Farm Credit System Association Captive Insurance Company* — being a reciprocal insurer, provides insurance services to its member organizations.

These investments are accounted for using the cost method. In addition, the *Farm Credit Council* acts as a full-service federated trade association which represents the System before Congress, the Executive Branch and others, and provides support services to System institutions on a fee basis.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of combined financial statements in conformity with GAAP requires the managements of AgFirst and District Associations to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results can differ from these estimates.

The accompanying combined financial statements include the accounts of AgFirst (including the Finance Corporation) and the District Associations, and reflect the investments in and allocated earnings of the service organizations in which AgFirst and Associations have partial ownership interests. All significant transactions and balances between AgFirst and District Associations have been eliminated in combination.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

A. **Cash and Cash Equivalents:** Cash and Cash Equivalents include cash on hand and short-term investments with original maturities of three months or less.

B. **Investment Securities:** The District, as permitted under the FCA regulations, holds investments for purposes of maintaining a liquidity reserve, managing short-term surplus funds, managing interest rate risk and, in the case of certain Mission-Related Investments, to stimulate economic growth and development in rural areas. Investments are classified based on management's intention on the date of purchase and are generally recorded in the Combined Balance Sheet as securities on the trade date. Investment securities which management has the intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included in other comprehensive income (OCI) in Shareholders' Equity.

   The District reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in other comprehensive income, unless the investment is deemed to be other than temporarily impaired. Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If the District intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the District does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income.

   In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the District will record an additional other-than-temporary impairment and adjust the yield of the security prospectively. The amount of total other-than-temporary impairment for an available-for-sale security that previously was impaired is determined as the difference between its carrying amount prior to the determination of other-than-temporary impairment and its fair value.

   Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

C. **Loans and Allowance for Loan Losses**: Long-term real estate mortgage loans generally have original maturities up to 30 years. Substantially all short- and intermediate-term loans for agricultural production or operating purposes have maturities of 10 years or less.

   Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount is deferred as part of the carrying amount of the loan and the net difference is amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

   Acquired loans are recorded at estimated fair value on their purchase date with no carryover of any related allowance for loan losses. Acquired loans were segregated between those considered to be credit impaired and those deemed performing. To make this determination, management considered such factors as past due status, nonaccrual status and credit risk ratings. The fair value of acquired performing loans was determined by discounting expected cash flows, both principal and interest, for each loan at prevailing market interest rates. The difference between the fair value and principal balances due at acquisition date, the fair value discount, is accreted into income over the estimated life of each loan.

   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 holder 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, if pooled. 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 purchased impaired 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.

   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 and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until it is formally restructured or until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full.

Loans are generally placed in nonaccrual status when principal or interest is delinquent for 90 days or more (unless adequately secured and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) and/or charged against the allowance for loan losses (if accrued in prior years).

Loans are charged-off at the time they are determined to be uncollectible.

When loans are in nonaccrual status, if collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash is generally recognized as interest income. Otherwise, loan payments are applied against the recorded investment in the loan asset. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss."

In cases where a borrower experiences financial difficulties and the Bank or District Associations makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring if for economic or legal reasons related to the debtor's financial difficulties the District grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained 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 District has been identified. Certain loan pools acquired from several of the District Associations are analyzed in accordance with the selling Association's allowance methodologies for assigning general and specific allowances. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The District considers the following factors, among others, when determining the allowance for loan losses:

- Credit risk classifications,
- Collateral values,
- Risk concentrations,
- Weather related conditions,
- Current production and economic conditions, and
- Prior loan loss experience.

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses incurred in the remainder of the loan portfolio at the financial statement date, which excludes loans included under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the District's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The District uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the 14 categories carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows more rapidly as a loan moves from a "9" to other assets especially mentioned and grows significantly as a loan moves to a substandard (viable) level. A substandard (non-viable) rating indicates that the probability of default is almost certain.

D. **Other Investments:** Other Investments include Tobacco Buyout Successor-in-Interest Contracts (SIIC) which qualify as Mission-Related Investments under FCA regulations. Under the SIIC, the Tobacco quota holders and producers may sell their rights to receive SIIC contract payments to a third party. The successor purchases the entire contract and all related rights and obligations associated with the contract. These investments in SIIC are purchased at a discount. Contract payments are made by the United States Department of Agriculture (USDA) in equal annual payments. Interest income is recognized from the accretion of discounts using the effective interest method.

E. **Investments in Other Farm Credit System Institutions:** Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are analyzed for impairment similar to investment securities as discussed in section B above.

F. **Other Property Owned:** Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income and expenses from operations and carrying value adjustments related to other property owned are included in Gains (Losses) from Other Property Owned, Net in the Combined Statements of Income.

G. **Premises and Equipment:** Premises and equipment are carried at cost less accumulated depreciation. Land is carried at cost. Depreciation is generally provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Gains and losses on dispositions are reflected in current operating results. Maintenance and repairs are charged to operating expense and improvements that extend the useful life of the asset are capitalized.

H. **Debt Issuance Cost:** Direct expenses incurred in issuing debt and mandatorily redeemable preferred stock are deferred and amortized using the straight-line method (which approximates the interest method) over the term of the related indebtedness or term of the mandatorily redeemable preferred stock.

I. **Advanced Conditional Payments:** The District Associations are authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, those advanced conditional payments (ACPs) are netted against the borrower's related loan balance. ACPs which are held by the District but cannot be used to reduce outstanding loan balances, except at the direction of the borrower, are classified as Other Liabilities in the Combined Balance Sheets. ACPs are not insured, and interest is generally paid by the associations on such balances. The outstanding gross balances of advance conditional payments netted against loans at December 31, 2012, 2011 and 2010 were \$148.9 million, \$162.1 million, and \$161.7 million, respectively. The outstanding gross balances of advance conditional payments classified as other liabilities at December 31, 2012, 2011 and 2010 were \$9.0 million, \$5.6 million, and \$6.8 million, respectively.

J. **Employee Benefit Plans:** The employees of the District may participate in one of four defined benefit retirement plans. The AgFirst Farm Credit Retirement Plan (FAP) covers most eligible employees of fifteen Associations and AgFirst hired prior to January 1, 2003. The Independent Associations' Retirement Plan (IAR) covers eligible employees of three ACAs whose employment date is prior to January 1, 2009. The First South Farm Credit, ACA Retirement Plan (FS Plan) covers eligible employees of a single ACA whose employment date is prior to January 1, 2009. The AgFirst Farm Credit Cash Balance Retirement Plan covers eligible employees who were either hired on or after January 1, 2003 for institutions in the FAP Plan or hired on or after January 1, 2009 for institutions in the IAR Plan or FS Plan. Each plan is noncontributory and covers substantially all employees of the participating entities. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. Pension benefits are primarily based on eligible compensation and years of service.

In addition to providing pension benefits, the Bank and District Associations may provide certain health care and life insurance benefits for the retired employees (other postretirement benefits) through two other postretirement benefit plans. Substantially all employees may become eligible for these benefits if they reach early retirement age, as defined by the plans, while working for the Bank or District Association. The plans are unfunded with expenses paid as incurred.

Substantially all District employees are eligible to participate in the defined contribution Farm Credit Benefits Alliance 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by Internal Revenue Code. AgFirst and District Associations offer a matching contribution up to a maximum employee contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded.

AgFirst and certain District Associations also individually sponsor supplemental defined benefit and defined contribution retirement plans and offer deferred compensation plans for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the District's Combined Balance Sheets in Other Liabilities.

In accordance with FASB guidance, defined benefit plans covering more than one entity within the District represent multi-employer plans. See Note 13, *Employee Benefit Plans*, for additional financial information for these plans, including the impact of this guidance on the current period.

K. **Income Taxes:** AgFirst and FLCA subsidiaries of ACA parent companies are exempt from federal and other income taxes as provided in the Farm Credit Act.

The ACAs provide for federal and certain other income taxes and are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue Code. Most District Associations operate as cooperatives under Subchapter T and can deduct from taxable income, amounts distributed as qualified patronage refunds to borrowers in the form of cash, stock, or allocated retained earnings. Amounts distributed as nonqualified patronage refunds are tax deductible by the ACAs only when redeemed. Income taxes are provided only on the earnings not distributed or not expected to be distributed as qualified patronage refunds or those earnings that are exempt from tax due to the long-term lending exemption.

District Associations recognize deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. District Associations may provide a valuation allowance for deferred tax assets to the extent that it is more likely than not that they will not be realized.

At December 31, 2012, deferred income taxes had not been provided by certain District Associations on approximately \$125.1 million of patronage refunds received prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. Under GAAP, deferred taxes must be provided on all patronage refunds made to taxable District Associations after December 31, 1992, except to the extent that a portion of these amounts will be distributed in the form of patronage to District Association members.

No deferred taxes have been provided on AgFirst's unallocated earnings. AgFirst currently has no plans to distribute unallocated AgFirst earnings and does not contemplate circumstances, which, if distributions were made, would result in taxes being paid at the Association level.

There were no uncertain positions for income taxes at December 31, 2012.

L. **Derivative Instruments and Hedging Activity:** The Bank is party to derivative financial instruments, primarily interest rate swaps, which are principally used to reduce funding costs. The Bank may also enter into forward contracts to create a fixed purchase price. Derivatives are included in the Combined Balance Sheets as assets and liabilities and reflected at fair value.

Changes in the fair value of a derivative are recorded in current period earnings or accumulated other comprehensive income (AOCI) depending on the risk being hedged. For fair-value hedge transactions which hedge changes in the fair value of assets, liabilities, or firm commitments, changes in the fair value of the derivative will generally be offset by changes in the hedged item's fair value and changes reported in earnings. For cash-flow hedge transactions, which hedge the variability of future cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative will generally be deferred and reported in AOCI. The gains and losses on the derivative that are deferred and reported in AOCI will be reclassified into earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all hedges is recorded in current period earnings. For derivatives not designated as a hedging instrument, if any, the related change in fair value is recorded in current period earnings.

The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to (1) specific assets or liabilities on the balance sheet or

(2) firm commitments or forecasted transactions. The Bank also formally assesses at the hedge's inception whether the derivatives that are used in hedging transactions will be highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. The Bank uses regression analysis (or other statistical analysis) to assess the effectiveness of its hedges on an ongoing basis. The Bank discontinues hedge accounting prospectively when the Bank determines that a hedge has not been or is not expected to be effective as a hedge. For cash flow hedges, any remaining AOCI would be amortized into earnings over the remaining life of the original hedged item. For fair value hedges, changes in the fair value of the derivative will be recorded in current period earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Bank will carry the derivative at its fair value on the balance sheet, recognizing changes in fair value in current period earnings.

The Bank may occasionally purchase a financial instrument in which a derivative instrument is "embedded." Upon purchasing the financial instrument, the Bank assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and may be designated as either a fair value or cash flow hedge. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Bank could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

M. **Valuation Methodologies:** Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when active markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable active market exists. Management utilizes third party valuation services to obtain fair value prices for the majority of the District's investment securities. Management also utilizes significant estimates and assumptions to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, pension and other postretirement benefit obligations, certain derivatives, certain investment securities and other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on the District's results of operations.

FASB guidance defines fair value 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. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value as discussed in Note 17.

N. **Off-balance-sheet Credit Exposures:** Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee. Commercial letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party. The credit risk associated with commitments to extend credit and commercial letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

O. **Acquisition Accounting:** Acquisitions are accounted for under the acquisition method. Purchased assets, including identifiable intangibles, and assumed liabilities are recorded at their respective acquisition date fair values. If the fair value of net assets purchased exceeds the consideration given, a "bargain purchase gain" is recognized. If the consideration given exceeds the fair value of the net assets received, goodwill is recognized. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan losses. See Loans and Allowance for Loan Losses section above for accounting policy regarding loans acquired in a business combination.

All identifiable intangible assets that are acquired in a business combination are recognized at fair value on the acquisition date. Identifiable intangible assets are recognized separately if they arise from contractual or other legal rights or if they are separable (i.e., capable of being sold, transferred, licensed, rented, or exchanged separately from the entity).

The acquisition method of accounting requires the financial statement presentation of combined balances as of the date of the merger, but of only the acquirer for previous periods.

P. **Recent Accounting Developments:** 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 current 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 adoption is permitted. The District elected early adoption of this guidance (see Note 20). This election had no effect on the District's financial condition or results of operations.

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.

In December 2011, the FASB issued Accounting Standards Update (ASU) 2011-11, "Balance Sheet (Topic 220) - 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 will not impact the District's financial condition or its results of operations, but will result in additional disclosures.

In September 2011, the FASB issued ASU 2011-09, "Compensation (Topic 715): Retirement Benefits – Multiemployer Plans." The amendment was intended to provide for more information about an employer's financial obligations to multiemployer pension and other postretirement benefit plans, which should help financial statement users better understand the financial health of significant plans in which the employer participates. The additional disclosures include the following: (1) a description of the nature of plan benefits; (2) a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer, and (3) other quantitative information to help users understand the financial information about the plan. The amendments were effective for annual periods ending after December 15, 2011 for public entities. The amendments should be applied retrospectively for all prior periods presented. The adoption did not impact the District's financial condition or results of operations but did result in additional disclosures (see Note 13).

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This amendment was intended to increase the prominence of other comprehensive income in financial statements. The current option that permits the presentation of other comprehensive income in the statement of changes in equity has been eliminated. The main provisions of the guidance provides that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements: (1) A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income; (2) In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. With either approach, an entity is required to present reclassification adjustments for items reclassified from other comprehensive income to net income in the statement(s). This guidance is to be applied retrospectively. For public entities, it was effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The adoption of this guidance did not impact the District's financial condition or results of operations, but resulted in changes to the presentation of comprehensive income. In December 2011, the FASB issued guidance (ASU 2011-12; Topic 220) to defer the new requirement to present components of accumulated other comprehensive income reclassified as components of net income on the face of the financial statements. All other requirements in the guidance for comprehensive income are required to be adopted as set forth in the June 2011 guidance. The deferral was effective at the same time the new standard on comprehensive income is adopted.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The amendments change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments include the following: (1) Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets (does not apply to financial assets and liabilities); (2) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities. As a result, an entity should measure the fair value of its own equity instruments from the perspective of a market participant that holds the instruments as assets; (3) Clarifies that a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement that is categorized within Level 3 of the fair value hierarchy; (4) An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to those risks; (5) Clarifies that the application of premiums and discounts in a fair value measurement is related to the unit of account for the asset or liability being measured at fair value. Premiums or discounts related to size as a characteristic of the entity's holding (that is, a blockage factor) instead of as a characteristic of the asset or liability (for example, a control premium), are not permitted. A fair value measurement that is not a Level 1 measurement may include premiums or discounts other than blockage factors when market participants would incorporate the premium or discount into the measurement at the level of the unit of account specified in other guidance; (6) Expansion of the disclosures about fair value measurements. The most significant change requires entities, for their recurring Level 3 fair value measurements, to disclose quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed. The amendments are to be applied prospectively. The amendments were effective during interim and annual periods beginning after December 15, 2011. Early application was not permitted. The adoption of this guidance did not impact the District's financial condition or results of operations, but resulted in additional disclosures.

In April 2011, the FASB issued ASU 2011-02, "Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring," which provides for clarification on whether a restructuring constitutes a troubled debt restructuring (TDR). In evaluating whether a restructuring is a TDR, a creditor must separately conclude that both of the following exists: (1) the restructuring constitutes a concession, and (2) the debtor is experiencing financial difficulties. The guidance was effective for nonpublic entities, including the District, for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The guidance should be applied retrospectively to the beginning of the annual period of adoption. The new disclosures about TDR activity required by the guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses," as discussed below, are effective for annual reporting periods ending after December 15, 2011.

In January 2011, the FASB issued ASU 2011-01, "Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings." This amendment temporarily delayed the effective date of the disclosures about TDRs required by the guidance previously issued on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The effective date of the new disclosures about TDRs coincides with the guidance for determining what constitutes a TDR as described above. The adoption of this guidance had no material impact on the District's financial condition and results of operations but resulted in significant additional disclosures (see Note 4).

Note 3 — Investment Securities

The District's investments consist primarily of mortgage-backed securities (MBSs) collateralized by U.S. government or U.S. agency guaranteed residential mortgages. They are held to maintain a liquidity reserve, manage short-term surplus funds, and manage interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

Included in the available-for-sale investments are non-agency collateralized mortgage obligations (CMOs) and asset backed securities (ABSs). These securities must meet the applicable FCA regulatory guidelines, which require them to be high quality, senior class, and rated in the top category (AAA/Aaa) by Nationally Recognized Statistical Rating Organizations (NRSROs) at the time of purchase. To achieve these ratings, the securities may have a guarantee of timely payment of principal and interest, credit enhancements achieved through over-collateralization or other means, and priority of payments for senior classes over junior classes. All of the non-agency securities owned have credit enhancement features including senior/subordinate structure and/or are backed by a bond insurer.

The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to provide notification to the FCA. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at December 31, 2012 had a fair value of $203.2 million and $26.5 million, respectively. For each of these investment securities in the District's portfolio rated below AAA/Aaa, the FCA has approved, with conditions, for the District to continue to hold these investments.

Held-to-maturity 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. FCA approval has been obtained to allow the District to continue to hold five Rural America Bonds whose credit quality has deteriorated beyond the program limits.

Available-for-sale

At December 31, 2012, the amortized cost and fair value of debt securities held by the Bank as available-for-sale investments were $6.708 billion (99.29 percent) and $6.883 billion (99.23 percent), respectively, of the District total amounts.

A summary of the amortized cost and fair value of District debt securities held as available-for-sale investments at each period end follows.

