**Quarterly Report**
**September 30, 2013**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of Farm Credit Mid-America, ACA (the parent) and Farm Credit Mid-America, FLCA and Farm Credit Mid-America, PCA (the subsidiaries). This discussion should be read in conjunction with both the unaudited consolidated financial information and related notes included in this Quarterly Report as well as Management's Discussion and Analysis included in our 2012 Annual Report for the year ended December 31, 2012.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in Farm Credit Mid-America, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports or additional copies of our report contact:

Farm Credit Mid-America, ACA
P.O. Box 34390
Louisville, KY 40232
(800) 444-FARM
www.e-farmcredit.com

AgriBank, FCB
30 East 7th Street, Suite 1600
St. Paul, MN 55101
(651) 282-8800
www.agribank.com

On February 1, 2013, our name was officially changed from Farm Credit Services of Mid-America, ACA to Farm Credit Mid-America, ACA. Our subsidiary entities were changed in a similar manner.

### Forward-Looking Information

Any forward-looking statements in this Quarterly Report are based on current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from expectations due to a number of risks and uncertainties. More information about these risks and uncertainties is contained in our 2012 Annual Report. We undertake no duty to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

### Agricultural and Economic Conditions

The farm economy remains positive in our territory despite declining grain prices. Grain farmers should have another year of positive earnings and lower grain prices create improved earnings for the livestock and poultry industries. Additionally, the general economy continues to slowly improve which helps the large number of part-time farmers in our portfolio.

### Loan Portfolio

Loans totaled $17.2 billion at September 30, 2013, a $688.2 million increase from December 31, 2012. The increase was primarily driven by activity in mortgage and long-term lending. This growth is modest relative to prior years due to producers' elevated cash levels from crop insurance proceeds and strong net farm income from 2012.

#### Portfolio Credit Quality

The credit quality of our portfolio has improved from December 31, 2012. Adversely classified loans have improved to 2.7% of the portfolio at September 30, 2013, from 3.4% of the portfolio at December 31, 2012. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses. The improvement in adversely classified loans resulted from the upgrade of three large loans where we continued to work with the customer and continued resolution of nonperforming loans.

## Risk Assets

The following table summarizes risk information (dollars in thousands):

| As of: | September 30 2013 | December 31 2012 |
|---|---|---|
| Loans: | | |
| Non-accrual | $ 214,204 | $ 235,659 |
| Accruing restructured | 12,313 | 10,358 |
| Accruing loans 90 days or more past due | 341 | 7,994 |
| Total risk loans | 226,858 | 254,011 |
| Other property owned | 10,982 | 14,350 |
| Total risk assets | $ 237,840 | $ 268,361 |
| Non-accrual loans as percentage of total loans | 1.2% | 1.4% |
| Risk loans as a percentage of total loans | 1.3% | 1.5% |
| Total delinquencies as a percentage of total loans | 0.8% | 1.1% |

Our risk assets have decreased from December 31, 2012 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The decrease in non-accrual loans was due to fewer transfers to non-accrual and continued resolution of these loans by addressing repayment issues that caused the loan to go to non-accrual status and returning them to accrual status or collection. Non-accrual loans remained at an acceptable level at September 30, 2013 and represented 1.2% of our total portfolio. At September 30, 2013, 55.3% of our non-accrual loans were current.

The decrease in accruing loans 90 days or more past due was primarily due to better payment performance and continued, consistent delinquency servicing. Based on our analysis, all loans 90 days or more past due and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

The decrease in total delinquencies as a percentage of total loans was primarily due to improved servicing of loans, good agricultural prices, and an improving general economy.

Other property owned as of September 30, 2013 was $11.0 million, a 23.5% decline since December 31, 2012. The decline occurred because of fewer properties acquired than past years and improving real estate markets.

## Allowance for Loan Losses

The allowance for loan losses is an estimate of losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, probability of default, estimated loss severity, portfolio quality, and current economic and environmental conditions.

The following table presents comparative allowance coverage of various loan categories:

| Allowance as a percentage of: | September 30 2013 | December 31 2012 |
|---|---|---|
| Loans | 0.3% | 0.4% |
| Non-accrual loans | 22.2% | 25.7% |
| Total risk loans | 21.0% | 23.9% |

The allowance for loan losses balance decreased from December 31, 2012 as the credit quality of our portfolio has improved and components of our methodology have been updated to capture the latest trends. In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at September 30, 2013.

