ALABAMA FARM CREDIT, ACA

2013
Quarterly Report
First Quarter

For the Quarter Ended March 31, 2013

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.

K. Ben Gore, Chief Executive Officer/President
May 9, 2013

Loyd Rutherford, Chairman, Board of Directors
May 9, 2013

Austin Godwin, CPA, Controller
May 9, 2013

John R. Adams, CPA, Chairman, Audit Committee
May 9, 2013

ALABAMA FARM CREDIT, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the Alabama Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, for the quarter ended March 31, 2013. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2012 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Loan Portfolio:

The Association makes and services loans to farmer, ranchers, rural homeowners and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive fixed, adjustable and indexed-based interest rates and loan maturities ranging up to 30 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with seasonal cash-flow capabilities of the borrower.

Total loans outstanding at March 31, 2013, including nonaccrual loans, was $449,689,133 compared to $445,769,343 at December 31, 2012, reflecting an increase of $3,919,790 or .9 percent.

	March 31, 2013	December 31, 2012
Acceptable	**84.5%**	84.7%
Special Mention	**12.9%**	13.3%
Substandard	**2.6%**	2.0%
Total	**100%**	100%

The Association's credit quality began to deteriorate slightly in late 2008 due primarily to the impact of a poultry integrator in the Association's territory filing Chapter 11 Bankruptcy. This Bankruptcy has had a residual effect on Association grower borrowers as a result of the inherent counterparty risk associated with the integrator. In 2009, the integrator emerged from Bankruptcy and the Association has not experienced any adverse effects to growers with Association loans to date. At March 31, 2013, Association loans to growers of this integrator consisted of 354 loans representing $81.9 million in volume, of which $34.7 million are government guaranteed. Loans to this integrator are included in the Special Mention category in the table shown above. The Association anticipates these producer loans will be upgraded after the integrator shows positive earnings trends and once approval from Farm Credit Administration is received.

The Association's largest commodity concentration in its loan portfolio continues to be poultry, which is approximately 50.3 percent. The industry is presently stable to improving with market prices for poultry improving and feed cost leveling off to declining. This has resulted in the integrators showing marginal profits for the first quarter. They are reacting to this improvement by returning to a normal egg and chick placement. Overall, the industry remains stable. Production for the remainder of 2013 should increase as markets both in the states and overseas show signs of improving. Several Integrators are offering new grower contracts in order to meet their market demands.

Commodity prices remain volatile for production agricultural borrowers but are at all-time highs compared to the five year average for corn, cotton and soybean growers. These higher prices are partially offset by higher input cost and lower government payments. Crop yield for all three commodities was above average last growing season. Record yields coupled with all time high prices resulted in record level profit margins for row crop producers. The Association's territory had a warm wet winter and crop planting is on schedule with the warm moist soil. Livestock producers are seeing higher prices for cattle sold due to the overall low inventory of cattle nationwide and worldwide due to increased demand for beef products compared to the last few years. Cattle prices are projected to remain high with the liquidation of cattle herds in other parts of the country due to severe droughts experienced in the past year. The majority of Association livestock producers have considerable nonfarm income which should lessen the impact of price volatility. The decline in the general economy has shown minimal effects on the Association's non-agricultural income dependent borrowers and their repayment abilities at this time. Delinquency percentages of total volume continue to be at or slightly below prior years' percentages.

Timber markets in 2012 continued to be depressed due to the decreased demand from the housing market. Indicators for 2013 are for timber prices to improve with industry leaders projecting increased demand for wood products in 2013. There have been some reports, that two timber companies have plans to reopen two plywood mills in the Association's territory in 2013. If this happens it will have a positive impact on timber prices in North Alabama.

Overall land values have remained fairly stable or have seen a slight decline in some areas of the Association's territory (recreational and cut-over tracts) based on the current economic climate. The agricultural economy, in general for the area, remained stable to improving in 2013. Favorable weather conditions and higher commodity prices have had a positive effect in stabilizing the farm economy for the year. We will continue to work with our borrowers as all market segments make corrections with minimal restructuring.

