



FARM CREDIT

2013

**QUARTERLY REPORT**

S E C O N D   Q U A R T E R

AGFIRST FARM CREDIT BANK  
AND DISTRICT ASSOCIATIONS

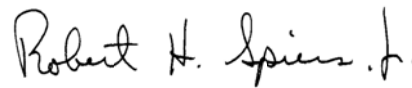
# ***SECOND QUARTER 2013***

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### **CERTIFICATION**

The undersigned certify that we have reviewed the June 30, 2013 quarterly report of AgFirst Farm Credit 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  
Chief Executive Officer & President



Charl L. Butler  
Chief Financial Officer

August 7, 2013

## Report on Internal Control Over Financial Reporting

AgFirst Farm Credit Bank's (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's 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's 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's and each District Association's assets that could have a material effect on its Consolidated Financial Statements.

The Bank's and each District Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of June 30, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



Leon T. Amerson  
Chief Executive Officer & President



Charl L. Butler  
Chief Financial Officer

August 7, 2013

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

The following discussion reviews the combined financial condition and results of operations of AgFirst Farm Credit Bank (AgFirst or Bank) and the District Agricultural Credit Associations (Associations or District Associations), collectively referred to as the District, as of and for the three and six month periods ended June 30, 2013. These comments should be read in conjunction with the accompanying financial statements, the Notes to the Combined Financial Statements, and the 2012 Annual Report of AgFirst Farm Credit Bank and District Associations. The accompanying combined financial statements were prepared under the oversight of the Audit Committee of the AgFirst Board of Directors.

As of June 30, 2013, the District included nineteen Associations, all of which 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 13, *District Merger Activity*, in the Notes to the Combined Financial Statements for further information.

Key ratios and data reported below, and in the accompanying financial statements, address the financial performance of the District. However, neither the three months nor the six months results of operations may be indicative of an entire year due to the seasonal nature of a portion of the District's business.

## FORWARD-LOOKING INFORMATION

Certain sections of this quarterly 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 Farm Credit System (System) as a government-sponsored enterprise (GSE), as well as investor and rating agency reactions to events involving the U.S. government, GSEs and other financial institutions;
- 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; and
- cyber-security risks, including "denial of service," "hacking," and "identity theft," that could adversely affect the District's business and financial performance, or reputation.

**FINANCIAL CONDITION**

*Loan Portfolio*

The District’s aggregate loan portfolio consists primarily of direct loans made by the Associations to eligible borrowers located within their chartered territories. Diversification of the loan volume by type is illustrated in the following table:

<b>Loan Portfolio</b> <i>(dollars in thousands)</i>	<b>June 30, 2013</b>		<b>December 31, 2012</b>		<b>June 30, 2012</b>	
Real Estate Mortgage	\$ 10,071,891	44%	\$ 9,921,750	43%	\$ 9,748,030	43%
Production and Intermediate-Term	7,622,105	33	7,760,377	34	7,767,612	35
Rural Residential Real Estate	2,749,009	12	2,634,609	12	2,536,007	11
Agribusiness						
Loans to Cooperatives	251,898	1	235,703	1	244,650	1
Processing and Marketing	985,195	5	1,053,247	5	1,088,373	5
Farm-Related Business	373,988	2	354,039	2	384,193	2
Total Agribusiness	1,611,081	8	1,642,989	8	1,717,216	8
Energy/Water and Waste Disposal	515,581	2	525,070	2	456,240	2
Communication	321,549	1	319,320	1	271,500	1
Loans to OFIs	83,579	—	60,479	—	15,650	—
Lease Receivables	5,327	—	2,880	—	5,895	—
Other (including Mission Related)	70,509	—	61,731	—	65,047	—
<b>Total</b>	<b>\$ 23,050,631</b>	<b>100%</b>	<b>\$ 22,929,205</b>	<b>100%</b>	<b>\$ 22,583,197</b>	<b>100%</b>

Total loans outstanding were \$23.051 billion at June 30, 2013, an increase of \$121.4 million, or 0.53 percent, compared to total loans outstanding at December 31, 2012. However, loan demand remains weak for a number of reasons, including current grower capital and cash levels that are higher than the historical average which has resulted in lower borrowings for capital investment in certain sectors. Also, the slow recovery of the general economy has resulted in lower production in other sectors. Relatively high unemployment and uncertainty of future employment has had a negative impact on some borrowers dependent on non-farm income. Future loan demand is difficult to predict; however, it is expected to remain weak through 2013.

Substantially all of the \$2.347 billion of loans in the Bank’s first lien residential mortgage portfolio at June 30, 2013 are guaranteed by the Federal National Mortgage Association (Fannie Mae) and/or the Federal Agricultural Mortgage Corporation (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. The Fannie Mae program ended on July 31, 2013. The Bank has begun holding new loans added to the portfolio without the benefit of a third party guarantee and plans to securitize a portion of these loans in the future. The Bank is also exploring other possible guarantee arrangements.

*Credit Quality*

Credit quality continues to be impacted by prolonged weakness in the economy as shown below:

<b>Total Loan Portfolio Credit Quality as of:</b>			
<b>Classification</b>	<b>June 30, 2013</b>	<b>December 31, 2012</b>	<b>June 30, 2012</b>
Acceptable	91.21%	90.19%	89.91%
OAEM *	3.61%	4.07%	4.54%
Substandard/Doubtful/Loss	5.18%	5.74%	5.55%

\* Other Assets Especially Mentioned

Loan portfolio credit quality at the producer level reflected minor improvement. Most distressed property sales are now occurring at or near appraised values, indicating that real estate values have stabilized in most District markets. Production farm land maintained its value throughout the financial downturn. High commodity prices for grains during 2012 were very beneficial to row crop farmers. However, grain prices have declined in 2013 due to higher than expected inventory and higher planting intentions for corn. This has been beneficial to the poultry, cattle, and swine sectors. Improved housing starts in 2013 have positively impacted certain housing-related segments such as forestry and lumber. The nursery/greenhouse segment remains stressed as those industries lag construction starts.

Slow economic growth will have an impact on credit quality for some time. Although credit quality is generally stabilizing, it will take time to fully resolve some problem assets due to their dependency on general economic conditions including employment, the housing market, and real estate values.

#### *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 June 30, 2013 were \$535.0 million compared to \$580.9 million at December 31, 2012. Nonaccrual loans decreased \$45.9 million during the six month period ended June 30, 2013 due primarily to repayments of \$96.6 million, transfers to other property owned of \$20.3 million, \$14.1 million of charge-offs net of recoveries on uncollectible balances, and reinstatements to accrual status of \$11.0 million. Offsetting these decreases were \$81.9 million of loan balances transferred to nonaccrual status and advances of \$10.5 million. The ten largest nonaccrual borrower relationships accounted for 22.54 percent of the total nonaccrual balance. At June 30, 2013, total nonaccrual loans were primarily in the forestry (19.48 percent of the total), nursery/greenhouse (17.95 percent), other real estate (9.34 percent), poultry (7.70 percent), and field crops (6.67 percent) segments. Some of these nonaccrual loans are secured by real estate, which has been negatively impacted by the economic environment as discussed previously. Nonaccrual loans were 2.32 percent and 2.53 percent of total loans outstanding at June 30, 2013 and December 31, 2012, respectively.

#### *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 \$278.7 million at June 30, 2013, compared to \$277.3 million at December 31, 2012. At June 30, 2013, TDRs were comprised of \$111.4 million of accruing restructured loans and \$167.3 million of nonaccruing restructured loans. Restructured loans were primarily in the forestry (22.55 percent of the total), nursery/greenhouse (13.96 percent), poultry (8.95 percent), and field crops (7.74 percent) segments.

#### *Other Property Owned*

Other property owned (OPO) consists primarily 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 \$29.9 million during the first six months of 2013 and totaled \$80.1 million at June 30, 2013. For the six months ended June 30, 2013, the decrease was the result of disposals of \$38.0 million and net write-downs of OPO of \$13.0 million. Partially offsetting these decreases were transfers to OPO of \$21.1 million. Disposals primarily included land holdings, with the four largest property disposals, primarily in the forestry segment, totaling \$15.7 million. The largest property write-down was for an ethanol facility and totaled \$7.7 million. At June 30, 2013, the largest OPO holding was an ethanol facility totaling \$8.6 million (10.80 percent of the total).

#### *Allowance for Loan Losses*

The District maintains an allowance for loan losses at a level management considers adequate to provide for probable and estimable credit losses within the loan portfolio as of each reported balance sheet date. The allowance for loan losses was \$211.4 million at June 30, 2013, as compared with \$213.5 million at December 31, 2012. Activity in the allowance for the six months ended June 30, 2013 were loan charge-offs of \$19.7 million, as loan collectability became more measurable and apparent during the six month period. Offsetting these decreases were \$8.4 million provision expense and recoveries of \$9.1 million. Charge-offs during the six month period were related primarily to borrowers in the forestry (24.68 percent of the total), ethanol (24.00 percent), and nursery/greenhouse (9.45 percent) segments. The allowance at June 30, 2013 included specific reserves of \$87.0 million (41.16 percent of the total) and \$124.4 million (58.84 percent) of general reserves. The largest commodity segments included in the allowance at June 30, 2013 were the nursery/greenhouse (17.50 percent of the total), forestry (15.65 percent), and cattle (7.83 percent) segments. See Note 3, *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 the effects on the allowance from provision for loan losses.

### *Liquidity and Funding Sources*

One of AgFirst's primary responsibilities is to maintain sufficient liquidity to fund the lending operations of the District Associations, in addition to its own needs. Along with normal cash flows associated with lending operations, AgFirst has two primary sources of liquidity: the capacity to issue Systemwide Debt Securities through the Federal Farm Credit Banks Funding Corporation; and its cash and investments portfolio. The Bank also maintains several lines of credit with commercial banks, as well as securities repurchase agreement facilities.

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.

Currently, Standard & Poor's Ratings Services, Moody's Investor Service and Fitch Ratings have assigned long-term debt ratings for the System of AA+, Aaa, and AAA and short-term debt ratings of A-1+, P-1, and F-1, respectively, and their outlook is stable. Negative changes to the System's credit ratings could reduce earnings by increasing debt funding costs, and could also have a material adverse effect on liquidity, the ability to conduct normal business operations, and the Bank's overall financial condition and results of operations. However, AgFirst anticipates continued access to funding necessary to support the District's and Bank's needs.

At June 30, 2013, AgFirst had \$25.703 billion in total debt outstanding compared to \$26.287 billion at December 31, 2012. Total interest-bearing liabilities decreased primarily due to the decrease in liquidity investments, which when combined with an increase in retained earnings, reduced funding requirements.

Cash and cash equivalents, which decreased \$532.5 million from December 31, 2012 to a total of \$392.9 million at June 30, 2013, consist primarily of cash on deposit and money market securities that are short term in nature (from overnight maturities to maturities that range up to 90 days). Cash was decreased due primarily to lower liquidity needs based on upcoming maturing debt between the periods.

Investment securities totaled \$7.563 billion, or 24.03 percent of total assets at June 30, 2013, compared to \$7.649 billion, or 23.83 percent, as of December 31, 2012. Investment securities decreased \$86.6 million (1.13 percent), compared to December 31, 2012. Management maintains the available-for-sale liquidity investment portfolio size generally proportionate with that of the loan portfolio and within regulatory and policy guidelines. In order to maintain the portfolio size within revised regulatory limits, during the quarter ended March 31, 2013, the Bank sold \$114.6 million of Agency mortgage backed securities which resulted in a gain of \$7.6 million.