## Results of Operations

Net income for the nine months ended September 30, 2013 totaled $219.9 million compared to $216.6 million for the same period in 2012. The following table illustrates profitability information:

| As of September 30 | 2013 | 2012 |
|---|---|---|
| Return on average assets | 1.5% | 1.6% |
| Return on average members' equity | 9.4% | 10.2% |

The following table summarizes the changes in components of net income (in thousands):

| For the nine months ended September 30 | | 2013 | | 2012 | | Increase (decrease) in net income |
|---|---|---|---|---|---|---|
| Net interest income[a] | $ | **291,659** | $ | 260,724 | $ | **30,935** |
| Provision for (reversal of) loan losses[b] | | **448** | | (2,580) | | **(3,028)** |
| Patronage income[c] | | **40,638** | | 40,379 | | **259** |
| Other income[d] | | **16,961** | | 29,784 | | **(12,823)** |
| Operating expenses[e] | | **118,293** | | 99,069 | | **(19,224)** |
| Provision for income taxes[f] | | **10,623** | | 17,765 | | **7,142** |
| Net income | $ | **219,894** | $ | 216,633 | $ | **3,261** |

[a] Net interest income was $291.7 million for the nine months ended September 30, 2013. The following table quantifies changes in net interest income for the nine months ended September 30, 2013 compared to the same period in 2012 (in thousands):

| | | 2013 vs 2012 |
|---|---|---|
| Changes in volume | $ | **23,386** |
| Changes in rates | | **8,792** |
| Changes in non-accrual income and other | | **(1,243)** |
| Net change | $ | **30,935** |

[b] When compared to September 2012, the provision for loan losses is higher due to further enhancement to the allowance methodology that was implemented during the first quarter of 2012. The methodology change was related to the consideration of loan collateralization and resulted in a reversal of provision expense for the nine months ended September 30, 2012.

[c] The change in patronage income was primarily related to increased patronage received from AgriBank due to a higher average balance on our note payable as well as a higher patronage rate compared to the prior year. Partially offsetting this change, patronage income on our sale of a participation interest in certain real estate loans to AgriBank decreased due to the share of distributions from Allocated Insurance Reserve Accounts (AIRA) totaling $1.2 million related to the participations sold to AgriBank during 2012. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund above the required 2% of insured debt. There has been no distribution in 2013.

[d] The change in other income was primarily related to our share of non-recurring distributions from AIRA of $16.3 million in 2012. Additionally, the change in other income was impacted by lower prepayment fees substantially offset by fewer write-downs related to our other property owned and an increase in financially related services income.

[e] The change in operating expenses was primarily related to increased staffing through the end of 2012 and during 2013 as well as higher Farm Credit System Insurance Corporation premiums during the nine months ended September 30, 2013 compared to the same period last year.

[f] The change in provision for income taxes was primarily related to lower taxable income compared to the prior year as result of the reversal of provision expense and the AIRA refund recorded during the nine months ended September 30, 2012.

Changes in our return on average assets and return on average members' equity are directly related to the changes in income discussed in this section, changes in assets discussed in the Loan Portfolio section, and changes in capital discussed in the Funding, Liquidity, and Capital section.

## Funding, Liquidity, and Capital

We borrow from AgriBank, under a note payable, in the form of a line of credit. Our promissory note matured on April 30, 2013 and was renewed for $18.6 billion with a maturity date of April 30, 2014. The note will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Cost of funds associated with our note payable includes a marginal cost of debt component and a spread component, which includes cost of servicing, cost of liquidity, and bank profit. Additionally, a risk premium may also be included in our cost of funds; however, we were not subject to a risk premium at September 30, 2013 or December 31, 2012.

Total members' equity increased $220.9 million from December 31, 2012 primarily due to net income for the period and an increase in capital stock and participation certificates.

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7.0%, a total surplus ratio of at least 7.0%, and a core surplus ratio of at least 3.5%. Refer to Note 8 in our 2012 Annual Report for a more complete description of these ratios. As of September 30, 2013, the ratios were as follows:

- The permanent capital ratio was 15.8%.
- The total surplus ratio was 15.3%.
- The core surplus ratio was 15.3%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained in this section and the changes in assets as discussed in the Loan Portfolio section.

## Certification

The undersigned certify they have reviewed Farm Credit Mid-America, ACA's September 30, 2013 Quarterly Report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.

