Central Kentucky Agricultural Credit Association

FIRST QUARTER 2013

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CERTIFICATION

The undersigned certify that we have reviewed the March 31, 2013 quarterly report of Central Kentucky Agricultural Credit Association, 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.

James W. Caldwell
Chief Executive Officer

Marcus G. Barnett
Chief Financial Officer

James A. Lyons
Chairman of the Board

May 9, 2013

Central Kentucky Agricultural Credit Association

Report on Internal Control Over Financial Reporting

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

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

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

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

James W. Caldwell
Chief Executive Officer

Marcus G. Barnett
Chief Financial Officer

May 9, 2013

Central Kentucky Agricultural Credit Association

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

(dollars in thousands)

The following commentary reviews the financial condition and results of operations of Central Kentucky Agricultural Credit Association (the Association) for the period ended March 31, 2013. These comments should be read in conjunction with the accompanying consolidated financial statements, notes to the consolidated financial statements and the 2012 Annual Report of the Association. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans. The Association's loan portfolio is diversified over a range of agricultural commodities in our region. The predominate enterprises are beef cattle and thoroughbred horses. Overall, the outlook for the beef cattle industry is positive due in large part to favorable cattle numbers and strong prices. Industry concerns are centered on the continuing impact that the downturn in the general economy has on demand and grain prices. The thoroughbred horse industry outlook continues to be guarded due to negative effects from the downturn in the general economy. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm employment in the area, significantly reduces the level of dependency on a given commodity.

The gross loan volume of the Association as of March 31, 2013 was $333,891, an increase of $686 as compared to $333,205 at December 31, 2012. Net loans outstanding at March 31, 2013 were $330,099 as compared to $329,445 at December 31, 2012. Net loans accounted for 93.68 percent of total assets at March 31, 2013, as compared to 90.90 percent of total assets at December 31, 2012.

The increase in gross and net loan volume during the reporting period is primarily due to growth in real estate and production loans and a reduction in agricultural lending activity among other lenders in the region.

There is an inherent risk in the extension of any type of credit. However, portfolio credit quality continues to be maintained at an acceptable level and credit administration remains satisfactory. Nonaccrual loans increased from $6,361 at December 31, 2012, to $8,016 at March 31, 2013. This increase is primarily due to placing a few larger loans into nonaccrual status.

Association management maintains an allowance for loan losses in an amount considered sufficient to absorb possible losses in the loan portfolio based on current and expected future conditions. The $3,792 allowance for loan losses at March 31, 2013 reflected a $32 increase from December 31, 2012, and was considered by management to be adequate to cover possible losses.

RESULTS OF OPERATIONS

For the three months ended March 31, 2013

Net income for the three months ended March 31, 2013 totaled $1,549, as compared to $1,545 for the same period in 2012. Net interest income increased $70 for the three months ended March 31, 2013 as compared to the same period in 2012. The Association recorded no provision for loan losses for the three months ended March 31, 2013, as compared to no provision for loan losses_ for the same period in 2012.

At March 31, 2013, interest income on accruing loans decreased $76 compared to March 31, 2012. The Association recorded nonaccrual income of $18 for the three months ended March 31, 2013, as compared to $92 for the same period in 2012. Interest income from tobacco successor-in-interest contract (SIIC) investments was $130 for the three months ended March 31, 2013, as compared to $167 for the same period in 2012. Interest expense decreased $183 for the three months ended March 31, 2013 as compared to the comparable period of 2012. Movement in interest income and expense is primarily attributed to a very slight increase in loan volume, and an early-year reduction in the Association's direct note from receipt of patronage from the AgFirst Farm Credit Bank (Bank) and receipt of a yearly paydown on the tobacco SIIC investments. Noninterest income for the three months ended March 31, 2013 totaled $764, as compared to $701 for the same period of 2012, an increase of $63. Increase within the Noninterest income category was primarily attributed to an increase in fee income associated with mortgage loans sold into the secondary mortgage market, and increased income from equity in earnings of the Bank.

Noninterest expense for the three months ended March 31, 2013 increased $109 compared to the same period of 2012. The increase is due primarily to an increase in employee salary and benefits, and an increase in Farm Credit System Insurance Fund premiums. The Association recorded a provision for income taxes of $20 for the three months ended March 31, 2013, as compared to no provision for income taxes for the same period in 2012.

