AgStar Financial Services, ACA

Quarterly Report
June 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of AgStar Financial Services, ACA (the parent) and AgStar Financial Services, FLCA and AgStar Financial Services, 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 AgStar Financial Services, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports or additional copies of our report contact us at P.O. Box 4249, Mankato, MN 56002-4249, by phone (866-577-1831), by e-mail to AgStarEteam@agstar.com, or at our website, www.agstar.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail at agribankmn@agribank.com. The AgriBank and combined AgriBank and Affiliated Associations' financial reports are available through AgriBank's website at www.agribank.com.

Notice of Significant or Material Events

On May 30, 2013, we issued $100 million of Series A-1 non-cumulative perpetual preferred stock. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to current Farm Credit Administration (FCA) regulations, for the continued development of our business, and for general corporate purposes. For regulatory capital purposes, our Series A-1 preferred stock is included in permanent capital, total surplus, and core surplus, subject to certain limitations. Dividends on Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly. This issuance of preferred stock is discussed in Note 4 to the accompanying consolidated financial statements.

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.

Loan Portfolio

Loans totaled $6.0 billion at June 30, 2013, a $96.6 million increase from December 31, 2012. This increase was due to our continued focus on client service, marketing excellence, and channel development in our real estate mortgage portfolio. This increase was partially offset by repayments made by a certain segment of our clients in the grain, swine, and dairy industries resulting from tax planning that occurred in the fourth quarter of 2012.

Agricultural and Economic Conditions

We serve many sectors in agriculture including our primary industries of grain, swine, and dairy. We expect continued improvement in credit quality, delinquencies, and nonaccrual measures for the last two quarters of 2013. The United States Department of Agriculture (USDA) crop progress reported 66% of the national corn crop in good to excellent condition, which is substantially higher than the 31.1% level of a year ago. Soybeans were similarly rated at 65% being in good to excellent condition, which is 31% higher than a year ago. National yield forecasts continue to point toward an average or slightly better yield. However, certain clients in our territory have been impacted by excessive moisture this past spring, resulting in some corn acres either not being planted or being switched to soybeans.

Pork margins have shown improvement from those of a year ago as grain price declines have provided livestock producers with an opportunity to improve margins. Profit margins for dairy producers and ethanol facilities have also improved and are expected to remain positive through the end of 2013.

According to the USDA, net farm income is forecast at $128.2 billion for 2013. This is nearly 14% higher than the 2012 forecast. Over the last two years, overall conditions have been favorable for agricultural producers resulting in positive performance generally for agribusinesses. The ethanol industry experienced a challenging economic environment during 2012 and credit quality in this segment has moderated relative to the overall portfolio. Additionally, agricultural related businesses have generally been profitable and fared better during the past two years than companies not closely tied to agriculture.

Farm real estate values in our territory showed strong increases during 2012 and we expect that demand for farm real estate will remain stable this year. To date, there have been fewer sales as both buyers and sellers seem to be waiting on crop yields, interest rates, and commodity prices before deciding to buy and sell. There have also been a few 'no sales' at recent auctions. Values for transitional and recreational property remain low compared to the peak values previously reached.

Our home mortgage portfolio continues to show solid growth in 2013. Delinquency and credit quality levels have returned to pre-housing industry crisis levels. There continue to be positive signs which help sustain the housing recovery. According to the latest report from the Minnesota Association of REALTORS®, numbers are reflecting a positive trend in the market as the housing market continues to improve. There are over 2,000 more new house listings since last May. Closed sales are similarly trending upwards with a 3.8% increase and an average of 79 days on the market. The recent interest rate increases could have a moderate impact on the positive momentum the housing industry has experienced. Current rate levels are similar to July 2011 rates and are still near historic lows.

Finally, according to the U.S. Department of Labor, the national unemployment rate remained at 7.6% as of June 30, 2013.

Portfolio Credit Quality

The credit quality of our portfolio has improved from December 31, 2012. Adversely classified loans decreased to 4.0% of the portfolio at June 30, 2013, from 4.3% 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/lease losses.

In certain circumstances, we use government guarantee programs to reduce the risk of loss. At June 30, 2013, $418.9 million of our loans were, to some level, guaranteed under these governmental programs.

Excluded in the ratios and volumes discussed in this section are our investment securities. At June 30, 2013, our investment securities totaled $475.9 million, consisting of $281.7 million in mortgage backed securities issued by Federal Agricultural Mortgage Corporation and $194.2 million in investment securities, guaranteed by the Small Business Administration (SBA) or the USDA. Had this volume been included, the adversely classified asset ratio would be 3.7%.