D. Kevin Cox
Chair of the Board
Farm Credit Mid-America, ACA

William L. Johnson
Chief Executive Officer
Farm Credit Mid-America, ACA

Paul Bruce
Chief Financial Officer
Farm Credit Mid-America, ACA

November 8, 2013

# CONSOLIDATED STATEMENTS OF CONDITION

*Farm Credit Mid-America, ACA*
*(in thousands)*
*(Unaudited)*

| | September 30 2013 | December 31 2012 |
|---|---|---|
| **ASSETS** | | |
| Loans | **$ 17,215,038** | $ 16,526,875 |
| Allowance for loan losses | **47,576** | 60,650 |
| Net loans | **17,167,462** | 16,466,225 |
| Investment in AgriBank, FCB | **445,838** | 440,925 |
| Investment securities | **1,283,502** | 1,450,877 |
| Accrued interest receivable | **158,817** | 129,699 |
| Premises and equipment, net | **59,991** | 42,380 |
| Other earning assets | **73,087** | 144,199 |
| Other property owned | **10,982** | 14,350 |
| Assets held for lease, net | **349,106** | 323,065 |
| Other assets | **24,370** | 45,320 |
| Total assets | **$ 19,573,155** | $ 19,057,040 |
| **LIABILITIES** | | |
| Note payable to AgriBank, FCB | **$ 16,122,585** | $ 15,818,603 |
| Accrued interest payable | **77,780** | 81,645 |
| Deferred tax liabilities, net | **104,811** | 101,758 |
| Other liabilities | **43,212** | 51,148 |
| Total liabilities | **16,348,388** | 16,053,154 |
| Contingencies and commitments | **--** | -- |
| **MEMBERS' EQUITY** | | |
| Capital stock and participation certificates | **85,528** | 84,541 |
| Unallocated surplus | **3,139,239** | 2,919,345 |
| Total members' equity | **3,224,767** | 3,003,886 |
| Total liabilities and members' equity | **$ 19,573,155** | $ 19,057,040 |

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

# CONSOLIDATED STATEMENTS OF INCOME

*Farm Credit Mid-America, ACA*
*(in thousands)*
*(Unaudited)*

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| *For the period ended September 30* | **2013** | 2012 | **2013** | 2012 |
| **Interest income** | **$ 176,909** | $ 173,936 | **$ 522,521** | $ 519,177 |
| **Interest expense** | **77,801** | 84,201 | **230,862** | 258,453 |
| Net interest income | **99,108** | 89,735 | **291,659** | 260,724 |
| **(Reversal of) provision for loan losses** | **(5,270)** | 8,036 | **448** | (2,580) |
| Net interest income after (reversal of) provision for loan losses | **104,378** | 81,699 | **291,211** | 263,304 |
| **Other income** | | | | |
| Patronage income | **13,340** | 13,275 | **40,638** | 40,379 |
| Financially related services income | **3,617** | 3,106 | **4,183** | 3,239 |
| Fee income | **1,660** | 2,531 | **5,034** | 8,774 |
| Allocated insurance reserve accounts distribution | **--** | -- | **--** | 16,332 |
| Operating lease income | **2,726** | 2,885 | **7,946** | 8,443 |
| Other property owned income (loss), net | **208** | (3,822) | **(1,159)** | (7,557) |
| Miscellaneous income, net | **119** | 17 | **957** | 553 |
| Total other income | **21,670** | 17,992 | **57,599** | 70,163 |
| **Operating expenses** | | | | |
| Salaries and employee benefits | **24,978** | 23,074 | **71,130** | 62,362 |
| Other operating expenses | **16,231** | 12,655 | **47,163** | 36,707 |
| Total operating expenses | **41,209** | 35,729 | **118,293** | 99,069 |
| Income before income taxes | **84,839** | 63,962 | **230,517** | 234,398 |
| **Provision for income taxes** | **4,659** | 3,243 | **10,623** | 17,765 |
| Net income | **$ 80,180** | $ 60,719 | **$ 219,894** | $ 216,633 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Farm Credit Mid-America, ACA*
*(in thousands)*
*(Unaudited)*

| | Capital Stock and Participation Certificates | Unallocated Surplus | Total Members' Equity |
|---|---|---|---|
| Balance at December 31, 2011 | $ 82,000 | $ 2,630,765 | $ 2,712,765 |
| Net income | -- | 216,633 | 216,633 |
| Capital stock and participation certificates issued | 5,808 | -- | 5,808 |
| Capital stock and participation certificates retired | (3,831) | -- | (3,831) |
| Balance at September 30, 2012 | $ 83,977 | $ 2,847,398 | $ 2,931,375 |
| Balance at December 31, 2012 | $ 84,541 | $ 2,919,345 | $ 3,003,886 |
| Net income | **--** | **219,894** | **219,894** |
| Capital stock and participation certificates issued | **5,142** | **--** | **5,142** |
| Capital stock and participation certificates retired | **(4,155)** | **--** | **(4,155)** |
| **Balance at September 30, 2013** | **$ 85,528** | **$ 3,139,239** | **$ 3,224,767** |