	December 31, 2012				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	$ 4,814,556	$ 198,488	$ (12,431)	$ 5,000,613	2.18%
U.S. Govt. Agency MBS	1,621,428	30,002	(7,203)	1,644,227	1.17
Non-Agency Securities (a)	246,179	27	(41,507)	204,699	0.63
Asset-Backed Securities (a)	26,219	8,236	(1,065)	33,390	0.75
Mission Related Investments	47,644	6,103	(256)	53,491	5.96
Total	$ 6,756,026	$ 242,856	$ (62,462)	$ 6,936,420	1.90%

	December 31, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	$ 4,831,529	$ 174,101	$ (3,129)	$ 5,002,501	2.46%
U.S. Govt. Agency MBS	1,634,942	26,459	(10,572)	1,650,829	1.50
Non-Agency Securities (b)	292,075	248	(50,092)	242,231	0.86
Asset-Backed Securities (b)	34,736	2,239	(6,651)	30,324	0.70
Mission Related Investments	47,456	6,909	(145)	54,220	6.14
Total	$ 6,840,738	$ 209,956	$ (70,589)	$ 6,980,105	2.18%

	December 31, 2010				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	$ 4,836,617	$ 116,377	$ (5,983)	$ 4,947,011	2.19%
U.S. Govt. Agency MBS	1,743,193	26,768	(22,570)	1,747,391	1.46
Non-Agency Securities (c)	358,939	59	(62,547)	296,451	0.70
Asset-Backed Securities(c)	43,203	2,355	(11,121)	34,437	0.70
Total	$ 6,981,952	$ 145,559	$ (102,221)	$ 7,025,290	1.92%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of $27.9 million for Non-Agency CMOs and $0 million for Asset-Backed Securities.
(b) Gross unrealized losses include non-credit related other-than temporary impairment recognized in AOCI of $16.0 million for Non-Agency CMOs and $5.0 million for Asset-Backed Securities.
(c) Gross unrealized losses include non-credit related other-than temporary impairment recognized in AOCI of $13.9 million for Non-Agency CMOs and $9.1 million for Asset-Backed Securities.

Held-to-maturity

At December 31, 2012, the amortized cost and fair value of debt securities held by the Bank as held-to-maturity investments were $601 thousand (84.36 percent) and $656 thousand 84.76 percent), respectively, of the District total amounts.

A summary of the amortized cost and fair value of District debt securities held as held-to-maturity investments at each period end follows.

	December 31, 2012				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	$ 442,031	$ 38,420	$ (148)	$ 480,303	5.51%
Asset-Backed Securities	68,554	1,454	(340)	69,668	1.58
Mission Related Investments	202,412	22,055	(163)	224,304	6.04
Total	$ 712,997	$ 61,929	$ (651)	$ 774,275	5.28%

	December 31, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	$ 691,331	$ 59,389	$ (188)	$ 750,532	5.35%
Asset-Backed Securities	74,777	943	(406)	75,314	1.61
Mission Related Investments	209,340	18,472	(381)	227,431	6.01
Total	$ 975,448	$ 78,804	$ (975)	$ 1,053,277	5.21%

	December 31, 2010				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	$ 913,648	$ 57,611	$ (248)	$ 971,011	5.35%
Asset-Backed Securities	82,452	664	(541)	82,575	1.52
Mission Related Investments	238,162	7,955	(1,615)	244,502	6.08
Total	$ 1,234,262	$ 66,230	$ (2,404)	$ 1,298,088	5.24%

Proceeds from sales and realized gains and losses on all sales of investment securities are as follows:

	Year Ended December 31,		
(dollars in thousands)	2012	2011	2010
Proceeds from sales	$ 486	$ 57,321	$ 100,446
Realized gains	–	2,973	1,406
Realized losses	–	–	–

A summary of the contractual maturity, estimated fair value, and amortized cost of investment securities at December 31, 2012 follows:

Available-for-sale

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. GNMA MBS/CMOs	$ –	– %	$ 78	0.41 %	$ 4,975	1.54 %	$ 4,995,560	2.18 %	$ 5,000,613	2.18 %
U.S. Govt. Agency MBS	–	–	10,584	2.84	12,022	0.95	1,621,621	1.16	1,644,227	1.17
Non-Agency CMOs	–	–	–	–	–	–	204,699	0.63	204,699	0.63
Asset-Backed Securities	–	–	–	–	–	–	33,390	0.75	33,390	0.75
Mission Related Investments	–	–	2,000	5.96	1,131	5.96	50,360	5.96	53,491	5.96
Total fair value	$ –	– %	$ 12,662	3.33 %	$ 18,128	1.38 %	$ 6,905,630	1.90 %	$ 6,936,420	1.90 %
Total amortized cost	$ –		$ 12,345		$ 17,656		$ 6,726,025		$ 6,756,026	

Held-to-maturity

	Due in 1 year or less		Due after 1 year through 5 years		Due after 5 years through 10 years		Due after 10 years		Total	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. Agency MBS	$ –	– %	$ –	– %	$ 882	4.87 %	$ 441,149	5.51 %	$ 442,031	5.51 %
Asset-Backed Securities	987	1.81	31,333	1.65	23,119	1.45	13,115	1.61	68,554	1.58
Mission Related Investments	4,799	5.13	31,304	6.71	20,383	6.13	145,926	5.91	202,412	6.04
Total amortized cost	$ 5,786	4.56 %	$ 62,637	4.18 %	$ 44,384	3.67 %	$ 600,190	5.52 %	$ 712,997	5.28 %
Total fair value	$ 5,856		$ 66,935		$ 46,230		$ 655,254		$ 774,275	

Substantially all of these investments have contractual maturities in excess of ten years. However, expected maturities for these types of securities will 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. This also applies to those securities other-than-temporarily impaired for which a credit loss has been recognized but noncredit-related losses continue to remain unrealized. The following tables show the fair value and gross unrealized losses for all investments that have been 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.

	December 31, 2012					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. GNMA MBS/CMOs	$ 318,804	$ (10,537)	$ 183,098	$ (1,894)	$ 501,902	$ (12,431)
U.S. Govt. Agency MBS	98,792	(410)	446,896	(6,941)	545,688	(7,351)
Non-Agency CMOs	–	–	204,459	(41,507)	204,459	(41,507)
Asset-Backed Securities	665	(10)	9,526	(1,065)	10,191	(1,075)
Mortgage-Backed Securities	–	–	13,557	(330)	13,557	(330)
Mission Related Investments	10,190	(249)	2,517	(170)	12,707	(419)
Total	$ 428,451	$ (11,206)	$ 860,053	$ (51,907)	$ 1,288,504	$ (63,113)

	December 31, 2011					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. GNMA MBS/CMOs	$ 50,349	$ (29)	$ 260,966	$ (3,100)	$ 311,315	$ (3,129)
U.S. Govt. Agency MBS	227,888	(1,646)	442,141	(9,114)	670,029	(10,760)
Non-Agency CMOs	–	–	241,092	(49,869)	241,092	(49,869)
Asset-Backed Securities	423	(1)	44,651	(7,056)	45,074	(7,057)
Mortgage-Backed Securities	–	–	475	(223)	475	(223)
Mission Related Investments	38,038	(526)	–	–	38,038	(526)
Total	$ 316,698	$ (2,202)	$ 989,325	$ (69,362)	$ 1,306,023	$ (71,564)

	December 31, 2010					
	Less than 12 Months		Greater than 12 Months		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Govt. GNMA MBS/CMOs	$ 602,933	$ (2,529)	$ 325,506	$ (3,454)	$ 928,439	$ (5,983)
U.S. Govt. Agency MBS	219,661	(1,492)	627,100	(21,326)	846,761	(22,818)
Non-Agency Securities	–	–	292,015	(62,181)	292,015	(62,181)
Asset-Backed Securities	4,157	(18)	55,229	(11,644)	59,386	(11,662)
Mortgage-Backed Securities	–	–	926	(366)	926	(366)
Mission Related Investments	55,694	(1,389)	4,784	(226)	60,478	(1,615)
Total	$ 882,445	$ (5,428)	$ 1,305,560	$ (99,197)	$ 2,188,005	$ (104,625)

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 Bank 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 Bank 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 District 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. Based on the results of all analyses, the District has recognized credit-related other-than-temporary impairment during 2012 of $3.9 million in connection with non-agency ABS and CMO securities, which is included in Net Other-Than-Temporary Impairment Losses on Investments in the Statements of Income.

Since the District does not intend to sell these other-than-temporarily impaired debt securities and is not more likely than not to be required to sell before recovery, the total other-than temporary impairment is reflected in the Statements of Income with: (1) a net other-than-temporary impairment amount related to estimated credit loss, and (2) an amount relating to all other factors, recognized as a reclassification to or from Other Comprehensive Income.

The District 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 District obtains assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party.

Following are the assumptions used at:

Assumptions Used	Mortgage-backed Securities	Asset-backed Securities
December 31, 2012	0.53% to 32.62%	5.49% to 57.89%
Default rate by range	7.07% to 19.62%	5.65% to 17.57%
Prepayment rate by range	3.88% to 71.36%	56.22% to 100.00%
Loss severity by range	0.53% to 32.62%	5.49% to 57.89%
December 31, 2011	1.39% to 40.59%	21.42% to 82.87%
Default rate by range	6.73% to 19.96%	3.85% to 6.31%
Prepayment rate by range	4.27% to 60.03%	59.59% to 100.00%
Loss severity by range	1.39% to 40.59%	21.42% to 82.87%
December 31, 2010	1.61% to 47.29%	23.21% to 74.41%
Default rate by range	2.91% to 11.18%	3.02% to 9.71%
Prepayment rate by range	4.39% to 58.70%	55.45% to 100.00%
Loss severity by range	1.61% to 47.29%	23.21% to 74.41%

For all other impaired investments, the Bank has not recognized any credit losses as the impairments are deemed temporary and result from non-credit related factors. The Bank has the ability and intent to hold these 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. Substantially all of these investments were in U.S. government agency securities and the Bank expects these securities would not be settled at a price less than their amortized cost. For the year ended December 31, 2012, net unrealized gains of $42.2 million were recognized in other comprehensive income on available-for-sale investments that are not other-than-temporarily impaired.

The following schedule details the activity related to cumulative credit losses on investments recognized in earnings for which a portion of an other-than-temporary impairment was recognized in other comprehensive income:

	For the Year Ended December 31,		
(dollars in thousands)	2012	2011	2010
Cumulative Losses Beginning of Period	$ 36,542	$ 34,513	$ 27,736
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	1,768	1,943	1,327
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	2,165	7,341	10,585
Reductions for increases in expected cash flows	(1,088)	(1,064)	(280)
Reductions for securities sold	(432)	–	–
Reductions for losses incurred	(738)	(6,191)	(4,855)
Cumulative Losses End of Period	$ 38,217	$ 36,542	$ 34,513

Note 4 — Loans and Allowance for Loan Losses

For a description of the District's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2, subsection C., above.

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

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2, subsection C. above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The District's loan portfolio has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans —generally to purchase farm real estate, refinance existing mortgages, construct various facilities used in agricultural operations, or purchase other rural residential/lifestyle real estate for both full-time and part-time farmers. In addition, credit for other agricultural purposes and family needs is available to full-time and part-time farmers. Real estate mortgage loans have maturities ranging from five to thirty years and must be secured by first liens on the real estate. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory maximum percentage.

• Production and intermediate-term loans —for operating funds, equipment and other purposes. Eligible financing needs include operating inputs (such as labor, feed, fertilizer, and repairs), livestock, family living expenses, income taxes, debt payments on machinery or equipment, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically less than 12 months. Intermediate-term loans typically finance depreciable capital assets of a farm or ranch. Examples of the uses of intermediate-term loans are to purchase or refinance farm machinery, vehicles, equipment, breeding livestock, or farm buildings, to make improvements, or to provide working capital. Intermediate-term loans are made for a specific term, generally 10 years or less. These loans may be made on a secured or unsecured basis, but are normally secured.

• Agribusiness loans — may be made on a secured or unsecured basis.

  • Loans to cooperatives — loans for any cooperative purpose other than for communication, energy, and water and waste disposal.

  • Processing and marketing loans — for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.

  • Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to farmers or ranchers that are directly related to their agricultural production.

• Rural residential real estate loans — to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans must be secured by a first lien on the property, except that it may be secured by a second lien if the institution also holds the first lien on the property.

• Communication loans — primarily to finance rural communication companies.

• Energy loans — primarily to finance electric generation, transmission and distribution systems serving rural areas.

• Water and waste disposal loans —primarily to finance water and waste disposal systems serving rural areas.

• International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.

• Lease receivables — the net investment for all finance leases (such as direct financing leases, leveraged leases, and sales-type leases) where the District is the lessor.

• Loans to other financial institutions (OFIs) — loans to other financial institutions with which the District has a lending relationship.

• Other (including mission-related) — In addition to making loans to accomplish the System's Congressionally mandated mission to finance agriculture and rural America, the District may make investments in rural America to address the diverse needs of agriculture and rural communities across the country. The FCA approves these investments on a program or a case-by-case basis. Examples of investment programs that the FCA will consider include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding follows:

	December 31,		
(dollars in thousands)	2012	2011	2010
Real estate mortgage	$ 9,921,750	$ 9,756,036	$ 9,986,760
Production and intermediate-term	7,760,377	7,924,627	8,105,060
Agribusiness			
Loans to cooperatives	235,703	256,981	304,161
Processing and marketing	1,053,247	1,115,490	1,355,811
Farm-related business	354,039	348,797	342,984
Total agribusiness	1,642,989	1,721,268	2,002,956
Communication	319,320	213,501	200,578
Energy	497,050	280,700	342,614
Water and waste disposal	28,020	28,022	28,024
Rural residential real estate	2,634,609	2,470,742	2,258,480
Lease receivables	2,880	2,986	10,697
Loans to other financial institutions (OFIs)	60,479	5,250	5,000
Other (including mission-related)	61,731	78,373	92,724
Total Loans	$ 22,929,205	$ 22,481,505	$ 23,032,893

The District's concentration of credit risk is spread among various agricultural commodities. A substantial portion of the District's lending activities are collateralized, and, accordingly, the credit risk associated with lending activities is considerably less than the recorded loan principal and is considered in the allowance for loan losses.

The District 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 the principal balance of participations purchased and sold at periods ended:

	December 31, 2012					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 143,204	$ 51,816	$ 94,815	$ 20,537	$ 238,019	$ 72,353
Production and intermediate-term	434,656	233,016	391,410	4,434	826,066	237,450
Agribusiness						
Loans to cooperatives	199,342	–	17,173	–	216,515	–
Processing and marketing	418,060	48,556	591,669	4,052	1,009,729	52,608
Farm-related business	128,279	630	37,373	817	165,652	1,447
Total agribusiness	745,681	49,186	646,215	4,869	1,391,896	54,055
Communication	354,180	–	–	–	354,180	–
Energy	502,641	–	7,204	–	509,845	–
Water and waste disposal	28,000	–	–	–	28,000	–
Rural residential real estate	–	–	51	–	51	–
Lease receivables	861	–	–	–	861	–
Loans to OFIs	–	–	60,479	–	60,479	–
Other (including mission-related)	–	19,776	5,673	2,910	5,673	22,686
Total	$ 2,209,223	$ 353,794	$ 1,205,847	$ 32,750	$ 3,415,070	$ 386,544

	December 31, 2011					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 135,657	$ 65,477	$ 111,443	$ 3,792	$ 247,100	$ 69,269
Production and intermediate-term	304,593	333,209	507,782	29,982	812,375	363,191
Agribusiness						
Loans to cooperatives	183,406	–	36,853	–	220,259	–
Processing and marketing	310,301	17,411	660,500	4,135	970,801	21,546
Farm-related business	123,291	7,476	26,798	899	150,089	8,375
Total agribusiness	616,998	24,887	724,151	5,034	1,341,149	29,921
Communication	231,022	–	–	–	231,022	–
Energy	275,443	–	7,510	–	282,953	–
Water and waste disposal	28,000	–	–	–	28,000	–
Rural residential real estate	–	–	53	–	53	–
Lease receivables	1,709	–	–	–	1,709	–
Loans to OFIs	–	–	5,250	–	5,250	–
Other (including mission-related)	–	22,022	9,095	3,240	9,095	25,262
Total	$ 1,593,422	$ 445,595	$ 1,365,284	$ 42,048	$ 2,958,706	$ 487,643

	December 31, 2010					
	Within Farm Credit System		Outside Farm Credit System		Total	
(dollars in thousands)	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 140,835	$ 54,335	$ 346,913	$ 29,115	$ 487,748	$ 83,450
Production and intermediate-term	278,402	348,640	359,187	3,396	637,589	352,036
Agribusiness						
Loans to cooperatives	227,828	–	38,628	–	266,456	–
Processing and marketing	443,756	33,961	669,883	28,599	1,113,639	62,560
Farm-related business	58,881	5,975	39,893	–	98,774	5,975
Total agribusiness	730,465	39,936	748,404	28,599	1,478,869	68,535
Communication	198,433	–	–	–	198,433	–
Energy	315,137	–	22,434	–	337,571	–
Water and waste disposal	28,000	–	–	–	28,000	–
Rural residential real estate	–	–	539	–	539	–
Lease receivables	3,565	–	–	–	3,565	–
Loans to OFIs	–	–	5,000	–	5,000	–
Other (including mission-related)	–	–	11,759	–	11,759	–
Total	$ 1,694,837	$ 442,911	$ 1,494,236	$ 61,110	$ 3,189,073	$ 504,021

A significant source of liquidity for the District is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at December 31, 2012 and indicates that approximately 16.96 percent of loans had maturities of less than one year:

(dollars in thousands)	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 747,803	$ 2,542,137	$ 6,631,810	$ 9,921,750
Production and intermediate-term	2,479,618	3,171,327	2,109,432	7,760,377
Agribusiness				
Loans to cooperatives	35,955	137,670	62,078	235,703
Processing and marketing	344,797	485,282	223,168	1,053,247
Farm-related business	65,435	207,312	81,292	354,039
Total agribusiness	446,187	830,264	366,538	1,642,989
Communication	116,589	129,469	73,262	319,320
Energy	39,396	218,124	239,530	497,050
Water and waste disposal	20	–	28,000	28,020
Rural residential real estate	30,602	69,559	2,534,448	2,634,609
Lease receivables	2,525	146	209	2,880
Loans to OFIs	25,230	32,249	3,000	60,479
Other (including mission-related)	1,045	12,312	48,374	61,731
Total Loans	$ 3,889,015	$ 7,005,587	$ 12,034,603	$ 22,929,205

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 December 31, 2012, 2011, and 2010:

