



FARM CREDIT

2013

QUARTERLY REPORT

F I R S T Q U A R T E R

AGFIRST FARM CREDIT BANK
AND DISTRICT ASSOCIATIONS

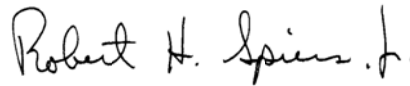
FIRST QUARTER 2013

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 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

May 9, 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 March 31, 2013. In making the assessment, management used the framework in *Internal Control — Integrated Framework*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

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



Leon T. Amerson
Chief Executive Officer & President



Charl L. Butler
Chief Financial Officer

May 9, 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 month period ended March 31, 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 March 31, 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, the three months results of operations may not 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:

Loan Portfolio <i>(dollars in thousands)</i>	March 31, 2013		December 31, 2012		March 31, 2012	
Real Estate Mortgage	\$ 9,881,855	44%	\$ 9,921,750	43%	\$ 9,696,746	44%
Production and Intermediate-Term	7,294,518	33	7,760,377	34	7,482,657	34
Rural Residential Real Estate	2,705,830	12	2,634,609	12	2,498,490	11
Agribusiness						
Loans to Cooperatives	324,031	1	235,703	1	354,455	2
Processing and Marketing	1,002,540	5	1,053,247	5	1,097,790	5
Farm-Related Business	377,930	2	354,039	2	374,097	2
Total Agribusiness	1,704,501	8	1,642,989	8	1,826,342	9
Energy/water and waste disposal	536,565	2	525,070	2	333,561	1
Communication	319,177	1	319,320	1	235,499	1
Loans to OFIs	67,579	—	60,479	—	6,900	—
Lease Receivables	5,980	—	2,880	—	5,114	—
Other (including Mission Related)	66,778	—	61,731	—	63,714	—
Total	\$ 22,582,783	100%	\$ 22,929,205	100%	\$ 22,149,023	100%

Total loans outstanding were \$22.583 billion at March 31, 2013, a decrease of \$346.4 million, or 1.51 percent, compared to total loans outstanding at December 31, 2012. The decline in loan volume since 2012 year end is primarily due to the seasonal nature of District lending activity as borrowers typically pay down loans during the first quarter using proceeds from crop sales. In addition, loan demand remains weak due to the slow recovery of the general economy. This has resulted in lower production and capital investment in certain sectors. Relatively high unemployment and uncertainty of existing employment has had a negative impact on certain borrowers dependent on non-farm income. Future loan demand is difficult to predict; however, it is expected to remain weak through 2013.

Credit Quality

Credit quality continues to be impacted by prolonged weakness in the economy. Though problem asset levels remained elevated, credit quality has shown modest improvement as can be seen in the following table:

Total Loan Portfolio Credit Quality as of:			
Classification	March 31, 2013	December 31, 2012	March 31, 2012
Acceptable	90.27%	90.19%	88.55%
OAEM *	4.04%	4.07%	5.42%
Substandard/Doubtful/Loss	5.69%	5.74%	6.03%

* Other Assets Especially Mentioned

Loan portfolio credit quality at the producer level reflected minor improvement. Most distressed property sales are occurring at or near appraised values, indicating that values have stabilized. Production farm land maintained its value throughout the financial downturn. High commodity prices for grains during 2012 were very beneficial to row crop farmers. Florida continues to be challenged with concentrations in landscape/tree nurseries and land in transition. However, improved housing starts during the first quarter of 2013 could positively impact housing-related industries such as building products, timber, sawmills, landscape nurseries, and sod operations.

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 March 31, 2013 were \$575.9 million compared to \$580.9 million at December 31, 2012. Nonaccrual loans decreased \$5.0 million during the three

month period ended March 31, 2013 due primarily to repayments of \$35.8 million, \$6.3 million of charge-offs net of recoveries on uncollectible balances, transfers to other property owned of \$10.0 million, and reinstatements to accrual status of \$3.9 million. Offsetting these decreases were \$41.7 million of loan balances transferred to nonaccrual status and advances of \$10.9 million. The ten largest nonaccrual borrower relationships accounted for 24.07 percent of the total nonaccrual balance. At March 31, 2013, total nonaccrual loans were primarily in the forestry (20.36 percent of the total), nursery/greenhouse (20.09 percent), other real estate (7.56 percent), poultry (7.49 percent), and field crops (7.40 percent) segments. Some of these nonaccrual loans are secured by real estate, which has been negatively impacted by the current economic environment as discussed previously. Nonaccrual loans were 2.55 percent and 2.53 percent of total loans outstanding at March 31, 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 \$289.5 million at March 31, 2013, compared to \$277.3 million at December 31, 2012. At March 31, 2013, TDRs were comprised of \$108.2 million of accruing restructured loans and \$181.3 million of nonaccruing restructured loans. Restructured loans were primarily in the forestry (24.08 percent of the total), nursery/greenhouse (13.67 percent), poultry (8.11 percent), and field crops (7.03 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 \$6.8 million during the first three months of 2013 and totaled \$103.2 million at March 31, 2013. For the three months ended March 31, 2013, the decrease was the result of disposals of \$15.0 million and write-downs of OPO of \$2.0 million. Offsetting these decreases were transfers to OPO of \$10.2 million. Disposals primarily included land holdings, with the two largest property disposals totaling \$6.2 million. The largest property write-downs were three land holdings in the forestry, other real estate, and poultry segments totaling \$1.4 million. At March 31, 2013, the largest OPO holding was an ethanol facility totaling \$16.3 million (15.83 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 \$213.4 million at March 31, 2013, as compared with \$213.5 million at December 31, 2012. Activity in the allowance for the three months ended March 31, 2013 was minimal and included \$4.9 million provision expense and recoveries of \$2.7 million. Offsetting these increases were loan charge-offs of \$7.7 million, as their collectability became more measurable and apparent during the three month period. Charge-offs during the three month period were related primarily to borrowers in the forestry (25.48 percent of the total), nursery/greenhouse (21.33 percent), and field crops (12.59 percent) segments. The allowance at March 31, 2013 included specific reserves of \$90.7 million (42.50 percent of the total) and \$122.7 million (57.50 percent) of general reserves. The total allowance at March 31, 2013 was comprised primarily of reserves for the nursery/greenhouse (16.41 percent of the total), forestry (16.00 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 increases to the allowance from provision expense.

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. As a GSE, AgFirst has access to the nation's and world's debt and capital markets.

During the third quarter of 2012, Standard & Poor's Ratings Services, Moody's Investor Service, and Fitch Ratings affirmed their long-term debt rating for the System at AA+, Aaa, and AAA and their short-term debt rating at A-1+, P-1, and F-1, respectively. Their outlook on the long-term debt rating of the System remained negative due to the negative outlook on the long-term rating for the U.S. Any future negative changes to the System's credit ratings and/or outlook could increase borrowing costs and limit access to the debt capital markets. Any future downgrades could also reduce earnings by increasing debt funding costs and have a material adverse effect on liquidity, ability to conduct normal business operations, and the 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 March 31, 2013, AgFirst had \$25.221 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 and the decline in loan volume as discussed elsewhere in this report, which when combined with an increase in retained earnings, reduced funding requirements.

Cash and cash equivalents, which decreased \$417.9 million from December 31, 2012 to a total of \$507.6 million at March 31, 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 decreased due primarily to lower liquidity needs for upcoming maturing debt between the periods.

Investment securities totaled \$7.576 billion, or 24.32 percent of total assets at March 31, 2013, compared to \$7.649 billion, or 23.83 percent, as of December 31, 2012. Investment securities decreased \$73.1 million (0.96 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 regulatory limits, during the quarter ended March 31, 2013, the Bank sold \$114.6 million Agency mortgage backed securities which resulted in a gain of \$7.6 million.