FUNDING SOURCES

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement. The General Financing Agreement utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The funds are advanced by the Bank to the Association in the form of notes payable. The notes payable are segmented into variable rate and fixed rate sections. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. The total notes payable to the Bank at March 31, 2013 was $299,277 as compared to $309,630 at December 31, 2012. The decrease during the period is primarily attributed to a very slight increase in loan volume, offset somewhat by the receipt of patronage from the Bank and a scheduled yearly payment received on SIIC investments.

CAPITAL RESOURCES

Total members' equity at March 31, 2013 increased to $48,557 from the December 31, 2012 total of $47,011. The increase is primarily attributed to the Association's increase in retained earnings as a result of income recorded for the three months ended March 31, 2013. Total capital stock and participation certificates were $6,657 on March 31, 2013, compared to $6,590 on December 31, 2012. This increase is attributed to member purchases of equities in relation to increases in loan volume.

Farm Credit Administration (FCA) regulations require all Farm Credit institutions to maintain minimum permanent capital, total surplus and core surplus ratios. These ratios are calculated by dividing the Association's permanent capital, total surplus and core surplus as defined in FCA regulations, by a risk-adjusted asset base. As of March 31, 2013, the Association's permanent capital ratio was 15.21 percent and the total surplus ratio and core surplus ratio were 13.80 percent and 13.80 percent, respectively. All three ratios were well above the minimum regulatory ratios of 7.00 percent for permanent capital and total surplus ratios and 3.50 percent for the core surplus ratio.

REGULATORY MATTERS

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

NOTE: Shareholder investment in the Association is materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank. Copies of AgFirst's annual and quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or by writing Susanne Caughman, AgFirst Farm Credit Bank, P.O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained at their website, *www.agfirst.com.* Copies of the Association's annual and quarterly reports are also available upon request free of charge by calling 1-859-253-3249, or writing Marcus Barnett, Chief Financial Officer, Central Kentucky Agricultural Credit Association, P.O. Box 1290, Lexington, KY 40588-1290, or accessing the website *www.agcreditonline.com.* The Association prepares a quarterly report within 40 days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Central Kentucky Agricultural Credit Association

Consolidated Balance Sheets

(dollars in thousands)	March 31, 2013	December 31, 2012
	(unaudited)	(audited)
Assets		
Cash	$ 61	$ 1,013
Loans	333,891	333,205
Less: allowance for loan losses	3,792	3,760
Net loans	330,099	329,445
Loans held for sale	692	369
Other investments	6,522	13,185
Accrued interest receivable	3,208	3,949
Investments in other Farm Credit institutions	6,913	6,913
Premises and equipment, net	3,188	3,190
Other property owned	65	88
Due from AgFirst Farm Credit Bank	618	3,148
Other assets	997	1,137
Total assets	$ 352,363	$ 362,437
Liabilities		
Notes payable to AgFirst Farm Credit Bank	$ 299,277	$ 309,630
Accrued interest payable	617	653
Patronage refunds payable	264	1,994
Other liabilities	3,648	3,149
Total liabilities	303,806	315,426
Commitments and contingencies		
Members' Equity		
Capital stock and participation certificates	6,657	6,590
Retained earnings		
Allocated	24,576	24,424
Unallocated	17,324	15,997
Total members' equity	48,557	47,011
Total liabilities and members' equity	$ 352,363	$ 362,437

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

Central Kentucky Agricultural Credit Association

Consolidated Statements of Comprehensive Income

(unaudited)

(dollars in thousands)	For the three months ended March 31, 2013	2012
Interest Income		
Loans	$ 3,949	$ 4,025
Other investments	130	167
Total interest income	4,079	4,192
Interest Expense		
Notes payable to AgFirst Farm Credit Bank	1,804	1,987
Net interest income	2,275	2,205
Provision for loan losses	–	–
Net interest income after provision for loan losses	2,275	2,205
Noninterest Income		
Loan fees	114	78
Patronage refunds from other Farm Credit institutions	618	601
Gains (losses) on sales of rural home loans, net	2	–
Other noninterest income	30	22
Total noninterest income	764	701
Noninterest Expense		
Salaries and employee benefits	1,048	929
Occupancy and equipment	79	88
Insurance Fund premiums	64	31
Other operating expenses	279	313
Total noninterest expense	1,470	1,361
Income before income taxes	1,569	1,545
Provision for income taxes	20	–
Net income	1,549	1,545
Other comprehensive income	–	–
Comprehensive income	$ 1,549	$ 1,545