	2012	2011	2010
Real estate mortgage:			
Acceptable	89.50%	88.42%	87.46%
OAEM	4.79	5.13	5.48
Substandard/doubtful/loss	5.71	6.45	7.06
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	86.80%	84.82%	83.80%
OAEM	5.09	8.29	9.10
Substandard/doubtful/loss	8.11	6.89	7.10
	100.00%	100.00%	100.00%
Agribusiness:			
Loans to cooperatives:			
Acceptable	96.45%	92.01%	86.38%
OAEM	2.90	7.39	11.93
Substandard/doubtful/loss	0.65	0.60	1.69
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	89.13%	85.52%	76.94%
OAEM	3.05	6.40	12.08
Substandard/doubtful/loss	7.82	8.08	10.98
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	94.45%	95.51%	92.55%
OAEM	3.10	1.80	3.58
Substandard/doubtful/loss	2.45	2.69	3.87
	100.00%	100.00%	100.00%
Total agribusiness:			
Acceptable	91.32%	88.52%	81.05%
OAEM	3.04	5.61	10.60
Substandard/doubtful/loss	5.64	5.87	8.35
	100.00%	100.00%	100.00%

	2012	2011	2010
Communication:			
Acceptable	100.00%	100.00%	98.83%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	1.17
	100.00%	100.00%	100.00%
Energy/water and waste disposal:			
Acceptable	99.99%	98.63%	95.64%
OAEM	0.01	1.37	3.26
Substandard/doubtful/loss	–	–	1.10
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	98.81%	98.69%	98.40%
OAEM	0.45	0.47	0.57
Substandard/doubtful/loss	0.74	0.84	1.03
	100.00%	100.00%	100.00%
Lease receivables:			
Acceptable	91.42%	89.33%	92.48%
OAEM	7.47	3.76	2.51
Substandard/doubtful/loss	1.11	6.91	5.01
	100.00%	100.00%	100.00%
Loans to OFIs:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Other (including mission-related)			
Acceptable	86.61%	79.66%	77.07%
OAEM	–	1.53	7.91
Substandard/doubtful/loss	13.39	18.81	15.02
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	90.19%	88.50%	86.87%
OAEM	4.07	5.66	6.65
Substandard/doubtful/loss	5.74	5.84	6.48
	100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest as of December 31, 2012, 2011, and 2010:

	December 31, 2012					
(dollars in thousands)	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	$ 81,839	$ 153,406	$ 235,245	$ 9,766,477	$ 10,001,722	$ 786
Production and intermediate-term	40,946	141,898	182,844	7,644,134	7,826,978	148
Agribusiness						
Loans to cooperatives	–	1,548	1,548	234,922	236,470	–
Processing and marketing	618	25,234	25,852	1,030,716	1,056,568	–
Farm-related business	186	417	603	355,252	355,855	–
Total agribusiness	804	27,199	28,003	1,620,890	1,648,893	–
Communication	–	–	–	319,726	319,726	–
Energy/water and waste disposal	–	–	–	526,263	526,263	–
Rural residential real estate	51,050	7,853	58,903	2,587,098	2,646,001	2,313
Lease receivables	40	32	72	2,810	2,882	–
Loans to OFIs	–	–	–	60,544	60,544	–
Other (including mission-related)	117	7,446	7,563	54,804	62,367	478
Total	$ 174,796	$ 337,834	$ 512,630	$ 22,582,746	$ 23,095,376	$ 3,725

	December 31, 2011					
(dollars in thousands)	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	$ 141,900	$ 214,314	$ 356,214	$ 9,486,256	$ 9,842,470	$ 1,154
Production and intermediate-term	77,546	180,018	257,564	7,740,979	7,998,543	581
Agribusiness						
Loans to cooperatives	–	1,553	1,553	256,486	258,039	–
Processing and marketing	308	1,621	1,929	1,118,245	1,120,174	–
Farm-related business	804	7,847	8,651	341,940	350,591	–
Total agribusiness	1,112	11,021	12,133	1,716,671	1,728,804	–
Communication	–	–	–	213,810	213,810	–
Energy/water and waste disposal	–	–	–	310,357	310,357	–
Rural residential real estate	52,146	14,358	66,504	2,412,196	2,478,700	4,583
Lease receivables	–	37	37	2,958	2,995	–
Loans to OFIs	–	–	–	5,259	5,259	–
Other (including mission-related)	957	2,383	3,340	75,985	79,325	1,238
Total	$ 273,661	$ 422,131	$ 695,792	$ 21,964,471	$ 22,660,263	$ 7,556

	December 31, 2010					
(dollars in thousands)	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	$ 106,498	$ 272,080	$ 378,578	$ 9,692,300	$ 10,070,878	$ 4,604
Production and intermediate-term	82,377	173,946	256,323	7,921,721	8,178,044	1,195
Agribusiness						
Loans to cooperatives	–	4,907	4,907	300,486	305,393	–
Processing and marketing	4,944	1,156	6,100	1,354,210	1,360,310	–
Farm-related business	484	7,668	8,152	336,435	344,587	–
Total agribusiness	5,428	13,731	19,159	1,991,131	2,010,290	–
Communication	–	–	–	200,910	200,910	–
Energy/water and waste disposal	–	–	–	372,618	372,618	–
Rural residential real estate	46,403	13,157	59,560	2,207,139	2,266,699	6,374
Lease receivables	81	90	171	10,596	10,767	–
Loans to OFIs	–	–	–	5,008	5,008	–
Other (including mission-related)	–	6,040	6,040	87,502	93,542	543
Total	$ 240,787	$ 479,044	$ 719,831	$ 22,488,925	$ 23,208,756	$ 12,716

The recorded investment in the 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 are as follows:

(dollars in thousands)	December 31, 2012	2011	2010
Nonaccrual loans:			
Real estate mortgage	$ 266,827	$ 317,772	$ 405,976
Production and intermediate-term	249,086	288,029	317,832
Agribusiness			
Loans to cooperatives	1,545	1,551	4,911
Processing and marketing	40,526	21,628	36,302
Farm-related business	4,575	8,066	8,195
Total agribusiness	46,646	31,245	49,408
Communication	–	–	2,358
Rural residential real estate	11,364	17,555	12,246
Lease receivables	32	207	279
Other (including mission-related)	6,953	11,901	6,977
Total nonaccrual loans	$ 580,908	$ 666,709	$ 795,076
Accruing restructured loans:			
Real estate mortgage	$ 50,338	$ 41,793	$ 7,730
Production and intermediate-term	50,269	31,523	10,818
Agribusiness			
Processing and marketing	–	24,606	30,683
Farm-related business	867	48	–
Total agribusiness	867	24,654	30,683
Rural residential real estate	1,793	1,373	–
Total accruing restructured loans	$ 103,267	$ 99,343	$ 49,231
Accruing loans 90 days or more past due:			
Real estate mortgage	$ 786	$ 1,154	$ 4,604
Production and intermediate-term	148	581	1,195
Rural residential real estate	2,313	4,583	6,374
Other (including mission-related)	478	1,238	543
Total accruing loans 90 days or more past due	$ 3,725	$ 7,556	$ 12,716
Total nonperforming loans	$ 687,900	$ 773,608	$ 857,023
Other property owned	109,997	158,144	146,416
Total nonperforming assets	$ 797,897	$ 931,752	$ 1,003,439
Nonaccrual loans as a percentage of total loans	2.53%	2.97%	3.45%
Nonperforming assets as a percentage of total loans and other property owned	3.46%	4.12%	4.33%
Nonperforming assets as a percentage of capital	16.32%	20.61%	24.14%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

(dollars in thousands)	December 31, 2012	2011	2010
Impaired nonaccrual loans:			
Current as to principal and interest	$ 200,430	$ 197,916	$ 268,131
Past due	380,478	468,793	526,945
Total impaired nonaccrual loans	580,908	666,709	795,076
Impaired accrual loans:			
Restructured	103,267	99,343	49,231
90 days or more past due	3,725	7,556	12,716
Total impaired accrual loans	106,992	106,899	61,947
Total impaired loans	$ 687,900	$ 773,608	$ 857,023

Additional impaired loan information is as follows:

(dollars in thousands)	December 31, 2012 Recorded Investment	December 31, 2012 Unpaid Principal Balance	December 31, 2012 Related Allowance	Year Ended December 31, 2012 Average Impaired Loans	Year Ended December 31, 2012 Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 110,633	$ 140,657	$ 29,578	$ 121,051	$ 2,703
Production and intermediate-term	149,996	190,301	50,839	150,439	3,476
Agribusiness					
Loans to cooperatives	–	–	–	–	–
Processing and marketing	25,846	26,797	8,755	16,164	487
Farm-related business	4,407	5,260	770	5,321	131
Total agribusiness	30,253	32,057	9,525	21,485	618
Rural residential real estate	5,309	7,764	1,433	5,508	157
Lease receivables	–	–	–	–	–
Other (including mission-related)	6,409	6,360	627	2,603	211
Total	$ 302,600	$ 377,139	$ 92,002	$ 301,086	$ 7,165
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 207,318	$ 269,787	$ –	$ 207,079	$ 6,551
Production and intermediate-term	149,507	201,879	–	165,107	5,423
Agribusiness					
Loans to cooperatives	1,545	1,564	–	1,553	50
Processing and marketing	14,680	21,134	–	21,367	1,314
Farm-related business	1,035	1,922	–	2,132	30
Total agribusiness	17,260	24,620	–	25,052	1,394
Rural residential real estate	10,161	11,877	–	11,794	347
Lease receivables	32	83	–	76	1
Other (including mission-related)	1,022	995	–	6,424	70
Total	$ 385,300	$ 509,241	$ –	$ 415,532	$ 13,786
Total impaired loans:					
Real estate mortgage	$ 317,951	$ 410,444	$ 29,578	$ 328,130	$ 9,254
Production and intermediate-term	299,503	392,180	50,839	315,546	8,899
Agribusiness					
Loans to cooperatives	1,545	1,564	–	1,553	50
Processing and marketing	40,526	47,931	8,755	37,531	1,801
Farm-related business	5,442	7,182	770	7,453	161
Total agribusiness	47,513	56,677	9,525	46,537	2,012
Rural residential real estate	15,470	19,641	1,433	17,302	504
Lease receivables	32	83	–	76	1
Other (including mission-related)	7,431	7,355	627	9,027	281
Total	$ 687,900	$ 886,380	$ 92,002	$ 716,618	$ 20,951

(dollars in thousands)	December 31, 2011 Recorded Investment	Unpaid Principal Balance	Related Allowance	Year Ended December 31, 2011 Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	$ 121,212	$ 143,092	$ 22,652	$ 141,775	$ 2,295
Production and intermediate-term	139,753	186,637	37,916	171,089	2,920
Agribusiness					
Loans to cooperatives	–	–	–	190	–
Processing and marketing	7,723	8,192	1,386	19,970	81
Farm-related business	5,838	7,042	153	6,401	140
Total agribusiness	13,561	15,234	1,539	26,561	221
Energy/water and waste disposal	–	–	–	3,345	–
Rural residential real estate	7,216	9,211	2,073	6,121	162
Lease receivables	37	87	7	103	1
Other (including mission-related)	542	1,879	110	932	–
Total	$ 282,321	$ 356,140	$ 64,297	$ 349,926	$ 5,599
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 239,507	$ 316,615	$ –	$ 262,915	$ 5,317
Production and intermediate-term	180,380	269,949	–	197,867	4,001
Agribusiness					
Loans to cooperatives	1,551	1,580	–	3,115	38
Processing and marketing	38,511	52,708	–	44,022	2,117
Farm-related business	2,276	4,538	–	1,891	55
Total agribusiness	42,338	58,826	–	49,028	2,210
Energy/water and waste disposal	–	–	–	3,344	22
Rural residential real estate	16,295	18,644	–	13,139	301
Lease receivables	170	190	–	226	4
Other (including mission-related)	12,597	22,219	–	6,120	348
Total	$ 491,287	$ 686,443	$ –	$ 532,639	$ 12,203
Total impaired loans:					
Real estate mortgage	$ 360,719	$ 459,707	$ 22,652	$ 404,690	$ 7,612
Production and intermediate-term	320,133	456,586	37,916	368,956	6,921
Agribusiness					
Loans to cooperatives	1,551	1,580	–	3,305	38
Processing and marketing	46,234	60,900	1,386	63,992	2,198
Farm-related business	8,114	11,580	153	8,292	195
Total agribusiness	55,899	74,060	1,539	75,589	2,431
Energy/water and waste disposal	–	–	–	6,689	22
Rural residential real estate	23,511	27,855	2,073	19,260	463
Lease receivables	207	277	7	329	5
Other (including mission-related)	13,139	24,098	110	7,052	348
Total	$ 773,608	$ 1,042,583	$ 64,297	$ 882,565	$ 17,802

	December 31, 2010			Year Ended December 31, 2010	
(dollars in thousands)	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	$ 135,561	$ 155,495	$ 26,847	$ 139,818	$ 2,127
Production and intermediate-term	158,444	220,702	36,722	144,517	2,651
Agribusiness					
Loans to cooperatives	4,036	4,001	1,032	3,596	57
Processing and marketing	29,542	30,924	3,566	26,320	419
Farm-related business	6,006	6,477	496	5,351	85
Total agribusiness	39,584	41,402	5,094	35,267	561
Rural residential real estate	3,438	3,630	1,133	3,250	69
Other (including mission-related)	1,546	1,546	600	1,454	–
Total	$ 338,573	$ 422,775	$ 70,396	$ 324,306	$ 5,408
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 282,749	$ 365,516	$ –	$ 296,743	$ 4,142
Production and intermediate-term	171,401	183,098	–	182,582	3,816
Agribusiness					
Loans to cooperatives	875	834	–	779	13
Processing and marketing	37,443	49,319	–	48,931	3,234
Farm-related business	2,189	4,697	–	1,951	31
Total agribusiness	40,507	54,850	–	51,661	3,278
Communication	2,358	4,912	–	2,101	33
Rural residential real estate	15,182	18,458	–	14,302	307
Lease receivables	279	298	–	249	4
Other (including mission-related)	5,974	5,907	–	6,147	167
Total	$ 518,450	$ 633,039	$ –	$ 553,785	$ 11,747
Total impaired loans:					
Real estate mortgage	$ 418,310	$ 521,011	$ 26,847	$ 436,561	$ 6,269
Production and intermediate-term	329,845	403,800	36,722	327,099	6,467
Agribusiness					
Loans to cooperatives	4,911	4,835	1,032	4,375	70
Processing and marketing	66,985	80,243	3,566	75,251	3,653
Farm-related business	8,195	11,174	496	7,302	116
Total agribusiness	80,091	96,252	5,094	86,928	3,839
Communication	2,358	4,912	–	2,101	33
Rural residential real estate	18,620	22,088	1,133	17,552	376
Lease receivables	279	298	–	249	4
Other (including mission-related)	7,520	7,453	600	7,601	167
Total	$ 857,023	$ 1,055,814	$ 70,396	$ 878,091	$ 17,155

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 December 31, 2012.

The following table summarizes interest income on nonaccrual and accruing restructured loans that would have been recognized under the original terms of the loans:

	Year Ended December 31,		
(dollars in thousands)	2012	2011	2010
Interest income which would have been recognized under the original loan terms	$ 38,559	$ 51,786	$ 43,665
Less: interest income recognized	20,811	17,533	16,047
Foregone interest income	$ 17,748	$ 34,253	$ 27,618

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

	December 31, 2012								
(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy/ Water and Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission related)	Total
Allowance for credit losses:									
Balance at December 31, 2011	$ 65,951	$ 89,155	$ 14,050	$ 482	$ 672	$ 4,015	$ 20	$ 631	$ 174,976
Charge-offs	(51,940)	(30,917)	(4,645)	–	–	(2,073)	–	(397)	(89,972)
Recoveries	8,464	16,795	6,373	–	–	141	–	57	31,830
Provision for loan losses	57,018	34,201	3,485	381	692	1,973	20	305	98,075
Adjustment due to merger	(440)	(702)	(235)	–	–	(32)	–	–	(1,409)
Other	(2,221)	1,877	(38)	–	–	(56)	–	438	–
Balance at December 31, 2012	$ 76,832	$ 110,409	$ 18,990	$ 863	$ 1,364	$ 3,968	$ 40	$ 1,034	$ 213.500
December 31, 2012 allowance ending balance:									
Loans individually evaluated for impairment	$ 29,124	$ 50,786	$ 9,499	$ –	$ –	$ 1,365	$ –	$ 627	$ 91,401
Loans collectively evaluated for impairment	$ 47,254	$ 59,570	$ 9,465	$ 863	$ 1,364	$ 2,535	$ 40	$ 407	$ 121,498
Loans acquired with deteriorated credit quality	$ 454	$ 53	$ 26	$ –	$ –	$ 68	$ –	$ –	$ 601
Recorded investment in loans outstanding:									
Ending Balance at December 31, 2012	$ 10,001,722	$ 7,826,978	$ 1,648,893	$ 319,726	$ 526,263	$ 2,646,001	$ 2,882	$ 122,911	$ 23,095,376
December 31, 2012 recorded investment ending balance:									
Loans individually evaluated for impairment	$ 373,848	$ 258,994	$ 51,473	$ –	$ –	$ 2,182,310	$ –	$ –	$ 2,866,625
Loans collectively evaluated for impairment	$ 9,611,337	$ 7,561,221	$ 1,597,150	$ 319,726	$ 526,263	$ 462,283	$ 2,882	$ 122,911	$ 20,203,773
Loans acquired with deteriorated credit quality	$ 16,537	$ 6,763	$ 270	$ –	$ –	$ 1,408	$ –	$ –	$ 24,978

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy/ Water and Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission related)	Total
	December 31, 2011								
Allowance for credit losses:									
Balance at December 31, 2010	$ 73,636	$ 83,759	$ 19,735	$ 415	$ 599	$ 3,117	$ 67	$ 1,001	$ 182,329
Charge-offs	(75,289)	(92,899)	(31,564)	–	(7,068)	(2,452)	(69)	(10,082)	(219,423)
Recoveries	6,967	4,022	347	825	1	133	20	–	12,315
Provision for loan losses	69,793	99,910	26,633	(748)	7,140	3,410	2	9,712	215,852
Adjustment due to merger	(8,845)	(5,948)	(1,101)	(10)	–	(193)	–	–	(16,097)
Other	(311)	311	–	–	–	–	–	–	–
Balance at December 31, 2011	$ 65,951	$ 89,155	$ 14,050	$ 482	$ 672	$ 4,015	$ 20	$ 631	$ 174,976
December 31, 2011 allowance ending balance:									
Loans individually evaluated for impairment	$ 21,896	$ 37,767	$ 1,458	$ –	$ –	$ 2,012	$ 7	$ 110	$ 63,250
Loans collectively evaluated for impairment	$ 43,300	$ 51,238	$ 12,511	$ 482	$ 672	$ 1,942	$ 13	$ 521	$ 110,679
Loans acquired with deteriorated credit quality	$ 755	$ 150	$ 81	$ –	$ –	$ 61	$ –	$ –	$ 1,047
Recorded investment in loans outstanding:									
Ending Balance at December 31, 2011	$ 9,842,470	$ 7,998,543	$ 1,728,804	$ 213,810	$ 310,357	$ 2,478,700	$ 2,995	$ 84,584	$ 22,660,263
December 31, 2011 recorded investment ending balance:									
Loans individually evaluated for impairment	$ 417,257	$ 278,187	$ 39,156	$ –	$ –	$ 2,058,195	$ 207	$ 2,778	$ 2,795,780
Loans collectively evaluated for impairment	$ 9,400,695	$ 7,713,687	$ 1,687,985	$ 213,810	$ 310,357	$ 418,774	$ 2,788	$ 81,806	$ 19,829,902
Loans acquired with deteriorated credit quality	$ 24,518	$ 6,669	$ 1,663	$ –	$ –	$ 1,731	$ –	$ –	$ 34,581