Investment securities classified as being available-for-sale totaled \$6.778 billion at June 30, 2013. Available-for-sale investments at June 30, 2013 included \$4.661 billion in Agency collateralized mortgage obligations (CMOs), \$1.850 billion in Agency adjustable rate mortgages, \$186.3 million in non-agency CMOs, \$45.9 million in mission related investments, and \$35.8 million in asset-backed securities. Since the majority of the portfolio is invested in agency securities, the portfolio is highly liquid and potential credit loss exposure is limited.

As of June 30, 2013, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require that the Bank have a liquidity policy that establishes a minimum total "coverage" level of 90 days and that short term liquidity requirements must be met by certain high quality investments or cash. "Coverage" is defined as the number of days that maturing debt could be funded with eligible cash, cash equivalents, and available-for-sale investments maintained by the Bank. Eligible liquidity investments are classified according to three liquidity quality levels with level 1 being the highest. The first 15 days of liquidity coverage are met using only level 1 instruments, which include cash and cash equivalents. Days 16 through 30 of liquidity coverage are met using level 1 and level 2 instruments. Level 2 consists primarily of U.S. government guaranteed securities. Days 31 through 90 are met using level 1, level 2, and level 3

securities. Level 3 consists primarily of U.S. Agency investments. Additionally, a supplemental liquidity buffer in excess of the 90-day minimum liquidity reserve is set to provide coverage to 120 days.

At June 30, 2013, AgFirst had a total of 234 days of debt coverage compared to 218 days at December 31, 2012. 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.

Net unrealized gains related to investment securities were \$124.6 million at June 30, 2013, compared to \$180.4 million at December 31, 2012. 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 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 \$2.4 million for the six months ended June 30, 2013, which was included in Net Other-Than-Temporary Impairment Losses on Investments in the Statements of Income. See Note 2, *Investment Securities*, in the Notes to the Combined Financial Statements for further information.

### *Capital Resources*

Total shareholders' equity increased \$91.5 million (1.87 percent) from December 31, 2012 to a total of \$4.979 billion at June 30, 2013. This increase is primarily attributed to 2013 unallocated retained earnings from net income of \$326.7 million. Offsetting the increase were decreases for the redemption of preferred stock referenced below of \$150.0 million, net decreases of \$40.1 million in unrealized gains on investment securities, retained earnings retired of \$34.1 million, dividends paid on preferred stock of \$5.5 million, and \$5.1 million of patronage refunds to members.

On May 15, 2013, the Bank redeemed and cancelled the entire \$150.0 million of Perpetual Non-cumulative Preferred Stock issued October 14, 2003. The stock was redeemed at its par value together with accrued and unpaid dividends. See Note 8, *Perpetual Preferred Stock*, in the Notes to the Combined Financial Statements for further information.

## **RESULTS OF OPERATIONS**

Net income for the three months ended June 30, 2013 was \$155.6 million, compared to \$195.4 million for the same period of 2012, a decrease of \$39.8 million, or 20.38 percent. For the six months ended June 30, 2012, net income was \$326.7 million, compared to \$356.8 million for the same period of 2012, a decrease of \$30.1 million, or 8.43 percent.

### *Key Results of Operations Comparisons*

	<b>Annualized for the six months ended June 30, 2013</b>	<b>For the year ended December 31, 2012</b>	<b>Annualized for the six months ended June 30, 2012</b>
Return on average assets	2.07%	1.99%	2.26%
Return on average shareholders' equity	13.63%	13.30%	15.38%
Net interest income as a percentage of average earning assets	3.53%	3.70%	3.75%
Net (charge-offs) recoveries to average loans	(0.09)%	(0.26)%	(0.22)%

### *Net Interest Income*

Net interest income for the three months ended June 30, 2013 was \$267.4 million compared to \$283.7 million for the same period of 2012, a decrease of \$16.3 million or 5.74 percent. Net interest income for the six months ended June 30, 2013 was \$534.9 million compared to \$567.4 million for the same period of 2012, a decrease of \$32.5 million or 5.72 percent. The net interest margin was 3.50 percent and 3.53 percent, a decrease of 24 and 22 basis points, respectively, for the three and six month periods compared to the prior year. The decrease was primarily the result of lower earning asset yields.



Over time, as interest rates change and as assets prepay or reprice, the positive impact on the net interest margin that the District has experienced over the last several years from calling debt will continue to diminish. For the three and six month periods ended June 30, 2013 compared with the corresponding periods in 2012, the negative impact of the rate related decrease was slightly offset by the positive impact of an increase in the average balance of loans.

The following table illustrates the changes in net interest income:

<i>(dollars in thousands)</i>	<b>For the three months ended June 30, 2013 vs. June 30, 2012</b>			<b>For the six months ended June 30, 2013 vs. June 30, 2012</b>		
	<b>Increase (decrease) due to changes in:</b>			<b>Increase (decrease) due to changes in:</b>		
	<b>Volume</b>	<b>Rate</b>	<b>Total</b>	<b>Volume</b>	<b>Rate</b>	<b>Total</b>
Interest Income:						
Loans	\$ 5,245	\$ (17,549)	\$ (12,304)	\$ 10,303	\$ (38,858)	\$ (28,555)
Investments & Cash Equivalents	(1,794)	(10,296)	(12,090)	(3,342)	(17,408)	(20,750)
Total Interest Income	\$ 3,451	\$ (27,845)	\$ (24,394)	\$ 6,961	\$ (56,266)	\$ (49,305)
Interest Expense:						
Interest-Bearing Liabilities	\$ (362)	\$ (7,735)	\$ (8,097)	\$ (901)	\$ (15,924)	\$ (16,825)
Changes in Net Interest Income	\$ 3,813	\$ (20,110)	\$ (16,297)	\$ 7,862	\$ (40,342)	\$ (32,480)

### *Provision for Loan Losses*

The District measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes loan loss expense so that appropriate reserves for loan losses are maintained. The provision for loan losses was \$3.5 million and \$8.4 million for the three and six month periods ended June 30, 2013, respectively, compared to \$10.4 million and \$25.0 million for the corresponding periods in 2012.

Provision for loan losses for the three months ended June 30, 2013 included \$1.8 million related to specific reserves and \$1.7 million for general reserves. Provision for loan loss expense for the six months ended June 30, 2013 consisted of \$5.5 million related to reserves for specific credits and \$2.9 million related to general reserves. Provision expense for the six month period ended June 30, 2013 was related primarily to the cattle (\$2.4 million), processing (\$2.1 million), rural home loan (\$1.4 million), and other real estate (\$1.3 million) segments, partially offset by a reversal in the forestry (\$1.6 million) segment. See Note 3, *Loans and Allowance for Loan Losses*, in the Notes to the Combined Financial Statements for further information.

### *Noninterest Income*

The following table illustrates the changes in noninterest income:

<b>Change in Noninterest Income</b>	<b>For the three months ended June 30,</b>			<b>For the six months ended June 30,</b>		
	<b>2013</b>	<b>2012</b>	<b>Increase/ (Decrease)</b>	<b>2013</b>	<b>2012</b>	<b>Increase/ (Decrease)</b>
<i>(dollars in thousands)</i>						
Loan fees	\$ 8,570	\$ 9,103	\$ (533)	\$ 17,555	\$ 19,275	\$ (1,720)
Fees for financially related services	1,710	1,523	187	3,179	3,252	(73)
Building lease income	1,141	6	1,135	2,227	24	2,203
Net impairment losses on investments	(1,245)	(2,417)	1,172	(2,363)	(3,180)	817
Gains (losses) on investments, net	–	–	–	7,592	–	7,592
Gains (losses) on called debt	(2,296)	(7,624)	5,328	(4,002)	(20,369)	16,367
Gains (losses) on other transactions	783	(1,897)	2,680	1,397	(29)	1,426
Insurance premium refund	–	33,744	(33,744)	–	33,744	(33,744)
Other noninterest income	1,803	1,624	179	5,946	4,726	1,220
Total noninterest income	\$ 10,466	\$ 34,062	\$ (23,596)	\$ 31,531	\$ 37,443	\$ (5,912)

Noninterest income decreased \$23.6 million and \$5.9 million for the three and six months ended June 30, 2013, respectively, compared to the corresponding periods in 2012. The decrease for both periods was primarily due to the District's recording \$33.7 million of insurance premium refunds during the second quarter of 2012 from the Farm Credit

System Insurance Corporation (FCSIC), which insures the System's debt obligations. The insurance premium refund is nonrecurring and resulted from the assets of the FCSIC exceeding the secure base amount as defined by the Farm Credit Act. For both the three and six month periods of 2013 compared to the same periods in 2012, this decrease was offset by a decrease in losses on called debt. A \$7.6 million gain on sale of investments recorded during the first quarter of 2013 also offset the decrease for the six month periods.

Building lease income increased \$1.1 million and \$2.2 million for the three and six months ended June 30, 2013, compared to the same periods in 2012. This income was received in 2013 from tenants of the Bank office building which was purchased in the fourth quarter of 2012. The Bank is in the process of upfitting vacant space in the building and will relocate its operations there in the first quarter of 2014. Related expenses are recorded in occupancy and equipment expenses discussed below.

Net impairment losses on investments decreased \$1.2 million and \$817 thousand for the three and six months ended June 30, 2013 as compared to the same periods in 2012. This resulted primarily from improvement in both probability of default and projected credit loss for securities analyzed for impairment.

Gains on investments of \$7.6 million during the six months ended 2013 were primarily the result of the sale of U.S. Government Agency mortgage backed securities. See discussion of investments in the *Liquidity and Funding Sources* section above and Note 2, *Investment Securities*, in the Notes to the Combined Financial Statements for further information.

Losses on called debt decreased \$5.3 million and \$16.4 million for the three and six month periods in 2013, respectively, compared to the same periods in 2012. 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. Call options were exercised on bonds totaling \$5.406 billion for the six months ended June 30, 2013 compared to \$12.285 billion for the same period of 2012, as opportunities to call debt were more limited in the 2013 period. The called debt losses are 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.

Gains on other transactions increased \$2.7 million and \$1.4 million for the three and six months ended June 30, 2013, compared to the same period last year. The increases for both periods were due primarily to \$2.2 million and \$1.8 million lower provision for unfunded commitments recorded in 2013.

#### *Noninterest Expense*

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	For the three months ended June 30,			For the six months ended June 30,		
	2013	2012	Increase/ (Decrease)	2013	2012	Increase/ (Decrease)
<i>(dollars in thousands)</i>						
Salaries and employee benefits	\$ 67,421	\$ 63,375	\$ 4,046	\$ 137,014	\$ 129,211	\$ 7,803
Occupancy and equipment	8,994	8,431	563	18,022	16,662	1,360
Insurance Fund premiums	3,697	2,768	929	8,903	5,515	3,388
Other operating expenses	27,329	24,548	2,781	53,751	50,050	3,701
Losses (gains) from other property owned, net	11,095	12,554	(1,459)	13,245	21,217	(7,972)
Total noninterest expense	\$ 118,536	\$ 111,676	\$ 6,860	\$ 230,935	\$ 222,655	\$ 8,280

Noninterest expense increased \$6.9 million and \$8.3 million for the three and six months ended June 30, 2013, respectively, compared to the corresponding periods in 2012. The increases for the three and six months ended June 30, 2013 was primarily due to increases in salaries and benefits and other operating expenses, offset by decreases in losses from other property owned.