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

Central Kentucky Agricultural Credit Association

Consolidated Statements of Changes in Members' Equity

(unaudited)

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Total Members' Equity
Balance at December 31, 2011	$ 6,219	$ 19,961	$ 15,708	$ 41,888
Comprehensive income			1,545	1,545
Capital stock/participation certificates issued/(retired), net	129			129
Retained earnings retired		(44)		(44)
Patronage distribution adjustment		108	(147)	(39)
Balance at March 31, 2012	$ 6,348	$ 20,025	$ 17,106	$ 43,479
Balance at December 31, 2012	$ 6,590	$ 24,424	$ 15,997	$ 47,011
Comprehensive income			1,549	1,549
Capital stock/participation certificates issued/(retired), net	67			67
Patronage distribution adjustment		152	(222)	(70)
Balance at March 31, 2013	$ 6,657	$ 24,576	$ 17,324	$ 48,557

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

Notes to the Consolidated Financial Statements

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

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

The accompanying financial statements include the accounts of Central Kentucky Agricultural Credit Association (the Association). A description of the organization and operations of the Association, the significant accounting policies followed, and the financial condition and results of operations as of and for the year ended December 31, 2012, are contained in the 2012 Annual Report to Shareholders. These unaudited first quarter 2013 consolidated financial statements should be read in conjunction with the 2012 Annual Report to Shareholders.

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

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

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

Recently Issued Accounting Pronouncements

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

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

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

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

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

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	March 31, 2013	December 31, 2012
Real estate mortgage	$ 210,332	$ 209,926
Production and intermediate-term	114,582	115,268
Agribusiness		
Processing and marketing	–	(5)
Farm-related business	597	618
Total agribusiness	597	613
Rural residential real estate	8,345	7,360
Lease receivables	35	38
Total Loans	$ 333,891	$ 333,205

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

March 31, 2013	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 29,879	$ –	$ –	$ –	$ 1,137	$ –	$ 31,016
Production and intermediate-term	2,131	10,416	941	–	–	680	3,072	11,096
Agribusiness								
Farm-related business	–	2,098	–	–	–	–	–	2,098
Total agribusiness	–	2,098	–	–	–	–	–	2,098
Total	$ 2,131	$ 42,393	$ 941	$ –	$ –	$ 1,817	$ 3,072	$ 44,210

December 31, 2012	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ –	$ 30,273	$ –	$ –	$ –	$ 897	$ –	$ 31,170
Production and intermediate-term	2,162	10,305	667	–	–	700	2,829	11,005
Agribusiness								
Processing and marketing	–	–	–	–	–	–	–	–
Farm-related business	–	2,111	–	–	–	–	–	2,111
Total agribusiness	–	2,111	–	–	–	–	–	2,111
Total	$ 2,162	$ 42,689	$ 667	$ –	$ –	$ 1,597	$ 2,829	$ 44,286

A significant source of liquidity for the Association is the repayments and maturities of loans. The following table presents the contractual maturity distribution of loans by loan type at March 31, 2013 and indicates that approximately 15.10 percent of loans had maturities of less than one year:

	Due less than 1 year	Due 1 Through 5 years	Due after 5 years	Total
Real estate mortgage	$ 14,714	$ 62,875	$ 132,743	$ 210,332
Production and intermediate-term	34,672	49,975	29,935	114,582
Agribusiness				
Farm-related business	–	355	242	597
Total agribusiness	–	355	242	597
Rural residential real estate	1,026	854	6,465	8,345
Lease receivables	–	–	35	35
Total Loans	$ 50,412	$ 114,059	$ 169,420	$ 333,891