(dollars in thousands)	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy/ Water and Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission related)	Total
	December 31, 2010								
Allowance for credit losses:									
Balance at December 31, 2009	$ 66,642	$ 88,851	$ 33,148	$ 1,822	$ 518	$ 3,598	$ 7	$ 546	$ 195,132
Charge-offs	(84,319)	(63,796)	(12,611)	(2,554)	–	(2,605)	(63)	–	(165,948)
Recoveries	3,398	10,448	985	–	–	86	–	–	14,917
Provision for loan losses	87,915	48,256	(1,787)	1,147	81	2,038	123	455	138,228
Balance at December 31, 2010	$ 73,636	$ 83,759	$ 19,735	$ 415	$ 599	$ 3,117	$ 67	$ 1,001	$ 182,329
December 31, 2010 allowance ending balance:									
Loans individually evaluated for impairment	$ 26,847	$ 36,722	$ 5,094	$ –	$ –	$ 1,133	$ –	$ 600	$ 70,396
Loans collectively evaluated for impairment	$ 46,789	$ 47,037	$ 14,641	$ 415	$ 599	$ 1,984	$ 67	$ 401	$ 111,933
Recorded investment in loans outstanding:									
Ending Balance at December 31, 2010	$ 10,070,878	$ 8,178,044	$ 2,010,290	$ 200,910	$ 372,618	$ 2,266,699	$ 10,767	$ 98,550	$ 23,208,756
December 31, 2010 recorded investment ending balance:									
Loans individually evaluated for impairment	$ 599,576	$ 620,545	$ 307,028	$ 2,358	$ 79,917	$ 1,835,765	$ 6,438	$ 10,754	$ 3,462,381
Loans collectively evaluated for impairment	$ 9,471,302	$ 7,557,499	$ 1,703,262	$ 198,552	$ 292,701	$ 430,934	$ 4,329	$ 87,796	$ 19,746,375

To mitigate risk of loan losses, District Associations have entered into Long-Term Standby Commitments to Purchase agreements with the Federal Agricultural Mortgage Corporation (Farmer Mac) through an arrangement with the Bank. The agreements, which are effectively credit guarantees that will remain in place until the loans are paid in full, give the Associations the right to sell the loans identified in the agreements to the Bank, which can, in turn, sell them to Farmer Mac in the event of default (typically four months past due), subject to certain conditions. The balance of loans under Long-Term Standby Commitments to Purchase held by the Associations was $350.6 million, $349.8 million, and $251.1 million at December 31, 2012, 2011, and 2010, respectively. Fees paid to Farmer Mac, Federal National Mortgage Association (FNMA), and other government-sponsored enterprises (GSEs) for such commitments are paid by the Bank and Associations and totaled $10.7 million, $9.8 million, and $9.2 million for 2012, 2011, and 2010, respectively. These amounts are classified as noninterest expense.

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. The tables do not include purchased credit impaired loans.

	Year Ended December 31, 2012			
	Pre-modification Outstanding Recorded Investment			
(dollars in thousands)	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 10,019	$ 55,937	$ 3,164	$ 69,120
Production and intermediate-term	3,340	68,284	3,294	74,918
Agribusiness				
Processing and marketing	–	22,886	1,191	24,077
Farm-related business	694	7,256	321	8,271
Total agribusiness	694	30,142	1,512	32,348
Rural residential real estate	87	847	78	1,012
Total	$ 14,140	$ 155,210	$ 8,048	$ 177,398

(dollars in thousands)	Year Ended December 31, 2012 Post-modification Outstanding Recorded Investment Interest Concessions	Principal Concessions	Other Concessions	Total	Effects of Modification Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 10,018	$ 53,406	$ 2,694	$ 66,118	$ 2,403	$ (1,361)
Production and intermediate-term	2,550	67,674	2,718	72,942	4,125	(3,180)
Agribusiness						
Processing and marketing	–	22,886	1,191	24,077	300	(519)
Farm-related business	692	7,256	321	8,269	621	–
Total agribusiness	692	30,142	1,512	32,346	921	(519)
Rural residential real estate	87	851	78	1,016	179	(129)
Total	$ 13,347	$ 152,073	$ 7,002	$ 172,422	$ 7,628	$ (5,189)

(dollars in thousands)	Year Ended December 31, 2011 Pre-modification Outstanding Recorded Investment Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	$ 10,875	$ 77,888	$ 12,269	$ 101,032
Production and intermediate-term	27,204	127,872	38,984	194,060
Agribusiness				
Processing and marketing	–	10,700	–	10,700
Farm-related business	–	74	–	74
Total agribusiness	–	10,774	–	10,774
Rural residential real estate	295	2,171	–	2,466
Other (including mission-related)	–	–	1,554	1,554
Total	$ 38,374	$ 218,705	$ 52,807	$ 309,886

(dollars in thousands)	Year Ended December 31, 2011 Post-modification Outstanding Recorded Investment Interest Concessions	Principal Concessions	Other Concessions	Total	Effects of Modification Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	$ 10,869	$ 79,346	$ 12,077	$ 102,292	$ 7,502	$ (5,128)
Production and intermediate-term	27,191	121,070	35,393	183,654	14,392	(26,923)
Agribusiness						
Processing and marketing	–	10,706	–	10,706	1,439	(1,735)
Farm-related business	–	74	–	74	–	–
Total agribusiness	–	10,780	–	10,780	1,439	(1,735)
Rural residential real estate	295	2,137	–	2,432	(214)	(15)
Other (including mission-related)	–	–	1,554	1,554	–	(679)
Total	$ 38,355	$ 213,333	$ 49,024	$ 300,712	$ 23,119	$ (34,480)

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.

(dollars in thousands)	Year Ended December 31, 2012	2011
Defaulted troubled debt restructurings:		
Real estate mortgage	$ 7,224	$ 33,409
Production and intermediate-term	5,232	21,494
Agribusiness		
Processing and marketing	560	–
Farm-related business	–	–
Total agribusiness	560	–
Rural residential real estate	3	99
Other (including mission-related)	–	–
Total	$ 13,019	$ 55,002

TDRs outstanding at December 31, 2012 totaled $277.3 million, of which $174.0 million were in nonaccrual status.

Purchased Impaired Loans

District entities acquire 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 holder 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 purchased impaired 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.

As discussed in Note 23:

i. Effective January 1, 2011, Farm Credit of North Florida, ACA (NFL), and Farm Credit of Southwest Florida, ACA (SWFL), merged with and into Farm Credit of South Florida, ACA (SFL), which then changed its name to Farm Credit of Florida, ACA (FCFL).
ii. Effective July 1, 2012, Chattanooga, ACA, merged with and into Jackson Purchase, ACA, which then changed its name to River Valley AgCredit, ACA (River Valley).

The mergers were accounted for under the acquisition method.

In connection with the mergers, the acquirers purchased impaired loans that are not accounted for as debt securities. The carrying amounts of those loans included in the balance sheet amounts of loans receivable at December 31, 2012, were as follows.

(dollars in thousands)	River Valley	FCFL
Real estate mortgage	$ 2,820	$ 13,717
Production and intermediate-term	3,123	3,640
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	–
Farm-related business	–	270
Total agribusiness	–	270
Communication	–	–
Energy	–	–
Rural residential real estate	224	1,184
Total Loans	$ 6,167	$ 18,811

At December 31, 2012, the allowance for loan losses related to these loans was $601 thousand compared with $1.0 million at December 31, 2011. During the periods ended December 31, 2012 and 2011, provision expense on these loans was $1.1 million and $7.7 million, respectively. There were reversals of allowance for loan losses of $33 thousand during the period ended December 31, 2012 and no reversals for the period ended December 31, 2011 for these acquired loans. See above for a summary of changes in the total allowance for loan losses for the periods ended December 31, 2012 and 2011.

The total of loans acquired during 2011 and 2012 for which it was probable at acquisition that all contractually required payments would not be collected are as follows.

(dollars in thousands)	2012	2011
Real estate mortgage	$ 3,488	$ 57,735
Production and intermediate-term	4,105	18,862
Agribusiness		
Loans to cooperatives	–	–
Processing and marketing	–	2,196
Farm-related business	–	1,734
Total agribusiness	–	3,930
Communication	–	–
Energy	–	–
Rural residential real estate	236	1,769
Total Loans	$ 7,829	$ 82,296

Certain of the loans acquired by both FCFL and River Valley in the business combinations that were within the scope of purchased impaired loan guidance are accounted for using a cash basis method of income recognition because FCFL and River Valley cannot reasonably estimate cash flows expected to be collected. Substantially all of the loans acquired were real estate collateral dependent loans.

At the time of merger, the real estate market in Florida was extremely unstable. The market in the former Chattanooga's footprint was similarly unpredictable. These settings made estimation of the amount and timing of a sale of loan collateral in essentially the same condition as received upon foreclosure indeterminate.

As such, FCFL and River Valley did not have the information necessary to reasonably estimate cash flows expected to be collected to compute their 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.

Note 5 — Other Investments

On October 22, 2004, Congress enacted the "Fair and Equitable Tobacco Reform Act of 2004" (Tobacco Act) as part of the "American Jobs Creation Act of 2004". The Tobacco Act repealed the federal tobacco price support and quota programs, provides for payments to tobacco "quota owners" and producers for the elimination of the quota, and provides an assessment mechanism for tobacco manufacturers and importers to pay for the buyout. Tobacco quota holders and producers will receive equal annual payments under a contract with the Secretary of Agriculture. The Tobacco Act also includes a provision that allows the quota holders and producers to assign to a "financial institution" the right to receive the contract payments so that they may obtain a lump sum or other payment. On April 4, 2005, the USDA issued a Final Rule implementing the "Tobacco Transition Payment Program" (Tobacco Buyout).

The FCA determined that System institutions are "financial institutions" within the meaning of the Tobacco Act and are, therefore, eligible to participate in the Tobacco Buyout. The FCA recognized that the Tobacco Buyout has significant implications for some System institutions and the tobacco quota holders and producers they serve. The FCA's goal is to provide System institution borrowers with the option to immediately receive Tobacco Buyout contract payments and reinvest them in future business opportunities. As of December 31, 2012, ten District Associations held investments in Tobacco Buyout Successor-in-Interest Contracts (SIICs) of $163.2 million.

Note 6 — Premises and Equipment

Premises and equipment consisted of the following:

(dollars in thousands)	December 31, 2012	2011	2010
Land	$ 38,544	$ 27,545	$ 26,952
Buildings and improvements	143,838	122,399	118,546
Furniture and equipment	121,078	119,781	112,156
Work in progress	1,788	53	985
	305,248	269,778	258,639
Less: accumulated depreciation	148,933	142,333	132,944
Total	$ 156,315	$ 127,445	$ 125,695

In 2012, the Bank purchased two buildings and land to serve as its future headquarters. The purchase price was approximately $29.3 million.

Note 7 — Other Property Owned

Net gains (losses) on other property owned consisted of the following:

(dollars in thousands)	December 31, 2012	2011	2010
Gains (losses) on sale, net	$ (7)	$ (4,154)	$ (4,879)
Carrying value adjustments	(30,174)	(32,049)	(23,390)
Operating income (expense), net	(3,381)	(4,081)	(2,200)
Total	$ (33,562)	$ (40,284)	$ (30,469)

Deferred gains on sales of other property owned totaled $5.4 million, $9.3 million, and $12.6 million at December 31, 2012, 2011, and 2010, respectively. Gains were primarily deferred as the sales involved financing from the Bank and/or District Associations. Deferred gains of $3.1 million are included in Loans and deferred gains of $2.3 million are included in Other Liabilities in the Combined Balance Sheets.

Note 8 — Other Assets and Other Liabilities

A summary of other assets and other liabilities follows:

(dollars in thousands)	December 31, 2012	2011	2010
Other assets:			
Derivative assets	$ 41,384	$ 52,647	$ 62,245
Unamortized debt issue costs	23,174	20,759	20,661
Federal Home Loan Mortgage Corporation principal receivable	7,719	4,953	5,555
Farm Credit Captive Insurance Fund	11,246	10,571	10,279
Third party subservicer receivable	45,525	40,042	42,110
Prepaid expenses	5,625	4,407	5,304
Other	29,937	30,436	33,182
Total	$ 164,610	$ 163,815	$ 179,336
Other liabilities:			
Accounts payable	$ 25,621	$ 23,754	$ 23,971
Derivative liabilities	–	–	8,781
Farm Credit System Ins. Corp. payable	11,064	13,788	12,268
Bank drafts payable	54,808	54,404	36,354
Payroll	22,039	21,687	21,508
Investments traded not settled	20,517	25,719	–
Cash collateral pledged from derivative counterparties	–	22,139	18,319
Other	29,264	27,403	21,337
Total	$ 163,313	$ 188,894	$ 142,538

Note 9 — Bonds and Notes

The System, unlike commercial banks and other depository institutions, obtains funds for its lending operations primarily from the sale of Systemwide Debt Securities issued by the banks through the Funding Corporation. Certain conditions must be met before AgFirst can participate in the issuance of Systemwide Debt Securities. As one condition of participation, AgFirst is required by the Farm Credit Act and FCA regulations to maintain specified eligible assets, at least equal in value to the total amount of debt obligations outstanding for which it is primarily liable. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any assets of the banks. The System banks and the Funding Corporation have entered into the Second Amended and Restated Market Access Agreement (MAA), which establishes criteria and procedures for the banks to provide certain information and, under certain circumstances, for restricting or prohibiting an individual bank's participation in Systemwide debt issuances, thereby reducing other System banks' exposure to statutory joint and several liabilities. At December 31, 2012, AgFirst was in compliance with the conditions of participation for the issuances of Systemwide Debt Securities.

Each issuance of Systemwide Debt Securities ranks equally, in accordance with the FCA regulations, with other unsecured Systemwide Debt Securities. Systemwide Debt Securities are not issued under an indenture and no trustee is provided with respect to these securities. Systemwide Debt Securities are not subject to acceleration prior to maturity upon the occurrence of any default or similar event.

The System may issue the following types of Systemwide Debt Securities:

- Federal Farm Credit Banks Consolidated Systemwide Bonds,
- Federal Farm Credit Banks Consolidated Systemwide Discount Notes,
- Federal Farm Credit Banks Consolidated Systemwide Master Notes,
- Federal Farm Credit Banks Global Debt Securities, and
- Federal Farm Credit Banks Consolidated Systemwide Medium-Term Notes.

Additional information regarding Systemwide Debt Securities can be found in their respective offering circulars.

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In the following table, regarding the District's participation in outstanding Systemwide Debt Securities, weighted average interest rates include the effect of related derivative financial instruments.

	Bonds		Discount Notes		Total	
Maturities	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate	Amortized Cost	Weighted Average Interest Rate
			(dollars in thousands)			
2013	$ 8,633,780	0.37%	$ 1,993,590	0.19%	$ 10,627,370	0.34%
2014	4,814,775	0.45	–	–	4,814,775	0.45
2015	2,804,404	0.69	–	–	2,804,404	0.69
2016	1,922,801	1.09	–	–	1,922,801	1.09
2017	1,960,425	1.09	–	–	1,960,425	1.09
2018 and after	4,156,983	1.85	–	–	4,156,983	1.85
Total	$ 24,293,168	0.79%	$ 1,993,590	0.19%	$ 26,286,758	0.75%

Discount notes are issued with maturities ranging from 1 to 365 days. The average maturity of discount notes at December 31, 2012, was 123 days.

Systemwide debt includes callable bonds consisting of the following:

Amortized Cost	First Call Date	Year of Maturity
(dollars in thousands)		
$ 14,783,509	2013	2013 – 2027
$ 14,783,509	Total	

Most callable debt may be called on the first call date and any time thereafter.

As described in Note 1, the Insurance Fund is available to ensure the timely payment of principal and interest on Systemwide Debt Securities (Insured Debt) of System banks to the extent net assets are available in the Insurance Fund and not designated for specific use. All other liabilities on the financial statements are uninsured. At December 31, 2012 the assets of the Insurance Fund aggregated $3.298 billion; however, due to the other authorized uses of the Insurance Fund there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal or interest on an Insured Debt obligation in the event of a default by any System bank having primary liability thereon.

In 2008, the Bank sold a total of $200.0 million of participations in its direct note receivable from a District Association to another System Bank. The $200.0 million note payable at December 31, 2012 is included in Bonds and Notes in the Combined Balance Sheets and bears interest at an annual variable rate of one month LIBOR plus 47 basis points with maturity on December 31, 2013.

Note 10 — Mandatorily Redeemable Preferred Stock

On May 17, 2001, AgFirst issued $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock at a par value of $1 thousand per share. This stock was redeemed on December 15, 2011. The stock carried a stated annual dividend rate of 8.393 percent, with dividends paid semi-annually in arrears on June 15th and December 15th. The Mandatorily Redeemable Preferred Stock was reported as a liability in 2010 and the related dividends were reported as interest expense. Although the Mandatorily Redeemable Preferred Stock was required to be reported as a liability under GAAP, it qualified as capital for certain regulatory purposes.

Note 11 — Protected Borrower Equity and Shareholders' Equity

Descriptions of the District's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below.

A. **Protected Stock:** Protection of certain borrower equity is provided under the Farm Credit Act which requires AgFirst and District Associations to retire such capital at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates, and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If a Bank or an Association is unable to retire protected borrower stock at par value or stated value, amounts required to retire this stock would be obtained from the Insurance Fund.