Investment securities classified as being available-for-sale totaled \$6.723 billion at March 31, 2013. Available-for-sale investments at March 31, 2013 included \$4.679 billion in Agency collateralized mortgage obligations (CMOs), \$1.759 billion in Agency adjustable rate mortgages, \$199.2 million in non-agency CMOs, \$51.7 million in mission related investments, and \$33.8 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 March 31, 2013, AgFirst exceeded all applicable regulatory liquidity requirements. FCA regulations require a liquidity policy that establishes a minimum "coverage" level of 90 days. "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. At March 31, 2013, AgFirst's coverage was 240 days, compared to 218 days at December 31, 2012. The Bank's cash and cash equivalents position provided 25 days of the total liquidity coverage. Investment securities fully backed by the U.S. government provided an additional 215 days of liquidity. Cash provided by the Bank's operating activities, primarily generated from net interest income in excess of operating expenses and maturities in the loan portfolio, is an additional source of liquidity for the Bank that is not reflected in the coverage calculation.

Net unrealized gains related to the available-for-sale securities were \$180.5 million at March 31, 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 \$1.1 million on non-agency securities in its portfolio for the three months ended March 31, 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 \$171.8 million (3.51 percent) from December 31, 2012 to a total of \$5.060 billion at March 31, 2013. This increase is primarily attributed to 2013 unallocated retained earnings from net income of \$171.1 million.

On April 15, 2013, the AgFirst Board of Directors gave final approval to exercise redemption and cancellation rights on the entire \$150.0 million of Perpetual Non-cumulative Preferred Stock issued October 14, 2003. The stock will be redeemed May 15, 2013 at its par value together with accrued and unpaid dividends.

RESULTS OF OPERATIONS

Net income for the three months ended March 31, 2013 was \$171.1 million, compared to \$161.3 million for the same period of 2012, an increase of \$9.7 million, or 6.04 percent.

Key Results of Operations Comparisons

	Annualized for the three months ended March 31, 2013	For the year ended December 31, 2012	Annualized for the three months ended March 31, 2012
Return on average assets	2.18%	1.99%	2.04%
Return on average shareholders' equity	14.43%	13.30%	14.06%
Net interest income as a percentage of average earning assets	3.55%	3.70%	3.75%
Net (charge-offs) recoveries to average loans	(0.09)%	(0.26)%	(0.24)%

Net Interest Income

Net interest income for the three months ended March 31, 2013 was \$267.5 million compared to \$283.7 million for the same period of 2012, a decrease of \$16.2 million or 5.71 percent. The net interest margin was 3.55 percent in the current year three month period, a decrease of 20 basis points from the comparable period of 2012. The decrease was primarily the result of lower earning asset yields resulting from the declining interest rate environment. 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 diminish. For the three month period ended March 31, 2013 compared with the corresponding period 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>	For the three months ended March 31, 2013 vs. March 31, 2012		
	Increase (decrease) due to changes in:		
	Volume	Rate	Total
Interest Income:			
Loans	\$ 5,037	\$ (21,288)	\$ (16,251)
Investments & Cash Equivalents	(1,538)	(7,123)	(8,661)
Total Interest Income	\$ 3,499	\$ (28,411)	\$ (24,912)
Interest Expense:			
Interest-Bearing Liabilities	\$ (548)	\$ (8,181)	\$ (8,729)
Changes in Net Interest Income	\$ 4,047	\$ (20,230)	\$ (16,183)

Provision for Loan Losses

The District measures risks inherent in its loan portfolio on an ongoing basis and, as necessary, recognizes provision for loan loss expense so that appropriate reserves for loan losses are maintained. The provision for loan losses was \$4.9 million for the three month period ended March 31, 2013, compared to \$14.6 million for the corresponding period in 2012.

Provision for loan loss expense for the three months ended March 31, 2013 consisted of \$3.7 million related to reserves for specific credits and \$1.2 million related to general reserves. Provision expense for the three month period was related primarily to the processing (\$4.1 million), cattle (\$1.7 million), ethanol (\$1.5 million), grain (\$1.5 million), and other real estate (\$1.3 million) segments, partially offset by reversals in the non-farm income (\$2.1 million), forestry (\$2.0 million), and field crops (\$1.1 million) segments. 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:

Change in Noninterest Income	For the three months ended March 31,		
	2013	2012	Increase/ (Decrease)
<i>(dollars in thousands)</i>			
Loan fees	\$ 8,985	\$ 10,172	\$ (1,187)
Fees for financially related services	1,469	1,729	(260)
Gains (losses) on investments, net	7,592	–	7,592
Net impairment losses on investments	(1,118)	(763)	(355)
Gains (losses) on called debt	(1,706)	(12,745)	11,039
Gains (losses) on sale of rural home loans, net	575	590	(15)
Gains from sale of premises and equipment, net	204	157	47
Patronage refunds from other Farm Credit institutions	569	411	158
Gains (losses) on other transactions	410	1,712	(1,302)
Other noninterest income	4,085	2,118	1,967
Total noninterest income	\$ 21,065	\$ 3,381	\$ 17,684

Noninterest income for the three months ended March 31, 2013 increased \$17.7 million, compared to the corresponding period in 2012. The increase for the quarter ended March 31, 2013 was due primarily to a decrease of \$11.0 million in losses on called debt and increases of \$7.6 million in gains on investments, net.

Loan fee income decreased \$1.2 million for the three months ended March 31, 2013, due primarily to reductions in servicing fees, late fees, and fees related to participation loans.

Gains on investments of \$7.6 million during 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.

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. Losses on called debt decreased \$11.0 million for the three month period ended March 31, 2013. Call options were exercised on bonds totaling \$2.771 billion for the three months ended March 31, 2013 compared to \$8.174 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.

For the three months ended March 31, 2013, gains on other transactions decreased \$1.3 million compared to the same period last year. This decrease resulted primarily from a \$942 thousand insurance recovery recorded in 2012 and an additional \$414 thousand in reserve expense for unfunded commitments for the three months ended March 31, 2013 compared to the same period in 2012.

Other noninterest income increased \$2.0 million for the three months ended March 31, 2013 compared to the same period in 2012, due primarily to \$1.1 million in lease income 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.

Noninterest Expense

The following table illustrates the changes in noninterest expense:

Change in Noninterest Expense	For the three months ended March 31,		
	2013	2012	Increase/ (Decrease)
<i>(dollars in thousands)</i>			
Salaries and employee benefits	\$ 69,593	\$ 65,836	\$ 3,757
Occupancy and equipment	9,028	8,231	797
Insurance Fund premiums	5,206	2,747	2,459
Other operating expenses	23,706	23,199	507
Losses (gains) from other property owned	2,150	8,663	(6,513)
Correspondent lending servicing expense	2,716	2,303	413
Total noninterest expense	\$ 112,399	\$ 110,979	\$ 1,420

Noninterest expense for the three months ended March 31, 2013 increased \$1.4 million compared to the corresponding period in 2012. The increase for the three months ended March 31, 2013 was primarily due to increases of \$3.8 million in salaries and benefits and \$2.5 million in Insurance Fund premiums, offset by a decrease of \$6.5 million in losses from other property owned.

The increases in salaries and employee benefits of \$3.8 million for the three month period ended March 31, 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 months ended March 31, 2013 increased \$797 thousand compared to the corresponding period in the prior year. 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 \$2.5 million for the three month period ended March 31, 2013. The 2013 base annual premium rate is 10 basis points compared to the 2012 base annual premium rate of 5 basis points. The Insurance Fund Board makes premium rate adjustments, as necessary, to maintain the secure base amount, which is based upon insured debt outstanding at System banks.

Other operating expenses for the three months ended March 31, 2013 increased \$507 thousand compared to the corresponding period in 2012. The increase resulted from \$1.4 million in additional consulting and professional fees required for system enhancements.

The decrease in losses from other property owned for the three months ended March 31, 2013 compared to the corresponding periods in the prior year resulted from lower writedowns in 2013 as real estate values began to stabilize. See *Other Property Owned* section above.

Correspondent lending servicing expense increased \$413 thousand for the first quarter of 2013, due primarily to increased guarantee fees resulting from higher volume in the correspondent lending portfolio.

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.