Risk Assets

The following table summarizes risk assets including accrued interest receivable and delinquency information (dollars in thousands):

As of:	**June 30 2013**	December 31 2012
Loans:		
Nonaccrual	**$ 163,201**	$ 151,591
Accruing restructured	**1,200**	102
Accruing loans 90 days or more past due	**4,473**	126
Total risk loans	**168,874**	151,819
Other property owned	**7,647**	10,137
Total risk assets	**$ 176,521**	$ 161,956
Risk loans as a percentage of total loans	**2.8%**	2.6%
Total delinquencies as a percentage of total loans	**1.6%**	1.5%

While our overall credit quality continues to improve, our risk assets, primarily consisting of nonaccrual loan volume, has increased from December 31, 2012 and remains above our targeted level.

The increase in nonaccrual loans was due to a limited number of accounts in the dairy, swine, and telecom industries showing weaknesses in their business. Nonaccrual loan volume is above our credit standards at June 30, 2013, and represented 2.7% of our total portfolio. We are actively engaged in working with clients to provide individualized servicing plans and strategies. At June 30, 2013, 58.8% of our nonaccrual loans were current.

The increase in accruing restructured loans was primarily the result of two loans being restructured during the quarter to improve the borrowers' cash flow. Both loans are performing according to the restructure plan.

The increase in accruing loans 90 days or more past due was primarily due to a limited number of loans secured by real estate with a collection plan in place. Our accounting policy generally requires loans past due 90 days to be transferred into nonaccrual status.

Allowance for Loan/Lease Losses

The allowance for loan/lease 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/lease losses based on periodic evaluation of factors such as loan loss history, probability of default, estimated severity of loss given default, portfolio quality, and current economic and environmental conditions.

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

Allowance as a percentage of:	**June 30 2013**	December 31 2012
Loans	**0.4%**	0.5%
Nonaccrual loans	**16.1%**	17.7%
Total risk loans	**15.5%**	17.7%

In our opinion, the allowance for loan/lease losses was reasonable in relation to the risk in our loan portfolio at June 30, 2013.

Results of Operations

Net income for the six months ended June 30, 2013 totaled $49.4 million compared to $48.4 million for the same period in 2012. The following table illustrates profitability information:

As of June 30	**2013**	2012
Return on average assets	**1.5%**	1.6%
Return on average equity	**10.8%**	11.9%

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

For the six months ended June 30	**2013**	2012	**Increase (decrease) in net income**
Net interest income	**$ 84,399**	$ 76,434	**$ 7,965**
Provision for (reversal of) loan/lease losses	**820**	5,483	**4,663**
Patronage income	**8,282**	7,586	**696**
Other income	**21,195**	25,362	**(4,167)**
Operating expenses	**56,187**	54,415	**(1,772)**
Provision for income taxes	**7,513**	1,060	**(6,453)**
Net income	**$ 49,356**	$ 48,424	**$ 932**

Net interest income was $84.4 million for the six months ended June 30, 2013. The following table quantifies changes in net interest income for the six months ended June 30, 2013 compared to the same period in 2012 (in thousands):

	2013 vs 2012
Changes in AgriBank note payable and earning assets balances	**$ 10,150**
Changes in rates on AgriBank note payable and earning assets	**(2,597)**
Changes due to asset securitization	**228**
Changes in deferred income	**(28)**
Changes due to capital management	**91**
Changes in nonaccrual income and other	**121**
Net change	**$ 7,965**

The change in the provision for (reversal of) loan/lease losses was related to lower adversely classified loan volume and to lower net loan charge-offs in 2013.

The increase in patronage income was primarily related to increased patronage received from AgriBank due to an increase in our note payable and from a higher patronage rate compared to the prior year. Additionally, 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 $190 thousand 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.

The change in other income was primarily due to our share of distributions from AIRA in the amount of $6.1 million in 2012. There has not been a similar distribution in 2013. This decrease was partially offset by an increase in appraisal and secondary market loan fee income.

The change in operating expenses was primarily related to salaries and benefits expense.

The change in provision for income taxes was primarily related to the tax savings from the redemption of nonqualified patronage in the first quarter of 2012.

We originate rural home loans for resale into the secondary market. We sold loans through the secondary market totaling $37.2 million through June 30, 2013 compared to $36.3 million for the same period in 2012. The fee income from this activity totaled $816 thousand for the six months ended June 30, 2013 compared to $589 thousand for the same period of 2012.

Changes in our return on average assets and return on average 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 March 31, 2013 and was renewed for $6.5 billion with a maturity date of March 31, 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 include a marginal cost of debt component, a spread component, which includes cost of servicing, cost of liquidity, and bank profit, and a risk premium component, if applicable. We were not subject to the risk premium component at June 30, 2013 or December 31, 2012.