B. **Perpetual Preferred Stock:** On October 14, 2003, AgFirst issued $150.0 million of Perpetual Non-Cumulative Preferred Stock at a par value of $1 thousand per share. Dividends on the stock are non-cumulative and payable on the 15th day of June and December in each year, commencing December 15, 2003, at an annual rate equal to 7.30 percent. In the event dividends are not declared on the preferred stock for payment on any dividend payment date, then such dividends shall not cumulate and shall cease to accrue and be payable. On or after the dividend payment date in December 2008, AgFirst may, at its option, redeem the preferred stock in whole or in part at any time at the redemption price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption.

   On June 8, 2007, AgFirst issued $250.0 million of Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock, Series 1. Dividends on the stock are non-cumulative and are payable semi-annually in arrears on the 15th day of June and December in each year, commencing December 15, 2007, and ending on June 15, 2012, at an annual rate equal to 6.585 percent of the par value of $1 thousand per share, and will thereafter, commencing September 15, 2012, be payable quarterly in arrears on the 15th day of March, June, September, and December in each year, at an annual rate equal to 3-Month USD LIBOR plus 1.13 percent. In the event dividends are not declared on the Class B, Series 1 Preferred Stock for payment on any dividend payment date, then such dividends shall not accumulate and shall cease to accrue and be payable. The stock may be redeemed on any five-year anniversary of its issuance at a price of $1 thousand per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption.

   During 2012, the Bank repurchased, through privately negotiated transactions, and cancelled Class B Perpetual Non-Cumulative Fixed-to-Floating Rate Subordinated Preferred Stock with a par value of $124.8 million. The effect of the repurchases on shareholders' equity was to reduce preferred stock outstanding by $124.8 million and record $36.6 million of additional paid-in-capital.

   Payment of dividends or redemption price on the Preferred Stock may be restricted if the Bank fails to satisfy applicable minimum capital adequacy, surplus, and collateral requirements.

C. **Capital Stock, Participation Certificates and Retained Earnings:** In accordance with the Farm Credit Act, borrowers are generally required to invest in their respective associations as a condition of borrowing. The District Associations' capital stock requirements are generally the lesser of 2.00 percent of the amount of the loan or $1 thousand. Some District Associations have dollar maximums, which range from $1 thousand to $5 thousand. Loans designated for sale or sold into the Secondary Market have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation. Association capitalization plans presently establish stock requirements in accordance with the Farm Credit Act and their respective bylaws.

The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment; the aggregate par value is added to the principal amount of the related loan obligation. AgFirst and the Association have a first lien on the stock or participation certificates owned by their respective borrowers. Retirement of such equities will generally be at the lower of par or book value and repayment of a loan cannot automatically result in retirement of the corresponding stock or participation certificates.

District Associations:

The District Associations are generally authorized to issue or have outstanding Preferred stock, Common stock, Participation Certificates, and such other classes of equity as may be provided for in the bylaws. All classes of stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The District Associations had the following shares outstanding at December 31, 2012:

		Shares Outstanding (dollars in thousands)	
Class	**Protected Status**	**Number**	**Aggregate Par Value**
Common Nonvoting	Yes	261,338	$ 1,307
Common Voting	No	17,934,429	89,672
Common Nonvoting	No	906,642	4,533
Participation Certificates	Yes	8,937	44
Participation Certificates	No	1,516,771	7,584
Preferred	No	8,637,400	43,187
Total Association Capital Stock, Participation Certificates and Protected Borrower Equity		29,265,517	$ 146,327

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the respective boards of directors (Boards) at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Boards are met.

Participation Certificates are nonvoting and may be issued as a condition for obtaining a loan to rural home borrowers, to persons or organizations furnishing farm-related services, to persons or organizations who are eligible to borrow or participate in loans, but who are not eligible to hold voting stock, and to persons or organizations eligible to borrow for the purpose of qualifying them for technical assistance, financially related services, and/or leasing services offered by the Association.

Preferred Stock may be issued to such persons or investors as may be permitted under a plan adopted by each Board. Retirement will be at the sole discretion of each Board provided that the minimum capital adequacy standards established by the Board are met. If retired, Preferred Stock will be retired at its book value, not to exceed its par value. Preferred Stock is nonvoting and generally has preference over common stock and participation certificates as to dividends, and priority in the event of liquidation of an Association.

Retained Earnings

The Associations maintain unallocated retained earnings accounts and allocated retained earnings accounts. The minimum aggregate amounts of these two accounts are determined by each Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of an Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board.

The Associations maintain allocated retained earnings accounts consisting of earnings held and allocated to borrowers on a patronage basis. In the event of a net loss by an Association for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Associations have a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, an Association, upon approval of its Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board; provided, however, that minimum capital standards established by FCA and the Board are met. All nonqualified distributions are tax deductible only when redeemed.

At December 31, 2012, combined allocated retained earnings consisted of $177.1 million of qualified surplus, $532.9 million of nonqualified allocated surplus and $821.1 million of nonqualified retained surplus.

Dividends

An Association may declare dividends on its capital stock and participation certificates. Such dividends generally may be paid solely on Preferred Stock, or on all classes of stock and participation certificates.

Patronage Distributions

Prior to the beginning of any fiscal year, each Board, by adoption of a resolution, may obligate its Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions, if made by that Association, are based on the proportion of the borrower's interest to the amount of interest earned by that Association on its total loans unless another proportionate patronage basis is approved by the Board.

If an Association will meet its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated retained earnings account, or combinations of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board.

Amounts not distributed are retained as unallocated retained earnings.

Transfer

Equities may generally be transferred to persons or entities eligible to purchase or hold such equities under an Association's bylaws.

Impairment

Any net losses recorded by an Association shall first be applied against unallocated retained earnings. To the extent that such losses would exceed unallocated retained earnings, resulting in impairment of the Association's allocated retained earnings or capital stock, such losses would be applied pro rata to each share and/or unit outstanding, provided applications shall be made to allocated retained earnings by annual series, with the most recent allocations applied first.

Liquidation

In the event of the liquidation or dissolution of an Association, any assets of the Association remaining after payment or retirement of all liabilities may be distributed either to the holders of the outstanding stock and participation certificates or on a patronage basis, dependent upon the bylaws of the Association.

AgFirst:

Capital Stock and Allocated Retained Earnings — District Associations are required to invest in the capital stock of AgFirst. These intercompany balances and transactions are eliminated in combination. Additionally, AgFirst has issued and has outstanding $11.2 million in Class D Common stock, which is a nonvoting class of stock with a $5.00 par value.

Other Equity — At the inception of each other financing institutions (OFI) loan, AgFirst requires OFIs to make cash purchases of participation certificates in AgFirst. AgFirst has a first lien on these equities for the repayment of any indebtedness to AgFirst. At December 31, 2012, AgFirst had $1.1 million of participation certificates outstanding to OFIs at a face value of $5.00 per share.

Regulatory Capitalization Requirements and Restrictions

FCA's capital adequacy regulations require AgFirst and District Associations to achieve permanent capital of seven percent of risk-adjusted assets and off-balance-sheet commitments. Failure to meet the seven percent permanent capital requirement can lead to the initiation of certain mandatory and possibly additional discretionary actions by the FCA that, if undertaken, could have a direct material effect on AgFirst's or District Associations' operations and financial statements. AgFirst and District Associations are prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless the prescribed capital standard is met. FCA regulations also require all System institutions to achieve and maintain additional capital adequacy ratios as defined by FCA regulations. These required ratios are total surplus as a percentage of risk-adjusted assets of seven percent and core surplus as a percentage of risk-adjusted assets of three and one-half percent.

AgFirst's permanent capital, total surplus and core surplus ratios at December 31, 2012 were 23.58 percent, 23.55 percent and 20.04 percent, respectively. The FCA notified AgFirst that the June 2007 issuance of $250.0 million of Perpetual Non-Cumulative Subordinated Preferred Stock could be included in core surplus only up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. At December 31, 2012, the remaining amount of this preferred stock issuance could be included in core surplus. Subsequent to the redemption of the $225.0 million of Mandatorily Redeemable Cumulative Preferred Stock on December 15, 2011, the FCA further notified AgFirst that the October 2003 issuance of $150.0 million of Perpetual Non-Cumulative Preferred Stock could also be included in core surplus up to an amount not to exceed 25.00 percent of total core surplus, inclusive of the preferred stock component. Prior to December 15, 2011, the $150.0 million Perpetual Non-Cumulative Preferred Stock was not included in core surplus

AgFirst's capital adequacy is also evaluated using a ratio of net collateral to total liabilities. FCA requires a minimum net collateral ratio of 103.00 percent. Subsequent to the issuance of the mandatorily redeemable preferred stock and until its redemption on December 15, 2011, FCA required AgFirst to maintain a minimum net collateral ratio of 104.00 percent. At December 31, 2012, the Bank's net collateral ratio was 107.03 percent. For purposes of calculating this ratio, net collateral is not risk adjusted.

All nineteen District Associations are organized as ACAs with FLCA and PCA subsidiaries. These subsidiaries and the ACA operate under a common board of directors and joint management. As a result, these District Associations are jointly obligated on each other's liabilities and are evaluated on a consolidated basis for capital adequacy and other regulatory purposes.

An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. AgFirst and District Associations have not been called upon to initiate any transfers and are not aware of any proposed action under this regulation.

D. **Accumulated Other Comprehensive Income (Loss):** Information about the components of accumulated other comprehensive income is located in Note 20.

Note 12 — Income Taxes

The provision (benefit) for income taxes follows for the year ended December 31:

	Year Ended December 31,		
(dollars in thousands)	**2012**	**2011**	**2010**
Current:			
Federal	$ 1,033	$ 426	$ 451
State	248	287	215
	1,281	713	666
Deferred:			
Federal	(16)	–	1
State	–	–	–
	(16)	–	1
Total provision (benefit) for income taxes	$ 1,265	$ 713	$ 667

The provision for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	Year Ended December 31,		
(dollars in thousands)	**2012**	**2011**	**2010**
Federal tax at statutory rate	$215,874	$165,458	$187,866
State tax, net	171	202	167
Tax-exempt FLCA earnings	(75,536)	(61,846)	(79,539)
Association patronage distributions	(48,557)	(35,046)	(42,290)
Nontaxable Bank income	(94,652)	(65,973)	(72,796)
Change in valuation allowance	10,854	1,077	8,672
Change in FASB guidance, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" liability	(911)	(2,370)	–
Prior year provision to return, permanent trueup	(2,561)	1,139	–
Other	(3,417)	(1,928)	(1,413)
Provision for income taxes	$ 1,265	$ 713	$ 667

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
(dollars in thousands)	**2012**	**2011**	**2010**
Allowance for loan losses	$ 29,783	$ 27,080	$ 29,025
Nonaccrual loan interest	12,261	11,967	12,794
Postretirement benefits other than pensions	22,996	21,905	19,267
Loss carryforwards	21,452	15,324	17,289
Other	5,185	4,191	3,842
Gross deferred tax asset	91,677	80,467	82,217
Less: valuation allowance	(72,973)	(62,194)	(61,042)
Gross deferred tax assets, net of valuation allowance	18,704	18,273	21,175
Bank patronage	(5,666)	(5,145)	(5,988)
Pensions	(10,719)	(11,112)	(13,176)
Depreciation	(347)	(316)	(342)
Other	(1,956)	(1,700)	(1,669)
Gross deferred tax liability	(18,688)	(18,273)	(21,175)
Net deferred tax asset (liability)	$ 16	$ –	$ –

In evaluating the ability to recover its deferred income tax asset, an Association considers all available positive and negative evidence, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction-by-jurisdiction basis. The valuation allowance has been provided due to the uncertainty regarding the realizability of certain deferred assets in excess of deferred liabilities.

At December 31, 2012, deferred income taxes have not been provided by District Associations on approximately $125.1 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

There were no uncertain tax positions identified related to the current year, and the District has no unrecognized tax benefits at December 31, 2012 for which liabilities have been established. The District recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. The tax years that remain open for federal and major state income tax jurisdictions are 2009 and forward.

Note 13 — Employee Benefit Plans

The Bank and certain District Associations participate in three District sponsored multiemployer defined benefit plans. These multiemployer plans include the AgFirst Farm Credit Retirement Plan which is a final average pay plan (FAP), the AgFirst Farm Credit Cash Balance Retirement Plan which is a cash balance plan (CB) and the Independent Association's Retirement Plan (IAR), which is a final average pay plan. In addition, the Bank and District Associations participate in a multiemployer defined benefit other postretirement benefits plan (OPEB), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan and a multiemployer defined contribution 401(k) plan. In addition to the multiemployer defined benefit plans above, the District also sponsors a single employer defined benefit plan, the First South Farm Credit, ACA Retirement Plan (FS Plan). The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

a) Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.

b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c) If a participating employer chooses to stop participating in some of its multiemployer plans, that employer may be required to contribute to eliminate the underfunded status of the plan related to its participants.

The District's participation in the multiemployer defined benefit plans for the annual period ended December 31, 2012, 2011 and 2010 is outlined in the table below. The "Percentage Funded to Projected Benefit Obligation" or "Percentage Funded to Accumulated Postretirement Benefit Obligation" represents the funded amount for the entire plan and the "Contributions" column represents the District's amounts.

Pension Plan	Percentage Funded to Projected Benefit Obligation			Contributions		
	2012	2011	2010	2012	2011	2010
AgFirst Farm Credit Retirement Plan	77.35%	74.82%	75.75%	$45,528	$39,677	$41,211
AgFirst Farm Credit Cash Balance Retirement Plan	86.01%	81.77%	115.95%	$1,367	$825	$460
Independent Associations Retirement Plan	74.04%	74.24%	74.34%	$3,417	$2,870	$2,948

Other Postretirement Benefit Plan	Percentage Funded to Accumulated Postretirement Benefit Obligation			Contributions		
	2012	2011	2010	2012	2011	2010
Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plans	0.00%	0.00%	0.00%	$6,209	$5,963	$5,871

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employee Identification Number (EIN) and three-digit Pension Plan Number
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

Substantially all employees of the District are eligible to participate in one of the four defined benefit plans. The FAP plan covers eligible employees of fifteen Associations and AgFirst hired prior to January 1, 2003. The IAR Plan covers eligible employees of three ACAs whose employment date is prior to January 1, 2009. The FS Plan covers eligible employees of a single ACA whose employment date is prior to January 1, 2009. The CB Plan covers eligible employees who were either hired on or after January 1, 2003 (for institutions in the FAP Plan) or hired on or after January 1, 2009 for institutions in the IAR Plan or FS Plan. Each plan is noncontributory and collectively the plans cover substantially all employees of the participating entities. The "Projected Unit Credit" actuarial method is used for financial reporting purposes. Pension benefits are primarily based on eligible compensation and years of service. The District entities funded $53.2 million, $45.7 million, and $47.3 million into these retirement plans for each of the three years ended December 31, 2012, 2011, and 2010, respectively. The expenses of these retirement plans included in salaries and employee benefits were $44.9 million for 2012, $45.6 million for 2011, and $46.5 million for 2010. The cumulative excess of costs to the District over the amounts funded by the District is reflected in Pension and Other Postretirement Benefits Liability in the District's Combined Balance Sheets.

In addition to providing pension benefits, the District provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the District employees may become eligible for the benefits if they reach early retirement age while working for the Bank or District Associations. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Additionally, employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. This plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs were $8.3 million for 2012, $10.4 million for 2011, and $8.6 million for 2010. The cumulative excess of costs to the District over the amounts funded by the District is reflected in Pension and Other Postretirement Benefits Liability in the District's Combined Balance Sheets.

The District also participates in the defined contribution 401(k) Plan, as described in Note 2, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the District contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the District contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $7.1 million, $6.8 million, and $6.1 million for the years ended December 31, 2012, 2011, and 2010, respectively.

In addition to the multi-employer plans above, AgFirst and certain District Associations individually sponsor defined benefit and defined supplemental retirement plans and offer a FCBA supplemental 401(k) plan for certain key employees. These plans are nonqualified; therefore, the associated liabilities are included in the District's Combined Balance Sheets in Other Liabilities. The District entities funded $790 thousand for the year ended December 31, 2012, and $596 thousand and $512 thousand for the years ended December 31, 2011 and 2010 into these supplemental retirement plans. The expenses of these nonqualified plans included in the District's employee benefit costs were $2.3 million, $1.8 million, and $1.7 million for the years ended December 31, 2012, 2011, and 2010, respectively. The supplemental retirement plans are unfunded and had a projected benefit obligation of $20.3 million and a net under-funded status of $20.3 million at December 31, 2012. Assumptions used to determine the projected benefit obligation as of December 31, 2012 included a discount rate of 4.20 percent and a rate of compensation increase of 4.50 percent.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2012, 2011, and 2010, $(40.4) million, $(28.9) million and $(9.4) million, respectively, has been recognized as net debits to AOCI to reflect these elements.

The funding status and the amounts recognized in the District's Combined Balance Sheets for all defined benefit retirement plans follows:

	Pension Benefits		
(dollars in thousands)	**2012**	**2011**	**2010**
Change in projected benefit obligation			
Projected benefit obligation at beginning of year	$ 823,137	$ 740,378	$ 661,966
Service cost	20,435	19,138	17,367
Interest cost	40,321	39,841	38,997
Plan amendments	–	–	1,081
Actuarial loss (gain)	97,589	58,286	51,401
Benefits paid	(36,267)	(34,370)	(30,314)
Other	(128)	(136)	(120)
Projected benefit obligation at end of year	$ 945,087	$ 823,137	$ 740,378
Change in plan assets			
Fair value of plan assets at beginning of year	$ 596,223	$ 550,775	$ 467,994
Actual return on plan assets	90,229	33,762	65,709
Employer contributions	53,958	46,321	47,763
Transfers	(271)	(265)	(377)
Benefits and premiums paid	(36,267)	(34,370)	(30,314)
Fair value of plan assets at end of year	703,872	596,223	550,775
Funded status	$(241,215)	$(226,914)	$(189,603)
Amounts recognized in the balance sheet consist of:			
Pension assets	$ –	$ –	$ 623
Pension liabilities	(241,215)	(226,914)	(190,226)
Net amount recognized	$(241,215)	$(226,914)	$(189,603)

The following represents the amounts included in accumulated other comprehensive income (pre-tax) at December 31:

	Pension Benefits		
(dollars in thousands)	**2012**	**2011**	**2010**
Net actuarial loss (gain)	$ 351,864	$ 326,078	$ 291,380
Prior service costs (credit)	6,356	11,074	9,640
Net transition obligation (asset)	–	–	–
Total amount recognized in AOCI	$ 358,220	$ 337,152	$ 301,020

The accumulated benefit obligation for all defined benefit pension plans was $823,653 at December 31, 2012 and $715,827 and $648,439 at December 31, 2011 and 2010, respectively.