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. 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>	March 31, 2013 <i>(unaudited)</i>	December 31, 2012 <i>(audited)</i>
Assets		
Cash and cash equivalents	\$ 507,557	\$ 925,448
Investment securities:		
Available for sale (amortized cost of \$6,542,099 and \$6,756,026, respectively)	6,722,561	6,936,420
Held to maturity (fair value of \$906,419 and \$774,275, respectively)	853,766	712,997
Total investment securities	7,576,327	7,649,417
Loans	22,582,783	22,929,205
Less: allowance for loan losses	213,375	213,500
Net loans	22,369,408	22,715,705
Loans held for sale	14,539	17,697
Other investments	80,905	163,178
Accrued interest receivable	176,477	182,472
Investments in other Farm Credit System institutions	13,969	13,871
Premises and equipment, net	155,264	156,315
Other property owned	103,218	109,997
Accounts receivable	54,712	61,954
Other assets	103,926	103,091
Total assets	\$ 31,156,302	\$ 32,099,145
Liabilities		
Bonds and notes	\$ 25,422,433	\$ 26,488,875
Accrued interest payable	40,726	40,815
Accounts payable	46,163	161,029
Pension and other postretirement benefits liability	411,030	406,253
Advanced conditional payments	16,198	9,019
Other liabilities	160,138	105,335
Total liabilities	26,096,688	27,211,326
Commitments and contingencies (Note 5)		
Shareholders' Equity		
Perpetual preferred stock	275,250	275,250
Protected borrower equity	1,286	1,351
Capital stock and participation certificates	160,476	157,260
Additional paid-in-capital (Note 13)	60,270	60,270
Retained earnings		
Allocated	1,522,936	1,531,077
Unallocated	3,245,040	3,076,113
Accumulated other comprehensive income (loss)	(205,644)	(213,502)
Total shareholders' equity	5,059,614	4,887,819
Total liabilities and equity	\$ 31,156,302	\$ 32,099,145

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 March 31,	
	2013	2012
Interest Income		
Investment securities	\$ 43,915	\$ 52,576
Loans	271,098	287,349
Total interest income	315,013	339,925
Interest Expense	47,536	56,265
Net interest income	267,477	283,660
Provision for loan losses	4,900	14,590
Net interest income after provision for loan losses	262,577	269,070
Noninterest Income		
Loan fees	8,985	10,172
Fees for financially related services	1,469	1,729
Gains (losses) on investments, net	7,592	—
Total other-than-temporary impairment losses on investments	(613)	(839)
Portion of loss recognized in other comprehensive income (loss)	(505)	76
Net other-than-temporary impairment losses on investments	(1,118)	(763)
Gains (losses) on called debt	(1,706)	(12,745)
Gains (losses) on sales of rural home loans, net	575	590
Gains from sale of premises and equipment, net	204	157
Patronage refunds from other Farm Credit institutions	569	411
Gains (losses) on other transactions	410	1,712
Other noninterest income	4,085	2,118
Total noninterest income	21,065	3,381
Noninterest Expenses		
Salaries and employee benefits	69,593	65,836
Occupancy and equipment	9,028	8,231
Insurance Fund premiums	5,206	2,747
Other operating expenses	23,706	23,199
Losses (gains) on other property owned, net	2,150	8,663
Correspondent lending servicing expense	2,716	2,303
Total noninterest expenses	112,399	110,979
Income before income taxes	171,243	161,472
Provision for income taxes	171	137
Net income	\$ 171,072	\$ 161,335

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 March 31,	
	2013	2012
Net income	\$ 171,072	\$ 161,335
Other comprehensive income net of tax:		
Unrealized gains (losses) on investments available for sale:		
Other-than-temporarily impaired	5,778	228
Not other-than-temporarily impaired	(5,711)	10,483
Change in value of firm commitments - when issued securities	(382)	655
Employee benefit plans adjustments	8,173	7,256
Other comprehensive income (Note 9)	<u>7,858</u>	<u>18,622</u>
Comprehensive income	<u>\$ 178,930</u>	<u>\$ 179,957</u>

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						161,335	18,622	179,957
Protected borrower equity retired		(161)						(161)
Capital stock/participation certificates issued (retired), net			(295)					(295)
Dividends declared/paid			123			(175)		(52)
Dividends paid on perpetual preferred stock						(1,496)		(1,496)
Redemption of perpetual preferred stock (Note 8)	(110,550)			31,860				(78,690)
Patronage distribution								
Cash						(3,274)		(3,274)
Retained earnings retired					(6,855)	91		(6,764)
Patronage distribution adjustment					1,523	(1,354)		169
Balance at March 31, 2012	\$ 289,450	\$ 3,108	\$ 159,162	\$ 39,733	\$ 1,410,027	\$ 2,911,719	\$ (202,626)	\$ 4,610,573
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						171,072	7,858	178,930
Protected borrower equity retired		(65)						(65)
Capital stock/participation certificates issued (retired), net			3,115					3,115
Dividends declared/paid			101			(148)		(47)
Dividends paid on perpetual preferred stock						(440)		(440)
Patronage distribution								
Cash						(2,525)		(2,525)
Retained earnings retired					(6,930)	52		(6,878)
Patronage distribution adjustment					(1,211)	916		(295)
Balance at March 31, 2013	\$ 275,250	\$ 1,286	\$ 160,476	\$ 60,270	\$ 1,522,936	\$ 3,245,040	\$ (205,644)	\$ 5,059,614

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

Combined Statements of Cash Flows

(unaudited)

	For the three months ended March 31,	
	2013	2012
<i>(dollars in thousands)</i>		
Cash flows from operating activities:		
Net income	\$ 171,072	\$ 161,335
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	4,199	4,287
Amortization of net deferred loan origination (fees) costs	(1,815)	(1,933)
Premium amortization (discount accretion) on investment securities	1,628	1,024
(Premium amortization) discount accretion on bonds and notes	2,012	218
Amortization (accretion) of yield mark resulting from merger	(1,470)	(2,210)
Provision for loan losses	4,900	14,590
(Gains) losses on other property owned	1,712	7,845
(Gains) losses from sale of premises and equipment, net	(204)	(157)
Net impairment losses on investments	1,118	763
(Gains) losses on investments, net	(7,592)	—
(Gains) losses on sales of rural home loans, net	(575)	(590)
Net change in loans held for sale	7,983	6,185
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	5,995	14,367
(Increase) decrease in accounts receivable	7,242	256
(Increase) decrease in other assets	(4,395)	(5,683)
Increase (decrease) in accrued interest payable	(89)	(5,248)
Increase (decrease) in pension and other postretirement benefits liability	12,950	11,966
Increase (decrease) in accounts payable	(21,988)	4,260
Increase (decrease) in other liabilities	54,803	45,884
Total adjustments	66,414	95,824
Net cash provided by (used in) operating activities	237,486	257,159
Cash flows from investing activities:		
Investment securities purchased	(537,511)	(262,210)
Proceeds from investment securities sold or matured	613,452	384,864
Net (increase) decrease in loans	333,416	288,881
(Increase) decrease in investments in other Farm Credit System institutions	(98)	(234)
Proceeds from payments received on other investments	83,954	83,683
Purchase of premises and equipment, net	(3,203)	(3,789)
Proceeds from sale of premises and equipment, net	259	269
Proceeds from sale of other property owned	11,759	14,011
Net cash provided by (used in) investing activities	502,028	505,475
Cash flows from financing activities:		
Bonds and notes issued	5,905,566	12,336,421
Bonds and notes retired	(6,970,137)	(13,654,042)
Net increase (decrease) in advanced conditional payments	7,179	5,116
Protected borrower equity retired	(65)	(161)
Capital stock and participation certificates issued/retired, net	3,115	(295)
Patronage refunds and dividends paid	(95,745)	(87,461)
Redemption of perpetual preferred stock	—	(78,690)
Dividends paid on perpetual preferred stock	(440)	(1,496)
Retained earnings retired	(6,878)	(6,764)
Net cash provided by (used in) financing activities	(1,157,405)	(1,487,372)
Net increase (decrease) in cash and cash equivalents	(417,891)	(724,738)
Cash and cash equivalents, beginning of period	925,448	1,340,167
Cash and cash equivalents, end of period	\$ 507,557	\$ 615,429
Supplemental schedule of non-cash investing and financing activities:		
Financed sales of other property owned	\$ 3,551	\$ 3,187
Receipt of property in settlement of loans	10,243	28,335
Change in unrealized gains (losses) on investments, net	67	10,711
Employee benefit plans adjustments	(8,173)	(7,256)
Non-cash changes related to interest rate hedging activities:		
Increase (decrease) in bonds and notes	\$ (3,560)	\$ (3,201)
Decrease (increase) in other assets	3,560	3,201
Supplemental information:		
Interest paid	\$ 45,613	\$ 61,294
Taxes paid, net	163	466

