2012
Annual Report

Progressive Farm Credit Services, ACA

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Progressive Farm Credit Services, ACA

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AgriBank, FCB's (AgriBank) financial condition and results of operations materially impact members' investment in Progressive Farm Credit Services, ACA. To request free copies of the AgriBank and combined AgriBank and Affiliated Associations' financial reports contact us at 1116 N. Main Street, Sikeston, Missouri 63801, (573) 471-0342, or via e-mail at progressivefcs@progressivefcs.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 also available through AgriBank's website at www.agribank.com.

To request free copies of our Annual or Quarterly Reports contact us as stated above. The Annual Report is available on our website approximately 75 days after the end of the calendar year and members are provided a copy of such report 90 days after the end of the calendar year. The Quarterly Reports are available on our website approximately 40 days after the end of each calendar quarter.

CONSOLIDATED FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Progressive Farm Credit Services, ACA

(Dollars in thousands)

	2012	2011	2010	2009	2008
Statement of Condition Data					
Loans	**$527,074**	$463,973	$468,065	$430,280	$393,211
Allowance for loan losses	**517**	768	660	986	202
Net loans	**526,557**	463,205	467,405	429,294	393,009
Investment in AgriBank, FCB	**11,673**	11,090	11,963	11,353	11,090
Investment securities	**6,764**	8,183	10,083	12,474	14,803
Other property owned	**--**	--	260	210	--
Other assets	**12,217**	12,911	13,655	12,040	12,292
Total assets	**$557,211**	$495,389	$503,366	$465,371	$431,194
Obligations with maturities of one year or less	**$453,843**	$400,490	$416,653	$388,592	$361,525
Total liabilities	**453,843**	400,490	416,653	388,592	361,525
Protected members' equity	**1**	2	2	5	6
Capital stock and participation certificates	**1,818**	1,792	1,910	1,923	1,841
Unallocated surplus	**101,549**	93,105	84,801	74,851	67,822
Total members' equity	**103,368**	94,899	86,713	76,779	69,669
Total liabilities and members' equity	**$557,211**	$495,389	$503,366	$465,371	$431,194
Statement of Income Data					
Net interest income	**$15,622**	$15,163	$14,271	$12,785	$11,756
(Reversal of) provision for loan losses	**(242)**	110	181	988	193
Patronage income	**1,362**	1,307	1,746	1,151	1,066
Other expense, net	**4,847**	4,395	3,710	4,115	4,237
(Benefit from) provision for income taxes	**(49)**	(89)	683	550	174
Net income	**$12,428**	$12,054	$11,443	$8,283	$8,218
Key Financial Ratios					
Return on average assets	**2.4%**	2.4%	2.3%	1.9%	1.9%
Return on average members' equity	**12.6%**	13.3%	14.1%	11.4%	12.2%
Net interest income as a percentage of average earning assets	**3.1%**	3.2%	3.1%	3.1%	2.9%
Members' equity as a percentage of total assets	**18.6%**	19.2%	17.2%	16.5%	16.2%
Net charge-offs as a percentage of average loans	**0.0%**	--	0.1%	--	--
Allowance for loan losses as a percentage of loans	**0.1%**	0.2%	0.1%	0.2%	0.1%
Permanent capital ratio	**16.3%**	16.3%	14.5%	13.8%	13.1%
Total surplus ratio	**16.0%**	16.0%	14.1%	13.4%	12.7%
Core surplus ratio	**16.0%**	16.0%	14.1%	13.2%	12.5%
Other					
Patronage distribution payable to members	**$4,000**	$3,750	$1,500	$1,250	$3,010

The patronage distribution to members accrued for the year ended December 31, 2012 is distributed in cash during the first quarter of 2013. The patronage distributions accrued for the years ended December 31, 2011, 2010, 2009, and 2008 were distributed in cash during the first quarter of each subsequent year. No income was distributed to members in the form of dividends, stock, or allocated surplus during these periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Progressive Farm Credit Services, ACA

The following commentary reviews the consolidated financial position and consolidated results of operations of Progressive Farm Credit Services, ACA and its subsidiaries and provides additional specific information. The accompanying consolidated financial statements and notes to the consolidated financial statements also contain important information about our financial position and results of operations.

The Farm Credit System

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2012, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 82 customer owned cooperative lending institutions (associations). The System serves all 50 states, Washington D.C., and Puerto Rico. This network of financial cooperatives is owned and operated by the rural customers the System serves – the American farmer and rancher.

AgriBank, FCB (AgriBank), a System bank, and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). Progressive Farm Credit Services, ACA is one of the affiliated associations in the District.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. The Farm Credit System Insurance Corporation (Insurance Corporation) ensures the timely payment of principal and interest on Systemwide debt obligations, the retirement of protected borrower capital at par or stated value, and is used for other specified purposes.

Forward-Looking Information

This Annual Report includes forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict. Words such as "anticipate", "believe", "estimate", "may", "expect", "intend", and similar expressions are used to identify such forward-looking statements. These statements reflect our current views with respect to future events. However, actual results may differ materially from our expectations due to a number of risks and uncertainties which may be beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory, financial, and economic conditions and developments in the United States (U.S.) and abroad,
- economic fluctuations in the agricultural and farm-related business sectors,
- unfavorable weather, disease, and other adverse climatic or biological conditions that periodically occur and impact agricultural productivity and income,
- changes in U.S. government support of the agricultural industry and the System as a government-sponsored enterprise, as well as investor and rating agency actions relating to events involving the U.S. government, other government-sponsored enterprises, and other financial institutions,
- actions taken by the Federal Reserve System in implementing monetary policy,
- credit, interest rate, and liquidity risk inherent in our lending activities, and
- changes in our assumptions for determining the allowance for loan losses, other than temporary impairment, and fair value measurements.

Loan Portfolio

Total loans were $527.1 million at December 31, 2012, an increase of $63.1 million from December 31, 2011. The components of total loans are outlined in the following table (in thousands):

As of December 31	**2012**	2011	2010
Real estate mortgage	**$279,710**	$238,064	$225,673
Production and intermediate term	**212,805**	188,833	197,236
Agribusiness	**7,231**	11,247	19,399
Rural residential real estate	**873**	965	1,125
Other	**25,819**	23,367	20,634
Nonaccrual	**636**	1,497	3,998
Total loans	**$527,074**	$463,973	$468,065

The other category is comprised of loans originated under our Mission Related Investment authority.

The increase in total loans from December 31, 2011 resulted primarily from an increase in mortgage loans, as a result of marketing efforts and low interest rate environment, and an increase in commercial loans due to increases in operating loans as a result of the drought conditions in our territory throughout the year.

We offer variable, fixed, indexed, and adjustable interest rate loan programs to our borrowers. We determine interest margins charged on each lending program based on cost of funds, market conditions, and the need to generate sufficient earnings.

Portfolio Distribution

We are chartered to serve certain counties in Missouri. Approximately 87.1% of our total loan portfolio was in Butler, Cape Girardeau, Dunklin, Mississippi, New Madrid, Pemiscot, Scott and Stoddard counties at December 31, 2012.

Commodities exceeding 5% of our portfolio included: cotton 26.4%, corn 21.9%, soybeans 17.4%, and rice 16.6%. Other noteworthy commodities with less than 5% concentration in our portfolio included: beef 3.8% and landlords 2.0%. Additional commodity distribution is included in Note 3.

Our production and intermediate term loan portfolio shows some seasonality. Borrowings increase throughout the planting and growing seasons as farmers' operating and capital needs rise. These loans are normally at their lowest levels during the winter months because of operating repayments following harvest.

Agricultural and Economic Conditions

Drought Impact

Extensive drought in the U.S., particularly in the Midwest, reduced crop yields resulting in increased crop prices. Multi-peril crop insurance (MPCI) will generally mitigate the economic impact of the drought for most crop producers. These insurance policies range in coverage levels from catastrophic and yield protection (at the lower end) to revenue protection (at the higher end).

The MPCI policies are sold and serviced through private insurance companies designated by the USDA to provide insurance coverage. These companies share the risk of loss by reinsuring with large reinsurance companies. In addition, the USDA and its Federal Crop Insurance Corporation reinsures a portion of the risk along with the other private reinsurance companies.

The USDA has reported that 84% of corn and soybean acres (collectively) were covered under MPCI in 2012. This is modestly lower than the 88% and 85% for corn and soybeans, respectively, covered in 2011. The majority of these policies provide for revenue protection. In addition, many crop producers have strengthened their financial positions over the past several years and are expected to withstand the financial impact of the drought. However, increased prices for corn and soybeans and other grains are placing pressure on livestock, poultry, ethanol and dairy producers who rely on these inputs. Some producers mitigated a portion of this risk by locking in prices for these inputs for 2012. However, some users of corn and soybeans in our portfolio will be unable to avoid some level of losses as we move into 2013.

Local Economic Conditions

While there was a material decrease in yields for some producers in southeast Missouri due to the hot and dry drought conditions during the summer, irrigation, high commodity prices and/or crop insurance coverage protected their repayment capacity.

Analysis of Risk

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

As of December 31	**2012**	2011	2010
Loans:			
Nonaccrual	**$636**	$1,497	$3,998
Accruing restructured	**--**	--	--
Accruing loans 90 days or more past due	**--**	477	--
Total risk loans	**636**	1,974	3,998
Other property owned	**--**	--	260
Total risk assets	**$636**	$1,974	$4,258
Risk loans as a percentage of total loans	**0.1%**	0.4%	0.8%
Total delinquencies as a percentage of total loans	**0.1%**	0.2%	0.5%

Our risk assets have decreased from December 31, 2011 and remain at acceptable levels. Total risk loans as a percentage of total loans remains well within our established risk management guidelines.

The decrease in nonaccrual loans was due to several loans paying off during the year along with a restructuring of a large mortgage loan. Nonaccrual loans remained at an acceptable level at December 31, 2012, and represented 0.1% of our total portfolio. At December 31, 2012, 42.1% of our nonaccrual loans were current.

The decrease in accruing loans 90 days or more past due was due to a loan payoff.

Portfolio Credit Quality

The credit quality of our portfolio improved during 2012. Adversely classified loans decreased to 0.4% of the portfolio at December 31, 2012, from 1.7% of the portfolio at December 31, 2011. Adversely classified loans are loans we have identified as showing some credit weakness outside our credit standards. We have considered portfolio credit quality in assessing the reasonableness of our allowance for loan losses.

In certain circumstances, we use government guarantee programs to reduce the risk of loss. At December 31, 2012, $36.4 million of our loans were, to some level, guaranteed under these government programs.

Analysis of the 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 the 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 allowance coverage, charge-off, and adverse asset information:

As of December 31	**2012**	2011	2010
Allowance as a percentage of:			
Loans	**0.1%**	0.2%	0.1%
Nonaccrual loans	**81.3%**	51.3%	16.5%
Total risk loans	**81.3%**	38.9%	16.5%
Net charge-offs as a percentage of average loans	**--**	--	0.1%
Adverse assets to risk funds	**2.3%**	9.5%	9.9%

The decrease in the allowance is due to a re-evaluation of collateral on an ethanol participation along with our current expectations of the credit risk in our portfolio composition. Actual nonaccrual loans decreased from 2011 year end as discussed previously. While the allowance as a percent of total loans decreased to 0.1%, the reduction in nonaccrual loans had a significant effect when comparing the reserve to nonaccrual loans and risk funds.