Information for pension plans with benefit obligation in excess of plan assets follows:

	Pension Benefits		
(dollars in thousands)	**2012**	**2011**	**2010**
Aggregate PBO > FV plan assets			
Projected benefit obligation	$ 945,087	$ 823,137	$ 740,378
Fair value of plan assets	703,872	596,223	550,775
Aggregate ABO > FV plan assets			
Accumulated benefit obligation	$ 817,059	$ 715,827	$ 644,149
Fair value of plan assets	697,116	596,223	546,247

Components of net periodic benefit cost and other amounts for all defined benefit pension plans recognized in the District's other comprehensive income as of December 31 are as follows:

	Pension Benefits		
(dollars in thousands)	**2012**	**2011**	**2010**
Net periodic benefit cost			
Service cost	$ 20,435	$ 19,138	$ 17,367
Interest cost	40,321	39,841	38,997
Expected return on plan assets	(43,747)	(40,335)	(36,190)
Amortization of net (gain) loss	–	–	–
Amortization of prior service cost	1,621	1,663	1,921
Recognized net actuarial (gain) loss	28,689	27,208	26,197
Other	(128)	(136)	(120)
Net periodic benefit cost	$ 47,191	$ 47,379	$ 48,172
Other changes in plan assets and projected benefit obligation recognized in OCI			
Net actuarial loss (gain)	$ 51,378	$ 65,003	$ 22,260
Amortization of net actuarial loss (gain)	(28,689)	(27,208)	(26,197)
Prior service cost (credit)	–	–	1,081
Amortization of prior service cost	(1,621)	(1,663)	(1,921)
Amortization of transition obligation (asset)	–	–	–
Net periodic benefit cost	$ 21,068	$ 36,132	$ (4,777)
Total recognized in net periodic pension cost and OCI	$ 68,259	$ 83,511	$ 43,395

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2013 are $30.6 million and $1.6 million, respectively.

Weighted average assumptions used to determine benefit obligations at December 31:

	Pension Benefits		
	2012	**2011**	**2010**
Discount rate	4.21%	5.01%	5.51%
Rate of compensation increase	4.62%	4.55%	4.54%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Pension Benefits		
	2012	2011	2010
Discount rate	5.01%	5.51%	6.04%
Expected long-term return on plan assets	7.55%	7.55%	8.01%
Rate of compensation increase	4.54%	4.54%	4.55%

The overall expected long-term rate of return on assets assumption is based on the target asset allocation for plan assets, capital markets forecasts for asset classes employed, and active management excess return expectations. The total return for bonds is based on an equilibrium yield assumed to be 6.00 percent for government bonds plus an additional 0.50 percent due to the exposure of corporate debt in an aggregate benchmark, for a total return of 6.50 percent. A 3.00 percent equity premium is added to arrive at the forecast for equity returns, both foreign and domestic. Equilibrium forecasts are used to reflect long-term expectations for the asset classes employed. To the extent asset classes are actively managed, an excess return premium is added.

Plan Assets

Plan assets are invested in a number of different asset classes, with each asset class further diversified though the engagement of a number of independent investment managers. This approach lowers the likelihood of a significant credit concentration. To further ensure that excessive risk concentrations are avoided, holdings of fund managers are monitored. There were no significant concentrations of credit risk in plan assets as of December 31, 2012. The target asset allocation is 45.00 percent U.S. equities, 20.00 percent non-U.S. equities, 5.00 percent real estate and 30.00 percent fixed income. The plans' strategic asset allocation was determined by the Plan Fiduciary Committee after review and evaluation of an asset/liability study. Performance is monitored quarterly by both the Plan Fiduciary Committee and an outside pension consulting firm.

The weighted-average allowable asset allocations by category as of December 31 are as follows:

PLAN ASSETS	2012	2011	2010
Allowable Asset Category			
Equity securities	78.54%	59.3%	56.8%
Debt securities	18.33	36.9	39.9
Real Estate	2.85	3.1	2.8
Other	0.28	0.7	0.5
Total	100.00%	100.00%	100.0%

Target allocation for allowable asset categories for 2013 are as follows:

Allowable Asset Category	
Equity securities	62.2%-66.6%
Debt securities	27.9%-32.3%
Real Estate	2.7%-6.4%

The following tables present the fair values of the District's pension plan assets for the periods presented by asset category. See Note 17 regarding a description of the three levels of inputs and the classification within the fair value hierarchy.

Fair Value Measurements at December 31, 2012

	Level 1	Level 2	Level 3	Total Fair Value
Asset Category				
Cash and cash equivalents	$ 2,545	$ –	$ –	$ 2,545
Mutual funds:				
Domestic funds	–	114,732	–	114,732
International funds	–	182,052	–	182,052
Bond funds	–	2,031	–	2,031
Real estate equity funds	–	20,003	–	20,003
Fixed income funds	–	344,049	–	344,049
Equity securities funds	18,623	19,837	–	38,460
Fixed income securities:				
U.S. Treasuries	–	–	–	–
Corporate bonds	–	–	–	–
Mortgage-backed securities	–	–	–	–
Collateralized mortgage obligations	–	–	–	–
Foreign bonds	–	–	–	–
Total	$ 21,168	$ 682,704	$ –	$ 703,872

Fair Value Measurements at December 31, 2011

	Level 1	Level 2	Level 3	Total Fair Value
Asset Category				
Cash and cash equivalents	$ 4,890	$ –	$ –	$ 4,890
Mutual funds:				
Domestic funds	–	139,918	–	139,918
International funds	–	167,372	–	167,372
Bond funds	–	1,492	–	1,492
Real estate equity funds	–	18,173	–	18,173
Fixed income funds	–	232,448	–	232,448
Equity securities funds	16,993	14,937	–	31,930
Fixed income securities:				
U.S. Treasuries	–	–	–	–
Corporate bonds	–	–	–	–
Mortgage-backed securities	–	–	–	–
Collateralized mortgage obligations	–	–	–	–
Foreign bonds	–	–	–	–
Total	$ 21,883	$ 574,340	$ –	$ 596,223

Fair Value Measurements at December 31, 2010

	Level 1	Level 2	Level 3	Total Fair Value
Asset Category				
Cash and cash equivalents	$ 369	$ –	$ –	$ 369
Mutual funds:				
Domestic funds	–	126,082	–	126,082
International funds	–	151,123	–	151,123
Bond funds	–	1,348	–	1,348
Real estate equity funds	–	15,393	–	15,393
Fixed income funds	–	206,786	–	206,786
Equity securities funds	16,887	18,282	–	35,169
Fixed income securities:				
U.S. Treasuries	–	1,772	–	1,772
Corporate bonds	–	5,266	–	5,266
Mortgage-backed securities	–	3,723	–	3,723
Collateralized mortgage obligations	–	735	–	735
Foreign bonds	–	15	–	15
Total	$ 17,256	$ 530,525	$ –	$ 547,781

Plan assets also include a receivable for investments of $2.2 million, $3.4 million and $3.0 million for 2012, 2011 and 2010, respectively.

Contributions

The District expects to contribute $58.8 million to the various pension plans in 2013.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits
2013	$ 39,998
2014	43,263
2015	46,904
2016	49,296
2017	52,228
Years 2018 — 2022	299,161

The funding status and the amounts recognized in the District's Combined Balance Sheets for all other postretirement benefit plans follows:

	Other Postretirement Benefits		
(dollars in thousands)	2012	2011	2010
Change in benefit obligation			
Benefit obligation at beginning of year	$ 143,654	$ 146,515	$ 129,627
Service cost	2,415	2,405	2,317
Interest cost	7,109	8,006	7,604
Plan participants' contributions	1,288	1,114	1,089
Actuarial loss (gain)	17,173	(7,309)	12,838
Benefits paid	(7,497)	(7,077)	(6,960)
Plan amendments/other	896	–	–
Benefit obligation at end of year	$ 165,038	$ 143,654	$ 146,515
Change in plan assets			
Fair value of plan assets at beginning of year	$ –	$ –	$ –
Actual return on plan assets	–	–	–
Employer contributions	6,209	5,963	5,871
Plan participants' contributions	1,288	1,114	1,089
Benefits and premiums paid	(7,497)	(7,077)	(6,960)
Fair value of plan assets at end of year	–	–	–
Funded status	$ (165,038)	$ (143,654)	$ (146,515)
Amounts recognized in the balance sheet consist of:			
Pension assets	$ –	$ –	$ –
Pension liabilities	(165,038)	(143,654)	(146,515)
Net amount recognized	$ (165,038)	$ (143,654)	$ (146,515)

The following represent the amounts included in accumulated other comprehensive income (pre-tax) at December 31:

	Other Postretirement Benefits		
(dollars in thousands)	2012	2011	2010
Net actuarial loss (gain)	$ 41,345	$ 25,392	$ 35,150
Prior service costs (credit)	(4,176)	(7,551)	(10,095)
Net transition obligation (asset)	23	57	91
Total amount recognized in AOCI	$ 37,192	$ 17,898	$ 25,146

Components of net periodic benefit cost and other amounts for all other postretirement benefits plans recognized in the District's other comprehensive income as of December 31 are as follows:

	Other Postretirement Benefits		
(dollars in thousands)	2012	2011	2010
Service cost	$ 2,415	$ 2,405	$ 2,317
Interest cost	7,109	8,006	7,604
Amortization of prior service cost	(2,480)	(2,544)	(2,544)
Amortization of transition obligation (asset)	34	34	34
Amortization of net (gain)loss	1,221	2,449	1,169
Net periodic benefit (income) cost	$ 8,299	$ 10,350	$ 8,580
Other changes in plan assets and projected benefit obligation recognized in OCI			
Net actuarial loss (gain)	$ 17,173	$ (7,309)	$ 12,838
Amortization of net actuarial loss (gain)	(1,221)	(2,449)	(1,169)
Prior service cost (credit)	896	–	–
Amortization of prior service cost	2,480	2,544	2,544
Amortization of transition obligation (asset)	(34)	(34)	(34)
Net periodic benefit cost	$ 19,294	$ (7,248)	$ 14,179
Total recognized in expenses and OCI	$ 27,593	$ 3,102	$ 22,759

The estimated prior service credit for the other postretirement benefit plans that will be amortized from accumulated other comprehensive income into periodic benefit cost during 2013 is $476 thousand.

Weighted average assumptions used to determine benefit obligations at December 31:

	Other Postretirement Benefits		
	2012	2011	2010
Discount rate	4.25%	5.05%	5.60%

Weighted average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Other Postretirement Benefits		
	2012	2011	2010
Discount rate	5.05%	5.60%	6.00%

For measurement purposes, annual rates of increase of 6.50 percent through 7.25 percent in the per capita cost of covered health benefits were assumed for 2012. The rates were assumed to step down to 5.00 percent in 2019, and remain at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(dollars in thousands)	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost	$ 1,604	$ (1,291)
Effect on postretirement benefit obligation	25,257	(20,603)

Contributions

The District expects to contribute $7.4 million to other post retirement benefit plans in 2013.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Other Postretirement Benefits
2013	$ 7,380
2014	7,694
2015	8,165
2016	8,522
2017	8,817
Years 2018 — 2022	47,323

Note 14 — Related Party Transactions

In the ordinary course of business, the District enters into loan transactions with related parties, which include officers and directors of AgFirst or Associations, their immediate families and other organizations with which such persons may be affiliated. Such loans are subject to special approval requirements contained in the FCA regulations and were made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons.

Total loans to such persons at December 31, 2012, amounted to $267.5 million, as compared with $346.6 million and $367.6 million for the years ended December 31, 2011 and 2010, respectively. During 2012, 2011, and 2010, $237.0 million, $200.8 million, and $305.5 million of new loans were made and repayments totaled $254.9 million, $221.9 million, and $273.4 million, respectively. In the opinion of management, none of these loans outstanding at December 31, 2012 involved more than a normal risk of collectability, except as described below.

Loans totaling $9.0 million at December 31, 2012, were considered to involve more than the normal risk of collectability as determined by the Association. A mortgage loan totaling $8.8 million at December 31, 2012 to an entity in which an Association director has an ownership interest was classified substandard as a result of declining debt repayment capacity related to lower recurring income sources. This loan was current at December 31, 2012 and determined by the Association to be adequately secured. Two substandard loans to a brother of another director of the Association, totaling $202 thousand at December 31, 2012, were nonaccrual, delinquent, and in the process of collection.

Note 15 — Regulatory Enforcement Matters

As of December 31, 2012, four District Associations, with combined assets of approximately $2.955 billion, were operating under written supervisory agreements with the FCA. Those agreements require the District Associations to take corrective actions with respect to specific areas of their operations. These enforcement actions are not expected to have a significant impact on the District's financial condition or results of operations.

Note 16 — Commitments and Contingencies

The District has various contingent liabilities and commitments outstanding as discussed elsewhere in these notes to the Combined Financial Statements. While primarily liable for its portion of System bonds and notes, AgFirst is jointly and severally liable for the bonds and notes of the other System banks. The total bonds and notes of the System at December 31, 2012 were $197.966 billion.

In the normal course of business, the Bank and Associations may participate in credit related financial instruments with off-balance-sheet risk to satisfy the financing needs of their borrowers. These financial instruments include standby letters of credit, various guarantees and commitments to extend credit.

The Bank and District participate in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2012, the Bank had outstanding $90.0 million of standby letters of credit issued on behalf of borrowers, with expiration dates ranging from January 2013 to May 2019. The maximum potential amount of future payments the Bank may be required to make under these existing guarantees is $90.0 million.

At the inception of a guarantee, a guarantor is required to recognize a liability for that guarantee commitment, measured at fair value or the premium received, or receivable, as a practical expedient. The District has determined the value of its guarantee commitments based upon the premiums to be earned over the life of the guarantee. The value is updated periodically to reflect changes in guarantee amounts, and the remaining life to maturity, of the individual guarantees in the District's inventory. At December 31, 2012, the District's inventory of standby letters of credit was valued at $2.0 million and included in Other Liabilities in the Consolidated Balance Sheets.

The Bank also guarantees certain loans held by District Associations in the amount of $4.6 million expiring in less than one year. The notional amounts of these guarantees represent the maximum amount of exposure the Bank has related to these instruments as of December 31, 2012.

At December 31, 2012, $4.249 billion of commitments to extend credit were outstanding with a related loss reserve of $4.6 million included in Other Liabilities in the Combined Balance Sheets. Since many of these commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. However, these financial instruments have off-balance-sheet credit risk because their amounts could be drawn upon at the option of the borrower. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and the same credit policies are applied by management. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the loan collateral is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower.

Legal actions are pending against AgFirst and certain District Associations in which claims for money damages are asserted. On at least a quarterly basis, the Bank and District Associations assess their 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 and legal counsel are of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the combined financial position of the Bank and District Associations. Since it is not probable that the Bank or District Associations will incur a loss or the loss is not estimable, no liability has been recorded for these claims.

See Note 23, *District Merger Activity*, in the Notes to the Combined Financial Statements for further information related to a financial assistance agreement between the Bank and a District Association.

Note 17 — 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.

The classifications of the District's assets and liabilities 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. Level 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets.

Level 1 assets consist of assets held in trust funds related to deferred compensation and supplemental retirement plans. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

For cash and cash equivalents, 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. Level 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

The fair value of substantially all investment securities is determined from third-party valuation services that estimate current market prices. Inputs and assumptions related to third-party market valuation services are typically observable in the marketplace. Such services incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. Third-party valuations also incorporate information regarding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

Level 2 assets include investments in U.S. government and agency mortgage-backed securities and U.S. agency debt securities, all of which use unadjusted values from third parties or internal pricing models. The underlying loans for these investment securities are residential mortgages. Also included are federal funds sold, securities purchased under resale agreements, and other highly-liquid funds, all of which are non-exchange-traded instruments. The market value of these federal funds sold and other instruments is generally their face value, as these instruments are highly-liquid, readily convertible to cash, and short-term in nature.

The fair value of derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer a derivative liability in active markets among willing participants at the reporting date. Estimated fair values are determined through internal market valuation models which use an income approach. These models incorporate benchmark interest rate curves (primarily the LIBOR swap curve), potential volatilities of future interest rate movements, and other inputs which are observable directly or indirectly in the marketplace. The District compares internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

Collateral liabilities are also considered Level 2. The majority of derivative contracts are supported by bilateral collateral agreements with counterparties requiring the posting of collateral in the event certain dollar thresholds of credit exposure are reached. Face value approximates the fair value of collateral liabilities.

Level 3

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Level 3 assets and liabilities could include investments and derivative contracts whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, and other instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets and liabilities could also include investments and derivative contracts 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 District's loans, fair value is estimated by discounting the expected future cash flows using interest rates at which similar loans would currently be made to borrowers with similar credit risk. For purposes of determining fair value of accruing loans, the 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 District's non-agency ABS and CMO investment portfolios are also considered Level 3. The underlying loans for the ABSs are mortgage related. The underlying loans for the CMO securities are residential mortgages. Based on the currently illiquid marketplace for these investments and the lack of marketplace information available as inputs and assumptions to the valuation process, the District classified the non-agency ABS and CMO investment portfolios as Level 3 assets.

Following the market disruptions of 2008, the District began considering both a price, or "mark," provided by a third party pricing service and a value determined using the results of a modeling process for purposes of estimating the fair values of securities in the non-agency ABS and CMO portfolios, as well as the resulting unrealized gain/loss impact through AOCI. The markets for these types of securities had become inactive and prices were reflecting distressed and forced sales as evidenced by their volatility. Over time, the valuations received from the pricing service began converging toward a more reasonable correlation with the District's understanding of the underlying credit factors and financial metrics of these securities, though the markets remained inactive. During 2012, management judged that values being supplied by the third party pricing service were consistent with GAAP and that it would be appropriate to return to the valuation methodology used prior to 2009, which was the use of third party vendor pricing alone to reflect the fair values of these portfolios in financial reporting.

For other investments, fair value is estimated by discounting future annual cash flows using prevailing rates for similar instruments at the measurement date.