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

The FCA considers a non-agency security ineligible if it falls below the AAA/Aaa credit rating criteria and requires System institutions to provide notification to the FCA. Non-agency CMO and ABS securities not rated in the top category by at least one of the NRSROs at March 31, 2013 had a fair value of \$197.7 million and \$27.0 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>	March 31, 2013				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	\$ 4,497,030	\$ 183,860	\$ (1,943)	\$ 4,678,947	2.18%
U.S. Govt. Agency MBS	1,739,744	27,412	(8,234)	1,758,922	1.06
Non-Agency CMOs (a)	232,602	29	(33,424)	199,207	0.56
Asset-Backed Securities (a)	25,008	9,605	(824)	33,789	0.67
Mission Related Investments	47,715	5,083	(1,102)	51,696	5.90
Total	\$ 6,542,099	\$ 225,989	\$ (45,527)	\$ 6,722,561	1.85%

	December 31, 2012				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. GNMA MBS/CMOs	\$ 4,814,556	\$ 198,488	\$ (12,431)	\$ 5,000,613	2.18%
U.S. Govt. Agency MBS	1,621,428	30,002	(7,203)	1,644,227	1.17
Non-Agency 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	\$ 6,756,026	\$ 242,856	\$ (62,462)	\$ 6,936,420	1.90%

(a) Gross unrealized losses include non-credit related other-than-temporary impairment recognized in AOCI of \$23.5 million for Non-Agency CMOs and \$0 million for Asset-Backed Securities.

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

	March 31, 2013				
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
U.S. Govt. Agency MBS	\$ 588,289	\$ 33,285	\$ (1,368)	\$ 620,206	4.49%
Asset-Backed Securities	64,737	1,586	(173)	66,150	1.54
Mission Related Investments	200,740	20,036	(713)	220,063	5.99
Total	\$ 853,766	\$ 54,907	\$ (2,254)	\$ 906,419	4.62%

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

During the first three 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 three months of 2012.

A summary of the contractual maturity, estimated fair value and amortized cost of investment securities at March 31, 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	
(dollars in thousands)	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
U.S. Govt. GNMA MBS/CMOs	\$ —	— %	\$ 71	0.40 %	\$ 7,442	1.31 %	\$ 4,671,434	2.18 %	\$ 4,678,947	2.18 %
U.S. Govt. Agency MBS	60	0.75	11,060	2.40	9,342	1.21	1,738,460	1.05	1,758,922	1.06
Non-Agency CMOs	—	—	—	—	1,550	0.89	197,657	0.56	199,207	0.56
Asset-Backed Securities	—	—	—	—	—	—	33,789	0.67	33,789	0.67
Mission Related Investments	2,001	5.90	993	5.90	—	—	48,702	5.90	51,696	5.90
Total fair value	\$ 2,061	5.75 %	\$ 12,124	2.67 %	\$ 18,334	1.22 %	\$ 6,690,042	1.84 %	\$ 6,772,561	1.85 %
Total amortized cost	\$ 2,061		\$ 11,791		\$ 18,091		\$ 6,510,156		\$ 6,542,099	

Held-to-maturity

<i>(dollars in thousands)</i>	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
		%		%		%		%		%
U.S. Govt. Agency MBS	\$ -	- %	\$ -	- %	\$ 774	4.80 %	\$ 587,515	4.49 %	\$ 588,289	4.49 %
Asset-Backed Securities	917	1.84	30,129	1.61	17,710	1.31	15,981	1.66	64,737	1.54
Mission Related Investments	1,799	5.00	31,303	6.71	20,303	6.06	147,335	5.84	200,740	5.99
Total amortized cost	\$ 2,716	3.93 %	\$ 61,432	4.21 %	\$ 38,787	3.86 %	\$ 750,831	4.69 %	\$ 853,766	4.62 %
Total fair value	\$ 2,759		\$ 65,563		\$ 40,527		\$ 797,570		\$ 906,419	

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.

<i>(dollars in thousands)</i>	March 31, 2013					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	U.S. Govt. GNMA MBS/CMOs	\$ 213,274	\$ (314)	\$ 165,750	\$ (1,629)	\$ 379,024
U.S. Govt. Agency MBS	488,028	(2,403)	409,985	(7,199)	898,013	(9,602)
Non-Agency CMOs	-	-	198,972	(33,424)	198,972	(33,424)
Asset-Backed Securities	3,703	(21)	9,313	(824)	13,016	(845)
Mortgage-Backed Securities	-	-	6,380	(152)	6,380	(152)
Mission Related Investments	19,104	(1,521)	5,509	(294)	24,613	(1,815)
Total	\$ 724,109	\$ (4,259)	\$ 795,909	\$ (43,522)	\$ 1,520,018	\$ (47,781)

<i>(dollars in thousands)</i>	December 31, 2012					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	U.S. Govt. GNMA MBS/CMOs	\$ 318,804	\$ (10,537)	\$ 183,098	\$ (1,894)	\$ 501,902
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 recognized \$1.1 million of credit-related other-than-temporary impairment during the first three months of 2013 in connection with non-agency ABS and CMO securities, 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.

The following are the assumptions used at:

March 31, 2013		
Assumptions Used	Mortgage-backed Securities	Asset-backed Securities
Default rate by range	0.97% to 35.27%	5.35% to 61.89%
Prepayment rate by range	6.70% to 18.08%	4.85% to 14.93%
Loss severity by range	4.06% to 75.36%	60.79% to 100.00%

December 31, 2012		
Assumptions Used	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 three months ended March 31, 2013, net unrealized losses of \$5.7 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 March 31,	
	2013	2012
Cumulative Losses Beginning of Period	\$ 38,217	\$ 36,542
Additions for the amount related to credit loss for which other-than-temporary impairment was not previously recognized	–	–
Additions for the amount related to credit loss for which other-than-temporary impairment was previously recognized	1,118	763
Reductions for increases in expected cash flows	(384)	(342)
Reductions for losses incurred	(422)	(1,447)
Cumulative Losses End of Period	\$ 38,529	\$ 35,516

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>	March 31, 2013	December 31, 2012
Real estate mortgage	\$ 9,881,855	\$ 9,921,750
Production and intermediate-term Agribusiness	7,294,518	7,760,377
Loans to cooperatives	324,031	235,703
Processing and marketing	1,002,540	1,053,247
Farm-related business	377,930	354,039
Total agribusiness	1,704,501	1,642,989
Communication	319,177	319,320
Energy/water and waste disposal	536,565	525,070
Rural residential real estate	2,705,830	2,634,609
Lease receivables	5,980	2,880
Loans to other financial institutions (OFIs)	67,578	60,479
Other (including mission-related)	66,779	61,731
Total Loans	\$ 22,582,783	\$ 22,929,205

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:

	March 31, 2013					
	Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
<i>(dollars in thousands)</i>						
Real estate mortgage	\$ 142,937	\$ 53,374	\$ 90,979	\$ 19,745	\$ 233,916	\$ 73,119
Production and intermediate-term Agribusiness	458,084	203,594	550,240	4,271	1,008,324	207,865
Loans to cooperatives	307,733	–	20,961	–	328,694	–
Processing and marketing	401,725	55,603	548,196	2,802	949,921	58,405
Farm-related business	157,006	560	45,495	796	202,501	1,356
Total agribusiness	866,464	56,163	614,652	3,598	1,481,116	59,761
Communication	332,786	–	–	–	332,786	–
Energy/water and waste disposal	538,655	–	7,121	–	545,776	–
Rural residential real estate	–	–	50	–	50	–
Lease receivables	2,742	–	–	–	2,742	–
Loans to OFIs	–	–	67,578	–	67,578	–
Other (including mission-related)	–	–	4,854	–	4,854	–
Total	\$ 2,341,668	\$ 313,131	\$ 1,335,474	\$ 27,614	\$ 3,677,142	\$ 340,745