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1: Organization and Significant Accounting Policies

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. While our accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and the prevailing practices within the financial services industry, this interim Quarterly Report is prepared based upon statutory and regulatory requirements and, accordingly, does not include all disclosures required by U.S. GAAP. The results of the nine months ended September 30, 2013 are not necessarily indicative of the results to be expected for the year ended December 31, 2013. The interim financial statements and the related notes in this Quarterly Report should be read in conjunction with the consolidated financial statements and related notes included in our 2012 Annual Report for the year ended December 31, 2012.

On February 1, 2013, our name was officially changed from Farm Credit Services of Mid-America, ACA to Farm Credit Mid-America, ACA. Our subsidiary entities were changed in a similar manner.

The consolidated financial statements present the consolidated financial results of Farm Credit Mid-America, ACA (the parent) and Farm Credit Mid-America, FLCA and Farm Credit Mid-America, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

#### Recently Issued or Adopted Accounting Pronouncements

We have assessed the potential impact of accounting standards that have been issued, but are not yet effective, and have determined that no such standards are expected to have a material impact to our consolidated financial statements.

### NOTE 2: Loans and Allowance for Loan Losses

Loans consisted of the following (dollars in thousands):

| As of: | **September 30, 2013** | | December 31, 2012 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Real estate mortgage | **$ 11,899,405** | **69.1%** | $ 11,298,575 | 68.4% |
| Production and intermediate term | **2,814,339** | **16.3%** | 2,825,749 | 17.1% |
| Agribusiness | **995,387** | **5.8%** | 919,755 | 5.6% |
| Rural residential real estate | **1,033,222** | **6.0%** | 1,045,861 | 6.3% |
| Other | **472,685** | **2.8%** | 436,935 | 2.6% |
| Total | **$ 17,215,038** | **100.0%** | $ 16,526,875 | 100.0% |

The other category is comprised of communication, international, energy, water and waste disposal related loans as well as loans originated under our Mission Related Investment authority and finance leases.

**Delinquency**

The following table provides an aging analysis of past due loans and related accrued interest receivable by loan type (in thousands):

| | 30-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Not Past Due or Less than 30 Days Past Due | Total Loans | 90 Days or More Past Due and Accruing |
|---|---|---|---|---|---|---|
| **As of September 30, 2013** | | | | | | |
| Real estate mortgage | **$ 56,125** | **$ 43,987** | **$ 100,112** | **$ 11,905,795** | **$ 12,005,907** | **$ --** |
| Production and intermediate term | **7,070** | **12,137** | **19,207** | **2,832,533** | **2,851,740** | **341** |
| Agribusiness | **232** | **37** | **269** | **999,372** | **999,641** | **--** |
| Rural residential real estate | **16,368** | **7,342** | **23,710** | **1,012,128** | **1,035,838** | **--** |
| Other | **297** | **304** | **601** | **472,693** | **473,294** | **--** |
| Total | **$ 80,092** | **$ 63,807** | **$ 143,899** | **$ 17,222,521** | **$ 17,366,420** | **$ 341** |
| As of December 31, 2012 | | | | | | |
| Real estate mortgage | $ 56,804 | $ 59,662 | $ 116,466 | $ 11,262,327 | $ 11,378,793 | $ 7,830 |
| Production and intermediate term | 12,393 | 15,921 | 28,314 | 2,830,913 | 2,859,227 | 116 |
| Agribusiness | 1,561 | 36 | 1,597 | 922,877 | 924,474 | -- |
| Rural residential real estate | 18,203 | 10,645 | 28,848 | 1,019,481 | 1,048,329 | 48 |
| Other | 172 | 318 | 490 | 436,841 | 437,331 | -- |
| Total | $ 89,133 | $ 86,582 | $ 175,715 | $ 16,472,439 | $ 16,648,154 | $ 7,994 |