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 primarily 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 District'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.

Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between Systemwide Debt

Securities and Treasury securities. An appropriate yield-spread is estimated, taking into consideration selling group member (banks and securities dealers) yield indications, observed new GSE debt security pricing, and pricing levels in the related U.S. Dollar (USD) interest rate swap market.

The following tables present the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. In tandem with the latest guidance on fair value measurement and disclosure, and movement to available for sale classification, $51.9 million of Mission Related Investments were transferred from Level 2 to Level 3 status effective March 31, 2012. The District had no transfers of assets or liabilities into or out of Level 1 during the reporting period.

(dollars in thousands)	Asset-Backed Securities	Non-Agency CMOs	Standby Letters of Credit	Mission Related Investments
Balance at January 1, 2012	$ 30,324	$ 241,756	$ 3,073	$ –
Total gains or (losses) realized/unrealized:				
Included in earnings	–	(3,762)	–	–
Included in other comprehensive	11,583	8,140	–	1,566
Purchases	–	–	–	593
Sales	–	–	–	–
Issuances	–	–	–	–
Settlements	(8,517)	(41,435)	(1,027)	(553)
Transfers in and/or out of level 3	–	–	–	51,885
Balance at December 31, 2012	$ 33,390	$ 204,699	$ 2,046	$ 53,491

(dollars in thousands)	Asset-Backed Securities	Non-Agency CMOs	Standby Letters of Credit
Balance at January 1, 2011	$ 34,437	$ 295,526	$ 3,336
Total gains or (losses) realized/unrealized:			
Included in earnings	(3,583)	(5,670)	–
Included in other comprehensive loss	4,355	12,502	–
Purchases	–	–	–
Sales	–	–	–
Issuances	–	–	524
Settlements	(4,885)	(60,602)	(787)
Transfers in and/or out of level 3	–	–	–
Balance at December 31, 2011	$ 30,324	$ 241,756	$ 3,073

(dollars in thousands)	Asset-Backed Securities	Non-Agency CMOs	Standby Letters of Credit
Balance at January 1, 2010	$ 47,465	$ 360,026	$ 5,236
Total gains or (losses) realized/unrealized:			
Included in earnings	(7,959)	(3,953)	–
Included in other comprehensive loss	10,928	38,717	–
Purchases, sales, issuances and settlements, net	(15,997)	(99,264)	(1,900)
Transfers in and/or out of level 3	–	–	–
Balance at December 31, 2010	$ 34,437	$ 295,526	$ 3,336

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.

Derivative Instruments

Level 3 derivative instruments consist of forward contracts that represent a hedge of an unrecognized firm commitment to purchase agency securities at a future date. The value of the forward is the difference between the fair value of the security at inception of the forward and the measurement date. Significant inputs for these valuations would be discount rate and volatility. These level 3 derivatives would decrease (increase) in value based upon an increase (decrease) in the discount rate.

Generally, for derivative instruments which are subject to changes in the value of the underlying referenced instrument, change in the assumption used for default rate is accompanied by 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 prepayment rates.

Unobservable inputs for discount rate and volatility do not increase or decrease based on movements in other significant unobservable inputs for these level 3 instruments.

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 District's valuation policies and procedures. Internal valuation processes are calibrated annually by an independent consultant. Fair value measurements are analyzed on a periodic basis. Documentation is obtained for third party information, such as pricing, and periodically evaluated alongside internal information and pricing.

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
Firm commitments-when issued securities	$	–	Broker/Consensus pricing	Offered quotes	100.375 – 104.209
Mission Related Investments	$	53,491	Discounted cash flow	Risk adjusted spread	0.01% – 8.22%
Non-agency securities	$	238,089	Vendor priced	**	
Impaired loans and other property owned	$	715,749	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.*
*** The significant unobservable inputs used to estimate fair value for Level 3 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.*

Information about Recurring and Nonrecurring Level 2 Fair Value Measurements

	Valuation Technique(s)	Input
Investments available for sale	Discounted cash flow	Constant prepayment rate
		Probability of default
		Loss severity
	Quoted prices	Price for similar security
Federal funds sold, securities purchased under resale agreements and other	Carrying value	Par/principal and appropriate interest yield
Interest rate swaps	Discounted cash flow	Annualized volatility
		Counterparty credit risk
		Own credit risk

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Loans	Discounted cash flow	Prepayment forecasts
		Probability of default
		Loss severity
Cash and cash equivalents	Carrying value	Par/principal and appropriate interest yield
Mission Related Investments	Discounted cash flow	Risk adjusted spread
Other investments	Discounted cash flow	Prepayment rates
		Probability of default
		Loss severity
Assets held in trust funds	Quoted prices	Price for identical security
Bonds and notes	Discounted cash flow	Benchmark yield curve
		Derived yield spread
		Own credit risk
Cash collateral	Carrying value	Par/principal and appropriate interest yield

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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:

	December 31, 2012					
(dollars in thousands)	**Total Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**	**Fair Value Effects On Earnings**
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. GNMA MBS/CMOs	$ 5,000,613	$ –	$ 5,000,613	$ –	$ 5,000,613	
U.S. Govt. Agency MBS	1,644,227	–	1,644,227	–	1,644,227	
Non-Agency CMOs	204,699	–	–	204,699	204,699	
Asset-backed securities	33,390	–	–	33,390	33,390	
Mission related securities	53,491	–	–	53,491	53,491	
Total investments available-for-sale	6,936,420	–	6,644,840	291,580	6,936,420	
Federal funds sold, securities purchased under resale agreements, and other	149,589	–	149,589	–	149,589	
Interest rate swaps and other derivative instruments	41,384	–	41,384	–	41,384	
Assets held in trust funds	14,562	14,562	–	–	14,562	
Recurring Assets	$ 7,141,955	$ 14,562	$ 6,835,813	$ 291,580	$ 7,141,955	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	–	–	–	–	–	
Standby letters of credit	2,046	–	–	2,046	2,046	
Recurring Liabilities	$ 2,046	$ –	$ –	$ 2,046	$ 2,046	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 595,898	$ –	$ –	$ 595,898	$ 595,898	$ (86,423)
Other property owned	109,997	–	–	119,851	119,851	(30,181)
Nonrecurring Assets	$ 705,895	$ –	$ –	$ 715,749	$ 715,749	$ (116,604)
Other Financial Instruments						
Assets:						
Cash	$ 775,859	$ 775,859	$ –	$ –	$ 775,859	
Investments held to maturity	712,997	–	549,971	224,304	774,275	
Loans	22,137,939	–	–	22,409,374	22,409,374	
Other investments	163,178	–	–	166,557	166,557	
Other Assets	$ 23,789,973	$ 775,859	$ 549,971	$ 22,800,235	$ 24,126,065	
Liabilities:						
Systemwide debt securities	$ 26,488,875	$ –	$ –	$ 26,578,330	$ 26,578,330	
Other Liabilities	$ 26,488,875	$ –	$ –	$ 26,578,330	$ 26,578,330	

(dollars in thousands)	December 31, 2011 Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. GNMA MBS/CMOs	$ 5,002,501	$ –	$ 5,002,501	$ –	$ 5,002,501	
U.S. Govt. Agency MBS	1,650,829	–	1,650,829	–	1,650,829	
Non-Agency CMOs	242,231	–	475	241,756	242,231	
Asset-backed securities	30,324	–	–	30,324	30,324	
Mission Related Investments	54,220	–	54,220	–	54,220	
Total investments available-for-sale	6,980,105	–	6,708,025	272,080	6,980,105	
Federal funds sold, securities purchased under resale agreements, and other	83,822	–	83,822	–	83,822	
Interest rate swaps and other derivative instruments	52,647	–	52,328	319	52,647	
Assets held in trust funds	11,999	11,999	–	–	11,999	
Recurring Assets	$ 7,128,573	$ 11,999	$ 6,844,175	$ 272,399	$ 7,128,573	
Liabilities:						
Interest rate swaps and other derivative instruments	$ –	$ –	$ –	$ –	$ –	
Collateral liabilities	22,139	–	22,139	–	22,139	
Standby letters of credit	3,073	–	–	3,073	3,073	
Recurring Liabilities	$ 25,212	$ –	$ 22,139	$ 3,073	$ 25,212	
Nonrecurring Measurements						
Assets:						
Impaired loans *	$ 709,311	$ –	$ –	$ 709,311	$ 709,311	$ (206,517)
Other property owned *	158,144	–	–	171,914	171,914	(36,203)
Nonrecurring Assets	$ 867,455	$ –	$ –	$ 881,225	$ 881,225	$ (242,720)
Other Financial Instruments **						
Assets:						
Cash	$ 1,256,345				$ 1,256,345	
Investments held to maturity	975,448				1,053,277	
Loans	21,607,419				21,908,154	
Other investments	238,552				246,822	
Other Assets	$ 24,077,764				$ 24,464,598	
Liabilities:						
Systemwide debt securities	$ 27,288,439				$ 27,421,575	
Other Liabilities	$ 27,288,439				$ 27,421,575	

* *Amounts have been revised to conform with the current period presentation.*
** *Accounting guidance did not provide for leveling of other financial instruments prior to 2012.*

(dollars in thousands)	December 31, 2010 Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. GNMA MBS/CMOs	$ 4,947,011	$ –	$ 4,947,011	$ –	$ 4,947,011	
U.S. Govt. Agency MBS	1,747,391	–	1,747,391	–	1,747,391	
Non-Agency CMOs	296,451	–	925	295,526	296,451	
Asset-backed securities	34,437	–	–	34,437	34,437	
Total investments available-for-sale	7,025,290	–	6,695,327	329,963	7,025,290	
Federal funds sold, securities purchased under resale agreements, and other	8,744	–	8,744	–	8,744	
Interest rate swaps and other derivative instruments	62,245	–	62,245	–	62,245	
Commercial paper, CD's & Other	52,000	–	52,000	–	52,000	
Assets held in trust funds	11,511	11,511	–	–	11,511	
Recurring Assets	$ 7,159,790	$ 11,511	$ 6,818,316	$ 329,963	$ 7,159,790	
Liabilities:						
Interest rate swaps and other derivative instruments	$ 8,781	$ –	$ 8,781	$ –	$ 8,781	
Collateral liabilities	18,315	–	18,315	–	18,315	
Standby letters of credit	3,336	–	–	3,336	3,336	
Recurring Liabilities	$ 30,432	$ –	$ 27,096	$ 3,336	$ 30,432	
Nonrecurring Measurements						
Assets:						
Impaired loans *	$ 786,627	$ –	$ –	$ 786,627	$ 786,627	$ (129,881)
Other property owned *	146,416	–	–	155,505	155,505	(28,269)
Nonrecurring Assets	$ 933,043	$ –	$ –	$ 942,132	$ 942,132	$ (158,150)
Other Financial Instruments **						
Assets:						
Cash	$ 1,402,956				$ 1,402,956	
Investments held to maturity	1,234,262				1,298,088	
Loans	22,075,277				22,112,068	
Other investments	305,959				319,168	
Other Assets	$ 25,018,454				$ 25,132,280	
Liabilities:						
Systemwide debt securities	$ 28,525,569				$ 28,427,128	
Other Liabilities	$ 28,525,569				$ 28,427,128	

* *Amounts have been revised to conform with the current period presentation.*
** *Accounting guidance did not provide for leveling of other financial instruments prior to 2012.*

Note 18 — Derivative Financial Instruments and Hedging Activities

The District's goal is to minimize interest rate sensitivity by managing the repricing characteristics of assets and liabilities so that the net interest margin is not adversely affected by movements in interest rates. The District maintains an overall interest rate risk management strategy that may incorporate the use of derivative instruments to lower cost of funding or to reduce interest rate risk. Currently, the primary derivative type used by the District is interest rate swaps, which convert fixed interest rate debt to a lower floating interest rate than was achievable from issuing floating rate debt with identical repricing characteristics. They may allow the District to lower funding costs, allow it to diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Under these arrangements, the District agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

The District may also purchase interest rate derivatives such as caps, in order to reduce the impact of rising interest rates on its floating-rate debt, and floors, in order to reduce the impact of falling interest rates on its floating-rate assets. In addition, the District may also fix a price to be paid in the future which qualifies as a derivative forward contract.

As a result of interest rate fluctuations, interest income and interest expense related to hedged variable-rate assets and liabilities, respectively, will increase or decrease. Another result of interest rate fluctuations is that hedged fixed-rate assets and liabilities will appreciate or depreciate in market value. The effects of any earnings variability or unrealized changes in market value are expected to be substantially offset by the District's gains or losses on the derivative instruments that are linked to these hedged assets and liabilities. The District considers its strategic use of derivatives to be a prudent method of managing interest rate sensitivity, as it prevents earnings from being exposed to undue risk posed by changes in interest rates.

The primary type of derivative instrument used and the amount of activity for each year ended is summarized in the following table:

	2012		2011		2010	
Notional Amounts *(dollars in millions)*	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**	**Receive-Fixed Swaps**	**Forward Contracts**
Balance at beginning of period	$ 535	$ 66	$ 1,135	$ 445	$ 1,373	$ –
Additions	–	542	–	330	50	445
Maturities/amortization	(175)	(608)	(600)	(709)	(288)	–
Terminations	–	–	–	–	–	–
Balance at end of period	$ 360	$ –	$ 535	$ 66	$ 1,135	$ 445

By using derivative instruments, the District exposes itself to credit and market risk. If a counterparty fails to fulfill its performance obligations under a derivative contract, the District's credit risk will equal the fair value gain in the derivative. Generally, when the fair value of a derivative contract is positive, this indicates that the counterparty owes the District, thus creating a repayment risk for the District. When the fair value of the derivative contract is negative, the District owes the counterparty and, therefore, assumes no repayment risk.

To minimize the risk of credit losses, the District transacts with counterparties that have an investment grade credit rating from a major rating agency and also monitors the credit standing of, and levels of exposure to, individual counterparties. The estimated gross credit risk exposure at December 31, 2012 of $41.4 million was with four counterparties and represented approximately 11.50 percent of the total notional amount of interest rate swaps. Accounting guidance requires a pledge to reflect as a liability the value of any cash collateral held in its statement of condition. However, securities held as collateral are not reported in the pledgee's statement of condition, even though in the custody of the pledgee. The District held US Treasury securities with a fair value of $18.3 million posted by one counterparty and US Government Agency securities totaling $1.3 million posted by a second counterparty related to these swaps. The District does not anticipate nonperformance by any of these counterparties. The estimated gross credit risk exposure at December 31, 2011 of $52.3 million was with five counterparties and represented approximately 9.78 percent of the total notional amount of interest rate swaps. The District held $22.1 million of interest-bearing cash collateral at December 31, 2011, posted by one counterparty. The estimated gross credit risk exposure at December 31, 2010 of $62.2 million was with seven counterparties and represented approximately 5.48 percent of the total notional amount of interest rate swaps. The District held $18.3 million of interest-bearing cash collateral at December 31, 2010, posted by one counterparty. The District typically enters into master agreements that contain netting provisions. These provisions allow the District to require the net settlement of covered contracts with the same counterparty in the event of default by the counterparty on one or more contracts. A number of swaps are supported by collateral arrangements with counterparties. At December 31, 2012, the District had not posted collateral with respect to any of these arrangements.

The District's derivative activities, which are performed by the Bank, are monitored by the Asset-Liability Management Committee (ALCO) as part of its oversight of the District's asset/liability and treasury functions. The Bank's ALCO is responsible for approving hedging strategies that are developed within parameters established by the Bank's Board of Directors through the analysis of data derived from financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the overall interest rate risk-management strategies.

Fair-Value Hedges

For derivative instruments designated as fair value hedges, the gains or losses on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The District includes the gain or loss on the hedged items in the same line item (interest expense) as the offsetting loss or gain on the related interest rate swaps. The amount of the loss on interest rate swaps recognized in interest expense for the year ended December 31, 2012 was $11.3 million, while the amount of the gain on the Systemwide Debt Securities was $11.3 million. Gains and losses on each derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Cash Flow Hedges

From time to time, the District may acquire when-issued securities, generally Government Agency guaranteed bonds. The when-issued transactions are contracts to purchase securities that will not be delivered until 30, or more, days in the future. These purchase commitments are considered derivatives (cash flow hedges) in the form of forward contracts. Any difference in market value of the contracted securities, between the purchase and reporting or settlement date, represent the value of the forward contracts. These amounts are included in Other Comprehensive Income (OCI), and Other Liabilities or Other Assets as appropriate, as firm commitments in the District's Balance Sheet for each period end. At December 31, 2012, the District had not committed to purchase any when-issued bonds. At December 31, 2011, the District had committed to purchase $66.4 million in when-issued Agency bonds that had a market value of $66.7 million, a $319 thousand increase in value.

For derivative instruments that are designated and qualify as a cash flow hedge, such as the District's forward contracts, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

The following tables represent the fair value of derivative instruments at periods ended:

(dollars in thousands)	**Balance Sheet Classification Assets**	**12/31/12 Fair Value**	**Balance Sheet Classification Liabilities**	**12/31/12 Fair Value**
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 41,384	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		$ 41,384		$ –

(dollars in thousands)	Balance Sheet Classification Assets	12/31/11 Fair Value	Balance Sheet Classification Liabilities	12/31/11 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 52,328	Other Liabilities	$ –
Forward contracts	Other Assets	319	Other Liabilities	–
Total		$ 52,647		$ –

(dollars in thousands)	Balance Sheet Classification Assets	12/31/10 Fair Value	Balance Sheet Classification Liabilities	12/31/10 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	$ 62,245	Other Liabilities	$ –
Forward contracts	Other Assets	–	Other Liabilities	8,781
Total		$ 62,245		$ 8,781

The following tables set forth the amount of net gain (loss) recognized in the Combined Statements of Income and, for cash flow hedges, the amount of net gain (loss) recognized in the Combined Balance Sheets for the years ended December 31:

(dollars in thousands)	Location of Gain or (Loss) Recognized in the Statement of Income	2012 Amount of Gain or (Loss) Recognized in the Statement of Income	2011 Amount of Gain or (Loss) Recognized in the Statement of Income	2010 Amount of Gain or (Loss) Recognized in the Statement of Income
Derivatives – Fair Value Hedging Relationships:				
Receive-fixed swaps	Noninterest Income	$ –	$ –	$ –
Total		$ –	$ –	$ –

(dollars in thousands)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Derivatives – Cash Flow Hedging Relationships:					
Firm Commitments					
2012	7,970	Interest Income	890	Interest Income	–
2011	3,035	Interest Income	(150)	Interest Income	–
2010	(8,751)	Interest Income	–	Interest Income	–

Note 19 — Additional Derivative Financial Instruments and Other Financial Instruments Disclosure

The table below provides information about derivative financial instruments and other financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. The debt information below represents the principal cash flows and related weighted average interest rates by expected maturity dates. The derivative information below represents the notional amounts and weighted average interest rates by expected maturity dates.