The probability of higher input costs, questions about future commodity supplies and prices, uncertainty of the export markets and unfolding world events increase the level of financial risk in the farming sector and, likewise, the level of credit risk to those financial institutions providing credit to that sector. Given the conditions outlined herein, the quality of the loan portfolio is expected to remain constant or slightly improve throughout 2013. The duration of the weak economy is a concern that has the potential to be more problematic for financial results over the longer term for both the lender and the operator. Continued diligence in the areas of credit controls and monitoring is essential.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	March 31, 2013		December 31, 2012	
	Amount	**%**	Amount	%
Nonaccrual	**$ 6,836,889**	**55.4%**	$ 4,531,760	44.6%
90 days past due and still accruing interest	**-**	**0.0%**	212,836	2.1%
Formally restructured	**1,963,756**	**15.9%**	1,969,255	19.5%
Other property owned, net	**3,538,620**	**28.7%**	3,413,520	33.8%
Total	**$ 12,339,265**	**100.0%**	$ 10,127,371	100.0%

At March 31, 2013 and December 31, 2012 loans that were considered impaired was $8,800,645 and $6,713,851, representing 2.0 percent and 1.5 percent of loan volume, respectively. Impaired loans consist of all high-risk assets except other property owned, net.

High-risk assets increased by $2,211,894 or 21.8 percent primarily due to the increase in nonaccrual volume. Since December 31, 2012, the Association has moved nine loans totaling $2,659,762 to nonaccrual status due to delinquency and cashflow issues. All nine loans are categorized as Agriculture Real Estate Mortgage. Nonaccrual loans as a percentage of total loans outstanding were 1.5 percent at March 31, 2013, compared to 1.0 percent at December 31, 2012. Other property owned increased by $125,100 during the first quarter of 2013 due to the acquisition of two properties and the disposition of one of the properties that was acquired in this same period. Management continues to be alert to portfolio trends and has attempted to identify and report problem loans as quickly as possible. Management strives to implement proactive steps and allocate resources to work with distressed borrowers to either work through temporary repayment problems or to orderly liquidate collateral to repay the loan when the borrower's operation is no longer viable.

The Association, in the normal course of business, has participation loans with other Farm Credit associations and Farm Credit Banks. The Association holds interests in loans with geographic or industry related risks that have warranted risk rating reclassifications to nonaccrual status. Performance of these loans remains uncertain even though management constantly monitors these accounts.

Counterparty risk is continually monitored by management of the Association. The Association's primary counterparty risk comes from the poultry integrators to which its borrowers are associated. Because the Association's portfolio has approximately a 50.3 percent concentration in poultry, it mitigates its inherent risks with poultry and the integrators by heavy utilization of government guarantees. Also, the Association's lending territory has multiple integrators which would minimize the risk of counterparty failure or lack of performance. Management analyzes the financial position and performance of these integrators by regularly gathering updated financials and other reports that are made available to the public.

As disclosed in the Association's 2012 Annual Report, it is managements assertion that the allowance coverage is adequate based on historical losses, portfolio stress testing, risk analysis, mitigation of losses due to having first lien real estate with minimal to no price appreciation and having $76,850,015 or 17.2 percent of its portfolio government guaranteed. Management continuously monitors high-risk assets in an effort to reduce their impact on the Association and will continue to work with all of the Association's high-risk borrowers to receive full payment on the debt. Except for the relationship between installment due date and seasonal cash-flow capabilities of the borrower, the Association is not affected by any seasonal characteristics. The factors affecting the operations of the Association are the same factors that would affect any agricultural lender.

The Association recorded no recoveries and $30,329 in charge-offs for the quarter ended March 31, 2013, and no recoveries and $100,800 in charge-offs for the same period in 2012. The Association's allowance for loan losses was 0.7 percent of total loans outstanding for both periods ended March 31, 2013 and December 31, 2012.