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at December 31, 2012.

Additional loan information is included in Notes 3, 11, 12, 13, and 14.

Investment Securities

In addition to loans, we hold investment securities. Investments include our share of securities made up of a portion of loans guaranteed by the Small Business Administration. Investment securities totaled $6.8 million, $8.2 million, and $10.1 million at December 31, 2012, 2011, and 2010, respectively.

The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio.

Additional investment securities information is included in Notes 5 and 14.

Results of Operations

The following table illustrates profitability information (dollars in thousands):

For the year ended December 31	**2012**	2011	2010
Net income	**$12,428**	$12,054	$11,443
Return on average assets	**2.4%**	2.4%	2.3%
Return on average members' equity	**12.6%**	13.3%	14.1%

Changes in these ratios relate directly to:

- changes in income as discussed below,
- changes in assets as discussed in the Loan Portfolio and Investment Securities sections, and
- changes in members' equity as discussed in the Capital Adequacy section.

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

	Year ended December 31			Increase (decrease) in net income	
	2012	2011	2010	**2012 vs 2011**	2011 vs. 2010
Net interest income	**$15,622**	$15,163	$14,271	**$459**	$892
(Reversal of) provision for loan losses	**(242)**	110	181	**352**	71
Patronage income	**1,362**	1,307	1,746	**55**	(439)
Other income, net	**1,880**	1,946	2,295	**(66)**	(349)
Operating expenses	**6,727**	6,341	6,005	**(386)**	(336)
(Benefit from) provision for income taxes	**(49)**	(89)	683	**(40)**	772
Net income	**$12,428**	$12,054	$11,443	**$374**	$611

Net Interest Income

Net interest income was $15.6 million for the year ended December 31, 2012. The following table quantifies changes in net interest income (in thousands):

	2012 vs. 2011	2011 vs. 2010
Changes in volume	**$917**	$683
Changes in rates	**(327)**	84
Changes in nonaccrual income and other	**(131)**	125
Net change	**$459**	$892

Net interest income included income on nonaccrual loans that totaled $47 thousand, $178 thousand, and $18 thousand in 2012, 2011, and 2010, respectively. Nonaccrual income is recognized when:

- received in cash,
- collection of the recorded investment is fully expected, and
- prior charge-offs have been recovered.

Net interest margin (net interest income divided by average earning assets) was 3.1%, 3.2%, and 3.1% in 2012, 2011, and 2010, respectively. We expect margins to compress in the future as interest rates rise and competition increases.

(Reversal of) Provision for Loan Losses

The variance in the (reversal of) provision for loan losses is related to a reduction of the specific reserve on a loan participation, in addition to our estimate of losses in our portfolio for the applicable years. Refer to Note 3 for additional discussion.

Patronage Income

We received patronage income based on the average balance of our note payable to AgriBank. AgriBank's Board of Directors sets the patronage rate. We recorded patronage income of $1.3 million, $1.3 million, and $1.7 million in 2012, 2011, and 2010, respectively. Changes in our note payable to AgriBank and patronage rate changes caused the variances in the patronage income amounts. The patronage rates paid by AgriBank were 32 basis points, 31 basis points, and 42 basis points in 2012, 2011, and 2010, respectively.

We received another component of patronage, referred to as equalization income, from AgriBank. The quarterly average balance of any excess stock investment in AgriBank is used to determine this amount. Additionally, we earn equalization on any stock investment in AgriBank required to be held when our growth exceeds a targeted growth rate. The equalization rate is set by AgriBank's Board of Directors and is targeted at the average cost of funds for all affiliated associations as a group. Equalization income totaled $18 thousand, $41 thousand, and $44 thousand for 2012, 2011, and 2010, respectively.

Other Income

The change in other income is primarily due to the following:

- The decrease in financially related services income primarily due to a decrease in multi-peril crop insurance income.
- The increase in Allocated Insurance Reserve Accounts (AIRA) distribution as a result of our share of distributions from AIRA. We received $478 thousand during 2012 and $457 thousand during 2010. These reserve accounts were established in previous years by the Insurance Corporation when premiums collected increased the level of the Farm Credit Insurance Fund beyond the required 2% of insured debt. There was no distribution in 2011.
- The decrease in other losses and gains is primarily due to a write-down of a premium on a large loan that paid off during the month of December.

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Operating Expenses

The following presents a comparison of operating expenses by major category and the operating rate (operating expenses as a percentage of average earning assets) for the past three years (dollars in thousands):

For the year ended December 31	**2012**	2011	2010
Salaries and employee benefits	**$4,519**	$4,190	$4,017
Purchased and vendor services	**790**	725	659
Communications	**57**	65	60
Occupancy and equipment	**443**	469	478
Advertising and promotion	**178**	164	154
Examination	**188**	183	165
FCS insurance	**198**	236	191
Other	**354**	309	281
Total operating expenses	**$6,727**	$6,341	$6,005
Operating rate	**1.3%**	1.3%	1.3%

The operating expense increases were primarily related to increased salaries and employee benefits expense, due to higher incentive accruals based upon improved performance and increases in other employee benefits, and increased purchased and vendor services expense.

(Benefit from) Provision for Income Taxes

The variance in (benefit from) provision for income taxes is related to our estimate of taxes based on taxable income. Patronage distributions to members reduced our tax liability in 2012, 2011, and 2010. Refer to Note 9 for additional discussion.

Funding and Liquidity

Funding

We borrow from AgriBank under a note payable, in the form of a line of credit, as described in Note 7. During 2012, our average balance was $417.9 million with an average interest rate of 1.4%. Our average balance during 2011 was $407.9 million with an average interest rate of 1.6% and during 2010 our average balance was $405.1 million with an average interest rate of 1.7%. Our other source of lendable funds is from unallocated surplus. 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.

Liquidity

Our approach to sustaining sufficient liquidity to fund operations and meet current obligations is to maintain an adequate line of credit with AgriBank. At December 31, 2012, we had $127.9 million available under our line of credit. We generally apply excess cash to this line of credit.

We have a financial relationship with Federal Agricultural Mortgage Corporation (Farmer Mac), an institution of the System, to provide a standby commitment program for the repayment of principal and interest on certain loans. In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac. This program remains in place until receipt of full payment. Our loans in this program totaled $3.8 million, $3.8 million, and $3.9 million as of December 31, 2012, 2011, and 2010, respectively.

Capital Adequacy

Total members' equity increased $8.3 million during 2012 primarily due to net income for the period and a small increase in capital stock and participation certificates partially offset by patronage distribution accruals.

Members' equity position information follows (dollars in thousands):

As of December 31	**2012**	2011	2010
Members' equity	**$103,368**	$94,899	$86,713
Surplus as a percentage of members' equity	**98.2%**	98.1%	97.8%
Permanent capital ratio	**16.3%**	16.3%	14.5%
Total surplus ratio	**16.0%**	16.0%	14.1%
Core surplus ratio	**16.0%**	16.0%	14.1%

Our capital plan is designed to maintain an adequate amount of surplus and allowance for loan losses which represents our reserve for adversity prior to impairment of stock. We manage our capital to allow us to meet member needs and protect member interests, both now and in the future.

At December 31, 2012, our permanent capital, total surplus, and core surplus ratios significantly exceeded the regulatory minimum requirements. Additional discussion of these regulatory ratios is included in Note 8.

In addition to these regulatory requirements, we establish an optimum permanent capital target. This target allows us to maintain a capital base adequate for future growth and investment in new products and services. The target is subject to revision as circumstances change. As of December 31, 2012, our optimum permanent capital target was 13.0%.

The changes in our capital ratios reflect changes in capital and assets. Refer to the Loan Portfolio and the Investment Securities sections for further discussion of the changes in assets. Additional members' equity information is included in Note 8.

Initiatives

We are involved in a few initiatives designed to improve our credit delivery, related services, and marketplace presence.

Farm Cash Management

We offer Farm Cash Management to our members. Farm Cash Management links members' revolving lines of credit with an AgriBank investment bond to optimize members' use of funds.

Agriculture and Rural Community Bond Program

We participate in the Agriculture and Rural Community Bond Program authorized during 2006 by the FCA in order to meet the changing needs of agriculture and rural America by making investments that support farmers, ranchers, agribusinesses, and their rural communities and businesses. These investments will help to increase their well-being and prosperity by providing an adequate flow of capital into rural areas. We had $310 thousand, $312 thousand, and $434 thousand of volume under this program at December 31, 2012, 2011, and 2010, respectively.

Relationship with AgriBank

Borrowing

We borrow from AgriBank to fund our lending operations in accordance with the Farm Credit Act. Approval from AgriBank is required for us to borrow elsewhere. A General Financing Agreement, as discussed in Note 7, governs this lending relationship.

Cost of funds under the General Financing Agreement includes:

- 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.

The marginal cost of debt approach simulates matching the cost of underlying debt with substantially the same terms as the anticipated terms of our loans to borrowers. This methodology substantially protects us from market interest rate risk.

In the periods presented, we were not subject to the risk premium component.

Investment

We are required to invest in AgriBank capital stock as a condition of borrowing. This investment may be in the form of purchased stock or stock representing previously distributed AgriBank surplus. As of December 31, 2012, we were required to maintain a stock investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate. AgriBank's current bylaws allow AgriBank to increase the required investment to 4.0%. However, AgriBank currently has not communicated a plan to increase the required investment.

At December 31, 2012, $11.2 million of our investment in AgriBank consisted of stock representing distributed AgriBank surplus and $432 thousand consisted of purchased investment. For the periods presented in this report, we have received no dividend income on this stock investment and we do not anticipate any in future years.

Patronage

We receive different types of discretionary patronage from AgriBank. AgriBank's Board of Directors sets the level of patronage for each of the following:

- patronage on our note payable with AgriBank, and
- equalization income based on our excess stock or growth required stock investment in AgriBank

Patronage income on our note payable with AgriBank was received in the form of cash and AgriBank stock.

Purchased Services

We purchase various services from AgriBank including certain:

- financial and retail systems, support, and reporting,
- technology services,
- insurance services, and
- internal audit services.

The total cost of services we purchased from AgriBank was $475 thousand, $500 thousand, and $455 thousand in 2012, 2011, and 2010, respectively. Beginning in January 2012, benefit, human resource information systems, payroll, and workforce management services were purchased from Farm Credit Foundations (Foundations), which resulted in a decrease in total cost of services purchased from AgriBank.

Impact on Members' Investment

Due to the nature of our financial relationship with AgriBank, the financial condition and results of operations of AgriBank materially impact our members' investment. To request free copies of the AgriBank and the combined AgriBank and Affiliated Associations' financial reports contact us at 1116 N. Main Street, Sikeston, Missouri 63801, (573) 471-0342, or via e-mail at progressivefcs@progressive.com. You may also contact AgriBank at 30 East 7th Street, Suite 1600, St. Paul, MN 55101, (651) 282-8800, or by e-mail to agribankmn@agribank.com. The reports are also available through AgriBank's website at www.agribank.com.