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

	March 31, 2013	December 31, 2012
Real estate mortgage:		
Acceptable	94.17%	94.19%
OAEM	2.07	1.68
Substandard/doubtful/loss	3.76	4.13
	100.00%	100.00%
Production and intermediate-term:		
Acceptable	94.61%	94.56%
OAEM	2.14	2.11
Substandard/doubtful/loss	3.25	3.33
	100.00%	100.00%
Agribusiness:		
Processing and marketing:		
Acceptable	–%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	–%	100.00%
Farm-related business:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%

	March 31, 2013	December 31, 2012
Total agribusiness:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Rural residential real estate:		
Acceptable	95.73%	95.05%
OAEM	0.62	0.72
Substandard/doubtful/loss	3.65	4.23
	100.00%	100.00%
Lease receivables:		
Acceptable	100.00%	100.00%
OAEM	–	–
Substandard/doubtful/loss	–	–
	100.00%	100.00%
Total Loans:		
Acceptable	94.37%	94.35%
OAEM	2.05	1.81
Substandard/doubtful/loss	3.58	3.84
	100.00%	100.00%

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

	March 31, 2013					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 1,042	$ 4,148	$ 5,190	$ 206,852	$ 212,042	$ 385
Production and intermediate-term	851	2,160	3,011	113,042	116,053	36
Agribusiness						
Farm-related business	–	–	–	601	601	–
Total agribusiness	–	–	–	601	601	–
Rural residential real estate	103	–	103	8,265	8,368	–
Lease receivables	–	–	–	35	35	–
Total	$ 1,996	$ 6,308	$ 8,304	$ 328,795	$ 337,099	$ 421

	December 31, 2012					
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment 90 Days or More Past Due and Accruing Interest
Real estate mortgage	$ 2,015	$ 3,851	$ 5,866	$ 206,103	$ 211,969	$ 249
Production and intermediate-term	316	2,252	2,568	114,586	117,154	24
Agribusiness						
Processing and marketing	–	–	–	(5)	(5)	–
Farm-related business	–	–	–	620	620	–
Total agribusiness	–	–	–	615	615	–
Rural residential real estate	–	107	107	7,270	7,377	–
Lease receivables	–	–	–	39	39	–
Total	$ 2,331	$ 6,210	$ 8,541	$ 328,613	$ 337,154	$ 273

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

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

	March 31, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	$ 4,057	$ 3,822
Production and intermediate-term	3,856	2,432
Rural residential real estate	103	107
Total nonaccrual loans	$ 8,016	$ 6,361
Accruing restructured loans:		
Total accruing restructured loans	$ –	$ –
Accruing loans 90 days or more past due:		
Real estate mortgage	$ 385	$ 249
Production and intermediate-term	36	24
Rural residential real estate	–	–
Total accruing loans 90 days or more past due	$ 421	$ 273
Total nonperforming loans	$ 8,437	$ 6,634
Other property owned	65	88
Total nonperforming assets	$ 8,502	$ 6,722
Nonaccrual loans as a percentage of total loans	2.40%	1.91%
Nonperforming assets as a percentage of total loans and other property owned	2.55%	2.02%
Nonperforming assets as a percentage of capital	17.51%	14.30%

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

	March 31, 2013	December 31, 2012
Impaired nonaccrual loans:		
Current as to principal and interest	$ 1,767	$ 415
Past due	6,249	5,946
Total impaired nonaccrual loans	8,016	6,361
Impaired accrual loans:		
Restructured	–	–
90 days or more past due	421	273
Total impaired accrual loans	421	273
Total impaired loans	$ 8,437	$ 6,634

The following tables present additional information concerning impaired loans and related allowance by loan type at period end.

	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	$ 2,204	$ 2,225	$ 48	$ 1,739	$ 8
Production and intermediate-term	1,841	2,133	669	1,452	6
Rural residential real estate	–	–	–	–	–
Total	$ 4,045	$ 4,358	$ 717	$ 3,191	$ 14
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,238	$ 2,172	$ –	$ 1,764	$ 8
Production and intermediate-term	2,051	2,009	–	1,618	7
Rural residential real estate	103	107	–	82	–
Total	$ 4,392	$ 4,288	$ –	$ 3,464	$ 15
Total impaired loans:					
Real estate mortgage	$ 4,442	$ 4,397	$ 48	$ 3,503	$ 16
Production and intermediate-term	3,892	4,142	669	3,070	13
Rural residential real estate	103	107	–	82	–
Total	$ 8,437	$ 8,646	$ 717	$ 6,655	$ 29