Total equity increased $145.4 million from December 31, 2012 primarily due to our issuance of preferred stock, discussed in the Notice of Significant or Material Events above, and to net income for the period, partially offset by redemptions of nonqualified patronage allocations.

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 9 in our 2012 Annual Report for a more complete description of these ratios. As of June 30, 2013, the ratios were as follows:

- The permanent capital ratio was 14.9%.
- The total surplus ratio was 14.6%.
- The core surplus ratio was 11.7%.

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 AgStar Financial Services, ACA's June 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.

Spencer Enninga
Chairperson of the Board
AgStar Financial Services, ACA

Paul A. DeBriyn
President and Chief Executive Officer
AgStar Financial Services, ACA

Rodney W. Hebrink
Executive Vice President and Chief Financial Officer
AgStar Financial Services, ACA

August 9, 2013

CONSOLIDATED STATEMENTS OF CONDITION

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

		June 30 2013		December 31 2012
ASSETS				
Loans	**$**	**6,009,977**	$	5,913,336
Allowance for loan/lease losses		**26,257**		26,814
Net loans		**5,983,720**		5,886,522
Investment securities		**475,917**		484,092
Assets held for lease, net		**36,431**		35,296
Accrued interest receivable		**53,947**		45,029
Investment in AgriBank, FCB		**144,344**		141,137
Premises and equipment, net		**17,136**		18,128
Other property owned		**7,647**		10,137
Other assets		**40,417**		44,031
Total assets	**$**	**6,759,559**	$	6,664,372
LIABILITIES				
Note payable to AgriBank, FCB	**$**	**5,564,338**	$	5,610,487
Subordinated debt		**100,000**		100,000
Accrued interest payable		**21,678**		22,628
Deferred tax liabilities, net		**7,424**		8,751
Other liabilities		**48,962**		50,785
Total liabilities		**5,742,402**		5,792,651
Contingencies and commitments		**--**		--
EQUITY				
Capital stock and participation certificates		**15,811**		15,655
Preferred stock		**100,000**		--
Allocated surplus		**329,519**		302,789
Unallocated surplus		**571,827**		553,277
Total equity		**1,017,157**		871,721
Total liabilities and equity	**$**	**6,759,559**	$	6,664,372

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

CONSOLIDATED STATEMENTS OF INCOME

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

For the period ended June 30	*Three Months Ended* **2013**	2012	*Six Months Ended* **2013**	2012
Interest income	**$ 66,647**	$ 63,136	**$ 131,599**	$ 126,928
Interest expense	**23,601**	24,923	**47,200**	50,494
Net interest income	**43,046**	38,213	**84,399**	76,434
Provision for (reversal of) loan/lease losses	**(809)**	3,759	**820**	5,483
Net interest income after provision for (reversal of) loan/lease losses	**43,855**	34,454	**83,579**	70,951
Other income				
Patronage income	**4,209**	4,375	**8,282**	7,586
Net operating lease income	**402**	479	**799**	938
Financially related services income	**4,983**	5,863	**9,642**	12,385
Allocated insurance reserve accounts distribution	**--**	6,057	**--**	6,057
Fee and miscellaneous income, net	**3,300**	3,912	**10,754**	5,982
Total other income	**12,894**	20,686	**29,477**	32,948
Operating expenses				
Salaries and employee benefits	**19,996**	18,809	**39,283**	37,570
Other operating expenses	**8,719**	8,252	**16,904**	16,845
Total operating expenses	**28,715**	27,061	**56,187**	54,415
Income before income taxes	**28,034**	28,079	**56,869**	49,484
Provision for income taxes	**3,494**	3,557	**7,513**	1,060
Net income	**$ 24,540**	$ 24,522	**$ 49,356**	$ 48,424

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AgStar Financial Services, ACA
(in thousands)
(Unaudited)