To request free copies of our Annual or Quarterly Reports contact us as stated above. The Annual Report is available on our website no later than 75 days after the end of the calendar year and members are provided a copy of such report no later than 90 days after the end of the calendar year. The Quarterly Reports are available on our website approximately 40 days after the end of each calendar quarter.

Relationship with Other Farm Credit Institutions

Insight Technology Unit

We participate in the Insight Technology Unit (Insight) with certain other AgriBank District associations to facilitate the development and maintenance of certain technology systems essential to providing credit to our borrowers. Insight is governed by representatives of each participating association. The expenses are shared pro rata based on the number of loans and leases of each participant.

Investment in Other Farm Credit Institutions

We have a relationship with CoBank, ACB (CoBank), a System bank, which involves purchasing or selling participation interests in loans. As part of this relationship, our equity investment in CoBank was $1 thousand at December 31, 2012, 2011, and 2010. CoBank provides direct loan funds to associations in its chartered territory and also makes loans to cooperatives and other eligible borrowers.

In addition, we have a relationship with Foundations which involves purchasing benefit, human resource information systems, payroll, and workforce management services. Foundations was operated as part of AgriBank prior to January 1, 2012 when it formed a System service corporation and thus is no longer operated as part of AgriBank. As of December 31, 2012, our investment in Foundations was $11 thousand. The total cost of services we purchased from Foundations was $68 thousand in 2012.

REPORT OF MANAGEMENT

Progressive Farm Credit Services, ACA

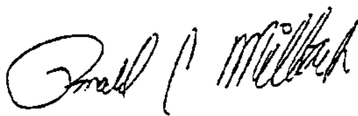
We prepare the consolidated financial statements of Progressive Farm Credit Services, ACA (the Association) and are responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The consolidated financial statements, in our opinion, fairly present the financial condition of the Association. Other financial information included in the Annual Report is consistent with that on the consolidated financial statements.

To meet our responsibility for reliable financial information, we depend on accounting and internal control systems designed to provide reasonable but not absolute assurance that assets are safeguarded and transactions are properly authorized and recorded. Costs must be reasonable in relation to the benefits derived when designing accounting and internal control systems. Financial operations audits are performed to monitor compliance. PricewaterhouseCoopers LLP, our independent auditors, audit the consolidated financial statements. They also conduct a review of internal controls to the extent necessary to comply with generally accepted auditing standards in the United States of America. The Farm Credit Administration also performs examinations for safety and soundness as well as compliance with applicable laws and regulations.

The Board of Directors has overall responsibility for our system of internal control and financial reporting. The Board of Directors and its Audit Committee consults regularly with us and meets periodically with the independent auditors and other auditors to review the scope and results of their work. The independent auditors have direct access to the Board of Directors, which is composed solely of directors who are not officers or employees of the Association.

The undersigned certify we have reviewed the Association's Annual Report and it has been prepared in accordance with all applicable statutory or regulatory requirements and the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

Markel D. Yarbro
Chairperson of the Board
Progressive Farm Credit Services, ACA



Ronald C. Milbach
Chief Executive Officer
Progressive Farm Credit Services, ACA

Vernon D. Griffith
Chief Financial Officer
Progressive Farm Credit Services, ACA

March 7, 2013

REPORT OF AUDIT COMMITTEE

Progressive Farm Credit Services, ACA

The consolidated financial statements were prepared under the oversight of the Audit Committee. The Audit Committee is composed of the entire Board of Directors of Progressive Farm Credit Services, ACA (the Association). The Audit Committee oversees the scope of the Association's internal audit program, the approval, and independence of PricewaterhouseCoopers LLP (PwC) as independent auditors, the adequacy of the Association's system of internal controls and procedures, and the adequacy of management's action with respect to recommendations arising from those auditing activities. The Audit Committee's responsibilities are described more fully in the Internal Control Policy and the Audit Committee Charter.

Management is responsible for internal controls and the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. PwC is responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards in the United States of America and to issue their report based on their audit. The Audit Committee's responsibilities include monitoring and overseeing these processes.

In this context, the Audit Committee reviewed and discussed the audited consolidated financial statements for the year ended December 31, 2012, with management. The Audit Committee also reviewed with PwC the matters required to be discussed by Statement on Auditing Standards No. 114, *The Auditor's Communication with Those Charged with Governance*, and both PwC and the internal auditors directly provided reports on significant matters to the Audit Committee.

The Audit Committee had discussions with and received written disclosures from PwC confirming its independence. The Audit Committee also reviewed the non-audit services provided by PwC, if any, and concluded these services were not incompatible with maintaining PwC's independence. The Audit Committee discussed with management and PwC such other matters and received such assurances from them as the Audit Committee deemed appropriate.

Based on the foregoing review and discussions, and relying thereon, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in the Annual Report for the year ended December 31, 2012.

Phillip M. Showmaker
Chairperson of the Audit Committee
Progressive Farm Credit Services, ACA

<u>Audit Committee Members:</u>
Phillip M. Showmaker, Chairperson
Michael Aufdenberg
Edward C. Marshall III
Darrell Nichols
James Priggel
John Robinson
Marty Vancil
Markel Yarbro

March 7, 2013

Independent Auditor's Report

To the Board of Directors and Members of Progressive Farm Credit Services, ACA,

We have audited the accompanying consolidated financial statements of Progressive Farm Credit Services, ACA (the Association) and its subsidiaries, which comprise the consolidated statements of condition as of December 31, 2012, 2011 and 2010, and the related consolidated statements of income, changes in members' equity and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Progressive Farm Credit Services, ACA and its subsidiaries at December 31, 2012, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 7, 2013

PricewaterhouseCoopers LLP, 225 South Sixth Street, Suite 1400, Minneapolis, MN 55402
T: (612) 596 6000, www.pwc.com/us

CONSOLIDATED STATEMENTS OF CONDITION

Progressive Farm Credit Services, ACA

(in thousands)

As of December 31	2012	2011	2010
ASSETS			
Loans	**$527,074**	$463,973	$468,065
Allowance for loan losses	**517**	768	660
Net loans	**526,557**	463,205	467,405
Investment in AgriBank, FCB	**11,673**	11,090	11,963
Investment securities	**6,764**	8,183	10,083
Accrued interest receivable	**7,555**	8,024	8,077
Premises and equipment, net	**2,656**	2,790	2,951
Other property owned	**--**	--	260
Deferred tax assets, net	**305**	282	171
Other assets	**1,701**	1,815	2,456
Total assets	**$557,211**	$495,389	$503,366
LIABILITIES			
Note payable to AgriBank, FCB	**$445,971**	$392,910	$411,294
Accrued interest payable	**1,510**	1,588	1,749
Patronage distribution payable	**4,000**	3,750	1,500
Other liabilities	**2,362**	2,242	2,110
Total liabilities	**453,843**	400,490	416,653
Contingencies and commitments	**--**	--	--
MEMBERS' EQUITY			
Protected members' equity	**1**	2	2
Capital stock and participation certificates	**1,818**	1,792	1,910
Unallocated surplus	**101,549**	93,105	84,801
Total members' equity	**103,368**	94,899	86,713
Total liabilities and members' equity	**$557,211**	$495,389	$503,366

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

CONSOLIDATED STATEMENTS OF INCOME

Progressive Farm Credit Services, ACA

(in thousands)

Year ended December 31	**2012**	2011	2010
Interest income	**$21,386**	$21,494	$21,191
Interest expense	**5,764**	6,331	6,920
Net interest income	**15,622**	15,163	14,271
(Reversal of) provision for loan losses	**(242)**	110	181
Net interest income after (reversal of) provision for loan losses	**15,864**	15,053	14,090
Other income			
Patronage income	**1,362**	1,307	1,746
Financially related services income	**1,433**	1,660	1,774
Fee income	**16**	55	31
Allocated insurance reserve accounts distribution	**478**	--	457
Miscellaneous (loss) income, net	**(47)**	231	33
Total other income	**3,242**	3,253	4,041
Operating Expenses			
Salaries and employee benefits	**4,519**	4,190	4,017
Other operating expenses	**2,208**	2,151	1,988
Total operating expenses	**6,727**	6,341	6,005
Income before income taxes	**12,379**	11,965	12,126
(Benefit from) provision for income taxes	**(49)**	(89)	683
Net income	**$12,428**	$12,054	$11,443

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

Progressive Farm Credit Services, ACA

(in thousands)

	Protected Members' Equity	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2009	$5	$1,923	$74,851	$76,779
Net income	--	--	11,443	11,443
Unallocated surplus designated for patronage distributions	--	--	(1,493)	(1,493)
Capital stock/participation certificates issued	--	146	--	146
Capital stock/participation certificates retired	(3)	(159)	--	(162)
Balance at December 31, 2010	2	1,910	84,801	86,713
Net income	--	--	12,054	12,054
Unallocated surplus designated for patronage distributions	--	--	(3,750)	(3,750)
Capital stock/participation certificates issued	--	108	--	108
Capital stock/participation certificates retired	--	(226)	--	(226)
Balance at December 31, 2011	**2**	**1,792**	**93,105**	**94,899**
Net income	**--**	**--**	**12,428**	**12,428**
Unallocated surplus designated for patronage distributions	**--**	**--**	**(3,984)**	**(3,984)**
Capital stock/participation certificates issued	**--**	**167**	**--**	**167**
Capital stock/participation certificates retired	**(1)**	**(141)**	**--**	**(142)**
Balance at December 31, 2012	**$1**	**$1,818**	**$101,549**	**$103,368**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Progressive Farm Credit Services, ACA

(in thousands)

Year ended December 31	**2012**	2011	2010
Cash flows from operating activities			
Net income	**$12,428**	$12,054	$11,443
Depreciation on premises and equipment	**196**	228	251
Loss (gain) on sale of premises and equipment	**2**	(185)	10
Amortization of premiums on loans and investment securities	**707**	687	698
(Reversal of) provision for loan losses	**(242)**	110	181
Stock patronage received from AgriBank, FCB	**(756)**	(854)	(610)
(Gain) loss on other property owned	**--**	(8)	48
Changes in operating assets and liabilities:			
Accrued interest receivable	**468**	53	(1,348)
Other assets	**102**	530	(427)
Accrued interest payable	**(78)**	(161)	56
Other liabilities	**120**	132	(1,866)
Net cash provided by operating activities	**12,947**	12,586	8,436
Cash flows from investing activities			
(Increase) decrease in loans, net	**(63,705)**	3,597	(38,961)
Redemptions of investment in AgriBank, FCB, net	**173**	1,727	--
(Purchases) of investment in other Farm Credit Institutions, net	**(11)**	--	--
Decrease in investment securities, net	**1,376**	1,740	2,162
Proceeds from sales of other property owned	**--**	268	162
(Purchases) sales of premises and equipment, net	**(64)**	118	(117)
Net cash (used in) provided by investing activities	**(62,231)**	7,450	(36,754)
Cash flows from financing activities			
Increase (decrease) in note payable to AgriBank, FCB, net	**53,061**	(18,384)	29,621
Patronage distributions	**(3,734)**	(1,500)	(1,243)
Capital stock and participation certificates (retired), net	**(43)**	(152)	(60)
Net cash provided by (used in) financing activities	**49,284**	(20,036)	28,318
Net change in cash	**--**	--	--
Cash at beginning of year	**--**	--	--
Cash at end of year	**$ --**	$ --	$ --
Supplemental schedule of non-cash activities			
Stock financed by loan activities	**$123**	$73	$89
Stock applied against loan principal	**54**	39	45
Stock applied against interest	**1**	--	--
Interest transferred to loans	**--**	--	16
Loans transferred to other property owned	**--**	--	260
Patronage distributions payable to members	**4,000**	3,750	1,500
Supplemental information			
Interest paid	**$5,842**	$6,492	$6,864
Taxes paid	**(179)**	48	928

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Progressive Farm Credit Services, ACA

NOTE 1: ORGANIZATION AND OPERATIONS

System and District

The Farm Credit System (System) is a nationwide system of cooperatively owned banks and associations established by Congress to meet the credit needs of American agriculture. At December 31, 2012, the System consisted of three Farm Credit Banks, one Agricultural Credit Bank, and 82 associations. AgriBank, FCB (AgriBank), a System bank, and its affiliated associations are collectively referred to as the AgriBank Farm Credit District (AgriBank District or the District). At December 31, 2012, the District consisted of 17 Agricultural Credit Associations (ACA) that each have wholly-owned Federal Land Credit Association (FLCA) and Production Credit Association (PCA) subsidiaries.