	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	$ 2,047	$ 2,044	$ 8	$ 1,403	$ 46
Production and intermediate-term	2,048	2,341	705	1,403	46
Total	$ 4,095	$ 4,385	$ 713	$ 2,806	$ 92
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$ 2,024	$ 2,014	$ –	$ 1,386	$ 46
Production and intermediate-term	408	486	–	281	9
Rural residential real estate	107	108	–	74	3
Total	$ 2,539	$ 2,608	$ –	$ 1,741	$ 58
Total impaired loans:					
Real estate mortgage	$ 4,071	$ 4,058	$ 8	$ 2,789	$ 92
Production and intermediate-term	2,456	2,827	705	1,684	55
Rural residential real estate	107	108	–	74	3
Total	$ 6,634	$ 6,993	$ 713	$ 4,547	$ 150

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 at period end were as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness	Rural Residential Real Estate	Lease Receivables	Total
Allowance for credit losses:						
Balance at December 31, 2012	$ 1,900	$ 1,797	$ 5	$ 58	$ –	$ 3,760
Charge-offs	–	–	–	–	–	–
Recoveries	1	31	–	–	–	32
Provision for loan losses	68	(77)	–	9	–	–
Balance at March 31, 2013	$ 1,969	$ 1,751	$ 5	$ 67	$ –	$ 3,792
Balance at December 31, 2011	$ 1,955	$ 1,293	$ 289	$ 47	$ –	$ 3,584
Charge-offs	–	–	–	–	–	–
Recoveries	–	7	–	–	–	7
Provision for loan losses	(54)	57	(10)	7	–	–
Balance at March 31, 2012	$ 1,901	$ 1,357	$ 279	$ 54	$ –	$ 3,591
Loans individually evaluated for impairment	$ 48	$ 669	$ –	$ –	$ –	$ 717
Loans collectively evaluated for impairment	1,921	1,082	5	67	–	3,075
Balance at March 31, 2013	$ 1,969	$ 1,751	$ 5	$ 67	$ –	$ 3,792
Loans individually evaluated for impairment	$ 8	$ 705	$ –	$ –	$ –	$ 713
Loans collectively evaluated for impairment	1,892	1,092	5	58	–	3,047
Balance at December 31, 2012	$ 1,900	$ 1,797	$ 5	$ 58	$ –	$ 3,760
Recorded investment in loans outstanding:						
Loans individually evaluated for impairment	$ 4,755	$ 4,198	$ –	$ 103	$ –	$ 9,056
Loans collectively evaluated for impairment	207,287	111,855	601	8,265	35	328,043
Ending balance at March 31, 2013	$ 212,042	$ 116,053	$ 601	$ 8,368	$ 35	$ 337,099
Loans individually evaluated for impairment	$ 5,351	$ 2,789	$ –	$ 107	$ –	$ 8,247
Loans collectively evaluated for impairment	206,618	114,365	615	7,270	39	328,907
Ending balance at December 31, 2012	$ 211,969	$ 117,154	$ 615	$ 7,377	$ 39	$ 337,154

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following tables present additional information regarding TDRs as of the restructuring date that occurred during the period presented. There were no TDRs that occurred during the three months ended March 31, 2013 or 2012.

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

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during the periods presented. Payment default is defined as a payment that was thirty days or more past due.

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

	Total TDRs		Nonaccrual TDRs	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Real estate mortgage	$ 2,015	$ 2,030	$ 2,015	$ 2,030
Production and intermediate-term	170	378	170	378
Total Loans	$ 2,185	$ 2,408	$ 2,185	$ 2,408

At March 31, 2013 and December 31, 2012, there were no additional commitments to lend to borrowers whose loans have been modified in troubled debt restructurings.