	December 31, 2012					
	Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
<i>(dollars in thousands)</i>						
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	\$ 2,209,223	\$ 353,794	\$ 1,205,847	\$ 32,750	\$ 3,415,070	\$ 386,544

The following table presents the contractual maturity distribution of loans by loan type at March 31, 2013 and indicates that approximately 15.90 percent of loans had maturities of less than one year:

<i>(dollars in thousands)</i>	Due less than 1 year	Due 1 through 5 years	Due after 5 years	Total
Real estate mortgage	\$ 721,478	\$ 2,471,019	\$ 6,689,358	\$ 9,881,855
Production and intermediate-term Agribusiness	2,124,443	3,046,819	2,123,256	7,294,518
Loans to cooperatives	72,878	189,068	62,085	324,031
Processing and marketing	336,424	480,598	185,518	1,002,540
Farm-related business	70,830	224,680	82,420	377,930
Total agribusiness	480,132	894,346	330,023	1,704,501
Communication	140,418	118,284	60,475	319,177
Energy/water and waste disposal	61,187	188,507	286,871	536,565
Rural residential real estate	29,473	68,867	2,607,490	2,705,830
Lease receivables	2,948	2,831	201	5,980
Loans to OFIs	21,221	46,357	–	67,578
Other (including mission-related)	9,543	10,237	46,999	66,779
Total Loans	\$ 3,590,843	\$ 6,847,267	\$ 12,144,673	\$ 22,582,783

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:

	March 31, 2013	December 31, 2012		March 31, 2013	December 31, 2012
Real estate mortgage:			Communication:		
Acceptable	89.52%	89.50%	Acceptable	100.00%	100.00%
OAEM	4.96	4.79	OAEM	–	–
Substandard/doubtful/loss	5.52	5.71	Substandard/doubtful/loss	–	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Production and intermediate-term:			Energy/water and waste disposal:		
Acceptable	86.27%	86.80%	Acceptable	99.93%	99.99%
OAEM	5.13	5.09	OAEM	0.01	0.01
Substandard/doubtful/loss	8.60	8.11	Substandard/doubtful/loss	0.06	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Agribusiness:			Rural residential real estate:		
Loans to cooperatives:			Acceptable	98.80%	98.81%
Acceptable	97.58%	96.45%	OAEM	0.40	0.45
OAEM	1.94	2.90	Substandard/doubtful/loss	0.80	0.74
Substandard/doubtful/loss	0.48	0.65		<u>100.00%</u>	<u>100.00%</u>
	<u>100.00%</u>	<u>100.00%</u>			
Processing and marketing:			Lease receivables:		
Acceptable	90.45%	89.13%	Acceptable	96.60%	91.42%
OAEM	2.50	3.05	OAEM	2.89	7.47
Substandard/doubtful/loss	7.05	7.82	Substandard/doubtful/loss	0.51	1.11
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Farm-related business:			Loans to OFIs:		
Acceptable	96.57%	94.45%	Acceptable	100.00%	100.00%
OAEM	1.23	3.10	OAEM	–	–
Substandard/doubtful/loss	2.20	2.45	Substandard/doubtful/loss	–	–
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
Total Agribusiness:			Other (including mission-related):		
Acceptable	93.16%	91.32%	Acceptable	86.38%	86.61%
OAEM	2.11	3.04	OAEM	–	–
Substandard/doubtful/loss	4.73	5.64	Substandard/doubtful/loss	13.62	13.39
	<u>100.00%</u>	<u>100.00%</u>		<u>100.00%</u>	<u>100.00%</u>
			Total Loans:		
			Acceptable	90.27%	90.19%
			OAEM	4.04	4.07
			Substandard/doubtful/loss	5.69	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:

	March 31, 2013					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
<i>(dollars in thousands)</i>						
Real estate mortgage	\$ 76,291	\$ 160,453	\$ 236,744	\$ 9,724,900	\$ 9,961,644	\$ 1,300
Production and intermediate-term	34,175	153,150	187,325	7,165,047	7,352,372	94
Agribusiness						
Loans to cooperatives	99	–	99	325,329	325,428	–
Processing and marketing	6	36,929	36,935	970,056	1,006,991	–
Farm-related business	4,394	151	4,545	374,985	379,530	–
Total agribusiness	4,499	37,080	41,579	1,670,370	1,711,949	–
Communication	–	19	19	319,396	319,415	19
Energy/water and waste disposal	–	–	–	538,800	538,800	–
Rural residential real estate	52,541	9,128	61,669	2,655,575	2,717,244	3,426
Lease receivables	–	31	31	5,953	5,984	–
Loans to OFIs	–	–	–	67,673	67,673	–
Other (including mission-related)	74	7,692	7,766	59,644	67,410	543
Total	\$ 167,580	\$ 367,553	\$ 535,133	\$ 22,207,358	\$ 22,742,491	\$ 5,382

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	<u>\$ 174,796</u>	<u>\$ 337,834</u>	<u>\$ 512,630</u>	<u>\$ 22,582,746</u>	<u>\$ 23,095,376</u>	<u>\$ 3,725</u>

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>	March 31, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	\$ 260,690	\$ 266,827
Production and intermediate-term Agribusiness	248,737	249,086
Loans to cooperatives	1,543	1,545
Processing and marketing	40,695	40,526
Farm-related business	4,181	4,575
Total agribusiness	46,419	46,646
Energy/water and waste disposal	343	-
Rural residential real estate	12,615	11,364
Lease receivables	30	32
Other (including mission-related)	7,113	6,953
Total nonaccrual loans	<u>\$ 575,947</u>	<u>\$ 580,908</u>
Accruing restructured loans:		
Real estate mortgage	\$ 54,021	\$ 50,338
Production and intermediate-term Agribusiness	51,255	50,269
Farm-related business	851	867
Total agribusiness	851	867
Rural residential real estate	2,041	1,793
Total accruing restructured loans	<u>\$ 108,168</u>	<u>\$ 103,267</u>
Accruing loans 90 days or more past due:		
Real estate mortgage	\$ 1,300	\$ 786
Production and intermediate-term Communication	94	148
Rural residential real estate	19	-
Other (including mission-related)	3,426	2,313
Total accruing loans 90 days or more past due	<u>\$ 5,382</u>	<u>\$ 3,725</u>
Total nonperforming loans	<u>\$ 689,497</u>	<u>\$ 687,900</u>
Other property owned	103,218	109,997
Total nonperforming assets	<u>\$ 792,715</u>	<u>\$ 797,897</u>
Nonaccrual loans as a percentage of total loans	2.55%	2.53%
Nonperforming assets as a percentage of total loans and other property owned	3.49%	3.46%
Nonperforming assets as a percentage of capital	<u>15.67%</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>	March 31, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	\$ 177,770	\$ 200,430
Past due	398,177	380,478
Total impaired nonaccrual loans	<u>575,947</u>	<u>580,908</u>
Impaired accrual loans:		
Restructured	108,168	103,267
90 days or more past due	5,382	3,725
Total impaired accrual loans	<u>113,550</u>	<u>106,992</u>
Total impaired loans	<u>\$ 689,497</u>	<u>\$ 687,900</u>