	Capital Stock and Participation Certificates	Preferred Stock	Allocated Surplus	Unallocated Surplus	Total Equity
Balance at December 31, 2011	$ 14,859	$ --	$ 290,517	$ 500,860	$ 806,236
Net income	--	--	--	48,424	48,424
Surplus allocated as nonqualified patronage	--	--	23,694	(23,694)	--
Redemption of prior year allocated patronage	--	--	(18,976)	--	(18,976)
Capital stock/participation certificates issued	972	--	--	--	972
Capital stock/participation certificates retired	(678)	--	--	--	(678)
Balance at June 30, 2012	$ 15,153	$ --	$ 295,235	$ 525,590	$ 835,978
Balance at December 31, 2012	$ 15,655	$ --	$ 302,789	$ 553,277	$ 871,721
Net income	**--**	**--**	**--**	**49,356**	**49,356**
Surplus allocated as nonqualified patronage	**--**	**--**	**27,104**	**(27,104)**	**--**
Redemption of prior year allocated patronage	**--**	**--**	**(374)**	**--**	**(374)**
Preferred stock issued	**--**	**100,000**	**--**	**(3,702)**	**96,298**
Capital stock/participation certificates issued	**938**	**--**	**--**	**--**	**938**
Capital stock/participation certificates retired	**(782)**	**--**	**--**	**--**	**(782)**
Balance at June 30, 2013	**$ 15,811**	**$ 100,000**	**$ 329,519**	**$ 571,827**	**$ 1,017,157**

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 six months ended June 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.

The consolidated financial statements present the consolidated financial results of AgStar Financial Services, ACA (the parent) and AgStar Financial Services, FLCA and AgStar Financial Services, 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/Lease Losses

Loans consisted of the following (dollars in thousands):

As of:	**June 30, 2013**		December 31, 2012	
	Amount	%	Amount	%
Real estate mortgage	**$ 3,068,033**	**51.0%**	$ 2,889,701	48.9%
Production and intermediate term	**1,699,989**	**28.3%**	1,761,770	29.8%
Agribusiness	**574,771**	**9.6%**	610,220	10.3%
Energy	**163,765**	**2.7%**	162,628	2.8%
Other	**503,419**	**8.4%**	489,017	8.2%
Total	**$ 6,009,977**	**100.0%**	$ 5,913,336	100.0%

The other category is comprised of loans originated under our Mission Related Investment authority, finance and conditional sales leases, and communication, rural residential real estate, and water and waste water loans.

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 June 30, 2013						
Real estate mortgage	**$ 25,343**	**$ 33,775**	**$ 59,118**	**$ 3,037,968**	**$ 3,097,086**	**$ 4,464**
Production and intermediate term	**6,705**	**4,557**	**11,262**	**1,704,640**	**1,715,902**	**9**
Agribusiness	**41**	**208**	**249**	**576,984**	**577,233**	**--**
Energy	**--**	**--**	**--**	**163,886**	**163,886**	**--**
Other	**3,217**	**21,403**	**24,620**	**480,109**	**504,729**	**--**
Total	**$ 35,306**	**$ 59,943**	**$ 95,249**	**$ 5,963,587**	**$ 6,058,836**	**$ 4,473**
As of December 31, 2012						
Real estate mortgage	$ 16,719	$ 33,589	$ 50,308	$ 2,861,770	$ 2,912,078	$ 99
Production and intermediate term	2,561	5,051	7,612	1,768,005	1,775,617	27
Agribusiness	14,158	892	15,050	597,616	612,666	--
Energy	--	--	--	162,779	162,779	--
Other	3,523	10,854	14,377	475,943	490,320	--
Total	$ 36,961	$ 50,386	$ 87,347	$ 5,866,113	$ 5,953,460	$ 126

Risk Loans

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

As of:	June 30 2013	December 31 2012
Volume with specific reserves	**$ 44,645**	$ 20,279
Volume without specific reserves	**124,229**	131,540
Total risk loans	**$ 168,874**	$ 151,819
Total specific reserves	**$ 7,104**	$ 5,524
For the six months ended June 30	**2013**	2012
Income on accrual risk loans	**$ 129**	$ 10
Income on nonaccrual loans	**2,135**	2,014
Total income on risk loans	**$ 2,264**	$ 2,024
Average risk loans	**$ 168,503**	$ 183,670

While our overall credit quality continues to improve, our risk assets, primarily consisting of nonaccrual loan volume, has increased from December 31, 2012 and remains above our targeted level.

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, also known as formally restructured. 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/lease 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 troubled debt restructurings that occurred during the six months ended June 30 (in thousands):

	2013		2012	
	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Real estate mortgage	**$ 954**	**$ 955**	$ 4,059	$ 4,059
Production and intermediate term	**75**	**75**	756	768
Rural residential real estate	**135**	**135**	--	--
Total	**$ 1,164**	**$ 1,165**	$ 4,815	$ 4,827

Pre-modification outstanding represents the recorded investment just prior to restructuring and post-modification outstanding represents the recorded investment immediately following the restructuring. The recorded investment 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.

