GreenStone Farm Credit 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 GreenStone Farm Credit Services, ACA (the parent) and GreenStone Farm Credit Services, FLCA and GreenStone Farm Credit 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 GreenStone Farm Credit 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 3515 West Road, East Lansing, MI 48823, (800) 968-0061, or by e-mail to *Travis.Jones@greenstonefcs.com*, or through our website at *www.greenstonefcs.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*.

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

World economic and geopolitical events remain volatile. The Eurozone continues to struggle with sovereign debt issues. Japan, a very large export destination for dairy and protein, is devaluing its currency in an effort to jump start GDP growth. This move will make our agriculture exports more expensive and less competitive. The Middle East and North Korea also remain political wild cards. United States agriculture has a significant level of exports to China and other developing countries that are vulnerable to any contraction of economic growth beyond forecasted levels in 2013. The slowdown of economic activity and currency management in China is an area of focus.

General economic conditions of the United States, and in particular the state of Michigan, continue to show signs of incremental improvement. As reported by the Wall Street Journal on July 5, 2013, the Bureau of Labor Statistics announced that employers added 195,000 jobs in June along with positive revisions in job growth numbers for the months of April and May. As reported by Yahoo! Finance, the auto industry grew 13.4% to a five-year high of 14.5 million vehicles in 2012 with 2013 sales continuing in a strong fashion. Manufacturing jobs have increased in a corresponding manner in Michigan which in turn has resulted in an improved level of activity in new construction in the housing sector. Housing starts and existing home sale activity has improved nationally and as a result improved financial performance has been observed in the timber industry. With continued signs of economic improvement, the bond market is anticipating the Federal Reserve will move to reduce long term bond purchasing levels. As a result, overall bond yields have started to increase starting May 1, 2013. The benchmark 10-year Treasury bond has increased from 1.66% on May 1, 2013 to 2.73% as of July 5, 2013.

The United States Department of Agriculture (USDA) is forecasting 2013 net farm income at $128.2 billion. This would be a 14% increase over 2012 and would be the highest level of net farm income since 1973 when adjusted for inflation. Primary drivers continue to be strong commodity prices for "old crop" grain inventory raised in 2012 and sold in 2013, crop insurance proceeds along with improving profit margins and outlooks for the protein and dairy sectors.

Spring came late this year in Michigan and Northeast Wisconsin with abnormally cold and wet weather conditions. Early indications are the late, wet spring will have a negative impact on the financial results for the greenhouse industry. The orchard crops in Michigan are in good to excellent condition at the mid-way point of the year. Overall, moderating rain patterns and continued heat units are needed for the crop to come in on an average level. There is significant variability in the condition of the hay and row crops at the mid-point of 2013. Our net farm income expectations for 2013 continue to be more modest than that of the USDA. Assuming a normal growing season, corn and soybean prices have the potential to decrease significantly with the large grain crop that has been planted this year. The ability of our borrowers to manage expenses, commodity price, and production volatility will be tested over the next 12 – 18 months. If USDA projected grain prices materialize, profit margins for less efficient operations will move to a negative net income level.

Good-quality land continues to sell very quickly. Land prices have experienced significant upward pressure over the past 24 months in the Michigan Thumb, Southwest corner of Michigan, and in portions of Northeast Wisconsin. Our annual study of real estate values documented an increase of 7 – 23% for bare farm land for the period ending June 30, 2012 with a significant portion of our territory realizing approximately 20% increases in land values. Overall, land sale results over the past nine months have been strong with a wide range of prices throughout our territory.

Loan Portfolio

Owned loan volume totaled $5.9 billion at June 30, 2013, a $150.9 million increase from December 31, 2012.

Total owned and managed loan volume, including serviced volume on the real estate loans sold to AgriBank was $6.3 billion at June 30, 2013, a $122.1 million increase from December 31, 2012. Our combined mortgage portfolio increased $203.2 million, or 4.7% from December 31, 2012. The asset growth in this part of our portfolio during the period was attributed to all retail market segments. Our short term commercial loan portfolio decreased $80.7 million or 4.5% from December 31, 2012. This reduction is attributed to significant repayment of principal in the first half of 2013 as well as slower than typical operating loan disbursements due to the high levels of earnings based liquidity in many of our major commodity and industry segments. Secondly, this comparison is affected by the level of tax planning disbursements that were drawn as of December 31, 2012. The level of short term asset volume is up 5.5% when compared to June 30, 2012. This growth year over year is supported by high activity in our retail farm market segments in both operating loans and intermediate term loan advances.