FLCAs are authorized to originate long-term real estate mortgage loans. PCAs are authorized to originate short-term and intermediate-term loans. ACAs are authorized to originate long-term real estate mortgage loans and short-term and intermediate-term loans either directly or through their subsidiaries. Associations are authorized to provide lease financing options for agricultural purposes and are also authorized to purchase and hold certain types of investments. AgriBank provides funding to all associations chartered within the District.

Associations are authorized to provide, either directly or in participation with other lenders, credit and related services to eligible borrowers. Eligible borrowers may include farmers, ranchers, producers or harvesters of aquatic products, rural residents, and farm-related service businesses. In addition, associations can participate with other lenders in loans to similar entities. Similar entities are parties that are not eligible for a loan from a System lending institution, but have operations that are functionally similar to the activities of eligible borrowers.

The Farm Credit Administration (FCA) is authorized by Congress to regulate the System banks and associations. We are examined by the FCA and certain association actions are subject to the prior approval of the FCA and/or AgriBank.

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is used:

- to ensure the timely payment of principal and interest on Farm Credit Systemwide debt obligations,
- to ensure the retirement of protected borrower capital at par or stated value, and
- for other specified purposes.

At the discretion of the Insurance Corporation, the Insurance Fund is also available to provide assistance to certain troubled System institutions and for the operating expenses of the Insurance Corporation. Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund equal 2% of the aggregated insured obligations adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments. This percentage of aggregate obligations can be changed by the Insurance Corporation, at its sole discretion, to a percentage it determines to be actuarially sound.

The basis for assessing premiums is debt outstanding with adjustments made for nonaccrual loans and impaired investment securities which are assessed a surcharge while guaranteed loans and investment securities are deductions from the premium base. AgriBank, in turn, assesses premiums to the associations each year based on similar factors.

Association

Progressive Farm Credit Services, ACA and its subsidiaries, Progressive Farm Credit Services, FLCA and Progressive Farm Credit Services, PCA (the subsidiaries) are lending institutions of the System. We are a member-owned cooperative providing credit and credit-related services to, or for the benefit of, eligible members for qualified agricultural purposes in the counties of Bolinger, Butler, Cape Girardeau, Carter, Dunklin, Mississippi, New Madrid, Pemiscot, Ripley, Scott, Stoddard, and Wayne in the state of Missouri.

We borrow from AgriBank and provide financing and related services to our members. Our ACA holds all the stock of the FLCA and PCA subsidiaries. The FLCA makes secured long-term agricultural real estate and rural home mortgage loans and holds certain types of investments. The PCA makes short-term and intermediate-term loans.

We, along with certain other System institutions, own Farm Credit Foundations (Foundations) which provides benefit, human resource information systems, payroll, and workforce management services.

We offer various risk management services, including credit life, term life, crop hail, and multi-peril crop insurance for borrowers and those eligible to borrow.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Principles and Reporting Policies

Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America (GAAP) and the prevailing practices within the financial services industry. Preparing financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

Principles of Consolidation

The consolidated financial statements present the consolidated financial results of Progressive Farm Credit Services, ACA and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation.

Significant Accounting Policies

Loans: Loans are carried at their principal amount outstanding net of any unearned income, cumulative charge-offs, and unamortized premiums or discounts on purchased loans. Loan interest is accrued and credited to interest income based upon the daily principal amount outstanding. Other loan fees are netted with the related origination costs and included as an adjustment to net interest income. The net amount of these fees and expenses are not material to the consolidated financial statements taken as a whole.

We place loans in nonaccrual status when:

- principal or interest is delinquent for 90 days or more (unless the loan is well secured and in the process of collection) or
- circumstances indicate that full collection is not expected.

When a loan is placed in nonaccrual status, we reverse current year accrued interest to the extent principal plus accrued interest before the transfer exceeds the net realizable value of the collateral. Any unpaid interest accrued in a prior year is capitalized to the recorded investment of the loan. Any cash received on nonaccrual loans is applied to reduce the recorded investment in the loan, except in those cases where the collection of the recorded investment is fully expected and the loan does not have any unrecovered prior charge-offs. In these circumstances interest is credited to income when cash is received. Loans are charged-off at the time they are determined to be uncollectible. Nonaccrual loans may be returned to accrual status when:

- principal and interest are current,
- prior charge-offs have been recovered,
- the ability of the borrower to fulfill the contractual repayment terms is fully expected,
- the borrower has demonstrated payment performance, and
- the loan is not classified as doubtful or loss.

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.

Allowance for Loan Losses: The allowance for loan losses is an estimate of losses in our loan 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,
- severity of loss given default,
- portfolio quality, and
- current economic and environmental conditions.

Loans in our portfolio that are considered impaired are analyzed individually to establish a specific allowance for impaired loans. A loan is impaired when it is probable that all amounts due under the contractual terms of the loan agreement will not be collected. We generally measure impairment based on the net realizable value of the collateral. All risk loans are considered to be impaired loans. Risk loans include:

- nonaccrual loans,
- accruing restructured loans, and
- accruing loans 90 days or more past due.

We record a specific allowance to reduce the carrying amount of the risk loan to the lower of book value or the net realizable value of collateral. When we deem a loan to be uncollectible, we charge the loan principal and prior year(s) accrued interest against the allowance for loan losses. Subsequent recoveries, if any, are added to the allowance for loan losses.

An allowance is recorded for probable and estimable credit losses as of the financial statement date for loans that are not individually assessed as impaired. We use a two-dimensional loan risk rating model that incorporates a 14-point rating scale to identify and track the probability of borrower default and a separate 6-point scale addressing the loss given default. The combination of estimated default probability and loss given default is the primary basis for recognition and measurement of loan collectability of these pools of loans.

Changes in the allowance for loan losses consist of provision activity, recorded in "(Reversal of) provision for loan losses" on the Consolidated Statements of Income, recoveries, and charge-offs.

Investment in AgriBank: Accounting for our stock investment in AgriBank is on a cost plus allocated equities basis.

Investment Securities: We are authorized to purchase and hold certain types of investments. As we have the positive intent and ability to hold these investments to maturity, they have been classified as held-to-maturity and are carried at cost adjusted for the amortization of premiums and accretion of discounts. If an investment is determined to be other-than-temporarily impaired, the carrying value of the security is written down to fair value. The impairment loss is separated into credit related and non-credit related components. The credit related component is expensed through earnings in the period of impairment. The non-credit related component is recognized in other comprehensive income and amortized over the remaining life of the security as an increase in the security's carrying amount.

Premises and Equipment: The carrying amount of premises and equipment is at cost, less accumulated depreciation. Calculation of depreciation is generally on the straight-line method over the estimated useful lives of the assets. Gains or losses on disposition are included in "Miscellaneous (loss) income, net" on the Consolidated Statements of Income. Depreciation and maintenance and repairs expenses are included in "Other operating expenses" on the Consolidated Statements of Income and improvements are capitalized.

Other Property Owned: Other property owned, consisting of real and personal property acquired through foreclosure or deed in lieu of foreclosure, is recorded at fair value less estimated selling costs upon acquisition and is included in "Other property owned" on the Consolidated Statements of Condition. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Related income, expenses, and gains or losses from operations and carrying value adjustments are included in "Miscellaneous (loss) income, net" on the Consolidated Statements of Income.

Post-Employment Benefit Plans: The District has various post-employment benefit plans in which Association employees participate.

The defined contribution plan allows eligible employees to save for their retirement either pre-tax, post-tax, or both, with an employer match on a percentage of the employee's contributions. We provide benefits under this plan in the form of a fixed percentage of salary contribution in addition to the employer match. Employer contributions are expensed when incurred.

Certain employees also participate in the defined benefit retirement plan of the District. The plan is comprised of two benefit formulas. At their option, employees hired prior to October 1, 2001 are on the cash balance formula or on the final average pay formula. Between October 1, 2001 and December 31, 2006, all new benefits-eligible employees are on the cash balance formula. Effective January 1, 2007, the defined benefit retirement plan was closed to new employees. The District plan utilizes the "Projected Unit Credit" actuarial method for financial reporting purposes and the "Entry Age Normal Cost" method for funding purposes.

We also provide certain health insurance benefits to eligible retired employees according to the terms of those benefit plans. The anticipated cost of these benefits is accrued during the employees' active service period.

Income Taxes: The ACA and PCA accrue federal and state income taxes. Deferred tax assets and liabilities are recognized for future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. Deferred tax assets are recorded if the deferred tax asset is more likely than not to be realized. If the realization test cannot be met, the deferred tax asset is reduced by a valuation allowance. The expected future tax consequences of uncertain income tax positions are accrued.

The FLCA is exempt from federal and other taxes to the extent provided in the Farm Credit Act.

Patronage Program: We accrue patronage distributions according to a prescribed formula approved by the Board of Directors. Generally, we pay the accrued patronage during the first quarter after year end.

Statements of Cash Flows: For purposes of reporting cash flow, cash includes cash on hand.

Fair Value Measurement: The Financial Accounting Standards Board (FASB) guidance on "Fair Value Measurements" describes three levels of inputs that may be used to measure fair value.

Level 1 — Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 — Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets,
- quoted prices for identical or similar assets or liabilities in markets that are not active so that they are traded less frequently than exchange-traded instruments, the prices are not current or principal market information is not released publicly,
- inputs that are observable such as interest rates and yield curves, prepayment speeds, credit risks, and default rates, and
- inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These unobservable inputs reflect our own assumptions about assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Recently Issued or Adopted Accounting Pronouncements

In December 2011, the FASB issued guidance entitled, “Balance Sheet – Disclosures about Offsetting Assets and Liabilities.” In January 2013, the FASB issued clarifying guidance surrounding the scope of financial instruments covered under this guidance. The offsetting disclosures are only applied to derivatives, repurchase agreements and securities lending transactions. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This includes the effect or potential effect of rights of setoff associated with an entity’s recognized assets and recognized liabilities. The requirements apply to in scope financial instruments that are offset in accordance with the rights of offset set forth in accounting guidance and for the financial 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 retroactively for all comparative periods and is effective for annual and interim reporting periods beginning on or after January 1, 2013. The adoption of this guidance will have no impact on our consolidated financial condition or consolidated results of operations.