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

<i>(dollars in thousands)</i>	March 31, 2013			Quarter Ended March 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Impaired Loans	Interest Income Recognized on Impaired Loans
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 123,639	\$ 154,037	\$ 28,866	\$ 123,235	\$ 390
Production and intermediate-term Agribusiness	150,810	173,048	49,911	149,857	454
Processing and marketing	26,153	26,798	8,755	26,153	53
Farm-related business	4,075	4,284	657	4,044	15
Total agribusiness	<u>30,228</u>	<u>31,082</u>	<u>9,412</u>	<u>30,197</u>	<u>68</u>
Energy/water and waste disposal	345	345	345	345	1
Rural residential real estate	6,312	8,248	1,685	6,268	24
Other (including mission-related)	6,543	6,360	457	6,942	24
Total	<u>\$ 317,877</u>	<u>\$ 373,120</u>	<u>\$ 90,676</u>	<u>\$ 316,844</u>	<u>\$ 961</u>
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 192,372	\$ 250,474	\$ —	\$ 192,337	\$ 717
Production and intermediate-term Agribusiness	149,276	200,638	—	146,531	550
Loans to cooperatives	1,543	1,928	—	1,542	5
Processing and marketing	14,542	21,427	—	15,453	51
Farm-related business	957	1,869	—	950	4
Total agribusiness	<u>17,042</u>	<u>25,224</u>	<u>—</u>	<u>17,945</u>	<u>60</u>
Communication	19	19	—	35	—
Energy/water and waste disposal	(2)	—	—	(2)	—
Rural residential real estate	11,770	13,828	—	11,969	97
Lease receivables	30	82	—	30	—
Other (including mission-related)	1,113	1,111	—	1,154	4
Total	<u>\$ 371,620</u>	<u>\$ 491,376</u>	<u>\$ —</u>	<u>\$ 369,999</u>	<u>\$ 1,428</u>
Total impaired loans:					
Real estate mortgage	\$ 316,011	\$ 404,511	\$ 28,866	\$ 315,572	\$ 1,107
Production and intermediate-term Agribusiness	300,086	373,686	49,911	296,388	1,004
Loans to cooperatives	1,543	1,928	—	1,542	5
Processing and marketing	40,695	48,225	8,755	41,606	104
Farm-related business	5,032	6,153	657	4,994	19
Total agribusiness	<u>47,270</u>	<u>56,306</u>	<u>9,412</u>	<u>48,142</u>	<u>128</u>
Communication	19	19	—	35	—
Energy/water and waste disposal	343	345	345	343	1
Rural residential real estate	18,082	22,076	1,685	18,237	121
Lease receivables	30	82	—	30	—
Other (including mission-related)	7,656	7,471	457	8,096	28
Total	<u>\$ 689,497</u>	<u>\$ 864,496</u>	<u>\$ 90,676</u>	<u>\$ 686,843</u>	<u>\$ 2,389</u>

<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
Impaired loans with a related allowance for credit losses:					
Real estate mortgage	\$ 110,633	\$ 140,657	\$ 29,578	\$ 121,051	\$ 2,703
Production and intermediate-term Agribusiness	149,996	190,301	50,839	150,439	3,476
Processing and marketing	25,846	26,797	8,755	16,164	487
Farm-related business	4,407	5,260	770	5,321	131
Total agribusiness	30,253	32,057	9,525	21,485	618
Rural residential real estate	5,309	7,764	1,433	5,508	157
Other (including mission-related)	6,409	6,360	627	2,603	211
Total	\$ 302,600	\$ 377,139	\$ 92,002	\$ 301,086	\$ 7,165
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	\$ 207,318	\$ 269,787	\$ —	\$ 207,079	\$ 6,551
Production and intermediate-term 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
Total impaired loans:					
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/Water and Waste Disposal	Rural Residential Real Estate	Lease Receivables	Other Loans (including mission related)	Total
Allowance for credit losses:									
Balance at December 31, 2012	\$ 76,832	\$ 110,409	\$ 18,990	\$ 863	\$ 1,364	\$ 3,968	\$ 40	\$ 1,034	\$ 213,500
Charge-offs	(4,427)	(3,233)	(9)	—	—	(64)	—	—	(7,733)
Recoveries	1,379	1,057	33	—	—	192	—	47	2,708
Provision for loan losses	180	5,196	(1,470)	97	444	212	11	230	4,900
Adjustment due to merger	—	—	—	—	—	—	—	—	—
Other	170	—	—	—	(61)	—	—	(109)	—
Balance at March 31, 2013	\$ 74,134	\$ 113,429	\$ 17,544	\$ 960	\$ 1,747	\$ 4,308	\$ 51	\$ 1,202	\$ 213,375
Balance at December 31, 2011	\$ 65,951	\$ 89,155	\$ 14,050	\$ 482	\$ 672	\$ 4,015	\$ 20	\$ 631	\$ 174,976
Charge-offs	(13,813)	(5,084)	163	—	—	(331)	—	(247)	(19,312)
Recoveries	4,015	1,858	5	—	—	48	—	—	5,926
Provision for loan losses	11,037	3,141	(392)	68	16	453	(6)	273	14,590
Other	(1,742)	1,872	(38)	—	—	(92)	—	—	—
Balance at March 31, 2012	\$ 65,448	\$ 90,942	\$ 13,788	\$ 550	\$ 688	\$ 4,093	\$ 14	\$ 657	\$ 176,180
Loans individually evaluated for impairment	\$ 28,494	\$ 49,860	\$ 9,412	\$ —	\$ 345	\$ 1,614	\$ —	\$ 457	\$ 90,182
Loans collectively evaluated for impairment	45,268	63,518	8,132	960	1,402	2,623	51	745	122,699
Loans acquired with deteriorated credit quality	372	51	—	—	—	71	—	—	494
Balance at March 31, 2013	\$ 74,134	\$ 113,429	\$ 17,544	\$ 960	\$ 1,747	\$ 4,308	\$ 51	\$ 1,202	\$ 213,375
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
Recorded investment in loans outstanding:									
Loans individually evaluated for impairment	\$ 375,988	\$ 261,815	\$ 51,681	\$ —	\$ 345	\$ 2,215,229	\$ —	\$ —	\$ 2,905,058
Loans collectively evaluated for impairment	9,569,927	7,084,510	1,660,273	319,415	538,455	500,700	5,984	135,083	19,814,347
Loans acquired with deteriorated credit quality	15,729	6,047	(5)	—	—	1,315	—	—	23,086
Ending balance at March 31, 2013	\$ 9,961,644	\$ 7,352,372	\$ 1,711,949	\$ 319,415	\$ 538,800	\$ 2,717,244	\$ 5,984	\$ 135,083	\$ 22,742,491
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 March 31, 2013				
Pre-modification Outstanding Recorded Investment				
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	\$ 2,736	\$ 10,248	\$ —	\$ 12,984
Production and intermediate-term	—	6,724	642	7,366
Rural residential real estate	130	—	—	130
Total	\$ 2,866	\$ 16,972	\$ 642	\$ 20,480

Three months ended March 31, 2013					Effects of Modification	
Post-modification Outstanding Recorded Investment						
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	\$ 2,738	\$ 10,123	\$ —	\$ 12,861	\$ 1	\$ —
Production and intermediate-term	—	6,808	642	7,450	316	—
Rural residential real estate	131	—	—	131	—	—
Total	\$ 2,869	\$ 16,931	\$ 642	\$ 20,442	\$ 317	\$ —

Three months ended March 31, 2012				
Pre-modification Outstanding Recorded Investment				
	Interest Concessions	Principal Concessions	Other Concessions	Total
Troubled debt restructurings:				
Real estate mortgage	\$ 4,000	\$ 16,181	\$ 34	\$ 20,215
Production and intermediate-term Agribusiness	1,080	12,304	—	13,384
Farm related business	—	233	—	233
Rural residential real estate	—	165	78	243
Total	\$ 5,080	\$ 28,883	\$ 112	\$ 34,075

Three months ended March 31, 2012					Effects of Modification	
Post-modification Outstanding Recorded Investment						
	Interest Concessions	Principal Concessions	Other Concessions	Total	Provisions	Charge-offs
Troubled debt restructurings:						
Real estate mortgage	\$ 3,993	\$ 16,039	\$ 19	\$ 20,051	\$ 859	\$ —
Production and intermediate-term Agribusiness	1,085	12,356	—	13,441	1,099	(2)
Farm related business	—	233	—	233	—	—
Rural residential real estate	—	169	78	247	105	(64)
Total	\$ 5,078	\$ 28,797	\$ 97	\$ 33,972	\$ 2,063	\$ (66)

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 March 31,	
	2013	2012
Defaulted troubled debt restructurings:		
Real estate mortgage	\$ 1,594	\$ 1,819
Production and intermediate-term Agribusiness	4,316	17,474
Processing and marketing	10,258	—
Farm-related business	—	1
Total	\$ 16,168	\$ 19,294

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Real estate mortgage	\$ 135,580	\$ 128,399	\$ 81,559	\$ 78,061
Production and intermediate-term Agribusiness	119,637	115,933	68,382	65,664
Processing and marketing	26,124	24,930	26,124	24,930
Farm-related business	4,391	4,449	3,540	3,582
Total agribusiness	30,515	29,379	29,664	28,512
Rural residential real estate	3,732	3,583	1,691	1,790
Total Loans	\$ 289,464	\$ 277,294	\$ 181,296	\$ 174,027

Additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings was \$3.2 million and \$17.4 million at March 31, 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 March 31, 2013, were as follows.