Portfolio Credit Quality

Credit quality continued to improve during the first half of 2013. Acceptable loan and lease credit quality, as measured under the Uniform Classification System, increased to 95.8% after beginning the year at 94.8%. Year over year, credit quality improved 2.2 percentage points from 93.6% Acceptable at June 30, 2012. The level of loan quality is currently above the strategic objective of 90.0% of the portfolio rated Acceptable. Portfolio assets criticized as being less than Acceptable are comprised of 1.0% Other Assets Especially Mentioned (OAEM), and 3.2% Adversely classified. Adversely classified loans decreased 0.7 percentage points from 3.9% of the portfolio at December 31, 2012.

Adversely classified loans are identified as having material credit weaknesses which, if left uncorrected, result in a greater than normal risk. Portfolio credit quality is considered when assessing the reasonableness of our allowance for loan losses. The resulting level of credit quality, when combined with our earnings and addition to capital surplus, results in an adverse loan to risk funds ratio of 22.2%. This ratio has improved since December 31, 2012 when it was 27.8%. This ratio is a good measure of our risk bearing ability.

In certain circumstances, we use government guarantee programs to reduce the risk of loss. At June 30, 2013, $299.5 million of our loans were, to some level, guaranteed under these programs.

Risk Assets

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

As of:	**June 30 2013**	December 31 2012
Loans:		
Nonaccrual	**$62,618**	$70,104
Accruing restructured	**1,665**	850
Accruing loans 90 days or more past due	**7**	--
Total risk loans	**64,290**	70,954
Acquired property	**28,521**	31,928
Total risk assets	**$92,811**	$102,882
Risk loans as a percentage of total loans	**1.1%**	1.2%
Total delinquencies as a percentage of total loans	**0.5%**	0.7%

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.

Nonaccrual loans decreased from $70.1 million at December 31, 2012 to $62.6 million at June 30, 2013. As of June 30, 2013, the nonaccrual loan portfolio volume was comprised of approximately 33% greenhouse and nursery loans, 22% part-time farmers, and 16% dairy loans. The volume of nonaccrual loans at June 30, 2013 represented 1.1% of the total portfolio with 68.0% current in their payment status.

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.

Acquired property inventory decreased from $31.9 million at December 31, 2012 to $28.5 million at June 30, 2013. The improvement was primarily due to the sale of 61 acquired properties consisting of greenhouse and nursery, home sites, part-time farms, bare land, residential, and recreational property assets. During the first half of 2013, 32 properties were added which consisted of thirteen residential properties, five part-time farms, seven home sites, and seven bare land properties.

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 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	**0.7%**	0.7%
Nonaccrual loans	**62.4%**	59.9%
Total risk loans	**61.0%**	59.1%

The allowance for loan losses decreased $2.9 million from December 31, 2012 to June 30, 2013. During the first six months of 2013, a reversal of loan loss provision of $2.6 million was recorded as well as $319 thousand of net charge-offs. The decrease in the allowance for loan losses is primarily due to improved credit quality. In our opinion, the allowance for loan 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 $65.6 million compared to $71.0 million for the same period in 2012. The following table illustrates profitability information:

As of June 30	**2013**	2012
Return on average assets	**2.2%**	2.6%
Return on average members' equity	**12.2%**	14.5%

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	**$85,071**	$78,585	**$6,486**
Reversal of loan loss provision	**(2,592)**	(3,163)	**(571)**
Patronage income	**12,028**	11,511	**517**
Financially related services income	**3,722**	4,161	**(439)**
Fee income	**1,512**	1,685	**(173)**
Acquired property net loss	**(921)**	(21)	**(900)**
Allocated insurance reserve accounts distribution	**--**	5,209	**(5,209)**
Miscellaneous income, net	**847**	1,028	**(181)**
Operating expenses	**34,202**	31,121	**(3,081)**
Provision for income taxes	**5,022**	3,156	**(1,866)**
Net income	**$65,627**	$71,044	**($5,417)**

Net interest income was $85.1 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 volume	**$9,053**
Changes in rates	**(2,496)**
Changes in nonaccrual income and other	**(71)**
Net change	**$6,486**

The change in patronage income was primarily related to increased patronage received from AgriBank due to a higher patronage rate compared to the prior year and an increased partnership distribution resulting from our participation in the AgDirect trade credit financing program.

The change in allocated insurance reserve accounts distribution was due to our share of distributions from Allocated Insurance Reserve Accounts of $5.2 million in 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 operating expenses was primarily related to increases in salaries and employee benefits compared to the prior year.

The change in provision for income taxes was primarily related to higher taxable income on the taxable ACA entity resulting from a reversal of loan loss provision in that entity.