Results of Operations:

The Association had net income of $2,568,865 for the three months ended March 31, 2013, as compared to net income of $2,151,930 and for the same period in 2012, reflecting an increase of $416,935 or 19.4 percent. This increase is primarily due to a decrease in provision for loan losses and interest expense. Provision for loan losses decreased $283,884, or 83.5 percent, from the same period in 2012. The allowance calculation required an adjustment of $54,006 for the three months ended March 31, 2013, as compared to 339,888 needed for the same quarter in 2012. Net interest income was $3,972,825 for the three months ended March 31, 2013, compared to $3,648,962 for the same period in 2012. Interest income for the first three months of 2013 increased by $30,242, or .5 percent, from the same period in 2012. Interest expense for the three months ended March 31, 2013, decreased by $293,621, or 13.6 percent, from the same period of 2012, due to a decrease in interest rates offset by an increase in average debt volume. Average loan volume for the first quarter of 2013 was $447,919,146, compared to $418,764,892 in the first quarter of 2012.

The Association offers fixed, adjustable and indexed priced loans. These different type loans have different spreads and therefore provide differing net interest margins to the Association. The average net interest rate spread on the loan portfolio for the first quarter of 2013 was 3.3 percent, compared to 3.1 percent in the first quarter of 2012.

Noninterest income for the three months ended March 31, 2013 decreased by $118,505 or 23.7 percent when compared to the same period in 2012. This decrease was due to the Association recognizing less in loan fees as it did for the same period in 2012.

Noninterest expenses for the three months ended March 31, 2013 increased by $72,307 or 4.4 percent as compared to the same period in 2012. The increase is due to increases in salaries and employee benefits, travel, Insurance Fund premiums and advertising offset by decreases in business insurance premiums and net losses on other property owned. The increase of $49,044 or 4.8 percent in salaries and employee benefits and the increase of $12,626 or 22.0 percent in travel was due to the Association hiring twelve new employees that were not part of the Association for the same period in 2012. The Farm Credit System Insurance Corporation (FCSIC) increased its rate in January 2013 from five percent to ten percent resulting in a $37,582 or 111.5 percent increase in Insurance Fund premiums. The $35,310 or 107.0 percent increase in advertising compared to the same period in 2012 was primarily due to commercial air time and billboard rental expense that did not occur in same three month period of 2012. Business insurance premiums expense decreased by $19,681 or 30.4 percent as compared to the same period in 2012, due to timing of vendor invoice. During the three month period of 2013, the Association recorded $30,788 in net losses on other property owned as compared to $93,350 for the same period in 2012.

The Association's return on average assets for the three months ended March 31, 2013, was 2.3 percent compared to 2.0 percent for the same period in 2012. The Association's return on average equity for the three months ended March 31, 2013, was 12.8 percent, compared to 11.6 percent for the same period in 2012.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	March 31, 2013	December 31, 2012
Note payable to the bank	**$ 378,033,088**	$ 372,760,946
Accrued interest on note payable	**637,196**	657,802
Total	**$ 378,670,284**	$ 373,418,748

The interest rate inherent in the Association's loan portfolio is substantially mitigated through the funding relationship with the Bank. The Bank manages interest rate risk through its direct loan pricing and asset/liability management process.

The Association will continue to fund its operations through direct borrowings from the Bank, retained earnings, member stock and funds held. It is management's opinion that funds available to the Association are sufficient to fund its operations for the current year.

Capital Resources:

The Association's capital position increased by $2,617,551 at March 31, 2013, compared to December 31, 2012. The Association's debt as a percentage of members' equity was 4.63:1 as of March 31, 2013, compared to 4.75:1 as of December 31, 2012.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2013, was 18.9 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2013, were 18.2 and 18.2 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

During the first quarter of 2013, the Association issued a $5,334,166 patronage distribution which reflects 60 percent of the Association's patronage-sourced net earnings for 2012.

Significant Recent Accounting Pronouncements:

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet – 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 offset 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 the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact financial condition or results of operations, but will result in additional disclosures.

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures.

Relationship With the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2012 Annual Report of Alabama Farm Credit, ACA more fully describe the Association's relationship with the Bank.