In September 2011, the FASB issued guidance entitled, “Compensation – Retirement Benefits – Multiemployer Plans.” The guidance is intended to provide more information about an employer’s financial obligations to multiemployer pension and post-employment benefit plans which should help financial statement users better understand the financial health of significant plans in which the employer participates. For non-public entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2012. The adoption of this guidance did not have any impact on our consolidated financial condition or consolidated results of operations, but resulted in additional disclosures in Note 10.

In June 2011, the FASB issued guidance entitled, “Presentation of Comprehensive Income.” The guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement — referred to as the Statement of Comprehensive Income — or in two separate, but consecutive, statements. The guidance is intended to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. For non-public entities, the guidance is effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The adoption of the guidance did not have any impact on our consolidated financial condition or consolidated results of operations. If, in future periods, we have other comprehensive income, expanded financial statement presentation will be required.

In May 2011, the FASB issued guidance entitled, “Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS).” The guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The amendments include the following:

- Application of the highest and best use valuation premise is only relevant when measuring the fair value of nonfinancial assets.
- An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to market risks such as interest rate risk and credit risk of counterparties.
- Expansion of the disclosures about fair value measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use.

The amendments are to be applied prospectively. For non-public entities, the amendments are effective for annual periods beginning after December 15, 2011. The adoption of this guidance did not have any impact on our consolidated financial condition or consolidated results of operations and did not result in additional disclosures at this time.

In April 2011, the FASB issued guidance entitled, “A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” The guidance provides additional clarification to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The guidance is effective for non-public entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance did not have a significant impact on our consolidated financial condition or consolidated results of operations and did not result in additional disclosures.

NOTE 3: LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans consisted of the following (dollars in thousands):

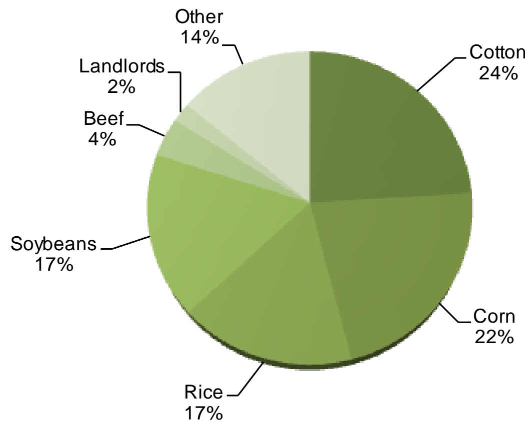
	2012		2011		2010	
As of December 31	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$280,032**	**53.1%**	$238,578	51.4%	$228,541	48.8%
Production and intermediate term	**212,869**	**40.4%**	189,478	40.8%	197,940	42.3%
Agribusiness	**7,482**	**1.4%**	11,585	2.5%	19,825	4.2%
Rural residential real estate	**873**	**0.2%**	965	0.2%	1,125	0.2%
Other	**25,818**	**4.9%**	23,367	5.1%	20,634	4.5%
Total	**$527,074**	**100.0%**	$463,973	100.0%	$468,065	100.0%

The other category is comprised of loans originated under our Mission Related Investment authority.

Portfolio Concentrations

We have concentrations with individual borrowers, within various agricultural commodities, and within our chartered territory. At December 31, 2012, volume plus commitments to our ten largest borrowers totaled an amount equal to 14.1% of total loans and commitments.

Our agricultural commodity concentrations at December 31, 2012, were as follows:



The commodity concentrations have not changed materially from prior years, with the exception of a decrease in the cotton commodity.

We are chartered to operate in certain counties in Missouri. Approximately 87.1% of our total loan portfolio was in Butler, Cape Girardeau, Dunklin, Mississippi, New Madrid, Pemiscot, Scott and Stoddard counties at December 31, 2012.

While these concentrations represent our maximum potential credit risk as it relates to recorded loan principal, a substantial portion of our lending activities are collateralized. This reduces our exposure to credit loss associated with our lending activities. We consider credit risk exposure in establishing the allowance for loan losses.

Participations

We may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, or comply with FCA Regulations or General Financing Agreement (GFA) limitations. The following table presents information regarding participations purchased and sold (in thousands):

	AgriBank, FCB		Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations		Participations		Participations		Participations	
As of December 31, 2012	Purchased	Sold	Purchased	Sold	Purchased	Sold	Purchased	Sold
Real estate mortgage	**$ --**	**$ --**	**$568**	**($4,208)**	**$118**	**$ --**	**$686**	**($4,208)**
Production and intermediate term	**--**	**--**	**--**	**(2,175)**	**--**	**--**	**--**	**(2,175)**
Agribusiness	**--**	**(3,630)**	**3,499**	**--**	**2**	**--**	**3,501**	**(3,630)**
Total	**$ --**	**($3,630)**	**$4,067**	**($6,383)**	**$120**	**$ --**	**$4,187**	**($10,013)**
As of December 31, 2011								
Real estate mortgage	$ --	$ --	$1,281	($1,283)	$126	$ --	$1,407	($1,283)
Production and intermediate term	--	--	--	(812)	--	--	--	(812)
Agribusiness	--	(1,644)	5,149	--	2	--	5,151	(1,644)
Total	$ --	($1,644)	$6,430	($2,095)	$128	$ --	$6,558	($3,739)

Information in the preceding chart excludes loans entered into under our Mission Related Investment authority.

Credit Quality and Delinquency

One credit quality indicator we utilize is the FCA Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

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

The following table summarizes loans and related accrued interest classified under the FCA Uniform Classification System by loan type (dollars in thousands):

	Acceptable		OAEM		Substandard/ Doubtful/Loss		Total	
As of December 31, 2012	Amount	%	Amount	%	Amount	%	Amount	%
Real estate mortgage	**$277,632**	**97.7%**	**$5,006**	**1.8%**	**$1,469**	**0.5%**	**$284,107**	**100.0%**
Production and intermediate term	**209,570**	**97.0%**	**6,159**	**2.9%**	**319**	**0.1%**	**216,048**	**100.0%**
Agribusiness	**7,204**	**94.7%**	**149**	**2.0%**	**251**	**3.3%**	**7,604**	**100.0%**
Rural residential real estate	**681**	**77.8%**	**139**	**15.9%**	**55**	**6.3%**	**875**	**100.0%**
Other	**25,956**	**100.0%**	**--**	**--**	**--**	**--**	**25,956**	**100.0%**
Total loan portfolio	**$521,043**	**97.5%**	**$11,453**	**2.1%**	**$2,094**	**0.4%**	**$534,590**	**100.0%**
As of December 31, 2011								
Real estate mortgage	$235,606	97.1%	$4,052	1.6%	$3,066	1.3%	$242,724	100.0%
Production and intermediate term	180,529	93.6%	7,970	4.1%	4,426	2.3%	192,925	100.0%
Agribusiness	11,127	94.0%	368	3.1%	338	2.9%	11,833	100.0%
Rural residential real estate	759	78.4%	--	--	209	21.6%	968	100.0%
Other	23,454	99.8%	--	--	45	0.2%	23,499	100.0%
Total loan portfolio	$451,475	95.8%	$12,390	2.5%	$8,084	1.7%	$471,949	100.0%

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

As of 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	90 Days Past Due and Accruing
Real estate mortgage	**$255**	**$ --**	**$255**	**$283,852**	**$284,107**	**$ --**
Production and intermediate term	**189**	**--**	**189**	**215,859**	**216,048**	**--**
Agribusiness	**--**	**250**	**250**	**7,354**	**7,604**	**--**
Rural residential real estate	**--**	**--**	**--**	**875**	**875**	**--**
Other	**--**	**--**	**--**	**25,956**	**25,956**	**--**
Total	**$444**	**$250**	**$694**	**$533,896**	**$534,590**	**$ --**
As of December 31, 2011						
Real estate mortgage	$311	$ --	$311	$242,413	$242,724	$ --
Production and intermediate term	91	--	91	192,834	192,925	--
Agribusiness	--	--	--	11,833	11,833	--
Rural residential real estate	29	--	29	939	968	--
Other	--	477	477	23,022	23,499	477
Total	$431	$477	$908	$471,041	$471,949	$477

Risk Loans

A loan is considered a risk loan if it is probable that we will be unable to collect all principal and interest according to the loan agreement. The following table presents risk loan information (in thousands).

As of December 31	2012	2011	2010
Nonaccrual loans:			
Current	**$268**	$1,497	$2,294
Past due	**368**	--	1,704
Total nonaccrual loans	**636**	1,497	3,998
Accruing restructured loans	**--**	--	--
Accruing loans 90 days or more past due	**--**	477	--
Total risk loans	**$636**	$1,974	$3,998
Volume with specific reserves	**$ --**	$347	$442
Volume without specific reserves	**636**	1,627	3,556
Total risk loans	**$636**	$1,974	$3,998
Total specific reserves	**$ --**	$252	$266

For the year ended December 31	2012	2011	2010
Income on accrual risk loans	**$18**	$20	$24
Income on nonaccrual loans	**47**	178	18
Total income on risk loans	**$65**	$198	$42
Average recorded investment	**$903**	$2,700	$3,199

The decrease in nonaccrual loans was due to several loans paying off during the year along with the restructuring of a large mortgage loan.

To mitigate credit risk, we have entered into a Standby Commitment to Purchase Agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac). In the event of default, subject to certain conditions, we have the right to sell the loans identified in the agreement to Farmer Mac. This agreement remains in place until receipt of full payment. The balance of loans under this agreement was $3.8 million, $3.8 million, and $3.9 million at December 31, 2012, 2011, and 2010, respectively. Fees paid to Farmer Mac for these commitments totaled $13 thousand, $13 thousand, and $2 thousand in 2012, 2011, and 2010, respectively. These amounts are included in “Other operating expenses” on the Consolidated Statements of Income. As of December 31, 2012, no sales of loans to Farmer Mac have been made under this agreement.

Nonaccrual loans by loan type were as follows (in thousands):

As of December 31	**2012**	2011	2010
Nonaccrual loans:			
Real estate mortgage	**$322**	$514	$2,868
Production and intermediate term	**63**	645	704
Agribusiness	**251**	338	426
Total nonaccrual loans	**$636**	$1,497	$3,998

There were no loans 90 days or more past due and still accruing interest at December 31, 2012 or 2010. There was $477 thousand of a USDA guaranteed loan 90 days or more past due and accruing interest at December 31, 2011.