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

	2013	2012
Real estate mortgage	**$ --**	$ 305
Production and intermediate term	**--**	175
Total	**$ --**	$ 480

Troubled debt restructurings outstanding at June 30, 2013 totaled $33.0 million, all but $1.2 million of which were in nonaccrual status compared to $37.0 million at December 31, 2012 of which all but $102 thousand were in nonaccrual status. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $4.8 million at June 30, 2013.

Allowance for Loan/Lease Losses

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

Six months ended June 30		**2013**		2012
Balance at beginning of year	**$**	**26,814**	$	26,833
Provision for (reversal of) loan/lease losses		**820**		5,483
Loan recoveries		**844**		2,394
Loan charge-offs		**(2,221)**		(4,181)
Other		**--**		4
Balance at end of period	**$**	**26,257**	$	30,533

The decrease in allowance for loan/lease losses was related to $4.7 million of lower provision expense recorded in 2013 compared to one year ago, reflecting the improvements in adverse loan volume and reduced net charge-offs. In our opinion, the allowance for loan/lease losses was reasonable in relation to the risk in our loan portfolio at June 30, 2013.

NOTE 3: Investment Securities

We held investment securities of $475.9 million at June 30, 2013 and $484.1 million at December 31, 2012. Our investment securities consisted of:

- securities containing loans guaranteed by the Small Business Administration (SBA) or by the U.S. Department of Agriculture (USDA), and
- mortgage-backed securities issued by the Federal Agricultural Mortgage Corporation (Farmer Mac).

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):

		Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	Weighted Average Yield
As of June 30, 2013									
SBA/USDA	**$**	**194,237**	**$**	**2,098**	**$**	**(7,156)**	**$**	**189,179**	**3.8%**
Farmer Mac		**281,680**		**2,172**		**(3,495)**		**280,357**	**4.5%**
Total	**$**	**475,917**	**$**	**4,270**	**$**	**(10,651)**	**$**	**469,536**	**4.2%**
As of December 31, 2012									
SBA/USDA	$	181,442	$	2,117	$	(5,215)	$	178,344	3.8%
Farmer Mac		302,650		5,361		(112)		307,899	4.7%
Total	$	484,092	$	7,478	$	(5,327)	$	486,243	4.4%

Investment income is recorded in “Interest income” on the Consolidated Statements of Income and totaled $8.6 million and $9.6 million for the six months ended June 30, 2013 and 2012, respectively.

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

As of June 30, 2013		Amortized Cost
Less than one year	**$**	**1,689**
One to five years		**28,052**
Five to ten years		**99,189**
More than ten years		**346,987**
Total	**$**	**475,917**

NOTE 4: Capital

On May 30, 2013, we issued $100 million of Series A-1 non-cumulative perpetual preferred stock, representing 100,000 shares at $1,000 per share par value. This series may be held or transferred in blocks having an aggregate par value of not less than $250,000 and an investor must hold at least 250 shares. We used the net proceeds from the Series A-1 preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations, for the continued development of our business, and for general corporate purposes.

Dividends on the Series A-1 preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears on the 15th day of February, May, August, and November, beginning on August 15, 2013. Dividends will accrue at a fixed annual rate of 6.75% from the date of issuance through August 14, 2023, and beginning on August 15, 2023 will accrue at an annual rate equal to the 3-month USD LIBOR rate, reset quarterly, plus 4.58%. The Series A-1 preferred stock is not mandatorily redeemable at any time. However, the Series A-1 preferred stock will be redeemable at par value, in whole or in part, at our option, quarterly beginning on August 15, 2023. In addition, the Series A-1 preferred stock will be redeemable in whole, at our option, at any time upon the occurrence of certain defined regulatory events. Series A-1 preferred stockholders do not have any voting rights, but may appoint two board observers after six unpaid dividend payments.

The Series A-1 preferred stock is junior to any subordinated debt, existing and future debt obligations, and to any series of preferred stock we may issue in the future with priority rights. Series A-1 preferred stock is senior to outstanding Class B, C, or D common stock, Class E participation certificates, Class H preferred stock, and patronage equities.

NOTE 5: 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 6: Fair Value Measurements

The accounting guidance defines fair value 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 14 in our 2012 Annual Report for a more complete description of the three input levels.

We do not have any assets or liabilities measured at fair value on a recurring basis at June 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 June 30, 2013					
Loans	**$ --**	**$ 1,568**	**$ 37,850**	**$ 39,418**	**$ (5,187)**
Other property owned	**--**	**--**	**9,417**	**9,417**	**(1,393)**
As of December 31, 2012					
Loans	$ --	$ 1,774	$ 13,719	$ 15,493	$ (1,828)
Other property owned	--	--	12,065	12,065	(1,484)

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 7: Subsequent Events

We have evaluated subsequent events through August 9, 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.