The Texas Farm Credit District's (district) annual and quarterly stockholder reports, as well as those of the Bank, are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. Copies of the district's quarterly and annual stockholder reports also can be requested by e-mail at *fcb@farmcreditbank.com*. The annual and quarterly stockholder reports for the Bank and the district are also available on its website at *www.farmcreditbank.com.*

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Alabama Farm Credit, ACA, P.O. Box 639, Cullman, Alabama 35056 or calling (256) 737-7128. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing *austin.godwin@alabamafarmcredit.com* or can be obtained on its web site at *www.alabamalandbank.com* 40 days after quarter end. The Association's annual stockholder report is available on its Web site at *www.alabamalandbank.com* 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

ALABAMA FARM CREDIT, ACA

CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (unaudited)	December 31, 2012
ASSETS		
Cash	$ **11,549**	$ 27,178
Loans	**449,689,133**	445,769,343
Less: allowance for loan losses	**3,351,839**	3,326,164
Net loans	**446,337,294**	442,443,179
Accrued interest receivable	**5,674,305**	4,776,648
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**7,246,510**	7,246,510
Other	**278,299**	505,858
Other property owned, net	**3,538,620**	3,413,520
Premises and equipment	**3,563,726**	3,597,276
Other assets	**942,284**	284,179
Total assets	$ **467,592,587**	$ 462,294,348
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	$ **378,033,088**	$ 372,760,946
Accrued interest payable	**637,196**	657,802
Drafts outstanding	**882,575**	338,940
Patronage distributions payable	**184**	5,334,272
Other liabilities	**5,040,563**	2,820,958
Total liabilities	**384,593,606**	381,912,918
MEMBERS' EQUITY		
Capital stock and participation certificates	**2,721,080**	2,670,725
Unallocated retained earnings	**80,635,341**	78,066,477
Accumulated other comprehensive loss	**(357,440)**	(355,772)
Total members' equity	**82,998,981**	80,381,430
Total liabilities and members' equity	$ **467,592,587**	$ 462,294,348

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

	Quarter and Year Ended March 31,	
	2013	2012
INTEREST INCOME		
Loans	**$ 5,839,599**	$ 5,809,357
INTEREST EXPENSE		
Note payable to the Farm Credit Bank of Texas	**1,866,774**	2,160,395
Net interest income	**3,972,825**	3,648,962
PROVISION FOR LOAN LOSSES	**56,004**	339,888
Net interest income after provision for loan losses	**3,916,821**	3,309,074
NONINTEREST INCOME		
Income from the Farm Credit Bank of Texas:		
Patronage income	**312,570**	303,395
Loan fees	**54,969**	147,353
Financially related services income	**5,297**	4,948
Gain on sale of premises and equipment, net	**9,496**	4,747
Other noninterest income	**-**	40,394
Total noninterest income	**382,332**	**500,837**
NONINTEREST EXPENSES		
Salaries and employee benefits	**1,073,889**	1,024,845
Directors' expense	**62,305**	59,597
Purchased services	**103,852**	104,620
Travel	**69,942**	57,316
Occupancy and equipment	**70,602**	64,155
Communications	**28,167**	23,985
Advertising	**68,306**	32,996
Public and member relations	**40,622**	34,420
Supervisory and exam expense	**33,798**	35,741
Insurance Fund premiums	**71,304**	33,722
Business insurance	**44,978**	64,659
Loss on other property owned, net	**30,788**	93,350
Other noninterest expense	**31,735**	28,575
Total noninterest expenses	**1,730,288**	1,657,981
NET INCOME	**2,568,865**	2,151,930
Other comprehensive loss:		
Change in postretirement benefit plans	**(1,668)**	(7,230)
COMPREHENSIVE INCOME	$ **2,567,197**	$ 2,144,700