The increases in salaries and employee benefits of \$4.0 million and \$7.8 million for the three and six month periods ended June 30, 2013, were due primarily to normal salary administration, an increase in number of employees, and increased employee benefit costs.

Occupancy and equipment expense for the three and six months ended June 30, 2013 increased \$563 thousand and \$1.4 million, compared to the corresponding periods in 2012. These increases were due primarily to increases for the cost of space to maintain the building purchased for future Bank occupancy, as referenced above in the *Noninterest Income* section.

Insurance Fund premiums increased \$929 thousand and \$3.4 million for the three and six month periods ended June 30, 2013. Premium expense increased in 2013 as the base annual premium rate increased to 10 basis points from the 2012 base annual premium rate of 5 basis points. The FCSIC Board makes premium rate adjustments, as necessary, to maintain the secure base amount, which is based upon insured debt outstanding at System banks. Offsetting this increase was a \$1.4 million insurance fund premium reimbursement received in May, 2013 after FCSIC made a clarification that cash held in a deposit account at the Federal Reserve Bank qualifies as a deduction in the premium calculation. The reimbursement was for the periods July 1, 2008, when the premium methodology initially changed to a debt basis, through December 31, 2012.

Other operating expenses increased \$2.8 million and \$3.7 million for the three and six months ended June 30, 2013, compared to the prior year. The increases primarily resulted from additional consulting and professional fees required for system enhancements of \$1.3 million and \$2.8 million for the three and six month periods, respectively. Also contributing to the increases was additional fee expense related to the correspondent lending portfolio of \$590 thousand and \$1.0 million, for the three and six month periods, respectively, due primarily to increased guarantee fees resulting from higher volume in the correspondent lending portfolio.

The decrease in losses from other property owned for the six months ended June 30, 2013 compared to the corresponding period in the prior year resulted from lower writedowns in 2013 as real estate values began to stabilize. The decrease for the quarter ended June 30, 2013 compared to the same quarter in the prior year resulted from higher gains on sale. See *Other Property Owned* section above.

#### **DISTRICT MERGER ACTIVITY**

Please refer to Note 13, *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 1, *Organization, Significant Accounting Policies, and Recently Issued Accounting Pronouncements*, in the Notes to the Combined Financial Statements, and the 2012 Annual Report of AgFirst Farm Credit Bank and District Associations for recently issued accounting pronouncements.

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**NOTE:** 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, Reporting Manager, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Combined information concerning AgFirst Farm Credit Bank and District Associations can also be obtained at the Bank's website, [www.agfirst.com](http://www.agfirst.com). AgFirst prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no quarterly report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

## Combined Balance Sheets

<i>(dollars in thousands)</i>	June 30, 2013 <i>(unaudited)</i>	December 31, 2012 <i>(audited)</i>
<b>Assets</b>		
Cash	\$ 256,532	\$ 775,859
Cash equivalents	136,385	149,589
Investment securities:		
Available for sale (amortized cost of \$6,653,737 and \$6,756,026, respectively)	6,778,463	6,936,420
Held to maturity (fair value of \$806,397 and \$774,275, respectively)	784,345	712,997
Total investment securities	7,562,808	7,649,417
Loans	23,050,631	22,929,205
Allowance for loan losses	(211,369)	(213,500)
Net loans	22,839,262	22,715,705
Loans held for sale	13,909	18,132
Accrued interest receivable	189,609	182,472
Accounts receivable	50,856	61,519
Investments in other Farm Credit System institutions	13,993	13,871
Other investments	81,400	163,178
Premises and equipment, net	153,696	156,315
Other property owned	80,079	109,997
Other assets	97,923	103,091
Total assets	<b>\$ 31,476,452</b>	<b>\$ 32,099,145</b>
<b>Liabilities</b>		
Systemwide debt securities	\$ 23,044,470	\$ 24,293,168
Systemwide notes payable	2,860,488	2,195,707
Accrued interest payable	43,854	40,815
Accounts payable	36,472	161,029
Advanced conditional payments	15,555	9,019
Other liabilities	496,279	511,588
Total liabilities	<b>26,497,118</b>	<b>27,211,326</b>
Commitments and contingencies (Note 5)		
<b>Shareholders' Equity</b>		
Perpetual preferred stock	125,250	275,250
Protected borrower equity	1,143	1,351
Capital stock and participation certificates	155,907	157,260
Additional paid-in-capital	60,270	60,270
Retained earnings		
Allocated	1,503,776	1,531,077
Unallocated	3,386,611	3,076,113
Accumulated other comprehensive income (loss)	(253,623)	(213,502)
Total shareholders' equity	<b>4,979,334</b>	<b>4,887,819</b>
Total liabilities and equity	<b>\$ 31,476,452</b>	<b>\$ 32,099,145</b>

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

# Combined Statements of Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
<b>Interest Income</b>				
Investment securities	\$ 38,582	\$ 50,672	\$ 82,497	\$ 103,247
Loans	274,829	287,133	545,927	574,482
Total interest income	<b>313,411</b>	337,805	<b>628,424</b>	677,729
<b>Interest Expense</b>				
	<b>46,012</b>	54,109	<b>93,548</b>	110,373
Net interest income	<b>267,399</b>	283,696	<b>534,876</b>	567,356
Provision for loan losses	<b>3,511</b>	10,384	<b>8,411</b>	24,974
Net interest income after provision for loan losses	<b>263,888</b>	273,312	<b>526,465</b>	542,382
<b>Noninterest Income</b>				
Loan fees	<b>8,570</b>	9,103	<b>17,555</b>	19,275
Fees for financially related services	<b>1,710</b>	1,523	<b>3,179</b>	3,252
Building lease income	<b>1,141</b>	6	<b>2,227</b>	24
Total other-than-temporary impairment losses on investments	<b>(923)</b>	(21,156)	<b>(1,536)</b>	(21,995)
Portion of loss recognized in other comprehensive income (loss)	<b>(322)</b>	18,739	<b>(827)</b>	18,815
Net other-than-temporary impairment losses on investments	<b>(1,245)</b>	(2,417)	<b>(2,363)</b>	(3,180)
Gains (losses) on investments, net	—	—	<b>7,592</b>	—
Gains (losses) on called debt	<b>(2,296)</b>	(7,624)	<b>(4,002)</b>	(20,369)
Gains (losses) on other transactions	<b>1,358</b>	(1,278)	<b>2,547</b>	1,180
Insurance premium refund	—	33,744	—	33,744
Other noninterest income	<b>1,228</b>	1,005	<b>4,796</b>	3,517
Total noninterest income	<b>10,466</b>	34,062	<b>31,531</b>	37,443
<b>Noninterest Expenses</b>				
Salaries and employee benefits	<b>67,421</b>	63,375	<b>137,014</b>	129,211
Occupancy and equipment	<b>8,994</b>	8,431	<b>18,022</b>	16,662
Insurance Fund premiums	<b>3,697</b>	2,768	<b>8,903</b>	5,515
Other operating expenses	<b>27,329</b>	24,548	<b>53,751</b>	50,050
Losses (gains) on other property owned, net	<b>11,095</b>	12,554	<b>13,245</b>	21,217
Total noninterest expenses	<b>118,536</b>	111,676	<b>230,935</b>	222,655
Income before income taxes	<b>155,818</b>	195,698	<b>327,061</b>	357,170
Provision for income taxes	<b>221</b>	279	<b>392</b>	416
Net income	<b>\$ 155,597</b>	\$ 195,419	<b>\$ 326,669</b>	\$ 356,754

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

# Combined Statements of Comprehensive Income

(unaudited)

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
<b>Net income</b>	<b>\$ 155,597</b>	<b>\$ 195,419</b>	<b>\$ 326,669</b>	<b>\$ 356,754</b>
Other comprehensive income net of tax:				
Unrealized gains (losses) on investments:				
Other-than-temporarily impaired	<b>(70,079)</b>	(18,705)	<b>(64,301)</b>	(18,477)
Not other-than-temporarily impaired	<b>14,247</b>	22,422	<b>8,536</b>	32,905
Change in value of firm commitments - when issued securities	<b>(319)</b>	555	<b>(701)</b>	1,210
Employee benefit plans adjustments	<b>8,172</b>	7,255	<b>16,345</b>	14,511
Other comprehensive income (Note 9)	<b>(47,979)</b>	11,527	<b>(40,121)</b>	30,149
Comprehensive income	<b>\$ 107,618</b>	<b>\$ 206,946</b>	<b>\$ 286,548</b>	<b>\$ 386,903</b>

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

# Combined Statements of Changes in Shareholders' Equity

(unaudited)

(dollars in thousands)	Perpetual Preferred Stock	Protected Borrower Equity	Capital Stock and Participation Certificates	Additional Paid-in-Capital	Retained Earnings		Accumulated Other Comprehensive Income	Total Shareholders' Equity
					Allocated	Unallocated		
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						356,754	30,149	386,903
Protected borrower equity retired		(179)						(179)
Capital stock/participation certificates issued (retired), net			(5,558)					(5,558)
Dividends declared/paid			231			(332)		(101)
Dividends paid on perpetual preferred stock						(11,479)		(11,479)
Redemption of perpetual preferred stock (Note 8)	(118,550)			34,100				(84,450)
Patronage distribution								
Cash						(6,545)		(6,545)
Retained earnings retired					(28,425)	128		(28,297)
Patronage distribution adjustment					1,949	(1,404)		545
Balance at June 30, 2012	\$ 281,450	\$ 3,090	\$ 154,007	\$ 41,973	\$ 1,388,883	\$ 3,093,714	\$ (191,099)	\$ 4,772,018
Balance at December 31, 2012	\$ 275,250	\$ 1,351	\$ 157,260	\$ 60,270	\$ 1,531,077	\$ 3,076,113	\$ (213,502)	\$ 4,887,819
Comprehensive income						326,669	(40,121)	286,548
Protected borrower equity retired		(208)						(208)
Capital stock/participation certificates issued (retired), net			(1,558)					(1,558)
Dividends declared/paid			205			(300)		(95)
Dividends paid on perpetual preferred stock						(5,463)		(5,463)
Redemption of perpetual preferred stock (Note 8)	(150,000)							(150,000)
Patronage distribution								
Cash						(5,050)		(5,050)
Nonqualified allocated retained earnings					5,980	(5,980)		—
Retained earnings retired					(34,201)	118		(34,083)
Patronage distribution adjustment					920	504		1,424
Balance at June 30, 2013	\$ 125,250	\$ 1,143	\$ 155,907	\$ 60,270	\$ 1,503,776	\$ 3,386,611	\$ (253,623)	\$ 4,979,334

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

# Combined Statements of Cash Flows

(unaudited)