December 31, 2012 *(dollars in millions)*	Maturities of 2012 Interest Rate Derivative Products and Other Financial Instruments 2013	2014	2015	2016	2017	2018 and after	Total	Fair Value
Systemwide Debt Securities:								
Fixed rate	$ 5,600	$ 3,725	$ 2,766	$ 1,906	$ 1,952	$ 4,129	$ 20,078	$ 20,204
Weighted average interest rate	0.47%	0.53%	0.70%	1.10%	1.09%	1.86%	0.92%	
Variable rate	5,227	1,090	38	17	9	28	6,409	6,374
Weighted average interest rate	0.30%	0.21%	0.18%	0.05%	0.07%	0.25%	0.20%	
Derivative Instruments:								
Receive fixed swaps								
Notional value	$ 110	$ –	$ 100	$ 100	$ 50	$ –	$ 360	$ 41
Weighted average receive rate	3.02%	–%	5.01%	5.18%	4.95%	–%	4.44%	
Weighted average pay rate	0.35%	–%	0.70%	1.28%	1.84%	–%	0.92%	
Total notional value	$ 110	$ –	$ 100	$ 100	$ 50	$ –	$ 360	$ –
Total weighted average rates on swaps:								
Receive rate	3.02%	–%	5.01%	5.18%	4.95%	–%	4.44%	
Pay rate	0.35%	–%	0.70%	1.28%	1.84%	–%	0.92%	

Note 20 — Accumulated Other Comprehensive Income

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

(dollars in thousands)	Unrealized gains (losses) on Investments	Firm Commitments	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at December 31, 2011	$ 139,367	$ (5,566)	$ (355,049)	$ (221,248)
Other comprehensive income before reclassifications	37,094	7,970	(68,550)	(23,486)
Amounts reclassified from AOCI	3,933	(890)	28,189	31,232
Net current period other comprehensive income	41,027	7,080	(40,361)	7,746
Balance at December 31, 2012	$ 180,394	$ 1,514	$ (395,410)	$ (213,502)
Balance at December 31, 2010	$ 43,337	$ (8,751)	$ (326,166)	$ (291,580)
Other comprehensive income before reclassifications	89,719	3,035	(57,694)	35,060
Amounts reclassified from AOCI	6,311	150	28,811	35,272
Net current period other comprehensive income	96,030	3,185	(28,883)	70,332
Balance at December 31, 2011	$ 139,367	$ (5,566)	$ (355,049)	$ (221,248)
Balance at December 31, 2009	$ (121,882)	$ –	$ (316,764)	$ (438,646)
Other comprehensive income before reclassifications	154,713	(8,751)	(35,098)	110,864
Amounts reclassified from AOCI	10,506	–	25,696	36,202
Net current period other comprehensive income	165,219	(8,751)	(9,402)	147,066
Balance at December 31, 2010	$ 43,337	$ (8,751)	$ (326,166)	$ (291,580)

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

(dollars in thousands)	For the twelve months ended December 31, 2012	2011	2010	Income Statement Line Item
Investment Securities:				
Sales gains & losses	$ –	$ 2,973	$ 1,406	Gains (Losses) on investments, net
Holding gains & losses	(3,933)	(9,284)	(11,912)	Net other-than-temporary impairment
Net amounts reclassified	(3,933)	(6,311)	(10,506)	
Cash Flow Hedges:				
Interest income	890	(150)	–	See footnote 18.
Net amounts reclassified	890	(150)	–	
Defined Benefit Pension Plans:				
Periodic pension costs	(28,189)	(28,811)	(25,696)	See footnote 13.
Net amounts reclassified	(28,189)	(28,811)	(25,696)	
Total reclassifications for period	$ (31,232)	$ (35,272)	$ (36,202)	

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

Note 21 — Quarterly Financial Information (Unaudited)

Quarterly results of operations for the years ended December 31, 2012, 2011, and 2010 follow:

(dollars in thousands)	2012 First	Second	Third	Fourth	Total
Net interest income	$ 283,516	$283,569	$ 283,179	$ 280,794	$1,131,058
Provision for (reversal of allowance for) loan losses	14,590	10,384	38,163	34,938	98,075
Noninterest income (expense), net	(107,454)	(77,487)	(101,156)	(111,962)	(398,059)
Provision (benefit) for income taxes	137	279	584	265	1,265
Net income	$ 161,335	$195,419	$ 143,276	$ 133,629	$ 633,659

	2011 First	Second	Third	Fourth	Total
Net interest income	$ 270,610	$278,876	$ 282,341	$ 286,622	$ 1,118,449
Provision for (reversal of allowance for) loan losses	33,671	55,221	64,542	62,418	215,852
Noninterest income (expense), net	(101,206)	(94,829)	(102,668)	(117,252)	(415,955)
Provision (benefit) for income taxes	198	261	506	(252)	713
Net income	$ 135,535	$128,565	$ 114,625	$ 107,204	$ 485,929

	2010 First	Second	Third	Fourth	Total
Net interest income	$ 255,850	$257,291	$ 265,958	$ 275,638	$ 1,054,737
Provision for (reversal of allowance for) loan losses	18,192	38,799	43,503	37,734	138,228
Noninterest income (expense), net	(59,276)	(94,777)	(93,058)	(116,852)	(363,963)
Provision (benefit) for income taxes	103	(75)	580	59	667
Net income	$ 178,279	$123,790	$ 128,817	$ 120,993	$ 551,879

Note 22 — Bank Only Financial Data

Condensed financial information of the Bank follows:

Balance Sheet

(dollars in thousands)	December 31, 2012	2011	2010
Cash, cash equivalents and			
Cash, cash equivalents and investment securities	$ 8,357,576	$ 9,081,841	$ 9,503,711
Loans			
To District Associations	13,833,602	14,094,384	14,778,448
To others	6,375,649	6,057,682	6,126,717
Total loans	20,209,251	20,152,066	20,905,165
Less: allowance for loan losses	44,539	27,714	14,873
Net loans	20,164,712	20,124,352	20,890,292
Other assets	368,259	371,313	387,563
Total assets	$ 28,890,547	$ 29,577,506	$ 30,781,566
Bonds and notes	$ 26,286,758	$ 27,086,148	$ 28,325,569
Mandatorily redeemable preferred stock	–	–	225,000
Other liabilities	305,559	342,088	328,216
Total liabilities	26,592,317	27,428,236	28,878,785
Perpetual preferred stock	275,250	400,000	400,000
Capital stock and participation certificates	332,705	405,767	417,333
Additional paid-in-capital	36,580	–	–
Retained earnings	1,482,227	1,219,506	1,053,119
Accumulated other comprehensive income (loss)	171,468	123,997	32,329
Total shareholders' equity	2,298,230	2,149,270	1,902,781
Total liabilities and shareholders' equity	$ 28,890,547	$ 29,577,506	$ 30,781,566

Statement of Income

(dollars in thousands)	Year Ended December 31, 2012	2011	2010
Interest income	$ 814,972	$ 889,768	$ 957,490
Interest expense	209,470	293,334	382,274
Net interest income	605,502	596,434	575,216
Provision for (reversal of allowance for) loan losses	14,946	80,222	40,002
Net interest income after provision for loan losses	590,556	516,212	535,214
Noninterest income	23,437	(2,830)	14,619
Noninterest expenses			
Salaries and employee benefits	49,127	46,881	43,105
Occupancy and equipment	15,034	14,360	15,675
Insurance Fund premium	4,320	5,360	5,147
Other operating expenses	27,828	24,920	21,401
Called debt expense	39,445	27,450	38,420
Corresponding lending servicing expense	9,629	8,847	8,413
Other noninterest expenses	–	106	277
Total noninterest expenses	145,383	127,924	132,438
Net income	$ 468,610	$ 385,458	$ 417,395

Note 23 – District Merger Activity

Effective July 1, 2012, Chattanooga, ACA, merged with and into Jackson Purchase, ACA. Jackson Purchase, ACA, then changed its name to River Valley AgCredit, ACA.

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 December 31, 2012, those assets had a net book value of $113.8 million. This agreement with the Bank does not include losses that are sustained outside of the high risk asset pool. Protection to the Bank, such as limitations on the Association's ability to make patronage distributions and certain other restrictions, is provided in the agreement 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, AgFirst would allow the Association to include AgFirst allocated stock owned by the merged Association in its capital ratio computations. This allocated stock, which totals $10.1 million, has been counted entirely by the Bank in its capital ratio computations under an existing capital sharing arrangement. Second, AgFirst would redeem purchased stock held by the merged Association, up to the total amount outstanding, which was $1.3 million at December 31, 2012, and the redeemed amount would be included in capital ratio computations by the merged Association. This purchased stock has 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 AgFirst of the high risk asset pool from the Association at net book value. There would also be a corresponding repurchase by the merged Association of its previously redeemed stock in AgFirst and a return to the capital sharing arrangement allowing the Bank to count the allocated stock in its capital ratio computations in amounts necessary to satisfy the capitalization requirement under AgFirst's capitalization plan then in effect.

At December 31, 2012, 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 Bank providing assistance under the agreement by allowing the merged Association to include in its capital ratio computations $3.3 million of the total $10.1 million of AgFirst allocated stock owned by the merged Association. The high risk asset pool is expected to experience additional losses in 2013, which will likely result in the Bank providing additional assistance under the agreement. Assistance provided by the Bank under the agreement did not have a material impact on the financial condition and results of operations of the District at December 31, 2012 and additional assistance in the future is also not expected to have a material impact.

Mergers are accounted for under the acquisition method. The accounting acquirer accounts for the transaction by using its historical information and accounting policies and adding the identifiable assets and liabilities of the acquiree as of the acquisition date at their respective fair values.

As cooperative organizations, Farm Credit Associations operate for the mutual benefit of their borrowers and other customers, and not for the benefit of equity investors. As such, their capital stock provides no significant interest in corporate earnings or growth. Specifically, due to restrictions in applicable regulations and the bylaws, the Associations can issue stock only at its par value of $5 per share, the stock is not tradable, and the stock can be retired only for the lesser of par value or book value. In these and other respects, the shares of the acquiree's stock that were converted in the merger and the shares of the acquirer's stock to which they were converted had identical rights and attributes. For this reason, the conversion of stock pursuant to the mergers occurred at a one-for-one exchange ratio (i.e., each acquiree's share was converted into one share of the acquirer's stock with an equal par value).

Management believes that because the stock in each Association is fixed in value (although subject to impairment), the Association's stock issued pursuant to the merger provides no basis for estimating the fair value of the consideration transferred pursuant to the merger. In the absence of a purchase price determination, the Association identified and estimated the acquisition date fair value of the acquiree's equity interests instead of the fair value of the acquirer's equity interests transferred as consideration. The fair value of the assets acquired, including specific intangible assets and liabilities assumed from the acquiree, was measured based on various estimates using assumptions that the Association's management believes are reasonable utilizing information currently available. Use of different estimates and judgments could yield materially different results. This evaluation produced a fair value of identifiable assets acquired and liabilities assumed that was substantially equal to the fair value of the member interests transferred in the merger. As a result, management recorded no goodwill.

The following table reflects the fair values of the identifiable assets acquired and liabilities assumed from Chattanooga, the acquisition adjustment and the merged entity balances at July 1, 2012

Consolidation of Assets Acquired and Liabilities Assumed at July 1, 2012

(dollars in thousands)	Chattanooga	Acquisition Adjustment	Acquisition Values	Jackson Purchase	River Valley
Assets					
Cash	$ 197	$ –	$ 197	$ 958	$ 1,155
Investment securities:					
Held to maturity	–	–	–	1,793	1,793
Loans	156,489	(469)	156,020	270,479	426,499
Less: allowance for loan losses	(1,409)	1,409	–	(2,714)	(2,714)
Net loans	155,080	940	156,020	267,765	423,785
Loans held for sale	–	–	–	139	139
Other investments	38	2	40	1,180	1,220
Accrued interest receivable	1,147	–	1,147	2,876	4,023
Investments in other Farm Credit institutions	5,985	–	5,985	5,280	11,265
Premises and equipment, net	709	1,515	2,224	2,708	4,932
Other property owned	4,382	–	4,382	165	4,547
Due from AgFirst Farm Credit Bank	647	(57)	590	1,175	1,765
Other assets	145	–	145	719	864
Total assets	$ 168,330	$ 2,400	$ 170,730	$ 284,758	$ 455,488
Liabilities					
Notes payable to AgFirst Farm Credit Bank	$ 135,322	$ 952	$ 136,274	$ 226,887	$ 363,161
Subordinated debt payable to other Farm Credit Institutions	2,500	140	2,640	–	2,640
Accrued interest payable	330	–	330	471	801
Patronage refund payable	62	–	62	20	82
Advanced conditional payments	–	–	–	5,894	5,894
Other liabilities	1,981	–	1,981	3,397	5,378
Total liabilities	140,195	1,092	141,287	236,669	377,956
Commitments and contingencies					
Members' Equity					
Capital stock and participation certificates	3,163	–	3,163	2,061	5,224
Additional paid in capital	–	15,817	15,817	–	15,817
Retained earnings					
Allocated	10,463	–	10,463	20,218	30,681
Unallocated	14,509	(14,509)	–	25,810	25,810
Total members' equity	28,135	1,308	29,443	48,089	77,532
Total liabilities and members' equity	$ 168,330	$ 2,400	$ 170,730	$ 284,758	$ 455,488

The following table reflects the identifiable assets acquired and liabilities assumed from North Florida and Southwest Florida, the acquisition adjustment and the merged entity balances at January 1, 2011:

Consolidation of Assets Acquired and Liabilities Assumed at January 1, 2011

(dollars in thousands)	SW Florida	North Florida	Acquisition Adjustment	Acquisition Values	South Florida	Florida
Assets	$ –	$ 13	$ –	$ 13	$ 2,790	$ 2,803
Cash						
Investment securities:						
Held to maturity	40,097	–	(544)	39,553	1,987	41,540
Loans	231,555	404,425	(34,755)	601,225	559,912	1,161,137
Less: allowance for loan losses	4,483	11,614	(16,097)	–	10,679	10,679
Net loans	227,072	392,811	(18,658)	601,225	549,233	1,150,458
Other investments	–	10,211	428	10,639	–	10,639
Accrued interest receivable	1,405	1,871	–	3,276	2,086	5,362
Investments in other Farm Credit institutions	6,495	9,486	–	15,981	8,716	24,697
Premises and equipment, net	867	2,575	–	3,442	5,348	8,790
Other property owned	2,173	6,310	–	8,483	4,516	12,999
Due from AgFirst Farm Credit Bank	2,337	4,038	–	6,375	4,484	10,859
Other assets	4,924	3,887	–	8,811	4,658	13,469
Total assets	$ 285,370	$ 431,202	$ (18,774)	$ 697,798	$ 583,818	$ 1,281,616
Liabilities						
Notes payable to AgFirst Farm Credit Bank	$ 240,578	$ 366,559	$ 4,691	$ 611,828	$ 454,284	$ 1,066,112
Accrued interest payable	482	823	–	1,305	1,006	2,311
Patronage refund payable	15	40	–	55	671	726
Advanced conditional payments	–	407	–	407	3,710	4,117
Other liabilities	3,312	4,345	–	7,657	5,119	12,776
Total liabilities	244,387	372,174	4,691	621,252	464,790	1,086,042
Commitments and contingencies						
Members' Equity						
Protected borrower stock	228	40	(1)	267	2,463	2,730
Capital stock and participation certificates	525	1,411	–	1,936	635	2,571
Additional paid in capital	–	–	7,994	7,994	(121)	7,873
Retained earnings						
Allocated	25,592	40,872	–	66,464	30,879	97,343
Unallocated	14,753	16,705	(31,458)	–	85,057	85,057
Accumulated other comprehensive income (loss)	(115)	–	–	(115)	115	–
Total members' equity	40,983	59,028	(23,465)	76,546	119,028	195,574
Total liabilities and members' equity	$ 285,370	$ 431,202	$ (18,774)	$ 697,798	$ 583,818	$ 1,281,616

Disclosures related to acquired impaired loans are contained in Note 4, *Loans and Allowance for Loan Losses*.

Note 24 - Subsequent Events

The District has evaluated subsequent events and has determined that there are none requiring disclosure through March 13, 2013, which is the date the financial statements were issued.

Glossary of Certain Acronyms

ABO	Accumulated benefit obligation
ABS	Asset backed security
ACA	Agricultural Credit Association
ACB	Agricultural Credit Bank
AFS	Available for sale
ALCO	Asset-Liability Management Committee
ALM	Asset and liability management
AOCI	Accumulated Other Comprehensive Income
ARM	Adjustable rate mortgage
CMO	Collateralized Mortgage Obligation
FAMC	Federal Agricultural Mortgage Corporation (Farmer Mac)
FASB	Financial Accounting Standards Board
FCA	Farm Credit Administration
FCB	Farm Credit Bank
FCSIC	Farm Credit System Insurance Corporation
FHA	Federal Housing Administration
FHLMC	Federal Home Loan Mortgage Corporation (Freddie Mac)
FLCA	Federal Land Credit Association
FNMA	Federal National Mortgage Association (Fannie Mae)
GAAP	Generally Accepted Accounting Principles
GNMA	Government National Mortgage Association (Ginnie Mae)
GSE	Government-sponsored enterprise
HTM	Held to maturity
LIBOR	London Inter-Bank Offered Rate
MBS	Mortgage-backed security
MD&A	Management's Discussion and Analysis
NRSRO	Nationally Recognized Statistical Rating Organization
OAEM	Other Assets Especially Mentioned
OCI	Other Comprehensive Income
OPO	Other property owned
OTTI	Other-than-temporary impairment
PBO	Projected benefit obligation
PCA	Production Credit Association
RHMS	Rural Housing Mortgage-Backed Security
SEC	Securities and Exchange Commission
SIIC	Successor-in-Interest Contract
TDR	Troubled debt restructuring
USDA	United States Department of Agriculture