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. 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 members' equity increased $54.9 million from December 31, 2012 primarily due to net income for the period partially offset by patronage distribution accruals.

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 June 30, 2013, the ratios were as follows:

- The permanent capital ratio was 15.0%.
- The total surplus ratio was 14.7%.
- The core surplus ratio was 14.7%.

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 GreenStone Farm Credit 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.

Scott A. Roggenbuck
Chairperson of the Board
GreenStone Farm Credit Services, ACA

David B. Armstrong
Chief Executive Officer
GreenStone Farm Credit Services, ACA

Travis D. Jones
Chief Financial Officer
GreenStone Farm Credit Services, ACA

August 6, 2013

CONSOLIDATED STATEMENTS OF CONDITION

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

	June 30 2013	December 31 2012
ASSETS		
Loans	**$5,877,757**	$5,726,832
Allowance for loan losses	**39,053**	41,964
Net loans	**5,838,704**	5,684,868
Investment in AgriBank, FCB	**151,310**	151,615
Investment securities	**36,293**	40,757
Accrued interest receivable	**42,405**	38,015
Premises and equipment, net	**32,382**	30,764
Acquired property	**28,521**	31,928
Deferred tax assets, net	**1,341**	3,167
Other assets	**41,464**	46,955
Total assets	**$6,172,420**	$6,028,069
LIABILITIES		
Note payable to AgriBank, FCB	**$5,004,285**	$4,903,770
Accrued interest payable	**18,754**	19,721
Patronage distribution payable	**11,300**	26,495
Other liabilities	**34,260**	29,176
Total liabilities	**5,068,599**	4,979,162
Contingencies and commitments	**--**	--
MEMBERS' EQUITY		
Protected members' equity	**3**	3
Capital stock and participation certificates	**20,308**	19,742
Unallocated surplus	**1,083,510**	1,029,162
Total members' equity	**1,103,821**	1,048,907
Total liabilities and members' equity	**$6,172,420**	$6,028,069

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

CONSOLIDATED STATEMENTS OF INCOME

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Three Months Ended		*Six Months Ended*	
For the period ended June 30	**2013**	2012	**2013**	2012
Interest income	**$61,628**	$59,016	**$122,484**	$118,028
Interest expense	**18,755**	19,597	**37,413**	39,443
Net interest income	**42,873**	39,419	**85,071**	78,585
Reversal of loan loss provision	**(1,312)**	(1,401)	**(2,592)**	(3,163)
Net interest income after reversal of loan loss provision	**44,185**	40,820	**87,663**	81,748
Non-interest income				
Patronage income	**5,877**	6,207	**12,028**	11,511
Financially related services income	**1,634**	1,645	**3,722**	4,161
Fee income	**756**	729	**1,512**	1,685
Acquired property net loss	**(646)**	(310)	**(921)**	(21)
Allocated insurance reserve accounts distribution	**--**	5,209	**--**	5,209
Miscellaneous income, net	**243**	486	**847**	1,028
Total non-interest income	**7,864**	13,966	**17,188**	23,573
Operating expenses				
Salaries and employee benefits	**10,448**	9,824	**21,321**	20,175
Other operating expenses	**6,741**	5,639	**12,881**	10,946
Total operating expenses	**17,189**	15,463	**34,202**	31,121
Income before income taxes	**34,860**	39,323	**70,649**	74,200
Provision for income taxes	**2,731**	2,061	**5,022**	3,156
Net income	**$32,129**	$37,262	**$65,627**	$71,044

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

GreenStone Farm Credit Services, ACA
(in thousands)
(Unaudited)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2011	$4	$18,512	$929,501	$948,017
Net income	--	--	71,044	71,044
Unallocated surplus designated for patronage distributions	--	--	(10,753)	(10,753)
Capital stock/participation certificates issued	--	1,305	--	1,305
Capital stock/participation certificates retired	--	(760)	--	(760)
Balance at June 30, 2012	$4	$19,057	$989,792	$1,008,853
Balance at December 31, 2012	$3	$19,742	$1,029,162	$1,048,907
Net income	**--**	**--**	**65,627**	**65,627**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(11,279)**	**(11,279)**
Capital stock/participation certificates issued	**--**	**1,282**	**--**	**1,282**
Capital stock/participation certificates retired	**--**	**(716)**	**--**	**(716)**
Balance at June 30, 2013	**$3**	**$20,308**	**$1,083,510**	**$1,103,821**

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.