<i>(dollars in thousands)</i>	For the six months ended June 30,	
	2013	2012
<b>Cash flows from operating activities:</b>		
Net income	\$ 326,669	\$ 356,754
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	8,340	8,435
Amortization of net deferred loan origination (fees) costs	(3,660)	(4,535)
Premium amortization (discount accretion) on investment securities	4,887	1,865
(Premium amortization) discount accretion on bonds and notes	3,621	1,537
Amortization (accretion) of yield mark resulting from merger	(3,092)	(4,790)
Provision for loan losses	8,411	24,974
(Gains) losses on other property owned	12,078	19,472
Net impairment losses on investments	2,363	3,180
(Gains) losses on investments, net	(7,592)	—
(Gains) losses on other transactions	(2,547)	(1,180)
Net change in loans held for sale	14,072	13,586
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(7,137)	5,629
(Increase) decrease in accounts receivable	10,663	(1,539)
(Increase) decrease in other assets	(3,562)	(5,259)
Increase (decrease) in accrued interest payable	3,039	225
Increase (decrease) in accounts payable	(29,905)	(41,936)
Increase (decrease) in other liabilities	1,999	(21,067)
Total adjustments	11,978	(1,403)
Net cash provided by (used in) operating activities	338,647	355,351
<b>Cash flows from investing activities:</b>		
Investment securities purchased	(1,126,136)	(404,949)
Proceeds from investment securities sold or matured	1,154,455	823,639
Net (increase) decrease in loans	(150,100)	(171,991)
(Increase) decrease in investments in other Farm Credit System institutions	(122)	(170)
Purchases of other investments	—	(292)
Proceeds from payments received on other investments	83,954	83,683
Purchase of premises and equipment, net	(5,836)	(8,414)
Proceeds from sale of premises and equipment, net	548	860
Proceeds from sale of other property owned	33,470	36,604
Net cash provided by (used in) investing activities	(9,767)	358,970
<b>Cash flows from financing activities:</b>		
Bonds and notes issued	12,967,718	21,600,229
Bonds and notes retired	(13,545,980)	(22,218,688)
Net increase (decrease) in advanced conditional payments	6,536	6,156
Protected borrower equity retired	(208)	(179)
Capital stock and participation certificates issued/retired, net	(1,558)	(5,558)
Patronage refunds and dividends paid	(98,373)	(90,598)
Redemption of perpetual preferred stock (Note 8)	(150,000)	(84,450)
Dividends paid on perpetual preferred stock	(5,463)	(11,479)
Retained earnings retired	(34,083)	(28,297)
Net cash provided by (used in) financing activities	(861,411)	(832,864)
Net increase (decrease) in cash and cash equivalents	(532,531)	(118,543)
Cash and cash equivalents, beginning of period	925,448	1,340,167
Cash and cash equivalents, end of period	\$ 392,917	\$ 1,221,624
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Financed sales of other property owned	\$ 5,505	\$ 9,090
Receipt of property in settlement of loans	21,135	46,914
Change in unrealized gains (losses) on investments, net	(55,765)	14,428
Employee benefit plans adjustments	(16,345)	(14,511)
<b>Non-cash changes related to interest rate hedging activities:</b>		
Increase (decrease) in bonds and notes	\$ (8,730)	\$ (4,470)
Decrease (increase) in other assets	8,730	4,470
<b>Supplemental information:</b>		
Interest paid	\$ 86,888	\$ 108,611
Taxes paid, net	375	388

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



# Notes to the Combined Financial Statements

(unaudited)

## NOTE 1 — ORGANIZATION, SIGNIFICANT ACCOUNTING POLICIES, AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

### Organization

The accompanying combined financial statements include the accounts of AgFirst Farm Credit Bank (AgFirst or Bank) and its related Agricultural Credit Associations (Associations or District Associations), collectively referred to as the AgFirst District (District). A complete description of the organization and operations, the significant accounting policies followed, and the financial condition and results of operations of the District as of and for the year ended December 31, 2012 are contained in the 2012 Annual Report to Shareholders. These unaudited interim financial statements should be read in conjunction with the latest Annual Report to Shareholders.

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 to nineteen.

### Basis of Presentation

In the opinion of management, the accompanying financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP) and prevailing practices within the banking industry. All significant transactions and balances between AgFirst and the District Associations have been eliminated in combination.

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

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

### Significant Accounting Policies

The District maintains an allowance for loan losses at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the District has been identified. 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 factors such as credit risk classifications, collateral values, risk concentrations, weather related conditions, current production and economic conditions, and prior loan loss experience, among others, when determining the allowance for loan losses.

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, or at 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. The general allowance excludes loans included under the specific allowance discussed above, unless specific characteristics of the loan indicate that it is probable that there would be an incurred loss in a group of loans with those 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.

### **Recently Issued Accounting Pronouncements**

In July 2013 the FASB issued Accounting Standards Update (ASU) 2013-10, "Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate for Hedge Accounting Purposes." As a result of the financial crisis in 2008, the exposure to and the demand for hedging the Fed Funds rate have increased significantly. That demand has been driven by an increased focus by banks on their sources of funding (including an increased focus on overnight interbank borrowings of surplus balances held at the Federal Reserve), the greater (and sometimes volatile) spread between LIBOR and OIS ("Overnight Index Swap Rate" or also referred to as the "Fed Funds Effective Swap Rate"), and new regulatory measures to curb systemic risks (such as increased collateralization of derivatives). Considering the increased importance of OIS, the objective of this Update is to provide for the inclusion of the Fed Funds Effective Swap Rate (OIS) as a U.S. benchmark interest rate for hedge accounting purposes, in addition to UST (U.S. Treasuries) and LIBOR. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. Adoption of this guidance will not impact the Bank's financial condition or its results of operations.

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

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

reporting periods beginning after December 15, 2013. Early application is permitted. The District elected early adoption of this guidance for 2012. 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 below.

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

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

## **NOTE 2 — INVESTMENT SECURITIES**

District 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 Farm Credit Administration (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, priority of payments for senior classes over junior classes, and bond insurance. All of the non-agency securities owned have one or more credit enhancement features.

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 June 30, 2013 had a fair value of \$184.8 million and \$29.4 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 eight Rural America Bonds whose credit quality has deteriorated beyond the program limits.

## Available-for-sale

A summary of the amortized cost and fair value of debt securities held as available-for-sale investments follows:

<i>(dollars in thousands)</i>	June 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	\$ 4,526,943	\$ 142,475	\$ (8,657)	\$ 4,660,761	1.97%
U.S. Govt. Agency MBS	1,837,878	21,796	(9,929)	1,849,745	0.95
Non-Agency CMOs (a)	220,016	19	(33,748)	186,287	0.59
Asset-Backed Securities (a)	23,711	12,913	(869)	35,755	0.62
Mission Related Investments (a)	45,189	2,064	(1,338)	45,915	5.98
Total	<u>\$ 6,653,737</u>	<u>\$ 179,267</u>	<u>\$ (54,541)</u>	<u>\$ 6,778,463</u>	<u>1.66%</u>

<i>(dollars in thousands)</i>	December 31, 2012				
	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 CMOs (b)	246,179	27	(41,507)	204,699	0.63
Asset-Backed Securities (b)	26,219	8,236	(1,065)	33,390	0.75
Mission Related Investments	47,644	6,103	(256)	53,491	5.96
Total	<u>\$ 6,756,026</u>	<u>\$ 242,856</u>	<u>\$ (62,462)</u>	<u>\$ 6,936,420</u>	<u>1.90%</u>

(a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of \$23.9 million for Non-Agency CMOs, \$0 for Asset-Backed Securities, and \$1 thousand for Mission Related Investments.

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

## Held-to-maturity

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

<i>(dollars in thousands)</i>	June 30, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	\$ 524,187	\$ 24,782	\$ (11,955)	\$ 537,014	4.38%
Asset-Backed Securities	60,617	1,721	(133)	62,205	1.53
Mission Related Investments (a)	199,541	10,939	(3,302)	207,178	5.97
Total	<u>\$ 784,345</u>	<u>\$ 37,442</u>	<u>\$ (15,390)</u>	<u>\$ 806,397</u>	<u>4.56%</u>

<i>(dollars in thousands)</i>	December 31, 2012				
	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	<u>\$ 712,997</u>	<u>\$ 61,929</u>	<u>\$ (651)</u>	<u>\$ 774,275</u>	<u>5.28%</u>

(a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of \$96 thousand for Rural America Bonds.

During the first six months of 2013, proceeds from sales of investments were \$122.2 million and realized gains were \$7.6 million. There were no sales of investment securities during the first half of 2012.

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at June 30, 2013 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	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
<i>(dollars in thousands)</i>										
U.S. Govt. GNMA										
MBS/CMOs	\$ —	— %	\$ 65	0.40 %	\$ 7,613	1.27 %	\$ 4,653,083	1.97 %	\$ 4,660,761	1.97 %
U.S. Govt. Agency MBS	37	0.74	10,238	2.36	7,705	1.24	1,831,765	0.94	1,849,745	0.95
Non-Agency CMOs	—	—	—	—	1,466	0.93	184,821	0.59	186,287	0.59
Asset-Backed Securities	—	—	—	—	—	—	35,755	0.62	35,755	0.62
Mission Related Investments	—	—	922	5.98	—	—	44,993	5.98	45,915	5.98
Total fair value	\$ 37	0.74 %	\$ 11,225	2.66 %	\$ 16,784	1.22 %	\$ 6,750,417	1.66 %	\$ 6,778,463	1.66 %
Total amortized cost	\$ 37		\$ 10,997		\$ 16,562		\$ 6,626,141		\$ 6,653,737	

**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	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
<i>(dollars in thousands)</i>										
U.S. Govt. Agency MBS	\$ —	— %	\$ —	— %	\$ 694	4.32 %	\$ 523,493	4.38 %	\$ 524,187	4.38 %
Asset-Backed Securities	571	1.66	31,818	1.65	13,231	1.14	14,997	1.62	60,617	1.53
Mission Related Investments	1,799	5.00	30,907	6.41	20,222	6.05	146,613	5.87	199,541	5.97
Total amortized cost	\$ 2,370	4.19 %	\$ 62,725	4.00 %	\$ 34,147	4.11 %	\$ 685,103	4.64 %	\$ 784,345	4.56 %
Total fair value	\$ 2,395		\$ 66,421		\$ 35,455		\$ 702,126		\$ 806,397	

Substantially all of these securities 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 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.

	June 30, 2013					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
U.S. Govt. GNMA MBS/CMOs	\$ 679,501	\$ (6,890)	\$ 148,008	\$ (1,767)	\$ 827,509	\$ (8,657)
U.S. Govt. Agency MBS	750,420	(15,195)	359,495	(6,689)	1,109,915	(21,884)
Non-Agency CMOs	—	—	186,074	(33,748)	186,074	(33,748)
Asset-Backed Securities	3,030	(18)	14,265	(984)	17,295	(1,002)
Mortgage-Backed Securities	—	—	—	—	—	—
Mission Related Investments	86,064	(3,612)	5,598	(1,028)	91,662	(4,640)
Total	\$ 1,519,015	\$ (25,715)	\$ 713,440	\$ (44,216)	\$ 2,232,455	\$ (69,931)

	December 31, 2012					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(dollars in thousands)</i>						
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)

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 District intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss recognized equals the full difference between amortized cost and fair value of the security. When the District 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, the 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 \$2.4 million of credit-related other-than-temporary impairment for 2013, which is included in Impairment Losses on Investments in the Combined 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	June 30, 2013	
	Mortgage-backed Securities	Asset-backed Securities
Default rate by range	0.73% to 36.37%	6.45% to 64.04%
Prepayment rate by range	5.12% to 12.77%	3.42% to 15.37%
Loss severity by range	5.05% to 78.02%	63.35% to 100.00%

Assumptions Used	December 31, 2012	
	Mortgage-backed Securities	Asset-backed Securities
Default rate by range	0.53% to 32.62%	5.49% to 57.89%
Prepayment rate by range	7.07% to 19.62%	5.65% to 17.57%
Loss severity by range	3.88% to 71.36%	56.22% to 100.00%

For all other impaired investments, the District has not recognized any credit losses as the impairments were deemed temporary and result from non-credit related factors. The District 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 District expects these securities would not be settled at a price less than their amortized cost. For the six months ended June 30, 2013, net unrealized gains of \$8.5 million were recognized in other comprehensive income for 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:

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
<b>Cumulative Losses Beginning of Period</b>	\$ 38,529	\$ 35,516	\$ 38,217	\$ 36,542
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	631	1,768	631	1,768
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	614	649	1,732	1,412
Reductions for increases in expected cash flows	(194)	(191)	(578)	(533)
Reductions for losses incurred	(714)	(863)	(1,136)	(2,310)
<b>Cumulative Losses End of Period</b>	<b>\$ 38,866</b>	<b>\$ 36,879</b>	<b>\$ 38,866</b>	<b>\$ 36,879</b>

### NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. The District manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Bank and each Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the 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 structure, incorporating a 14-point probability of default scale (as discussed in Note 1 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 is related to the structure of a credit (tenor, terms, and collateral).