All risk loans are considered to be impaired loans. The following table provides additional impaired loan information (in thousands):

	As of December 31, 2012			**For the period ended December 31, 2012**	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Agribusiness	**$ --**	**$ --**	**$ --**	**$238**	**$ --**
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	**$322**	**$322**	**$ --**	**$218**	**$20**
Production and intermediate term	**63**	**584**	**--**	**97**	**11**
Agribusiness	**251**	**309**	**--**	**2**	**17**
Other	**--**	**--**	**--**	**348**	**17**
Total	**$636**	**$1,215**	**$ --**	**$665**	**$65**
Total impaired loans:					
Real estate mortgage	**$322**	**$322**	**$ --**	**$218**	**$20**
Production and intermediate term	**63**	**584**	**--**	**97**	**11**
Agribusiness	**251**	**309**	**--**	**240**	**17**
Other	**--**	**--**	**--**	**348**	**17**
Total	**$636**	**$1,215**	**$ --**	**$903**	**$65**

	As of December 31, 2011			For the period ended December 31, 2011	
	Recorded Investment[1]	Unpaid Principal Balance[2]	Related Allowance	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:					
Production and intermediate term	$9	$9	$2	$51	$ --
Agribusiness	338	389	250	377	--
Total	$347	$398	$252	$428	$ --
Impaired loans with no related allowance for credit losses:					
Real estate mortgage	$514	$559	$ --	$1,184	$95
Production and intermediate term	636	1,143	--	733	78
Other	477	466	--	355	25
Total	$1,627	$2,168	$ --	$2,272	$198
Total impaired loans:					
Real estate mortgage	$514	$559	$ --	$1,184	$95
Production and intermediate term	645	1,152	2	784	78
Agribusiness	338	389	250	377	--
Other	477	466	--	355	25
Total	$1,974	$2,566	$252	$2,700	$198

[1]The recorded investment in the receivable is the face amount 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.
[2]Unpaid principal balance represents the contractual principal balance of the loan.

We did not have any material commitments to lend additional money to borrowers whose loans were at risk at December 31, 2012.

Troubled Debt Restructurings

Included within our loans there may be troubled debt restructurings, also known as formally restructured. These loans have been modified by granting a concession in order to maximize the collection of amounts due when a borrower is experiencing financial difficulties. Loans classified as trouble debt restructurings are considered risk loans. All risk loans are analyzed within our allowance for loan losses.

There were no troubled debt restructurings that occurred during the years ended December 31, 2012 or 2011.

There were no troubled debt restructurings that defaulted during the years ended December 31, 2012 or 2011 in which the modification was within 12 months of the beginning of the respective reporting period.

There were no troubled debt restructurings outstanding at December 31, 2012.

Allowance for Loan Losses

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

For the year ended December 31	**2012**	2011	2010
Balance at beginning of year	**$768**	$660	$986
(Reversal of) provision for loan losses	**(242)**	110	181
Loan recoveries	**5**	6	4
Loan charge-offs	**(14)**	(8)	(511)
Balance at end of year	**$517**	$768	$660

The decrease in the allowance is due to a re-evaluation of collateral on an ethanol participation along with our current expectations of the credit risk in our portfolio composition.

A summary of changes in the allowance for loan losses and period end recorded investments in loans by loan type follows (in thousands):

	Real estate mortgage	Production and intermediate term	Agribusiness	Rural residential real estate	Other	Total
Allowance for loan losses:						
Balance at December 31, 2011	**$68**	**$290**	**$409**	**$1**	**$ --**	**$768**
(Reversal of) provision for loan losses	**24**	**124**	**(390)**	**--**	**--**	**(242)**
Loan recoveries	**5**	**--**	**--**	**--**	**--**	**5**
Loan charge-offs	**--**	**(14)**	**--**	**--**	**--**	**(14)**
Balance at December 31, 2012	**$97**	**$400**	**$19**	**$1**	**$ --**	**$517**
Ending balance: individually evaluated for impairment	**$ --**	**$ --**	**$ --**	**$ --**	**$ --**	**$ --**
Ending balance: collectively evaluated for impairment	**$97**	**$400**	**$19**	**$1**	**$ --**	**$517**
Recorded investments in loans outstanding:						
Ending balance at December 31, 2012	**$284,107**	**$216,048**	**$7,604**	**$875**	**$25,956**	**$534,590**
Ending balance: individually evaluated for impairment	**$322**	**$63**	**$251**	**$ --**	**$ --**	**$636**
Ending balance: collectively evaluated for impairment	**$283,785**	**$215,985**	**$7,353**	**$875**	**$25,956**	**$533,954**
Allowance for loan losses:						
Balance at December 31, 2010	$285	$44	$327	$3	$1	$660
Provision for (reversal of) loan losses	(223)	254	82	(2)	(1)	110
Loan recoveries	6	--	--	--	--	6
Loan charge-offs	--	(8)	--	--	--	(8)
Balance at December 31, 2011	$68	$290	$409	$1	$ --	$768
Ending balance: individually evaluated for impairment	$ --	$2	$250	$ --	$ --	$252
Ending balance: collectively evaluated for impairment	$68	$288	$159	$1	$ --	$516
Recorded investments in loans outstanding:						
Ending balance at December 31, 2011	$242,724	$192,925	$11,833	$968	$23,499	$471,949
Ending balance: individually evaluated for impairment	$514	$645	$338	$ --	$477	$1,974
Ending balance: collectively evaluated for impairment	$242,210	$192,280	$11,495	$968	$23,022	$469,975

NOTE 4: INVESTMENT IN AGRIBANK

At December 31, 2012, we were required by AgriBank to maintain an investment equal to 2.5% of the average quarterly balance of our note payable to AgriBank plus an additional 1.0% on growth that exceeded a targeted rate.

The following summarizes investment balances (in thousands):

As of December 31	**2012**	2011	2010
Required stock investment	**$11,673**	$10,715	$10,887
Excess stock investment	**--**	375	1,076
Total investment	**$11,673**	$11,090	$11,963

NOTE 5: INVESTMENT SECURITIES

We held investment securities of $6.8 million, $8.2 million, and $10.1 million at December 31, 2012, 2011, and 2010, respectively. Our investment securities consisted of securities containing loans guaranteed by the Small Business Administration (SBA).

The 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 December 31	**2012**	2011	2010
Amortized cost	**$6,764**	$8,183	$10,083
Unrealized gains	**621**	423	371
Unrealized losses	**--**	(6)	--
Fair value	**$7,385**	$8,600	$10,454
Weighted average yield	**2.8%**	1.6%	1.2%

Investment income is recorded in “Interest income” on the Consolidated Statements of Income and totaled $209 thousand, $144 thousand, and $141 thousand in 2012, 2011, and 2010, respectively.

NOTE 6: PREMISES AND EQUIPMENT

Premises and equipment consisted of the following (in thousands):

As of December 31	**2012**	2011	2010
Land, buildings, and improvements	**$3,565**	$3,564	$3,738
Furniture and equipment	**1,232**	1,217	1,179
Subtotal	**4,797**	4,781	4,917
Less: accumulated depreciation	**(2,141)**	(1,991)	(1,966)
Total	**$2,656**	$2,790	$2,951

NOTE 7: NOTE PAYABLE TO AGRIBANK

Our note payable to AgriBank represents borrowings, in the form of a line of credit, to fund our loan portfolio. The line of credit is governed by a GFA and our assets serve as collateral. The total line of credit was $575.0 million, $575.0 million, and $520.0 million at December 31, 2012, 2011, and 2010, respectively, and the outstanding principal under the line of credit was $446.0 million, $392.9 million, and $411.3 million at December 31, 2012, 2011, and 2010, respectively. The interest rate is adjusted monthly and was 1.3%, 1.5%, and 1.7% at December 31, 2012, 2011, and 2010, respectively. The maturity date is June 30, 2013 for our note payable, at which time the note will be renegotiated.

The GFA provides for limitations on our ability to borrow funds based on specified factors or formulas relating primarily to outstanding balances, credit quality, and financial condition. At December 31, 2012, and throughout the year, we were within the specified limitations and in compliance with all debt covenants.

NOTE 8: MEMBERS' EQUITY

Capitalization Requirements

In accordance with the Farm Credit Act, each borrower is required to invest in us as a condition of obtaining a loan. As authorized by the Agricultural Credit Act and our capital bylaws, our Board of Directors has adopted a capital plan that establishes a stock purchase requirement for obtaining a loan of 2.0% of the customer's total loan(s) or one thousand dollars, whichever is less. The purchase of one participation certificate is required of all customers to whom a lease is issued and of all non-stockholder customers who purchase financial services. The Board of Directors may increase the amount of required investment to the extent authorized in the capital bylaws. The borrower acquires ownership of the capital stock at the time the loan or lease is made. The aggregate par value of the stock is added to the principal amount of the related obligation. We retain a first lien on the stock or participation certificates owned by customers.

Protection Mechanisms

Under the Farm Credit Act, certain borrower equity is protected. We are required to retire protected borrower equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock and participation certificates that were outstanding as of January 6, 1988, or were issued prior to October 6, 1988 as a requirement for obtaining a loan. If we were to be unable to retire protected borrower equity at par value or stated value, the Insurance Corporation would provide the amounts needed to retire this equity.

Regulatory Capitalization Requirements

Under capital adequacy regulations, we are required 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%. The calculation of these ratios in accordance with FCA Regulations is discussed as follows:

- The permanent capital ratio is average at-risk capital divided by average risk-adjusted assets. At December 31, 2012, our ratio was 16.3%.
- The total surplus ratio is average unallocated surplus less any deductions made in the computation of permanent capital divided by average risk-adjusted assets. At December 31, 2012, our ratio was 16.0%.
- The core surplus ratio is average unallocated surplus less any deductions made in the computation of total surplus and less any excess stock investment in AgriBank divided by average risk-adjusted assets. At December 31, 2012, our ratio was 16.0%.

We have an agreement with AgriBank which defines how our investment in AgriBank is allocated in calculating regulatory capital ratios. According to the agreement, we include in our ratios all of our investment in AgriBank that is in excess of the required amount. We no longer have any excess stock at December 31, 2012. We did, however, include 3.4% and 9.0% of our investment in AgriBank as capital at December 31, 2011, and 2010, respectively. These changes did not have a material impact on our regulatory capital ratios.

Description of Equities

The following table presents information regarding classes and number of shares of stock and participation certificates outstanding as of December 31, 2012. All shares and participation certificates were with a $5.00 par value.

	Shares Outstanding
Class A common stock (protected)	**231**
Class B common stock (at-risk)	**8,666**
Class C common stock (at-risk)	**351,656**
Series 2 participation certificates (at-risk)	**3,193**

Under our bylaws, we are also authorized to issue Class D common stock, Class E common stock, and Class F preferred stock. Each of these classes of stock is at-risk and nonvoting with a $5.00 par value per share. Currently, no stock of these classes has been issued.

Only holders of Class C stock have voting rights. Our bylaws do not prohibit us from paying dividends on any classes of stock. However, no dividends have been declared to date.

Our bylaws generally permit stock and participation certificates to be retired at the discretion of our Board of Directors and in accordance with our capitalization plans, provided prescribed capital standards have been met. At December 31, 2012, we exceeded the prescribed standards. We do not anticipate any significant changes in capital that would affect the normal retirement of stock.

In the event of our liquidation or dissolution, according to our bylaws, any remaining assets after payment or retirement of all liabilities will be distributed in the following order of priority:

- first, to holders of preferred stock, and
- second, pro rata to holders of all classes of common stock and participation certificates.

In the event of impairment, losses will be absorbed in the following priority, first by concurrent impairment of all classes of common stock and participation certificates, then by holders of preferred stock; however, protected stock will be retired at par value regardless of impairment.