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

ALABAMA FARM CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings Unallocated	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at December 31, 2011	$ 2,523,570	$ 74,129,255	$ (130,405)	$ 76,522,420
Comprehensive income	-	2,151,930	(7,230)	2,144,700
Capital stock/participation certificates issued	119,300	-	-	119,300
Capital stock/participation certificates retired	(85,820)	-	-	(85,820)
Patronage refunds:				
Cash	-	(1,145)	-	(1,145)
Balance at March 31, 2012	$ 2,557,050	$ 76,280,040	$ (137,635)	$ 78,699,455
Balance at December 31, 2012	$ 2,670,725	$ 78,066,477	$ (355,772)	$ 80,381,430
Comprehensive income	-	2,568,865	(1,668)	2,567,197
Capital stock/participation certificates issued	125,355	-	-	125,355
Capital stock/participation certificates retired	(75,000)	-	-	(75,000)
Patronage refunds:				
Cash	-	-	-	-
Balance at March 31, 2013	**$ 2,721,080**	**$ 80,635,342**	**$ (357,440)**	**$ 82,998,982**

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

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Alabama Farm Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Blount, Calhoun, Cherokee, Clay, Cleburne, Colbert, Cullman, DeKalb, Etowah, Fayette, Franklin, Jackson, Jefferson, Lamar, Lauderdale, Lawrence, Limestone, Madison, Marion, Marshall, Morgan, Randolph, Shelby, St. Clair, Talladega, Walker and Winston in the state of Alabama.

The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the Association as of and for the year ended December 31, 2012, are contained in the 2012 Annual Report to Stockholders. These unaudited first quarter 2013 financial statements should be read in conjunction with the 2012 Annual Report to Stockholders.

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled "Balance Sheet – 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 offset 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 the rights of offset set forth in accounting guidance and for those recognized financial instruments and derivative instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset or not. This guidance is to be applied retrospectively for all comparative periods and is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The adoption of this guidance will not impact financial condition or results of operations, but will result in additional disclosures.

In February 2013, the FASB issued guidance, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for non-public entities for annual periods beginning after December 15, 2013. The adoption of this guidance did not impact the financial condition or results of operations, but resulted in additional disclosures.

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, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, Associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended March 31, 2013, are not necessarily indicative of the results to be expected for the year ended December 31, 2013. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**March 31, 2013 Amount**	December 31, 2012 Amount
Production agriculture:		
Real estate mortgage	**$ 426,085,065**	$ 423,338,240
Production and intermediate term	**13,706,826**	12,779,924
Agribusiness:		
Processing and marketing	**4,511,860**	4,261,273
Farm-related business	**138,663**	140,123
Rural residential real estate	**5,246,719**	5,249,783
Total	**$ 449,689,133**	$ 445,769,343

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at March 31, 2013:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 3,913,414	$ -	$ -	$ -	$ 3,913,414	$ -
Production and intermediate term	774,125	-	-	-	774,125	-
Agribusiness	4,524,956	-	-	-	4,524,956	-
Total	$ 9,212,495	$ -	$ -	$ -	$ 9,212,495	$ -

The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent that the borrower's access to such funds is restricted, the advance conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as liabilities in the accompanying consolidated balance sheet. Advance conditional payments are not insured. Interest is generally paid by the Association on such accounts at rates established by the board of directors. At March 31, 2013, advance conditional payments (ACP) netted against the borrowers' loan balances totaled $13,173,581, compared to $11,563,402, at December 31, 2012.

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

	March 31, 2013	December 31, 2012
Nonaccrual loans:		
Real estate mortgage	**$ 5,385,731**	$ 3,063,014
Agribusiness	**1,451,158**	1,451,158
Rural residential real estate	**-**	17,588
Total nonaccrual loans	**6,836,889**	4,531,760
Accruing restructured loans:		
Real estate mortgage	**1,963,756**	1,969,255
Accruing loans 90 days or more past due:		
Real estate mortgage	**-**	212,836
Total nonperforming loans	**8,800,645**	6,713,851
Other property owned	**3,538,620**	3,413,520
Total nonperforming assets	**$ 12,339,265**	$10,127,371

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

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

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	March 31, 2013	December 31, 2012
Real estate mortgage		
Acceptable	**80.2** %	80.5 %
OAEM	**12.3**	12.8
Substandard/doubtful	**2.3**	1.7
	94.8	95.0
Production and intermediate term		
Acceptable	**2.5**	2.4
OAEM	**0.5**	0.5
Substandard/doubtful	**-**	-
	3.0	2.9
Agribusiness		
Acceptable	**0.7**	0.6
OAEM	**-**	-
Substandard/doubtful	**0.3**	0.3
	1.0	0.9
Rural residential real estate		
Acceptable	**1.1**	1.2
OAEM	**0.1**	-
Substandard/doubtful	**-**	-
	1.2	1.2
Total loans		
Acceptable	**84.5**	84.7
OAEM	**12.9**	13.3
Substandard/doubtful	**2.6**	2.0
	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of:

March 31, 2013	**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**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 2,228,355**	**$ 3,229,134**	**$ 5,457,489**	**$ 426,060,488**	**$ 431,517,977**	**$ -**
Production and intermediate term	**-**	**-**	**-**	**13,926,848**	**13,926,848**	**-**
Processing and marketing	**-**	**1,438,061**	**1,438,061**	**3,075,232**	**4,513,293**	**-**
Farm-related business	**-**	**-**	**-**	**139,327**	**139,327**	**-**
Rural residential real estate	**42,049**	**-**	**42,049**	**5,223,944**	**5,265,993**	**-**
Total	**$ 2,270,404**	**$ 4,667,195**	**$ 6,937,599**	**$ 448,425,839**	**$ 455,363,438**	**$ -**

December 31, 2012	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	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 4,002,888	$ 2,003,887	$ 6,006,775	$ 421,889,542	$ 427,896,317	$ 212,836
Production and intermediate term	-	-	-	12,983,290	12,983,290	-
Processing and marketing	-	1,426,398	1,426,398	2,836,035	4,262,433	-
Farm-related business	-	-	-	140,796	140,796	-
Rural residential real estate	-	17,588	17,588	5,245,567	5,263,155	-
Total	$ 4,002,888	$ 3,447,873	$ 7,450,761	$ 443,095,230	$ 450,545,991	$ 212,836

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

A restructuring of a debt constitutes a troubled debt restructuring 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. Troubled debt restructurings are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of March 31, 2013, the total recorded investment of troubled debt restructured loans was $1,963,756, all of which were classified as accrual. Troubled debt restructurings are analyzed for allowance for loan losses using the specific analysis method. No specific allowance for loan losses were recorded for troubled debt restructuring. As of March 31, 2013, there were no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

There were no troubled debt restructurings that occurred during the quarter ended March 31, 2013. Loans formally restructured prior to January 1, 2013, were $1,963,756.

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest). There were no charge-offs recorded at the modification date for the quarter ending March 31, 2013.

The predominate form of concession granted for troubled debt restructuring included the extension of terms due to cashflow constrictions enabling the borrower to fund the original payment amount. At times these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The Association had $562,030 in loans that met the accounting criteria as a troubled debt restructuring that occurred from April 1, 2012 through March 31, 2013, and none of which were in payment default during that same period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Additional impaired loan information is as follows:

	March 31, 2013			December 31, 2012		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 1,774,704**	**$ 2,150,970**	**$ 1,076,445**	$ 1,019,088	$ 1,395,354	$ 930,565
Processing and marketing	**760,722**	**760,722**	**452,989**	760,722	760,722	452,989
Farm-related business	**13,096**	**13,096**	**13,096**	13,096	13,096	13,096
Rural residential real estate	**-**	**-**	**-**	-	-	-
Total	**$ 2,548,522**	**$ 2,924,788**	**$ 1,542,530**	$ 1,792,906	$ 2,169,172	$ 1,396,650
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 5,574,783**	**$ 5,614,960**	**$ -**	$ 4,226,017	$ 4,239,714	$ -
Processing and marketing	**677,340**	**677,340**	**-**	677,340	677,340	-
Farm-related business	**-**	**-**	**-**	-	-	-
Rural residential real estate	**-**	**-**	**-**	17,588	17,588	-
Total	**$ 6,252,123**	**$ 6,292,300**	**$ -**	$ 4,920,945	$ 4,934,642	$ -
Total impaired loans:						
Real estate mortgage	**$ 7,349,487**	**$ 7,765,930**	**$ 1,076,445**	$ 5,245,105	$ 5,635,068	$ 930,565
Processing and marketing	**1,438,062**	**1,438,062**	**452,989**	1,438,062	1,438,062	452,989
Farm-related business	**13,096**	**13,096**	**13,096**	13,096	13,096	13,096
Rural residential real estate	**-**	**-**	**-**	17,588	17,588	-
	$ 8,800,645	**$ 9,217,088**	**$ 1,542,530**	$ 6,713,851	$ 7,103,814	$ 1,396,650