A summary of loans outstanding follows:

<i>(dollars in thousands)</i>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Real estate mortgage	\$ 10,071,891	\$ 9,921,750
Production and intermediate-term Agribusiness	7,622,105	7,760,377
Loans to cooperatives	251,898	235,703
Processing and marketing	985,195	1,053,247
Farm-related business	373,989	354,039
Total agribusiness	1,611,082	1,642,989
Communication	321,549	319,320
Energy/water and waste disposal	515,581	525,070
Rural residential real estate	2,749,009	2,634,609
Lease receivables	5,327	2,880
Loans to other financial institutions (OFIs)	83,578	60,479
Other (including mission-related)	70,509	61,731
Total Loans	<b>\$ 23,050,631</b>	<b>\$ 22,929,205</b>

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 participation loan balances at periods ended:

<i>(dollars in thousands)</i>	<b>June 30, 2013</b>					
	<b>Within Farm Credit System</b>		<b>Outside Farm Credit System</b>		<b>Total</b>	
	<b>Participations Purchased</b>	<b>Participations Sold</b>	<b>Participations Purchased</b>	<b>Participations Sold</b>	<b>Participations Purchased</b>	<b>Participations Sold</b>
Real estate mortgage	\$ 142,455	\$ 65,499	\$ 85,497	\$ 18,980	\$ 227,952	\$ 84,479
Production and intermediate-term Agribusiness	455,366	172,505	559,098	4,345	1,014,464	176,850
Loans to cooperatives	219,662	-	21,683	-	241,345	-
Processing and marketing	447,407	53,589	535,338	2,801	982,745	56,390
Farm-related business	151,306	560	51,313	776	202,619	1,336
Total agribusiness	818,375	54,149	608,334	3,577	1,426,709	57,726
Communication	337,637	-	10,000	-	347,637	-
Energy/water and waste disposal	518,484	-	7,037	-	525,521	-
Rural residential real estate	-	-	50	-	50	-
Lease receivables	2,594	-	-	-	2,594	-
Loans to OFIs	-	-	83,578	-	83,578	-
Other (including mission-related)	-	-	4,138	-	4,138	-
Total	<b>\$ 2,274,911</b>	<b>\$ 292,153</b>	<b>\$ 1,357,732</b>	<b>\$ 26,902</b>	<b>\$ 3,632,643</b>	<b>\$ 319,055</b>

<i>(dollars in thousands)</i>	<b>December 31, 2012</b>					
	<b>Within Farm Credit System</b>		<b>Outside Farm Credit System</b>		<b>Total</b>	
	<b>Participations Purchased</b>	<b>Participations Sold</b>	<b>Participations Purchased</b>	<b>Participations Sold</b>	<b>Participations Purchased</b>	<b>Participations Sold</b>
Real estate mortgage	\$ 143,204	\$ 51,816	\$ 94,815	\$ 20,537	\$ 238,019	\$ 72,353
Production and intermediate-term Agribusiness	434,656	233,016	391,410	4,434	826,066	237,450
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/water and waste disposal	530,641	-	7,204	-	537,845	-
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	<b>\$ 2,209,223</b>	<b>\$ 353,794</b>	<b>\$ 1,205,847</b>	<b>\$ 32,750</b>	<b>\$ 3,415,070</b>	<b>\$ 386,544</b>



The following table presents the contractual maturity distribution of loans by loan type at June 30, 2013 and indicates that approximately 16.52 percent of loans had maturities of less than one year:

<i>(dollars in thousands)</i>	<b>Due less than 1 year</b>	<b>Due 1 through 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
Real estate mortgage	\$ 656,964	\$ 2,429,661	\$ 6,985,266	\$ 10,071,891
Production and intermediate-term	2,427,215	3,062,733	2,132,157	7,622,105
Agribusiness				
Loans to cooperatives	67,464	116,400	68,034	251,898
Processing and marketing	327,814	472,990	184,391	985,195
Farm-related business	74,406	203,244	96,339	373,989
Total agribusiness	469,684	792,634	348,764	1,611,082
Communication	138,642	94,472	88,435	321,549
Energy/water and waste disposal	54,997	191,872	268,712	515,581
Rural residential real estate	26,474	69,893	2,652,642	2,749,009
Lease receivables	2,484	2,646	197	5,327
Loans to OFIs	16,072	67,506	-	83,578
Other (including mission-related)	14,537	11,147	44,825	70,509
<b>Total Loans</b>	<b>\$ 3,807,069</b>	<b>\$ 6,722,564</b>	<b>\$ 12,520,998</b>	<b>\$ 23,050,631</b>

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 the periods presented:

	<b>June 30, 2013</b>	<b>December 31, 2012</b>		<b>June 30, 2013</b>	<b>December 31, 2012</b>
<b>Real estate mortgage:</b>			<b>Communication:</b>		
Acceptable	90.25%	89.50%	Acceptable	100.00%	100.00%
OAEM	4.39	4.79	OAEM	-	-
Substandard/doubtful/loss	5.36	5.71	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Production and intermediate-term:</b>			<b>Energy/water and waste disposal:</b>		
Acceptable	87.85%	86.80%	Acceptable	99.93%	99.99%
OAEM	4.54	5.09	OAEM	0.01	0.01
Substandard/doubtful/loss	7.61	8.11	Substandard/doubtful/loss	0.06	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Agribusiness:</b>			<b>Rural residential real estate:</b>		
<b>Loans to cooperatives:</b>			Acceptable	98.99%	98.81%
Acceptable	98.55%	96.45%	OAEM	0.34	0.45
OAEM	1.20	2.90	Substandard/doubtful/loss	0.67	0.74
Substandard/doubtful/loss	0.25	0.65		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>			
<b>Processing and marketing:</b>			<b>Lease receivables:</b>		
Acceptable	93.56%	89.13%	Acceptable	96.42%	91.42%
OAEM	2.66	3.05	OAEM	3.05	7.47
Substandard/doubtful/loss	3.78	7.82	Substandard/doubtful/loss	0.53	1.11
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Farm-related business:</b>			<b>Loans to OFIs:</b>		
Acceptable	97.05%	94.45%	Acceptable	100.00%	100.00%
OAEM	1.26	3.10	OAEM	-	-
Substandard/doubtful/loss	1.69	2.45	Substandard/doubtful/loss	-	-
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
<b>Total Agribusiness:</b>			<b>Other (including mission-related):</b>		
Acceptable	95.16%	91.32%	Acceptable	87.18%	86.61%
OAEM	2.10	3.04	OAEM	-	-
Substandard/doubtful/loss	2.74	5.64	Substandard/doubtful/loss	12.82	13.39
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
			<b>Total Loans:</b>		
			Acceptable	91.21%	90.19%
			OAEM	3.61	4.07
			Substandard/doubtful/loss	5.18	5.74
				<u>100.00%</u>	<u>100.00%</u>

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

June 30, 2013

<i>(dollars in thousands)</i>	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	\$ 72,651	\$ 139,149	\$ 211,800	\$ 9,946,573	\$ 10,158,373	\$ 822
Production and intermediate-term Agribusiness	36,208	134,663	170,871	7,517,782	7,688,653	1,570
Loans to cooperatives	445	—	445	252,341	252,786	—
Processing and marketing	—	20,792	20,792	968,347	989,139	—
Farm-related business	1,151	164	1,315	374,602	375,917	—
Total agribusiness	1,596	20,956	22,552	1,595,290	1,617,842	—
Communication	—	—	—	321,797	321,797	—
Energy/water and waste disposal	—	—	—	517,342	517,342	—
Rural residential real estate	52,452	7,010	59,462	2,701,190	2,760,652	3,413
Lease receivables	—	28	28	5,305	5,333	—
Loans to OFIs	—	—	—	83,690	83,690	—
Other (including mission-related)	—	6,762	6,762	64,467	71,229	—
Total	\$ 162,907	\$ 308,568	\$ 471,475	\$ 22,753,436	\$ 23,224,911	\$ 5,805

December 31, 2012

<i>(dollars in thousands)</i>	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 Agribusiness	40,946	141,898	182,844	7,644,134	7,826,978	148
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

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

Nonperforming assets (including related accrued interest) and related credit quality statistics are summarized as follows:

<i>(dollars in thousands)</i>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
<b>Nonaccrual loans:</b>		
Real estate mortgage	\$ 254,923	\$ 266,827
Production and intermediate-term Agribusiness	232,026	249,086
Loans to cooperatives	10	1,545
Processing and marketing	27,820	40,526
Farm-related business	4,094	4,575
Total agribusiness	31,924	46,646
Energy/water and waste disposal	341	-
Rural residential real estate	9,038	11,364
Lease receivables	28	32
Other (including mission-related)	6,731	6,953
Total nonaccrual loans	<u>\$ 535,011</u>	<u>\$ 580,908</u>
<b>Accruing restructured loans:</b>		
Real estate mortgage	\$ 55,791	\$ 50,338
Production and intermediate-term Agribusiness	52,923	50,269
Farm-related business	842	867
Total agribusiness	842	867
Rural residential real estate	1,822	1,793
Total accruing restructured loans	<u>\$ 111,378</u>	<u>\$ 103,267</u>
<b>Accruing loans 90 days or more past due:</b>		
Real estate mortgage	\$ 822	\$ 786
Production and intermediate-term	1,570	148
Rural residential real estate	3,413	2,313
Other (including mission-related)	-	478
Total accruing loans 90 days or more past due	<u>\$ 5,805</u>	<u>\$ 3,725</u>
Total nonperforming loans	\$ 652,194	\$ 687,900
Other property owned	80,079	109,997
Total nonperforming assets	<u>\$ 732,273</u>	<u>\$ 797,897</u>
Nonaccrual loans as a percentage of total loans	2.32%	2.53%
Nonperforming assets as a percentage of total loans and other property owned	3.17%	3.46%
Nonperforming assets as a percentage of capital	<u>14.71%</u>	<u>16.32%</u>

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

<i>(dollars in thousands)</i>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
<b>Impaired nonaccrual loans:</b>		
Current as to principal and interest	\$ 188,709	\$ 200,430
Past due	346,302	380,478
Total impaired nonaccrual loans	<u>535,011</u>	<u>580,908</u>
<b>Impaired accrual loans:</b>		
Restructured	111,378	103,267
90 days or more past due	5,805	3,725
Total impaired accrual loans	<u>117,183</u>	<u>106,992</u>
Total impaired loans	<u>\$ 652,194</u>	<u>\$ 687,900</u>

Additional impaired loan information at period end is summarized as follows:

<i>(dollars in thousands)</i>	June 30, 2013			Quarter Ended June 30, 2013		Six Months Ended June 30, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>							
Real estate mortgage	\$ 110,378	\$ 130,251	\$ 29,426	\$ 113,930	\$ 698	\$ 118,488	\$ 1,088
Production and intermediate-term Agribusiness	143,655	162,171	50,153	147,958	962	149,096	1,416
Loans to cooperatives	—	—	—	—	—	—	—
Processing and marketing	20,116	24,762	4,626	21,428	87	23,802	140
Farm-related business	3,999	4,265	477	4,068	32	4,055	47
Total agribusiness	24,115	29,027	5,103	25,496	119	27,857	187
Communication	—	—	—	—	—	—	—
Energy/water and waste disposal	343	345	342	352	3	348	4
Rural residential real estate	4,832	5,618	1,794	4,846	26	5,562	50
Lease receivables	—	—	—	—	—	—	—
Other (including mission-related)	3,366	3,262	180	3,457	18	5,049	42
Total	\$ 286,689	\$ 330,674	\$ 86,998	\$ 296,039	\$ 1,826	\$ 306,400	\$ 2,787
<b>Impaired loans with no related allowance for credit losses:</b>							
Real estate mortgage	\$ 201,158	\$ 261,154	\$ —	\$ 202,086	\$ 1,636	\$ 196,909	\$ 2,353
Production and intermediate-term Agribusiness	142,864	198,274	—	145,775	1,134	146,382	1,684
Loans to cooperatives	10	43	—	11	(5)	782	—
Processing and marketing	7,704	15,134	—	9,047	45	12,273	95
Farm-related business	937	2,607	—	951	8	950	12
Total agribusiness	8,651	17,784	—	10,009	48	14,005	107
Communication	—	—	—	—	—	12	—
Energy/water and waste disposal	(2)	—	—	(2)	—	(2)	—
Rural residential real estate	9,441	11,754	—	8,719	54	10,083	152
Lease receivables	28	80	—	29	—	30	—
Other (including mission-related)	3,365	3,665	—	3,455	38	2,279	42
Total	\$ 365,505	\$ 492,711	\$ —	\$ 370,071	\$ 2,910	\$ 369,698	\$ 4,338
<b>Total impaired loans:</b>							
Real estate mortgage	\$ 311,536	\$ 391,405	\$ 29,426	\$ 316,016	\$ 2,334	\$ 315,397	\$ 3,441
Production and intermediate-term Agribusiness	286,519	360,445	50,153	293,733	2,096	295,478	3,100
Loans to cooperatives	10	43	—	11	(5)	782	—
Processing and marketing	27,820	39,896	4,626	30,475	132	36,075	235
Farm-related business	4,936	6,872	477	5,019	40	5,005	59
Total agribusiness	32,766	46,811	5,103	35,505	167	41,862	294
Communication	—	—	—	—	—	12	—
Energy/water and waste disposal	341	345	342	350	3	346	4
Rural residential real estate	14,273	17,372	1,794	13,565	80	15,645	202
Lease receivables	28	80	—	29	—	30	—
Other (including mission-related)	6,731	6,927	180	6,912	56	7,328	84
Total	\$ 652,194	\$ 823,385	\$ 86,998	\$ 666,110	\$ 4,736	\$ 676,098	\$ 7,125

<i>(dollars in thousands)</i>	December 31, 2012			Year Ended December 31, 2012	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
<b>Impaired loans with a related allowance for credit losses:</b>					
Real estate mortgage	\$ 110,633	\$ 140,657	\$ 29,578	\$ 121,051	\$ 2,703
Production and intermediate-term Agribusiness	149,996	190,301	50,839	150,439	3,476
Processing and marketing Farm-related business	25,846	26,797	8,755	16,164	487
	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
Other (including mission-related)	6,409	6,360	627	2,603	211
Total	\$ 302,600	\$ 377,139	\$ 92,002	\$ 301,086	\$ 7,165
<b>Impaired loans with no related allowance for credit losses:</b>					
Real estate mortgage	\$ 207,318	\$ 269,787	\$ —	\$ 207,079	\$ 6,551
Production and intermediate-term Agribusiness	149,507	201,879	—	165,107	5,423
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
<b>Total impaired loans:</b>					
Real estate mortgage	\$ 317,951	\$ 410,444	\$ 29,578	\$ 328,130	\$ 9,254
Production and intermediate-term Agribusiness	299,503	392,180	50,839	315,546	8,899
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

Unpaid principal balance represents the contractual principal balance of the loan.

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

A summary of changes in the allowance for loan losses and recorded investment in loans for each reporting period follows:

<i>(dollars in thousands)</i>	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Communication	Energy and Water/Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission related)	Total
<b>Allowance for credit losses:</b>									
Balance at March 31, 2013	\$ 74,134	\$ 113,429	\$ 17,544	\$ 960	\$ 1,747	\$ 4,308	\$ 51	\$ 1,202	\$ 213,375
Charge-offs	(3,029)	(4,058)	(4,626)	—	—	(218)	(5)	—	(11,936)
Recoveries	3,966	1,743	492	—	—	218	—	—	6,419
Provision for loan losses	(625)	5,640	(1,072)	(150)	(143)	186	43	(368)	3,511
Other	277	—	—	—	—	—	—	(277)	—
Balance at June 30, 2013	\$ 74,723	\$ 116,754	\$ 12,338	\$ 810	\$ 1,604	\$ 4,494	\$ 89	\$ 557	\$ 211,369
Balance at December 31, 2012	\$ 76,832	\$ 110,409	\$ 18,990	\$ 863	\$ 1,364	\$ 3,968	\$ 40	\$ 1,034	\$ 213,500
Charge-offs	(7,456)	(7,291)	(4,635)	—	—	(282)	(5)	—	(19,669)
Recoveries	5,345	2,800	525	—	—	410	—	47	9,127
Provision for loan losses	(445)	10,836	(2,542)	(53)	301	398	54	(138)	8,411
Other	447	—	—	—	(61)	—	—	(386)	—
Balance at June 30, 2013	\$ 74,723	\$ 116,754	\$ 12,338	\$ 810	\$ 1,604	\$ 4,494	\$ 89	\$ 557	\$ 211,369
Balance at March 31, 2012	\$ 65,448	\$ 90,942	\$ 13,788	\$ 550	\$ 688	\$ 4,093	\$ 14	\$ 657	\$ 176,180
Charge-offs	(12,138)	(6,943)	(181)	—	—	(806)	—	(118)	(20,186)
Recoveries	635	7,998	67	—	—	11	—	—	8,711
Provision for loan losses	11,900	(2,185)	(424)	181	422	285	3	202	10,384
Other	(41)	5	1	—	—	36	—	(1)	—
Balance at June 30, 2012	\$ 65,804	\$ 89,817	\$ 13,251	\$ 731	\$ 1,110	\$ 3,619	\$ 17	\$ 740	\$ 175,089
Balance at December 31, 2011	\$ 65,951	\$ 89,155	\$ 14,050	\$ 482	\$ 672	\$ 4,015	\$ 20	\$ 631	\$ 174,976
Charge-offs	(25,951)	(12,027)	(18)	—	—	(1,137)	—	(365)	(39,498)
Recoveries	4,650	9,856	72	—	—	59	—	—	14,637
Provision for loan losses	22,937	956	(816)	249	438	738	(3)	475	24,974
Other	(1,783)	1,877	(37)	—	—	(56)	—	(1)	—
Balance at June 30, 2012	\$ 65,804	\$ 89,817	\$ 13,251	\$ 731	\$ 1,110	\$ 3,619	\$ 17	\$ 740	\$ 175,089
Loans individually evaluated for impairment	\$ 29,387	\$ 50,111	\$ 5,103	\$ —	\$ 342	\$ 1,786	\$ —	\$ 180	\$ 86,909
Loans collectively evaluated for impairment	45,297	66,601	7,235	810	1,262	2,700	89	377	124,371
Loans acquired with deteriorated credit quality	39	42	—	—	—	8	—	—	89
Balance at June 30, 2013	\$ 74,723	\$ 116,754	\$ 12,338	\$ 810	\$ 1,604	\$ 4,494	\$ 89	\$ 557	\$ 211,369
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
Balance at December 31, 2012	\$ 76,832	\$ 110,409	\$ 18,990	\$ 863	\$ 1,364	\$ 3,968	\$ 40	\$ 1,034	\$ 213,500
<b>Recorded investment in loans outstanding:</b>									
Loans individually evaluated for impairment	\$ 356,678	\$ 242,517	\$ 34,340	\$ —	\$ 343	\$ 2,254,169	\$ —	\$ 3,973	\$ 2,892,020
Loans collectively evaluated for impairment	9,789,567	7,440,229	1,583,507	321,797	516,999	506,239	5,333	150,946	20,314,617
Loans acquired with deteriorated credit quality	12,128	5,907	(5)	—	—	244	—	—	18,274
Ending balance at June 30, 2013	\$ 10,158,373	\$ 7,688,653	\$ 1,617,842	\$ 321,797	\$ 517,342	\$ 2,760,652	\$ 5,333	\$ 154,919	\$ 23,224,911
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
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

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.

		Three months ended June 30, 2013					
		Pre-modification Outstanding Recorded Investment					
		Interest	Principal	Other	Total		
		Concessions	Concessions	Concessions			
<b>Troubled debt restructurings:</b>							
Real estate mortgage	\$	5,917	\$ 3,878	\$ 1,177	\$ 10,972		
Production and intermediate-term		278	9,911	547	10,736		
Rural residential real estate		169	–	–	169		
Total	\$	6,364	\$ 13,789	\$ 1,724	\$ 21,877		

		Three months ended June 30, 2013				Effects of Modification	
		Post-modification Outstanding Recorded Investment					
		Interest	Principal	Other	Total	Provisions	Charge-offs
		Concessions	Concessions	Concessions			
<b>Troubled debt restructurings:</b>							
Real estate mortgage	\$	5,920	\$ 4,194	\$ 1,169	\$ 11,283	\$ 208	\$ (11)
Production and intermediate-term		278	9,861	541	10,680	656	(895)
Rural residential real estate		168	–	–	168	–	–
Total	\$	6,366	\$ 14,055	\$ 1,710	\$ 22,131	\$ 864	\$ (906)

		Six months ended June 30, 2013					
		Pre-modification Outstanding Recorded Investment					
		Interest	Principal	Other	Total		
		Concessions	Concessions	Concessions			
<b>Troubled debt restructurings:</b>							
Real estate mortgage	\$	8,652	\$ 14,425	\$ 1,177	\$ 24,254		
Production and intermediate-term		278	16,635	1,189	18,102		
Rural residential real estate		299	–	–	299		
Total	\$	9,229	\$ 31,060	\$ 2,366	\$ 42,655		

		Six months ended June 30, 2013				Effects of Modification	
		Post-modification Outstanding Recorded Investment					
		Interest	Principal	Other	Total	Provisions	Charge-offs
		Concessions	Concessions	Concessions			
<b>Troubled debt restructurings:</b>							
Real estate mortgage	\$	8,657	\$ 14,612	\$ 1,169	\$ 24,438	\$ 223	\$ (11)
Production and intermediate-term		278	16,670	1,183	18,131	972	(895)
Rural residential real estate		299	–	–	299	–	–
Total	\$	9,234	\$ 31,282	\$ 2,352	\$ 42,868	\$ 1,195	\$ (906)