**Risk Loans**

The following table presents risk loan information (in thousands):

| As of: | **September 30 2013** | December 31 2012 |
|---|---|---|
| Volume with specific reserves | **$ 27,337** | $ 34,232 |
| Volume without specific reserves | **199,521** | 219,779 |
| Total risk loans | **$ 226,858** | $ 254,011 |
| Total specific reserves | **$ 6,621** | $ 8,863 |
| For the nine months ended September 30 | **2013** | 2012 |
| Income on accrual risk loans | **$ 600** | $ 566 |
| Income on non-accrual loans | **7,591** | 8,834 |
| Total income on risk loans | **$ 8,191** | $ 9,400 |
| Average risk loans | **$ 246,197** | $ 284,067 |

The decrease in risk loans was primarily due to better payment performance and continued, consistent delinquency servicing as well as charge-off activity related to collateral analysis during the period.

**Troubled Debt Restructurings**

In situations where, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession for other than an insignificant period of time to the borrower that we would not otherwise consider, the related loan is classified as a troubled debt restructuring. A concession is generally granted in order to minimize economic loss and avoid foreclosure. Concessions vary by program and borrower and may include interest rate reductions, term extensions, payment deferrals, or an acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. Loans classified as troubled debt restructurings are considered risk loans. All risk loans are analyzed within our allowance for loan losses. We record a specific allowance to reduce the carrying amount of the formally restructured loan to the lower of book value or net realizable value of collateral.

The following table presents information regarding the recorded investment for troubled debt restructurings that occurred during the nine months ended September 30 (in thousands):

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | Pre-modification | Post-modification | Pre-modification | Post-modification |
| Real estate mortgage | **$ 6,777** | **$ 7,423** | $ 5,323 | $ 5,310 |
| Production and intermediate term | **24,116** | **23,647** | 1,601 | 1,590 |
| Agribusiness | **277** | **278** | -- | -- |
| Rural residential real estate | **1,025** | **832** | 1,308 | 1,202 |
| Total | **$ 32,195** | **$ 32,180** | $ 8,232 | $ 8,102 |

Pre-modification represents the recorded investment of the loan just prior to restructuring and post-modification represents the recorded investment of the loan immediately following the restructuring. The recorded investment of the loan is the face amount of the receivable increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, and acquisition costs and may also reflect a previous direct charge-off of the investment. Troubled debt restructurings in the production and intermediate term loan category increased primarily due to one large borrower.

The following table presents troubled debt restructurings that defaulted during the nine months ended September 30 in which the modification date was within twelve months of the respective reporting period (in thousands):

| | **2013** | 2012 |
|---|---|---|
| Real estate mortgage | **$ 814** | $ 2,083 |
| Production and intermediate term | **95** | 117 |
| Rural residential real estate | **428** | 409 |
| Total | **$ 1,337** | $ 2,609 |

Troubled debt restructurings outstanding at September 30, 2013 totaled $38.8 million, of which $26.5 million were in non-accrual status compared to $27.5 million at December 31, 2012 of which $17.1 million were in non-accrual status. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $242 thousand at September 30, 2013.

### Allowance for Loan Losses

A summary of changes in the allowance for loan losses follows (in thousands):

| Nine months ended September 30 | **2013** | 2012 |
|---|---|---|
| Balance at beginning of year | **$ 60,650** | $ 80,734 |
| Provision for (reversal of) loan losses | **448** | (2,580) |
| Loan recoveries | **3,125** | 3,621 |
| Loan charge-offs | **(16,647)** | (20,655) |
| Balance at end of period | **$ 47,576** | $ 61,120 |

The allowance for loan losses as of September 30, 2013 declined compared to the allowance for loan losses as of September 30, 2012. Improved credit quality as of September 30, 2013 compared to September 30, 2012 resulted in an overall reduction in allowance for loan losses. When compared to the nine months ended September 30, 2012, the provision expense is higher due to an enhancement to the allowance methodology implemented during the first quarter of 2012. The methodology change was related to the consideration of customer level loan collateralization.

## NOTE 3: Investment Securities and Other Earning Assets

We held investment securities of $1.3 billion at September 30, 2013 and $1.5 billion at December 31, 2012. Our investment securities consisted of:

- securities containing loans guaranteed by the Small Business Administration (SBA),
- investment securities made up of Farm Services Administration securities (FSA), and
- securities issued by the United States Department of Agriculture (USDA).