The consolidated financial statements present the consolidated financial results of GreenStone Farm Credit Services, ACA (the parent) and GreenStone Farm Credit Services, FLCA and GreenStone Farm Credit 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 Losses

Loans consisted of the following (dollars in thousands):

As of:	**June 30, 2013**		December 31, 2012	
	Amount	%	Amount	%
Real estate mortgage	**$3,482,820**	**59.2%**	$3,301,886	57.6%
Production and intermediate term	**1,790,462**	**30.5**	1,820,234	31.8
Agribusiness	**322,320**	**5.5**	321,429	5.6
Other	**282,155**	**4.8**	283,283	5.0
Total	**$5,877,757**	**100.0 %**	$5,726,832	100.0 %

The other category is comprised of communication, energy, and rural residential real estate related loans, and finance leases as well as loans originated under our Mission Related Investment authority.

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	**$8,152**	**$11,439**	**$19,591**	**$3,488,230**	**$3,507,821**	**$ --**
Production and intermediate term	**3,277**	**2,311**	**5,588**	**1,799,870**	**1,805,458**	**7**
Agribusiness	**75**	**71**	**146**	**323,686**	**323,832**	**--**
Other	**4,267**	**1,660**	**5,927**	**276,789**	**282,716**	**--**
Total	**$15,771**	**$15,481**	**$31,252**	**$5,888,575**	**$5,919,827**	**$7**
As of December 31, 2012						
Real estate mortgage	$18,691	$7,158	$25,849	$3,296,584	$3,322,433	$ --
Production and intermediate term	5,742	2,495	8,237	1,827,626	1,835,863	--
Agribusiness	82	206	288	322,219	322,507	--
Other	4,293	1,866	6,159	277,550	283,709	--
Total	$28,808	$11,725	$40,533	$5,723,979	$5,764,512	$ --

Risk Loans

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

As of:	June 30 2013	December 31 2012
Volume with specific reserves	**$40,786**	$45,517
Volume without specific reserves	**23,504**	25,437
Total risk loans	**$64,290**	$70,954
Total specific reserves	**$18,407**	$20,067

For the six months ended June 30	2013	2012
Income on accrual risk loans	**$32**	$12
Income on nonaccrual loans	**491**	991
Total income on risk loans	**$523**	$1,003
Average risk loans	**$69,316**	$90,000

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 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	**$185**	**$185**	$569	$564
Production and intermediate term	**2,186**	**2,186**	996	1,011
Total	**$2,371**	**$2,371**	$1,565	$1,575

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	**$ --**	$384
Production and intermediate term	**37**	297
Total	**$37**	$681

Troubled debt restructurings outstanding at June 30, 2013 totaled $8.0 million, of which $6.4 million were in nonaccrual status compared to $6.2 million at December 31, 2012 of which $5.3 million were in nonaccrual status. Additional commitments to lend to borrowers whose loans have been modified in a troubled debt restructuring were $52 thousand as of June 30, 2013.

Allowance for Loan Losses

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

Six months ended June 30	**2013**	2012
Balance at beginning of year	**$41,964**	$49,771
Reversal of loan loss provision	**(2,592)**	(3,163)
Loan recoveries	**2,342**	2,074
Loan charge-offs	**(2,661)**	(3,591)
Balance at end of period	**$39,053**	$45,091

The allowance for loan losses decreased $2.9 million from December 31, 2012 to June 30, 2013. During the first six months of 2013, a reversal of loan loss provision of $2.6 million was recorded as well as $319 thousand of net charge-offs. The decrease in the allowance for loan losses is primarily due to improved credit quality.

NOTE 3: Investment Securities

We held investment securities of $36.3 million at June 30, 2013 and $40.8 million at December 31, 2012. Our investment securities consisted of loans guaranteed by the Small Business Administration. These 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):

As of:	**June 30 2013**	December 31 2012
Amortized cost	**$36,293**	$40,757
Unrealized gains	**1,153**	1,116
Unrealized losses	**--**	--
Fair value	**$37,446**	$41,873
Weighted average yield	**1.4%**	1.7%

Investment income is recorded in “Interest income” on the Consolidated Statements of Income and totaled $261 thousand and $359 thousand for the six months ended June 30, 2013 and 2012, respectively.

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

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 13 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
	Level 1	Level 2	Level 3	Value	Losses
As of June 30, 2013					
Loans	**$ --**	**$13,242**	**$10,255**	**$23,497**	**($1,001)**
Acquired property	**--**	**4,648**	**25,210**	**29,858**	**(861)**
As of December 31, 2012					
Loans	$ --	$14,125	$12,597	$26,722	($14,427)
Acquired property	--	5,601	27,538	33,139	(9,196)

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.

Acquired property: 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 August 6, 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.