All classes of stock are transferable to other customers who are eligible to hold such class as long as we meet the regulatory minimum capital requirements.

Patronage Distributions

We accrued patronage distributions of $4.0 million, $3.8 million, and $1.5 million at December 31, 2012, 2011, and 2010, respectively. Generally, the patronage distributions are paid in cash during the first quarter after year end. The Board of Directors may authorize a distribution of earnings provided we meet all statutory and regulatory requirements.

The FCA Regulations prohibit patronage distributions to the extent they would reduce our permanent capital ratio below the minimum permanent capital adequacy standards. We do not foresee any events that would result in this prohibition in 2013.

NOTE 9: INCOME TAXES

(Benefit from) Provision for Income Taxes

Our (benefit from) provision for income taxes follows (dollars in thousands):

For the year ended December 31	**2012**	2011	2010
Current:			
Federal	**($26)**	$22	$580
State	**--**	--	47
Total current	**(26)**	22	627
Deferred:			
Federal	**(50)**	(105)	70
State	**27**	(6)	(14)
Total deferred	**(23)**	(111)	56
(Benefit from) provision for income taxes	**($49)**	($89)	$683
Effective tax rate	**(0.4%)**	(0.7%)	5.6%

The following table quantifies the differences between the (benefit from) provision for income taxes and income taxes at the statutory rates (in thousands):

For the year ended December 31	**2012**	2011	2010
Federal tax at statutory rate (34%)	**$4,209**	$4,068	$4,123
State tax, net	**--**	(6)	38
Patronage distributions	**(1,247)**	(1,224)	(510)
Effect of non-taxable entity	**(2,991)**	(2,939)	(2,984)
Other	**(20)**	12	16
(Benefit from) provision for income taxes	**($49)**	($89)	$683

Deferred Income Taxes

Tax laws require certain items to be included in our tax returns at different times than the items are reflected on our Consolidated Statements of Income. Some of these items are temporary differences that will reverse over time. We record the tax effect of temporary differences as deferred tax assets and liabilities netted on our Consolidated Statements of Condition. Deferred tax assets and liabilities were composed of the following (in thousands):

As of December 31	**2012**	2011	2010
Allowance for loan losses	**$137**	$154	$44
Postretirement benefit accrual	**258**	296	299
Accrued incentive	**130**	91	101
Accrued pension asset	**(209)**	(237)	(270)
Other assets	**--**	2	5
Other liabilities	**(11)**	(24)	(8)
Deferred tax assets, net	**$305**	$282	$171
Gross deferred tax assets	**$525**	$543	$448
Gross deferred tax liabilities	**($220)**	($261)	($277)

A valuation allowance for the deferred tax assets was not necessary at December 31, 2012, 2011, or 2010.

We have not provided for deferred income taxes on approximately $10 million of patronage allocations received from AgriBank prior to 1993. Such allocations, distributed in the form of stock, are subject to tax only upon conversion to cash. Our intent is to permanently maintain this investment in AgriBank. With respect to the AgriBank stock distributed in 2002, the Board of Directors has passed a resolution that, should this stock ever be converted to cash, creating a tax liability, an equal amount will be distributed to patrons at that time under the Association's patronage program. Additionally, we have not provided deferred income taxes on accumulated FLCA earnings of $75.4 million as it is our intent to permanently maintain this equity in the FLCA or to distribute the earnings to members in a manner that results in no additional tax liability to us.

Our income tax returns are subject to review by various U.S. taxing authorities. We record accruals for items that we believe may be challenged by these taxing authorities. However, we had no uncertain income tax positions at December 31, 2012. In addition, we believe we are no longer subject to income tax examinations for years prior to 2009.

NOTE 10: EMPLOYEE BENEFIT PLANS

Pension and Post-Employment Benefit Plans

Complete financial information for the pension and post-employment benefit plans may be found in the Combined AgriBank, FCB and Affiliated Associations 2012 Annual Report (District financial statements).

The Farm Credit Foundations Coordinating and Trust Committees provide oversight of the District benefit plans. The governance committees are either elected or appointed representatives (senior leadership and/or Board of Director members) from the participating organizations. The Coordinating Committee is responsible for decisions regarding benefits at the direction of the participating employers. The Trust Committee is responsible for fiduciary and plan administrative functions.

Pension Plan: Certain employees participate in the AgriBank District Retirement Plan, a District-wide multi-employer defined benefit retirement plan. The Department of Labor has determined the plan to be a governmental plan; therefore, the plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). As the plan is not subject to ERISA, the plan's benefits are not insured by the Pension Benefit Guaranty Corporation. Accordingly, the amount of accumulated benefits that participants would receive in the event of the plan's termination is contingent on the sufficiency of the plan's net assets to provide benefits at that time. This Plan is noncontributory and covers eligible District employees. The assets, liabilities, and costs of the plan are not segregated by participating entities. As such, plan assets are available for any of the participating employers' retirees at any point in time. Additionally, if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. Further, if we choose to stop participating in the plan, we may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Because of the multi-employer nature of the plan, any individual employer is not able to unilaterally change the provisions of the plan. If an employee moves to another employer within the same plan, the employee benefits under the plan transfer. Benefits are based on salary and years of service. There is no collective bargaining agreement in place as part of this plan.

As disclosed in the District financial statements, the defined benefit pension plan reflects an unfunded liability totaling $442.6 million at December 31, 2012. The pension benefits funding status reflects the net of the fair value of the plan assets and the projected benefit obligation at the date of these consolidated financial statements. The projected benefit obligation is the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to the measurement date based on assumed future compensation levels. The projected benefit obligation of the District-wide plan was $1.1 billion, $934.8 million, and $834.2 million at December 31, 2012, 2011, and 2010, respectively. The fair value of the plan assets was $640.1 million, $557.6 million, and $573.0 million at December 31, 2012, 2011, and 2010, respectively. The amount of the pension benefits and funding status is subject to many variables including performance of plan assets and interest rate levels. Therefore, changes in assumptions could significantly affect these estimates.

Costs are determined for each individual employer based on costs directly related to their current employees as well as an allocation of the remaining costs based proportionately on the estimated projected liability of the employer under this plan. We recognize our proportional share of expense and contribute a proportional share of funding. Total plan expense for participating employers was $52.7 million, $44.0 million, and $37.0 million for 2012, 2011, and 2010, respectively. Our allocated share of plan expenses included in "Salaries and employee benefits" on the Consolidated Statements of Income was $587 thousand, $491 thousand, and $409 thousand for 2012, 2011, and 2010, respectively. Participating employers contributed $51.3 million, $27.9 million, and $25.3 million to the plan in 2012, 2011, and 2010, respectively. Our allocated share of these pension contributions was $571 thousand, $179 thousand, and $260 thousand for 2012, 2011, and 2010, respectively. While the plan is a governmental plan and is not subject to minimum funding requirements, the employers contribute amounts necessary on an actuarial basis to provide the plan with sufficient assets to meet the benefits to be paid to participants. The amount of the total District employer contributions expected to be paid into the pension plans during 2013 is $57.2 million. Our allocated share of these pension contributions is expected to be $634 thousand. The amount ultimately to be contributed and the amount ultimately recognized as expense as well as the timing of those contributions and expenses, are subject to many variables including performance of plan assets and interest rate levels. These variables could result in actual contributions and expenses being greater than or less than the amounts reflected in the District financial statements.

Retiree Medical Plans: District employers also provide certain health insurance benefits to eligible retired employees according to the terms of the benefit plan. The anticipated costs of these benefits are accrued during the period of the employee's active status. Postretirement benefits included in "Salaries and employee benefits" on the Consolidated Statements of Income were $22 thousand, $30 thousand, and $34 thousand for 2012, 2011, and 2010, respectively. Our cash contributions were equal to the benefits paid and were $60 thousand, $62 thousand, and $61 thousand for 2012, 2011, and 2010, respectively.

Retirement Savings Plan

We also participate in a defined contribution retirement savings plan. For employees hired before January 1, 2007, employee contributions are matched dollar for dollar up to 2% and 50 cents on the dollar on the next 4% on both pre-tax and post-tax contributions. The maximum employer match is 4%. For employees hired after December 31, 2006, we contribute 3% of the employee's compensation and will match employee contributions dollar for dollar up to a maximum of 6% on both pre-tax and post-tax contributions. The maximum employer contribution is 9%. Employer contribution expenses are included in "Salaries and employee benefits" on the Consolidated Statements of Income under the plan were $142 thousand, $136 thousand, and $114 thousand in 2012, 2011, and 2010, respectively. These expenses are equal to our cash contributions for each year.

NOTE 11: RELATED PARTY TRANSACTIONS

In the ordinary course of business, we may enter into loan transactions with our officers, directors, their immediate family members, and other organizations with which such persons may be associated. Such transactions are subject to special approval requirements contained in FCA Regulations and are made on the same terms, including interest rates, amortization schedules, and collateral, as those prevailing at the time for comparable transactions with other persons. In our opinion, none of these loans outstanding at December 31, 2012 involved more than a normal risk of collectability.

The following table represents information on loans and leases to related parties (in thousands):

	2012	2011	2010
As of December 31:			
Total related party loans and leases	**$5,722**	$8,590	$10,109
For the year ended December 31:			
Advances to related parties	**$4,232**	$6,409	$8,915
Repayments by related parties	**4,108**	7,167	9,784

The composition of related parties can be different each year end primarily due to changes in the make-up of our Board of Directors. Advances and repayments to related parties at the end of each year are included in the preceding chart.

We purchase various services from AgriBank including financial and retail systems, support, and reporting, technology services, insurance services, and internal audit services. The total cost of services we purchased from AgriBank was $475 thousand, $500 thousand, and $455 thousand in 2012, 2011, and 2010, respectively. We purchase benefit, human resource information systems, payroll, and workforce management services from Foundations. Foundations was operated as a part of AgriBank prior to January 1, 2012 when it formed a System service corporation. The System entities using Foundations' services contributed an investment into the service corporation in January 2012. Our investment was $11 thousand at December 31, 2012. The total cost of services purchased from Foundations was $68 thousand in 2012.

NOTE 12: CONTINGENCIES AND COMMITMENTS

In the normal course of business, we have various contingent liabilities and commitments outstanding 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.

We have commitments to extend credit to satisfy the financing needs of our borrowers. These financial instruments involve, to varying degrees, elements of credit risk not recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the loan contract. At December 31, 2012, we had commitments to extend credit of $141.8 million.

Commitments to extend credit generally have fixed expiration dates or other termination clauses and we may require payment of a fee. If commitments remain unfulfilled or have not expired, they may have credit risk not recognized in the financial statements. Many of the commitments to extend credit will expire without being fully drawn upon. Therefore, the total commitments do not necessarily represent future cash requirements.

NOTE 13: FAIR VALUE MEASUREMENTS

The FASB guidance on "Fair Value Measurement" 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 Note 2 for a more complete description of the three input levels.