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Quarter Ended March 31, 2013		For the Quarter Ended March 31, 2012	
	Average Impaired Loans	Interest Income Recognized	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:				
Real estate mortgage	$ 1,595,395	$ -	$ 1,869,555	$ -
Processing and marketing	324,575	-	-	-
Farm-related business	13,096	-	6,548	-
Rural residential real estate	4,668	-	-	-
Total	$ 1,937,734	$ -	$ 1,876,103	$ -
Impaired loans with no related allowance for credit losses:				
Real estate mortgage	$ 4,618,467	$ 54,287	$ 4,873,376	$ 27,131
Processing and marketing	288,998	-	-	-
Farm-related business	-	-	6,548	-
Rural residential real estate	9,525	-	8,564	-
Total	$ 4,916,990	$ 54,287	$ 4,888,488	$ 27,131
Total impaired loans:				
Real estate mortgage	$ 6,213,862	$ 54,287	$ 6,742,931	$ 27,131
Processing and marketing	613,573	-	-	-
Farm-related business	13,096	-	13,096	-
Rural residential real estate	14,193	-	8,564	-
	$ 6,854,724	$ 54,287	$ 6,764,591	$ 27,131

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

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Rural Residential Real Estate	Total
Allowance for Credit Losses:					
Balance at December 31, 2012	$ 2,830,928	$ 22,138	$ 467,703	$ 5,395	$ 3,326,164
Charge-offs	(22,763)	-	-	(7,566)	(30,329)
Provision for loan losses	41,347	5,714	14	8,929	56,004
Balance at March 31, 2013	$ 2,849,512	$ 27,852	$ 467,717	$ 6,758	$ 3,351,839
Ending Balance:					
Individually evaluated for impairment	$ 1,094,744	$ -	$ 466,086	$ -	$ 1,560,830
Collectively evaluated for impairment	1,754,768	27,852	1,631	6,758	1,791,009
Balance at December 31, 2011	$ 2,300,327	$ 6,634	$ 114	$ 3,930	$ 2,311,005
Charge-offs	(100,800)	-	-	-	(100,800)
Provision for loan losses	336,572	2,022	(2)	1,296	339,888
Balance at March 31, 2012	$ 2,536,099	$ 8,656	$ 112	$ 5,226	$ 2,550,093
Ending Balance:					
Individually evaluated for impairment	$ 854,607	$ -	$ -	$ -	$ 854,607
Collectively evaluated for impairment	1,681,713	8,435	112	5,226	1,695,486

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Rural Residential Real Estate	Total
Recorded Investments in Loans Outstanding:					
Ending Balance at March 31, 2013	$431,517,976	$ 13,926,849	$ 4,652,621	$ 5,265,992	$455,363,438
Individually evaluated for impairment	$ 7,249,487	$ -	$ 1,451,158	$ -	$ 8,700,645
Collectively evaluated for impairment	$424,268,489	$ 13,926,849	$ 3,201,463	$ 5,265,992	$446,662,793
Ending Balance at March 31, 2012	$414,908,057	$ 7,032,332	$ 3,410,095	$ 5,441,498	$430,791,982
Individually evaluated for impairment	$ 6,599,180	$ -	$ 13,096	$ -	$ 6,612,276
Collectively evaluated for impairment	$408,308,877	$ 7,032,332	$ 3,396,999	$ 5,441,498	$424,179,706

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

During the first quarter of 2013, the Association issued a $5,334,166 patronage distribution to its members which reflects 60 percent of the Association's patronage-sourced net earnings for 2012.