		Three months ended June 30, 2012					
		Pre-modification Outstanding Recorded Investment					
		Interest	Principal	Other	Total		
		Concessions	Concessions	Concessions			
<b>Troubled debt restructurings:</b>							
Real estate mortgage	\$	1,209	\$ 15,011	\$ 975	\$ 17,195		
Production and intermediate-term		1,475	16,603	67	18,145		
Agribusiness							
Farm related business		694	3,722	321	4,737		
Rural residential real estate		4	442	–	446		
Total	\$	3,382	\$ 35,778	\$ 1,363	\$ 40,523		

	Three months ended June 30, 2012				Effects of Modification	
	Post-modification Outstanding Recorded Investment				Provisions	Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
<b>Troubled debt restructurings:</b>						
Real estate mortgage	\$ 1,209	\$ 15,015	\$ 945	\$ 17,169	\$ 391	\$ (383)
Production and intermediate-term Agribusiness	679	16,858	68	17,605	403	(3)
Farm related business	692	3,722	321	4,735	(268)	–
Rural residential real estate	4	442	–	446	–	–
Total	\$ 2,584	\$ 36,037	\$ 1,334	\$ 39,955	\$ 526	\$ (386)

	Six months ended June 30, 2012			
	Pre-modification Outstanding Recorded Investment			
	Interest Concessions	Principal Concessions	Other Concessions	Total
<b>Troubled debt restructurings:</b>				
Real estate mortgage	\$ 5,209	\$ 31,192	\$ 1,009	\$ 37,410
Production and intermediate-term Agribusiness	2,555	28,907	67	31,529
Farm related business	694	3,955	321	4,970
Rural residential real estate	4	607	78	689
Total	\$ 8,462	\$ 64,661	\$ 1,475	\$ 74,598

	Six months ended June 30, 2012				Effects of Modification	
	Post-modification Outstanding Recorded Investment				Provisions	Charge-offs
	Interest Concessions	Principal Concessions	Other Concessions	Total		
<b>Troubled debt restructurings:</b>						
Real estate mortgage	\$ 5,202	\$ 31,054	\$ 964	\$ 37,220	\$ 703	\$ (383)
Production and intermediate-term Agribusiness	1,764	29,214	68	31,046	1,241	(5)
Farm related business	692	3,955	321	4,968	(268)	–
Rural residential real estate	4	611	78	693	105	(64)
Total	\$ 7,662	\$ 64,834	\$ 1,431	\$ 73,927	\$ 1,781	\$ (452)

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

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
<b>Defaulted troubled debt restructurings:</b>				
Real estate mortgage	\$ 3,437	\$ 4,663	\$ 3,935	\$ 6,596
Production and intermediate-term Agribusiness	2,941	5,090	5,996	10,462
Processing and marketing	8,870	–	19,129	–
Farm-related business	–	–	–	1
Total agribusiness	8,870	–	–	1
Rural residential real estate	–	–	–	25
Total	\$ 15,248	\$ 9,753	\$ 29,060	\$ 17,084



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

	Total TDRs		Nonaccrual TDRs	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Real estate mortgage	\$ 135,536	\$ 128,399	\$ 79,745	\$ 78,061
Production and intermediate-term Agribusiness	118,160	115,933	65,237	65,664
Processing and marketing	17,850	24,930	17,850	24,930
Farm-related business	4,290	4,449	3,448	3,582
Total agribusiness	22,140	29,379	21,298	28,512
Rural residential real estate	2,854	3,583	1,030	1,790
Total Loans	\$ 278,690	\$ 277,294	\$ 167,312	\$ 174,027

Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings was \$2.9 million and \$17.4 million at June 30, 2013 and December 31, 2012, respectively.

### Purchased Credit 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 13:

- i. 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.
- 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 June 30, 2013, were as follows.

<i>(dollars in thousands)</i>	<b>Loans Acquired During</b>	
	<b>2012</b>	<b>2011</b>
Real estate mortgage	\$ 1,679	\$ 10,449
Production and intermediate-term	2,888	3,019
Agribusiness		
Farm-related business	—	(5)
Total agribusiness	—	(5)
Rural residential real estate	138	106
Total Loans	\$ 4,705	\$ 13,569

At June 30, 2013, the allowance for loan losses related to these loans was \$89 thousand compared with \$601 thousand at December 31, 2012. During the three and six month periods ended June 30, 2013, provision expense on these loans was an expense reversal of \$202 thousand and \$867 thousand, respectively, compared with expense of \$78 thousand and \$343 thousand for the three and six month periods ended June 30, 2012, respectively. See above for a summary of changes in the total allowance for loan losses for the period ended June 30, 2013.

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. None were acquired in 2013.

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

Certain of the loans acquired in the business combinations that are within the scope of purchased impaired loan guidance are accounted for using a cash basis method of income recognition because the acquiring Associations could not 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 markets were very 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, the acquiring Associations 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 4 — FAIR VALUE MEASUREMENT**

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

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

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, plus accrued interest, 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 plus accrued interest 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. Fair value estimates are obtained from third-party valuation services.

For other investments, fair value is estimated by discounting estimated future 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 was 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.

<i>(dollars in thousands)</i>	<b>Asset- Backed Securities</b>	<b>Non- Agency CMOs</b>	<b>Standby Letters of Credit</b>	<b>Mission Related Investments</b>
Balance at January 1, 2013	\$ 33,390	\$ 204,699	\$ 2,046	\$ 53,491
Total gains or (losses) realized/unrealized:				
Included in earnings	(28)	(1,705)	-	(292)
Included in other comprehensive income	4,873	7,752	-	(5,121)
Purchases	-	-	-	123
Sales	-	-	-	-
Issuances	-	-	-	-
Settlements	(2,480)	(24,459)	(261)	(2,286)
Transfers in and/or out of Level 3	-	-	-	-
Balance at June 30, 2013	<u>\$ 35,755</u>	<u>\$ 186,287</u>	<u>\$ 1,785</u>	<u>\$ 45,915</u>

<i>(dollars in thousands)</i>	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	—	(3,167)	—	—
Included in other comprehensive income	3,840	(7,262)	—	1,301
Purchases	—	—	—	188
Sales	—	—	—	—
Issuances	—	—	46	—
Settlements	(2,261)	(21,979)	(78)	(103)
Transfers in and/or out of Level 3	—	—	—	51,884
Balance at June 30, 2012	<u>\$ 31,903</u>	<u>\$ 209,348</u>	<u>\$ 3,041</u>	<u>\$ 53,270</u>

## 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	None outstanding
Mission Related Investments	\$ 45,915	Discounted cash flow	Risk adjusted spread	0.01% – 99.61%
Non-agency securities	\$ 222,042	Vendor priced	**	
Impaired loans and other property owned	\$ 654,048	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

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

	At or for the Six Months Ended June 30, 2013					Fair Value Effects On Earnings
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
<i>(dollars in thousands)</i>						
<b>Recurring Measurements</b>						
<b>Assets:</b>						
Investments available-for-sale:						
U.S. Govt. GNMA MBS/CMOs	\$ 4,660,761	\$ —	\$ 4,660,761	\$ —	\$ 4,660,761	
U.S. Govt. Agency MBS	1,849,745	—	1,849,745	—	1,849,745	
Non-Agency CMOs	186,287	—	—	186,287	186,287	
Asset-backed securities	35,755	—	—	35,755	35,755	
Mission Related Investments	45,915	—	—	45,915	45,915	
Total investments available-for-sale	6,778,463	—	6,510,506	267,957	6,778,463	
Federal funds sold, securities purchased under resale agreements, and other	136,385	—	136,385	—	136,385	
Interest rate swaps and other derivative instruments	32,654	—	32,654	—	32,654	
Assets held in trust funds	15,420	15,420	—	—	15,420	
Recurring Assets	\$ 6,962,922	\$ 15,420	\$ 6,679,545	\$ 267,957	\$ 6,962,922	
<b>Liabilities:</b>						
Interest rate swaps and other derivative instruments	\$ —	\$ —	\$ —	\$ —	\$ —	
Collateral liabilities	—	—	—	—	—	
Standby letters of credit	1,785	—	—	1,785	1,785	
Recurring Liabilities	\$ 1,785	\$ —	\$ —	\$ 1,785	\$ 1,785	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
Impaired loans	\$ 565,196	\$ —	\$ —	\$ 565,196	\$ 565,196	\$ (5,538)
Other property owned	80,079	—	—	88,852	88,852	(12,078)
Nonrecurring Assets	\$ 645,275	\$ —	\$ —	\$ 654,048	\$ 654,048	\$ (17,616)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
Cash	\$ 256,532	\$ 256,532	\$ —	\$ —	\$ 256,532	
Investments held to maturity	784,345	—	599,219	207,178	806,397	
Loans	22,287,975	—	—	22,268,285	22,268,285	
Other investments	81,400	—	—	83,290	83,290	
Other Assets	\$ 23,410,252	\$ 256,532	\$ 599,219	\$ 22,558,753	\$ 23,414,504	
<b>Liabilities:</b>						
Systemwide debt securities	\$ 25,904,958	\$ —	\$ —	\$ 25,672,388	\$ 25,672,388	
Other Liabilities	\$ 25,904,958	\$ —	\$ —	\$ 25,672,388	\$ 25,672,388	

	At or for the Year Ended December 31, 2012					Fair Value Effects On Earnings
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	
<i>(dollars in thousands)</i>						
<b>Recurring Measurements</b>						
<b>Assets:</b>						
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	
<b>Liabilities:</b>						
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	
<b>Nonrecurring Measurements</b>						
<b>Assets:</b>						
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)
<b>Other Financial Instruments</b>						
<b>Assets:</b>						
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	
<b>Liabilities:</b>						
Systemwide debt securities	\$ 26,488,875	\$ —	\$ —	\$ 26,578,330	\$ 26,578,330	
Other Liabilities	\$ 26,488,875	\$ —	\$ —	\$ 26,578,330	\$ 26,578,330	

**NOTE 5 — COMMITMENTS AND CONTINGENT LIABILITIES**

Under the Farm Credit Act of 1971, each Farm Credit System (System) bank is primarily liable for its portion of Systemwide bond and discount note obligations. Additionally, the banks are jointly and severally liable for the bonds and notes of the other System banks. The bonds and notes of the System totaled \$199.043 billion at June 30, 2013.

Legal actions are pending against the District in which claims for money damages are asserted. 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 AgFirst and District Associations.

**NOTE 6 — EMPLOYEE BENEFIT PLANS**

Following are retirement and other postretirement benefit expenses for the District:

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2013	2012	2013	2012
Pension	\$ 12,390	\$ 11,797	\$ 24,780	\$ 23,595
401k	1,744	1,654	3,600	3,369
Other postretirement benefits	2,523	2,049	5,046	4,098
Total	\$ 16,657	\$ 15,500	\$ 33,426	\$ 31,062



Following are retirement and other postretirement benefit contributions for the District. Projections are based upon actuarially determined amounts as of the most recent measurement date of December 31, 2012.