NOTE 3 — EMPLOYEE BENEFIT PLANS

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

	For the three months ended March 31, 2013	2012
Pension	$ 181	$ 166
401(k)	35	32
Other postretirement benefits	28	24
Total	$ 244	$ 222

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

	Actual YTD Through 3/31/13	Projected Contributions For Remainder of 2013	Projected Total Contributions 2013
Pension	$ –	$ 702	$ 702
Other postretirement benefits	9	30	39
Total	$ 9	$ 732	$ 741

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

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

NOTE 4 — FAIR VALUE MEASUREMENT

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

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

Estimating the fair value of the Association's investment in the Bank and Other Farm Credit Institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost plus allocated equities in the accompanying Consolidated Balance Sheets. The Association owns 1.50 percent of the issued stock of the Bank as of March 31, 2013 net of any reciprocal investment. As of that date, the Bank's assets totaled $27.7 billion and shareholders' equity totaled $2.4 billion. The Bank's earnings were $121 million for the first three months of 2013. In addition, the Association has an investment of $5 related to other Farm Credit institutions.

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

Level 1

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets. The Association has no Level 1 assets or liabilities measured at fair value on a recurring basis at March 31, 2013. For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. The Association has no Level 2 assets or liabilities measured at fair value on a recurring basis at March 31, 2013.

Level 3

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

Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Level 3 assets include impaired loans which represent the fair value of certain loans that were evaluated for impairment under FASB guidance. The fair value was based upon the underlying collateral since these were collateral-dependent. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

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

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

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

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

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

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

	Standby Letters Of Credit
Balance at January 1, 2012	$ 19
Total gains or (losses) realized/unrealized:	
Included in earnings	–
Included in other comprehensive income	–
Purchases	–
Sales	–
Issuances	–
Settlements	(4)
Transfers in and/or out of level 3	–
Balance at March 31, 2012	$ 15

INFORMATION ABOUT SENSITIVITY TO CHANGES IN SIGNIFICANT UNOBSERVABLE INPUTS

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

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

Property Owned/Impaired Loans

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

Inputs to Valuation Techniques

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

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

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 7,787	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

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

Information about Other Financial Instrument Fair Value Measurements

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

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

	At or for the Three Months Ended March 31, 2013					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Standby letters of credit	$ 5	$ –	$ –	$ 5	$ 5	
Recurring Liabilities	$ 5	$ –	$ –	$ 5	$ 5	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 7,720	$ –	$ –	$ 7,720	$ 7,720	$ 28
Other property owned	65	–	–	67	67	–
Nonrecurring Assets	$ 7,785	$ –	$ –	$ 7,787	$ 7,787	$ 28
Other Financial Instruments						
Assets:						
Cash	$ 61	$ 61	$ –	$ –	$ 61	
Loans	323,071	–	–	322,656	322,656	
Other investments	6,522	–	–	6,715	6,715	
Other Assets	$ 329,654	$ 61	$ –	$ 329,371	$ 329,432	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 299,277	$ –	$ –	$ 299,503	$ 299,503	
Other Liabilities	$ 299,277	$ –	$ –	$ 299,503	$ 299,503	

	At or for the Year Ended December 31, 2012					
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value	Fair Value Effects On Earnings
Recurring Measurements						
Assets:						
Recurring Assets	$ –	$ –	$ –	$ –	$ –	
Liabilities:						
Standby letters of credit	$ 5	$ –	$ –	$ 5	$ 5	
Recurring Liabilities	$ 5	$ –	$ –	$ 5	$ 5	
Nonrecurring Measurements						
Assets:						
Impaired loans	$ 5,921	$ –	$ –	$ 5,921	$ 5,921	$ (409)
Other property owned	88	–	–	89	89	(18)
Nonrecurring Assets	$ 6,009	$ –	$ –	$ 6,010	$ 6,010	$ (427)
Other Financial Instruments						
Assets:						
Cash	$ 1,013	$ 1,013	$ –	$ –	$ 1,013	
Loans	323,893	–	–	323,833	323,833	
Other investments	13,185	–	–	13,479	13,479	
Other Assets	$ 338,091	$ 1,013	$ –	$ 337,312	$ 338,325	
Liabilities:						
Notes payable to AgFirst Farm Credit Bank	$ 309,630	$ –	$ –	$ 310,449	$ 310,449	
Other Liabilities	$ 309,630	$ –	$ –	$ 310,449	$ 310,449	

NOTE 5 – SUBSEQUENT EVENTS

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