NOTE 4 – CAPITAL MARKETS

Until the second quarter of 2007, the Association participated in the Capital Markets of the South (CMS), a joint venture created in 2003 for the purpose of expanding the participants' lending opportunities. The CMS group was comprised of the Association, Alabama Ag Credit, ACA, Mississippi Land Bank, ACA, Southern Ag Credit, ACA, and Louisiana Land Bank, ACA. During the second quarter of 2007, the CMS members decided to discontinue and dissolve the joint venture. The associations will continue to service the existing CMS loan portfolio, with revenue and expenses continuing to be shared accordingly as noted below, until such time as all of the loans are fully matured or paid off.

Pursuant to the terms of the alliance, each of the five CMS participating associations generally shares equally in the costs of operating the venture. The Association's pro-rata share of income from CMS operations is recorded in the statement of income in their respective line items. The Association's pro-rata share of expenses from CMS operations is recorded in the statement of income in the line item "Purchased services."

As of March 31, 2013 and December 31, 2012, the Association had CMS related loan volume outstanding in the amount of $6,125,600 and $6,046,423 respectively. The Association had unfunded commitments on CMS loans of $1,431,000 as of March 31, 2013, as compared to $1,536,000 for the year ended December 31, 2012.

NOTE 5 — INCOME TAXES:

Alabama Farm Credit, ACA and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During the three months ended March 31, 2013, the Association did participate in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. The Association had no taxable income or tax deferments for the three months ended March 31, 2013, and 2012.

The subsidiary, Alabama Farm Credit, FLCA, is exempt from federal and other income tax as provided in the Farm Credit Act of 1971.

NOTE 6 — FAIR VALUE MEASUREMENTS:

Accounting guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. See Note 14 to the 2012 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

March 31, 2013	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 1,683,332**	**$ 1,683,332**
Other property owned	**$ -**	**$ -**	**$ 3,538,620**	**$ 3,538,620**

December 31, 2012	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 1,095,165	$ 1,095,165
Other property owned	$ -	$ -	$ 3,413,520	$ 3,413,520

*Represents the fair value of certain loans that were evaluated for impairment under authoritative guidance "Accounting by Creditors for Impairment of a Loan." The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Valuation Techniques

As more fully discussed in Note 14 to the 2012 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association's assets and liabilities. For a more complete description, see Notes to the 2012 Annual Report to Stockholders.

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral-dependent loans for which real estate is the collateral. 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. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value, which is generally determined using appraisals or other indications based on comparable sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs of nonpension other postretirement employee benefits for the three months ended March 31:

	Other Benefits	
	2013	2012
Service cost	**$ 9,198**	$ 7,231
Interest cost	**18,861**	18,584
Amortization of prior service credits	**(10,093)**	(11,924)
Amortizations of net actuarial loss	**8,425**	4,694
Net periodic benefit cost	**$ 26,391**	$ 18,585

The Association recognizes its amortized annual contributions to the plan as an expense. The Association previously disclosed in its financial statements for the year ended December 31, 2012, that it expected to contribute $50,366 to the district's other postretirement plan in 2013. As of March 31, 2013, $10,486 of contributions have been made. The Association presently anticipates contributing an additional $31,458 to fund the defined benefit pension plan in 2013 for a total of $41,944. The

Association's liability for the unfunded accumulated obligation for these benefits at March 31, 2013, was $1,754,926 and is included in "Other Liabilities" in the balance sheet.

The Association's accumulated other comprehensive loss relates entirely to its nonpension other postretirement benefits. The following table summarizes the changes in accumulated other comprehensive loss for the three months ended March 31:

	2013	2012
Accumulated other comprehensive loss at January 1	**$ (355,772)**	$ (130,405)
Amortization of prior service costs included in net periodic postretirement benefit cost	**(1,668)**	(7,230)
Accumulated other comprehensive loss at March 31	**$ (357,440)**	$ (137,635)

The Association also participates in the district's defined benefit pension plan is characterized as multiemployer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. In January 2013 the Association recorded its total defined benefit pension plan contribution amount of $900,567 to a prepaid account and has recognized $225,142 of expense through March 31, 2013.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 9 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 9, 2013, which is the date the financial statements were issued. There are no significant events requiring disclosure as of May 9, 2013.