<i>(dollars in thousands)</i>	<b>Actual YTD Through 6/30/13</b>	<b>Projected Contributions for Remainder of 2013</b>	<b>Projected Total Contributions 2013</b>
Pensions	\$ 466	\$ 58,590	\$ 59,056
Other postretirement benefits	3,483	3,897	7,380
Total	<u>\$ 3,949</u>	<u>\$ 62,487</u>	<u>\$ 66,436</u>

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

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

#### **NOTE 7 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES**

One of the District's goals 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, 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 types of derivative instrument used and the amount of activity for the periods presented is summarized in the following table:

<b>Notional Amounts</b> <i>(dollars in millions)</i>	<b>For the Six Months Ended June 30,</b>			
	<b>2013</b>		<b>2012</b>	
	<b>Receive- Fixed Swaps</b>	<b>Forward Contracts</b>	<b>Receive- Fixed Swaps</b>	<b>Forward Contracts</b>
Balance at beginning of period	\$ 360	\$ —	\$ 535	\$ 66
Additions	—	—	—	427
Maturities/amortization	(50)	—	—	(66)
Terminations	—	—	—	—
Balance at end of period	<u>\$ 310</u>	<u>\$ —</u>	<u>\$ 535</u>	<u>\$ 427</u>

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 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. The District does not anticipate nonperformance by any of these counterparties. A number of swaps are supported by collateral arrangements with counterparties. Accounting guidance requires a pledgee 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.

At June 30, 2013, the District had not posted collateral with respect to any of these arrangements.

Counterparty exposure related to derivatives at:

<i>(dollars in millions)</i>	<b>June 30, 2013</b>	<b>December 31, 2012</b>
Estimated Gross Credit Risk	\$32.7	\$41.4
Percent of Notional	10.53%	11.50%
Cash Collateral Held <i>(on balance sheet)</i>	\$-	\$-
Securities Collateral Held <i>(off balance sheet)</i>	\$12.1	\$19.6

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 Bank 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 six months ended June 30, 2013 was \$8.7 million, while the amount of the gain on the Systemwide Debt Securities was \$8.7 million. The amount of the loss on interest rate swaps recognized in interest expense for the six months ended June 30, 2012 was \$4.8 million, while the amount of the gain on the Systemwide Debt Securities was \$4.8 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 differences 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 June 30, 2013 and December 31, 2012, the District had not committed to purchase any when-issued bonds.

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.

### Fair Values of Derivative Instruments

The following tables represent the fair value of derivative instruments for the periods presented:

<i>(dollars in thousands)</i>	Balance Sheet Classification – Assets	6/30/13 Fair Value	Balance Sheet Classification - Liabilities	6/30/13 Fair Value
<b>Derivatives designated as hedging instruments:</b>				
Receive-fixed swaps	Other Assets	\$ 32,654	Other Liabilities	\$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		\$ 32,654		\$ –

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

The following tables set forth the amount of net gain (loss) recognized in the Statements of Income and, for cash flow hedges, the amount of net gain (loss) recognized in the Balance Sheets for the periods presented.

<i>(dollars in thousands)</i>	Location of Gain or (Loss) Recognized in the Statements of Income	Amount of Gain or (Loss) Recognized in the Statements of Income	
		2013	2012
<b>Derivatives – Fair Value Hedging Relationships:</b>			
Receive-fixed swaps	Noninterest Income	\$ –	\$ –

<i>(dollars in thousands)</i>	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)	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
<b>Derivatives – Cash Flow Hedging Relationships:</b>										
Firm Commitments	\$ –	\$ 1,509	Interest Income	\$ 701	\$ 299	Interest Income	\$ –	\$ –	\$ –	\$ –

### NOTE 8 — PERPETUAL PREFERRED STOCK

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

On May 15, 2013, the Bank redeemed and cancelled the entire \$150.0 million of Perpetual Non-cumulative Preferred Stock issued October 14, 2003. The stock was redeemed at its par value together with accrued and unpaid dividends.

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.

**NOTE 9 — ACCUMULATED OTHER COMPREHENSIVE INCOME**

<i>(dollars in thousands)</i>	Changes in Accumulated Other Comprehensive Income by Component <i>(a)</i>			
	Unrealized gains (losses) on Investments	Firm Commitments	Employee Benefit Plans	Accumulated Other Comprehensive Income
Balance at March 31, 2013	\$ 180,461	\$ 1,132	\$ (387,237)	\$ (205,644)
Other comprehensive income before reclassifications	(57,077)	—	—	(57,077)
Amounts reclassified from AOCI	1,245	(319)	8,172	9,098
Net current period other comprehensive income	(55,832)	(319)	8,172	(47,979)
Balance at June 30, 2013	\$ 124,629	\$ 813	\$ (379,065)	\$ (253,623)
Balance at December 31, 2012	\$ 180,394	\$ 1,514	\$ (395,410)	\$ (213,502)
Other comprehensive income before reclassifications	(50,536)	—	—	(50,536)
Amounts reclassified from AOCI	(5,229)	(701)	16,345	10,415
Net current period other comprehensive income	(55,765)	(701)	16,345	(40,121)
Balance at June 30, 2013	\$ 124,629	\$ 813	\$ (379,065)	\$ (253,623)
Balance at March 31, 2012	\$ 150,078	\$ (4,911)	\$ (347,793)	\$ (202,626)
Other comprehensive income before reclassifications	1,300	706	4,454	6,460
Amounts reclassified from AOCI	2,417	(151)	2,801	5,067
Net current period other comprehensive income	3,717	555	7,255	11,527
Balance at June 30, 2012	\$ 153,795	\$ (4,356)	\$ (340,538)	\$ (191,099)
Balance at December 31, 2011	\$ 139,367	\$ (5,566)	\$ (355,049)	\$ (221,248)
Other comprehensive income before reclassifications	11,248	1,509	4,454	17,211
Amounts reclassified from AOCI	3,180	(299)	10,057	12,938
Net current period other comprehensive income	14,428	1,210	14,511	30,149
Balance at June 30, 2012	\$ 153,795	\$ (4,356)	\$ (340,538)	\$ (191,099)

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

<i>(dollars in thousands)</i>	For the three months ended June 30,		For the six months ended June 30,		Income Statement Line Item
	2013	2012	2013	2012	
<b>Investment Securities:</b>					
Sales gains & losses	\$ —	\$ —	\$ 7,592	\$ —	Gains (losses) on investments, net
Holding gains & losses	(1,245)	(2,417)	(2,363)	(3,180)	Net other-than-temporary impairment
Net amounts reclassified	(1,245)	(2,417)	5,229	(3,180)	
<b>Cash Flow Hedges:</b>					
Interest income	319	151	701	299	See footnote 7.
Net amounts reclassified	319	151	701	299	
<b>Defined Benefit Pension Plans:</b>					
Periodic pension costs	(8,172)	(2,801)	(16,345)	(10,057)	See footnote 6.
Net amounts reclassified	(8,172)	(2,801)	(16,345)	(10,057)	
Total reclassifications for period	\$ (9,098)	\$ (5,067)	\$ (10,415)	\$ (12,938)	

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

**NOTE 10 — OFFSETTING OF FINANCIAL AND DERIVATIVE ASSETS**

June 30, 2013						
			Gross Amounts Not Offset in the Balance Sheets			
<i>(dollars in thousands)</i>	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	\$ 32,654	\$ —	\$ 32,654	\$ (12,070)	\$ —	\$ 20,584
Reverse repurchase and similar arrangements	136,385	—	136,385	(136,385)	—	—
<b>Total</b>	<b>\$ 169,039</b>	<b>\$ —</b>	<b>\$ 169,039</b>	<b>\$ (148,455)</b>	<b>\$ —</b>	<b>\$ 20,584</b>

December 31, 2012						
			Gross Amounts Not Offset in the Balance Sheets			
<i>(dollars in thousands)</i>	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheets	Net Amounts of Assets Presented in the Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives	\$ 41,384	\$ —	\$ 41,384	\$ (19,551)	\$ —	\$ 21,833
Reverse repurchase and similar arrangements	149,589	—	149,589	(149,589)	—	—
<b>Total</b>	<b>\$ 190,973</b>	<b>\$ —</b>	<b>\$ 190,973</b>	<b>\$ (169,140)</b>	<b>\$ —</b>	<b>\$ 21,833</b>

There were no liabilities subject to master netting arrangements or similar agreements during the reporting periods.

A description of the rights of setoff associated with recognized derivative assets and liabilities subject to enforceable master netting arrangements is located in Note 7, Derivative Financial Instruments and Hedging Activities.

The reverse repurchase agreements are accounted for as collateralized lending.

**NOTE 11 — BANK ONLY FINANCIAL DATA**

Condensed financial information of AgFirst Farm Credit Bank follows:

Balance Sheets Data		
<i>(dollars in thousands)</i>	6/30/13	12/31/12
	<i>(unaudited)</i>	<i>(audited)</i>
Cash, cash equivalents and investment securities	\$ 7,782,718	\$ 8,357,576
Loans	20,050,730	20,209,251
Allowance for loan losses	(41,312)	(44,539)
Net loans	20,009,418	20,164,712
Other assets	329,194	368,259
Total assets	<b>\$ 28,121,330</b>	<b>\$ 28,890,547</b>
Bonds and notes	\$ 25,703,388	\$ 26,286,758
Other liabilities	104,704	305,559
Total liabilities	25,808,092	26,592,317
Perpetual preferred stock	125,250	275,250
Capital stock and participation certificates	332,394	332,705
Additional paid-in-capital	36,580	36,580
Retained earnings	1,698,705	1,482,227
Accumulated other comprehensive income (loss)	120,309	171,468
Total shareholders' equity	2,313,238	2,298,230
Total liabilities and equity	<b>\$ 28,121,330</b>	<b>\$ 28,890,547</b>

<i>(dollars in thousands)</i>	<b>Statements of Income Data</b>	
	<b>2013</b>	<b>For the six months ended June 30, 2012</b>
		<i>(unaudited)</i>
Interest income	\$ 369,516	\$ 418,125
Interest expense	92,895	110,068
Net interest income	276,621	308,057
Provision for (reversal of allowance for) loan losses	(1,480)	(2,895)
Net interest income after provision for loan losses	278,101	310,952
Noninterest expense, net	46,081	57,746
Net income	<u>\$ 232,020</u>	<u>\$ 253,206</u>

**NOTE 12 — REGULATORY ENFORCEMENT MATTERS**

At June 30, 2013, the FCA had entered into written supervisory agreements with five District Associations having combined assets of approximately \$3.710 billion. 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 adverse impact on the District’s financial condition or results of operations.

**NOTE 13 — 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.

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:

<b>Consolidation of Assets Acquired and Liabilities Assumed at July 1, 2012</b>					
<i>(dollars in thousands)</i>	<b>Chattanooga</b>	<b>Acquisition Adjustment</b>	<b>Acquisition Values</b>	<b>Jackson Purchase</b>	<b>River Valley</b>
<b>Assets</b>					
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
<b>Liabilities</b>					
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					
<b>Members' Equity</b>					
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

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 June 30, 2013, those assets had a net book value of \$87.8 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. At June 30, 2013 this amount increased to \$10.1 million of allocated stock and the Bank redeemed \$403 thousand in purchased stock.

The high risk asset pool may continue to experience additional losses, and it is possible that the first two levels of financial assistance may be exhausted during 2013. Assistance provided under the agreement did not have a material impact on the financial condition and results of operations of the Bank or District at June 30, 2013 and additional assistance in the future likely would not have a material adverse impact on either the financial condition or future operating results of the Bank or District.

Disclosures related to acquired impaired loans are contained in Note 3, *Loans and Allowance for Loan Losses*.

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.

#### **NOTE 14 — SUBSEQUENT EVENTS**

The District has evaluated subsequent events and has determined that there are none requiring disclosure through August 7, 2013, which is the date the financial statements were issued.