<i>(dollars in thousands)</i>	Loans Acquired During	
	2012	2011
Real estate mortgage	\$ 2,613	\$ 13,116
Production and intermediate-term Agribusiness	2,933	3,114
Farm-related business	—	(5)
Total agribusiness	—	(5)
Rural residential real estate	142	1,173
Total Loans	\$ 5,688	\$ 17,398

At March 31, 2013, the allowance for loan losses related to these loans was \$494 thousand compared with \$601 thousand at December 31, 2012. During the three month period ended March 31, 2013, provision expense on these loans was an expense reversal of \$613 thousand compared with expense of \$260 thousand for the three month periods ended March 31, 2012. See above for a summary of changes in the total allowance for loan losses for the period ended March 31, 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>	2012	2011
Real estate mortgage	\$ 3,488	\$ 57,735
Production and intermediate-term Agribusiness	4,105	18,862
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 fair value hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The classifications of the District's assets and liabilities within the fair value hierarchy are as follows:

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. Level 1 assets and liabilities could include investment securities and derivative contracts that are traded in an active exchange market, in addition to certain U.S. Treasury securities that are highly-liquid and are actively traded in over-the-counter markets.

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

For cash and cash equivalents, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Level 2 assets and liabilities could include investment securities that are traded in active, non-exchange markets and derivative contracts that are traded in active, over-the-counter markets.

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

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

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

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

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

Systemwide Debt Securities are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted

value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the Treasury yield curve and an estimated yield-spread relationship between Systemwide Debt Securities and Treasury securities. An appropriate yield-spread is estimated, taking into consideration selling group member (banks and securities dealers) yield indications, observed new GSE debt security pricing, and pricing levels in the related U.S. Dollar (USD) interest rate swap market.

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

<i>(dollars in thousands)</i>	Asset- Backed Securities	Non- Agency CMOs	Standby Letters of Credit	Mission Related Investments
Balance at January 1, 2013	\$ 33,390	\$ 204,699	\$ 2,046	\$ 53,491
Total gains or (losses) realized/unrealized:				
Included in earnings	-	(1,118)	-	-
Included in other comprehensive income	1,609	8,086	-	(1,868)
Purchases	-	-	-	116
Sales	-	-	-	-
Issuances	-	-	-	-
Settlements	(1,210)	(12,460)	(180)	(43)
Transfers in and/or out of Level 3	-	-	-	-
Balance at March 31, 2013	<u>\$ 33,789</u>	<u>\$ 199,207</u>	<u>\$ 1,866</u>	<u>\$ 51,696</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	-	(750)	-	-
Included in other comprehensive income	(341)	3,052	-	-
Purchases	-	-	-	-
Sales	-	-	-	-
Issuances	-	-	30	-
Settlements	(1,104)	(10,680)	(193)	-
Transfers in and/or out of Level 3	-	-	-	51,884
Balance at March 31, 2012	<u>\$ 28,879</u>	<u>\$ 233,378</u>	<u>\$ 2,910</u>	<u>\$ 51,884</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	\$ 51,696	Discounted cash flow	Risk adjusted spread	0.01% – 11.42%
Non-agency securities	\$ 232,996	Vendor priced	**	
Impaired loans and other property owned	\$ 711,277	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 Three Months Ended March 31, 2013						
<i>(dollars in thousands)</i>	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Investments available-for-sale:						
U.S. Govt. GNMA MBS/CMOs	\$ 4,678,947	\$ —	\$ 4,678,947	\$ —	\$ 4,678,947	
U.S. Govt. Agency MBS	1,758,922	—	1,758,922	—	1,758,922	
Non-Agency CMOs	199,207	—	—	199,207	199,207	
Asset-backed securities	33,789	—	—	33,789	33,789	
Mission Related Investments	51,696	—	—	51,696	51,696	
Total investments available-for-sale	6,722,561	—	6,437,869	284,692	6,722,561	
Federal funds sold, securities purchased under resale agreements, and other	75,881	—	75,881	—	75,881	
Interest rate swaps and other derivative instruments	37,823	—	37,823	—	37,823	
Assets held in trust funds	15,374	15,374	—	—	15,374	
Recurring Assets	\$ 6,851,639	\$ 15,374	\$ 6,551,573	\$ 284,692	\$ 6,851,639	
Liabilities:						
Interest rate swaps and other derivative instruments	\$ —	\$ —	\$ —	\$ —	\$ —	
Collateral liabilities	—	—	—	—	—	
Standby letters of credit	1,866	—	—	1,866	1,866	
Recurring Liabilities	\$ 1,866	\$ —	\$ —	\$ 1,866	\$ 1,866	
Nonrecurring Measurements						
Assets:						
Impaired loans	\$ 598,821	\$ —	\$ —	\$ 598,821	\$ 598,821	\$ (3,699)
Other property owned	103,218	—	—	112,456	112,456	(1,712)
Nonrecurring Assets	\$ 702,039	\$ —	\$ —	\$ 711,277	\$ 711,277	\$ (5,411)
Other Financial Instruments						
Assets:						
Cash	\$ 431,676	\$ 431,676	\$ —	\$ —	\$ 431,676	
Investments held to maturity	853,766	—	686,356	220,063	906,419	
Loans	21,785,126	—	—	22,024,378	22,024,378	
Other investments	80,905	—	—	82,983	82,983	
Other Assets	\$ 23,151,473	\$ 431,676	\$ 686,356	\$ 22,327,424	\$ 23,445,456	
Liabilities:						
Systemwide debt securities	\$ 25,422,433	\$ —	\$ —	\$ 25,482,226	\$ 25,482,226	
Other Liabilities	\$ 25,422,433	\$ —	\$ —	\$ 25,482,226	\$ 25,482,226	

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

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 \$199.005 billion at March 31, 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:

(dollars in thousands)	For the three months ended March 31,	
	2013	2012
Pension	\$ 12,390	\$ 11,798
401k	1,856	1,715
Other postretirement benefits	2,523	2,049
Total	\$ 16,769	\$ 15,562

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>	Actual YTD Through 3/31/13	Projected Contributions for Remainder of 2013	Projected Total Contributions 2013
Pensions	\$ 233	\$ 58,823	\$ 59,056
Other postretirement benefits	1,731	5,649	7,380
Total	<u>\$ 1,964</u>	<u>\$ 64,472</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, allow it to diversify sources of funding, or alter interest rate exposures arising from mismatches between assets and liabilities. Under these arrangements, the District agrees with other parties to exchange, at specified intervals, payment streams calculated on a specified notional principal amount, with at least one stream based on a specified floating rate index.

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

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

The primary types of derivative instrument used and the amount of activity for the periods presented is summarized in the following table:

Notional Amounts <i>(dollars in millions)</i>	March 31, 2013		December 31, 2012	
	Receive- Fixed Swaps	Forward Contracts	Receive- Fixed Swaps	Forward Contracts
Balance at beginning of period	\$ 360	\$ —	\$ 535	\$ 66
Additions	—	—	—	542
Maturities/amortization	(50)	—	(175)	(608)
Terminations	—	—	—	—
Balance at end of period	<u>\$ 310</u>	<u>\$ —</u>	<u>\$ 360</u>	<u>\$ —</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 March 31, 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>	March 31, 2013	December 31, 2012
Estimated Gross Credit Risk	\$37.8	\$41.4
Percent of Notional	12.20%	11.50%
Cash Collateral Held <i>(on balance sheet)</i>	\$-	\$-
Securities Collateral Held <i>(off balance sheet)</i>	\$15.8	\$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 three months ended March 31, 2013 was \$3.6 million, while the amount of the gain on the Systemwide Debt Securities was \$3.6 million. The amount of the loss on interest rate swaps recognized in interest expense for the three months ended March 31, 2012 was \$3.5 million, while the amount of the gain on the Systemwide Debt Securities was \$3.5 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 March 31, 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 at March 31, 2013 and December 31, 2012:

<i>(dollars in thousands)</i>	Balance Sheet Classification – Assets	3/31/13 Fair Value	Balance Sheet Classification - Liabilities	3/31/13 Fair Value
Derivatives designated as hedging instruments:				
Receive-fixed swaps	Other Assets	\$ 37,823	Other Liabilities	\$ –
Forward contracts	Other Assets	–	Other Liabilities	–
Total		\$ 37,823		\$ –

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

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
Derivatives – Fair Value Hedging Relationships:			
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
Derivatives – Cash Flow Hedging Relationships:								
Firm Commitments	\$ –	\$ 803	Interest Income	\$ 382	\$ 148	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.