Our investment securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

The following table presents further information on investment securities (dollars in thousands):

| | Weighted Average Yield | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| **As of September 30, 2013** | | | | | |
| SBA | **2.0%** | **$ 484,815** | **$ 10,750** | **$ 4,522** | **$ 491,043** |
| FSA | **4.6%** | **72,745** | **1,627** | **216** | **74,156** |
| USDA | **3.0%** | **725,942** | **1,066** | **17,221** | **709,787** |
| Total | **2.7%** | **$ 1,283,502** | **$ 13,443** | **$ 21,959** | **$ 1,274,986** |
| As of December 31, 2012 | | | | | |
| SBA | 2.0% | $ 560,676 | $ 8,411 | $ 5,760 | $ 563,327 |
| FSA | 4.6% | 86,056 | 2,307 | 207 | 88,156 |
| USDA | 2.9% | 804,145 | 1,101 | 22,448 | 782,798 |
| Total | 2.6% | $ 1,450,877 | $ 11,819 | $ 28,415 | $ 1,434,281 |

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled $25.4 million and $27.8 million for the nine months ended September 30, 2013 and 2012, respectively.

The following table presents contractual maturities of our investment securities (in thousands):

| **As of September 30, 2013** | Amortized Cost |
|---|---|
| Less than one year | **$ 94** |
| One to five years | **46,073** |
| Five to ten years | **224,306** |
| More than ten years | **1,013,029** |
| Total | **$ 1,283,502** |

Expected maturities differ from contractual maturities because borrowers may have the right to prepay obligations.

A summary of investments in an unrealized loss position presented by the length of time the investments have been in continuous unrealized loss position follows (in thousands):

| | Less than 12 months | | Greater than 12 months | |
|---|---|---|---|---|
| **As of September 30, 2013** | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| SBA | **$11,000** | **$94** | **$203,342** | **$4,428** |
| FSA | **7,713** | **91** | **8,793** | **124** |
| USDA | **34,533** | **2,526** | **568,444** | **14,696** |
| Total | **$53,246** | **$2,711** | **$780,579** | **$19,248** |

Unrealized losses associated with investment securities are not considered to be other-than-temporary due to the 100% guarantee of the principal by the U.S. government. However, the premiums paid to purchase the investment are not guaranteed and are amortized over the weighted average maturity of each loan as a reduction to interest income. Repayment of principal is assessed at least quarterly, and any remaining unamortized premium is taken as a reduction to interest income if principal repayment is unlikely, or when a demand for payment is made for the guarantee. At September 30, 2013, most of the $22.0 million unrealized loss represents unamortized premium.

Other earning assets result from successor-in-interest contracts from our involvement with the federal government's tobacco buy-out program. The volume was $73.1 million at September 30, 2013 and $144.2 million at December 31, 2012. These amounts include both principal and interest income receivable. We evaluate these assets for impairment. These assets are 100% guaranteed by the U.S. government and no evidence exists that would indicate an impairment of this portfolio is warranted. We discontinued the purchase of additional contracts during 2011.

## NOTE 4: Contingencies and Commitments

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

## NOTE 5: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 13 in our 2012 Annual Report for a more complete description of the three input levels.

### Non-Recurring Basis

We do not have any assets or liabilities measured at fair value on a recurring basis at September 30, 2013 or December 31, 2012. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis follows (in thousands):

| | Fair Value Measurement Using | | | Total Fair | Total Gains |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Value | (Losses) |
| **As of September 30, 2013** | | | | | |
| Loans | **$ --** | **$ 21,752** | **$ --** | **$ 21,752** | **$ (14,405)** |
| Other property owned | **--** | **--** | **11,421** | **11,421** | **(795)** |
| As of December 31, 2012 | | | | | |
| Loans | $ -- | $ 26,638 | $ -- | $ 26,638 | $ (22,626) |
| Other property owned | -- | -- | 14,924 | 14,924 | (9,945) |

### Valuation Techniques

**Loans:** Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. 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. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

**Other property owned:** Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals, or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

The fair value measurement would fall under Level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under Level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters.

## NOTE 6: Subsequent Events

We have evaluated subsequent events through November 8, 2013, which is the date the consolidated financial statements were available to be issued. There have been no material subsequent events that would require recognition in our Quarterly Report or disclosure in the Notes to Consolidated Financial Statements.