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 December 31, 2012	\$ 180,394	\$ 1,514	\$ (395,410)	\$ (213,502)
Other comprehensive income before reclassifications	6,541	—	—	6,541
Amounts reclassified from AOCI	(6,474)	(382)	8,173	1,317
Net current period other comprehensive income	67	(382)	8,173	7,858
Balance at March 31, 2013	\$ 180,461	\$ 1,132	\$ (387,237)	\$ (205,644)
Balance at December 31, 2011	\$ 139,367	\$ (5,566)	\$ (355,049)	\$ (221,248)
Other comprehensive income before reclassifications	9,949	803	—	10,752
Amounts reclassified from AOCI	762	(148)	7,256	7,870
Net current period other comprehensive income	10,711	655	7,256	18,622
Balance at March 31, 2012	\$ 150,078	\$ (4,911)	\$ (347,793)	\$ (202,626)

<i>(dollars in thousands)</i>	Reclassifications Out of Accumulated Other Comprehensive Income <i>(b)</i>		
	For the three months ended March 31,		
	2013	2012	Income Statement Line Item
Investment Securities:			
Sales gains & losses	\$ 7,592	\$ —	Gains (losses) on investments, net
Holding gains & losses	(1,118)	(762)	Net other-than-temporary impairment
Net amounts reclassified	6,474	(762)	
Cash Flow Hedges:			
Interest income	382	148	See footnote 7.
Net amounts reclassified	382	148	
Defined Benefit Pension Plans:			
Periodic pension costs	(8,173)	(7,256)	See footnote 6.
Net amounts reclassified	(8,173)	(7,256)	
Total reclassifications for period	\$ (1,317)	\$ (7,870)	

(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

<i>(dollars in thousands)</i>	March 31, 2013					
	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	\$ 37,823	\$ —	\$ 37,823	\$ (15,791)	\$ —	\$ 22,032
Reverse repurchase and similar arrangements	75,881	—	75,881	(75,881)	—	—
Total	\$ 113,704	\$ —	\$ 113,704	\$ (91,672)	\$ —	\$ 22,032

December 31, 2012						
<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	Gross Amounts Not Offset 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)	—	—
Total	<u>\$ 190,973</u>	<u>\$ —</u>	<u>\$ 190,973</u>	<u>\$ (169,140)</u>	<u>\$ —</u>	<u>\$ 21,833</u>

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>	3/31/13	12/31/12
	<i>(unaudited)</i>	<i>(audited)</i>
Cash, cash equivalents and investment securities	\$ 7,897,139	\$ 8,357,576
Loans	19,547,516	20,209,251
Less: allowance for loan losses	44,859	44,539
Net loans	<u>19,502,657</u>	<u>20,164,712</u>
Other assets	342,765	368,259
Total assets	<u>\$ 27,742,561</u>	<u>\$ 28,890,547</u>
Bonds and notes	\$ 25,220,639	\$ 26,286,758
Other liabilities	106,971	305,559
Total liabilities	<u>25,327,610</u>	<u>26,592,317</u>
Perpetual preferred stock	275,250	275,250
Capital stock and participation certificates	327,043	332,705
Additional paid-in-capital	36,580	36,580
Retained earnings	1,602,965	1,482,227
Accumulated other comprehensive income (loss)	173,113	171,468
Total shareholders' equity	<u>2,414,951</u>	<u>2,298,230</u>
Total liabilities and equity	<u>\$ 27,742,561</u>	<u>\$ 28,890,547</u>

Statements of Income Data		
<i>(dollars in thousands)</i>	For the three months ended March 31,	
	2013	2012
	<i>(unaudited)</i>	
Interest income	\$ 187,382	\$ 212,457
Interest expense	47,098	56,219
Net interest income	140,284	156,238
Provision for loan losses	334	(2,721)
Net interest income after provision for loan losses	139,950	158,959
Noninterest expense, net	(18,762)	(35,956)
Net income	<u>\$ 121,188</u>	<u>\$ 123,003</u>

NOTE 12 — REGULATORY ENFORCEMENT MATTERS

At March 31, 2013, the FCA had entered into written supervisory agreements with four District Associations having combined assets of approximately \$2.850 billion. Those agreements require the four District Associations to take corrective actions with respect to specific areas of their operations. These enforcement actions are not expected to have a significant impact on the District's financial condition or results of operations.

NOTE 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:

Consolidation of Assets Acquired and Liabilities Assumed at July 1, 2012					
<i>(dollars in thousands)</i>	Chattanooga	Acquisition Adjustment	Acquisition Values	Jackson Purchase	River Valley
Assets					
Cash	\$ 197	\$ –	\$ 197	\$ 958	\$ 1,155
Investment securities:					
Held to maturity	–	–	–	1,793	1,793
Loans	156,489	(469)	156,020	270,479	426,499
Less: allowance for loan losses	(1,409)	1,409	–	(2,714)	(2,714)
Net loans	155,080	940	156,020	267,765	423,785
Loans held for sale	–	–	–	139	139
Other investments	38	2	40	1,180	1,220
Accrued interest receivable	1,147	–	1,147	2,876	4,023
Investments in other Farm Credit institutions	5,985	–	5,985	5,280	11,265
Premises and equipment, net	709	1,515	2,224	2,708	4,932
Other property owned	4,382	–	4,382	165	4,547
Due from AgFirst Farm Credit Bank	647	(57)	590	1,175	1,765
Other assets	145	–	145	719	864
Total assets	\$ 168,330	\$ 2,400	\$ 170,730	\$ 284,758	\$ 455,488
Liabilities					
Notes payable to AgFirst Farm Credit Bank	\$ 135,322	\$ 952	\$ 136,274	\$ 226,887	\$ 363,161
Subordinated debt payable to other Farm Credit Institutions	2,500	140	2,640	–	2,640
Accrued interest payable	330	–	330	471	801
Patronage refund payable	62	–	62	20	82
Advanced conditional payments	–	–	–	5,894	5,894
Other liabilities	1,981	–	1,981	3,397	5,378
Total liabilities	140,195	1,092	141,287	236,669	377,956
Commitments and contingencies					
Members' Equity					
Capital stock and participation certificates	3,163	–	3,163	2,061	5,224
Additional paid in capital	–	15,817	15,817	–	15,817
Retained earnings					
Allocated	10,463	–	10,463	20,218	30,681
Unallocated	14,509	(14,509)	–	25,810	25,810
Total members' equity	28,135	1,308	29,443	48,089	77,532
Total liabilities and members' equity	\$ 168,330	\$ 2,400	\$ 170,730	\$ 284,758	\$ 455,488

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 March 31, 2013, those assets had a net book value of \$102.2 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 March 31, 2013 this amount increased to \$10.1 million of allocated stock and the Bank redeemed \$876 thousand in purchased stock.

The high risk asset pool is expected to continue experiencing additional losses. It is probable that the first two levels of financial assistance will 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 March 31, 2013 and additional assistance in the future is also not expected to 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, except as described below, there are none requiring disclosure through May 9, 2013, which is the date the financial statements were issued.

On April 15, 2013, the AgFirst Board of Directors gave final approval to exercise redemption and cancellation rights on the entire \$150.0 million of Perpetual Non-cumulative Preferred Stock issued October 14, 2003. The stock will be redeemed May 15, 2013 at its par value together with accrued and unpaid dividends.