Non-Recurring Basis

We do not have any assets or liabilities measured at fair value on a recurring basis at December 31, 2012, 2011, or 2010. 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):

As of December 31, 2012	Fair Value Measurement Using				Total Gains
	Level 1	Level 2	Level 3	Total Fair Value	(Losses)
Loans	**$ --**	**$ --**	**$ --**	**$ --**	**$238**

As of December 31, 2011	Fair Value Measurement Using				Total Gains
	Level 1	Level 2	Level 3	Total Fair Value	(Losses)
Loans	$ --	$ --	$99	$99	$14
Other property owned	--	--	--	--	8

As of December 31, 2010	Fair Value Measurement Using				Total Gains
	Level 1	Level 2	Level 3	Total Fair Value	(Losses)
Loans	$ --	$ --	$185	$185	$459
Other property owned	--	--	270	270	(48)

Valuation Techniques

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

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

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

NOTE 14: FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted market prices are generally not available for our financial instruments. Accordingly, we base fair values on:

- judgments regarding future expected losses,
- current economic conditions,
- risk characteristics of various financial instruments,
- credit risk, and
- other factors.

These estimates involve uncertainties and matters of judgment and cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Estimating the fair value of our investment in AgriBank is not practical because the stock is not traded. As discussed in Notes 2 and 4, the investment is a requirement of borrowing from AgriBank.

A description of the methods and assumptions used to estimate the fair value of each class of our financial instruments, for which it is practical to estimate that value, follows:

Net loans: The estimate of the fair value of loan assets is determined by discounting the expected future cash flows using current interest rates. Current interest rates are estimated based on similar loans made or loans repriced to borrowers with similar credit risk. This methodology is used because no active market exists for the vast majority of these loans. Since the discount rates are based upon internal pricing mechanisms and other estimates, we cannot determine whether the fair values presented would equal the exit price negotiated in an actual sale. Furthermore, certain statutory or regulatory factors not considered in the valuation, such as the unique statutory rights of System borrowers, could render our portfolio unmarketable outside the System.

We segregate the loan portfolio into pools of loans with homogenous characteristics for purposes of determining fair value of loans not individually impaired. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

For fair value of loans individually impaired, we assume collection will result only from the sale of the underlying collateral. Fair value is estimated to equal the total net realizable value of the underlying collateral. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

Investment securities: If an active market exists, the fair value is based on currently quoted market prices. For those securities for which an active market does not exist, we estimate the fair value of these investments by discounting the expected future cash flows using current interest rates adjusted for credit risk.

Note payable to AgriBank: Estimating the fair value of the note payable to AgriBank is determined by segregating the note into pricing pools according to the types and terms of the underlying loans funded. We discount the estimated cash flows from these pools using the current rate charged by AgriBank for additional borrowings with similar characteristics.

Commitments to extend credit: Estimating the fair value of commitments is determined by the inherent credit loss in such instruments.

The estimated fair value of our financial instruments is as follows (in thousands):

	2012		2011		2010	
As of December 31	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:						
Net loans	**$526,557**	**$530,736**	$463,205	$467,212	$467,405	$469,458
Investment securities	**6,764**	**7,385**	8,183	8,600	10,083	10,454
Financial liabilities:						
Note payable to AgriBank	**$445,971**	**$449,115**	$392,910	$396,227	$411,294	$413,134
Unrecognized financial instruments:						
Commitments to extend credit		**($177)**		($176)		($151)

NOTE 15: QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly consolidated results of operations for the year ended December 31 follows (in thousands):

2012	First	Second	Third	Fourth	Total
Net interest income	**$3,255**	**$3,656**	**$4,444**	**$4,267**	**$15,622**
(Reversal of) provision for loan losses	**(127)**	**(1)**	**57**	**(171)**	**(242)**
Patronage income	**211**	**251**	**307**	**593**	**1,362**
Other expense, net	**1,531**	**1,061**	**935**	**1,320**	**4,847**
(Benefit from) provision for income taxes	**(215)**	**9**	**244**	**(87)**	**(49)**
Net income	**$2,277**	**$2,838**	**$3,515**	**$3,798**	**$12,428**

2011	First	Second	Third	Fourth	Total
Net interest income	$3,422	$3,560	$4,214	$3,967	$15,163
(Reversal of) provision for loan losses	(20)	92	82	(44)	110
Patronage income	209	226	268	604	1,307
Other expense, net	1,377	1,333	217	1,468	4,395
(Benefit from) provision for income taxes	(64)	(7)	151	(169)	(89)
Net income	$2,338	$2,368	$4,032	$3,316	$12,054

2010	First	Second	Third	Fourth	Total
Net interest income	$3,112	$3,403	$3,985	$3,771	$14,271
(Reversal of) provision for loan losses	(1)	136	22	24	181
Patronage income	201	230	266	1,049	1,746
Other expense, net	925	1,095	785	905	3,710
Provision for income taxes	166	168	324	25	683
Net income	$2,223	$2,234	$3,120	$3,866	$11,443

NOTE 16: SUBSEQUENT EVENTS

We have evaluated subsequent events through March 7, 2013, which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our 2012 Consolidated Financial Statements or disclosures in the Notes to Consolidated Financial Statements.

DISCLOSURE INFORMATION REQUIRED BY REGULATIONS

Progressive Farm Credit Services, ACA
(Unaudited)

Description of Business

General information regarding the business is discussed in Note 1 of this Annual Report.

The description of significant business developments, if any, is discussed in the “Management's Discussion and Analysis" portion of this Annual Report.

Description of Property

The following table sets forth certain information regarding our properties:

Location	Description	Usage
Sikeston, MO	Owned	Headquarters
Sikeston, MO	Owned	Branch
Caruthersville, MO	Owned	Branch
Mississippi County, MO	Owned	Branch
Dexter, MO	Owned	Branch
Jackson, MO	Owned	Branch
Kennett, MO	Owned	Branch
Portageville, MO	Owned	Branch
Poplar Bluff, MO	Owned	Branch

Legal Proceedings

Information regarding legal proceedings is discussed in Note 12 of this Annual Report. We were not subject to any enforcement actions at December 31, 2012.

Description of Capital Structure

Information regarding our capital structure is discussed in Note 8 of this Annual Report.

Description of Liabilities

Information regarding liabilities is discussed in Notes 7, 8, 9, 10, 12, and 14 of this Annual Report.

Selected Financial Data

The "Consolidated Five-Year Summary of Selected Financial Data” is presented at the beginning of this Annual Report.

Management’s Discussion and Analysis

Information regarding any material aspects of our financial condition, changes in financial condition, and results of operations are discussed in the "Management's Discussion and Analysis” portion of this Annual Report.

Board of Directors

Information regarding directors who served as of December 31, 2012, including business experience in the last five years and any other business interest where a director serves on the board of directors or as a senior officer follows:

Michael Aufdenberg is a self-employed grain and livestock farmer. His current term on the board began in August, 2012 and expires in August, 2015.

Edward C. Marshall III is a self-employed grain farmer. He also serves as president for Levee District # 3, a special taxing entity located in Mississippi County. His current term on the board began in August, 2011 and expires in August, 2014.

Darrell Nichols Vice-Chairman of the Board, is a self-employed grain farmer. His current term on the board began in August, 2011 and expires in August, 2014.

James Priggel is a self-employed farmer. His current term on the board began in August, 2010 and expires in August, 2013.

John Robinson is a self-employed grain and cotton farmer. He also serves as a board member of Ditch #37, a special taxing entity located in Dexter, MO. His current term on the board began in August, 2011 and expires in August, 2014.

Phillip M. Showmaker, Chairperson of the Audit Committee and Outside Director, is a partner in a CPA firm, Clay, Showmaker and Clay, which provides farm business and individual tax planning along with farm family wealth transfer planning, located in Sikeston, MO. His current term on the board began in March, 2011 and expires in August, 2014.

Marty Vancil is a self-employed grain farmer. He also serves on the Pemiscot Dunklin Electric Coop Board, a rural electric coop, in Hayti, MO. His current term on the board began in August, 2012 and expires in August, 2015.

Markel D. Yarbro, Chairperson of the Board, is a self-employed grain farmer. He also serves on the Ozark Border Electric Coop Board, a rural electric coop, in Poplar Bluff, MO. His current term on the board began in August, 2010 and expires in August, 2013.

Pursuant to our bylaws, directors are paid a reasonable amount for attendance at board meetings, committee meetings or other special assignments. Directors are also reimbursed for reasonable expenses incurred in connection with such meetings or assignments. The Board of Directors has adopted a rate of $350 per day and a per diem rate of $175 per conference call.

Information regarding compensation for each director who served during 2012 follows:

	Number of Days Served		Compensation Paid for Service on a Board Committee	Name of Committee	Total Compensation Paid in 2012
	Board Meetings	Other Official Activities			
Michael Aufdenberg**	4	2	$175	Audit	$2,033
Thomas Fisher*	6	2	175	Audit	2,461
Edward C. Marshall III	10	2	175	Audit	3,870
Darrell Nichols	11	7	350	Audit	5,895
Charles Parker*	8	4	350	Audit	3,511
James Priggel	11	6	350	Audit	5,545
John Robinson	10	2	350	Audit	3,970
Phillip M. Showmaker	11	12	350	Audit	7,645
Marty Vancil**	4	2	175	Audit	2,033
Markel D. Yarbro	10	3	350	Audit	4,145
James D. Yount*	7	7	175	Audit	4,386
Total	92	49	$2,975		$45,494

* Retired August 2012

** Newly Elected August 2012

Senior Officers

The senior officers (and the date each began his current position) include:

Ronald C. Milbach, Chief Executive Officer (April, 1991)
Robert E. Smith, Chief Credit Officer (April, 1982)
Vernon D. Griffith, Chief Financial Officer (November, 1991)

All of the senior officers have held their current positions for the past five years.

Information related to compensation paid to senior officers is provided in our Annual Meeting Information Statement (AMIS). The AMIS is available for public inspection at our office.

Transactions with Senior Officers and Directors

Information regarding related party transactions is discussed in Note 11 of this Annual Report.

Travel, Subsistence, and Other Related Expenses

Directors and senior officers are reimbursed for reasonable travel, subsistence, and other related expenses associated with business functions. A copy of our policy for reimbursing these costs is available by contacting us at 1116 N. Main Street, Sikeston, Missouri 63801, (573) 471-0342, or via e-mail at progressivefcs@progressivefcs.com.

The total directors' travel, subsistence, and other related expenses were $6 thousand, $4 thousand, and $4 thousand in 2012, 2011, and 2010, respectively.

Involvement in Certain Legal Proceedings

No events occurred during the past five years that are material to evaluating the ability or integrity of any person who served as a director or senior officer on January 1, 2013 or at any time during 2012.

Member Privacy

Farm Credit Administration Regulations protect members' nonpublic personal financial information. Our directors and employees are restricted from disclosing information about our association or our members not normally contained in published reports or press releases.

Relationship with Qualified Public Accountant

There were no changes in independent auditors since the last Annual Report to members and we are in agreement with the opinion expressed by the independent auditors. The total fees paid during 2012 were $20 thousand. The fees paid were for audit services.

Financial Statements

The "Report of Management", "Report of Audit Committee", "Independent Auditor's Report", "Consolidated Financial Statements", and "Notes to Consolidated Financial Statements" are presented prior to this portion of the Annual Report.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers

Information regarding credit and services to young, beginning, and small farmers and ranchers, and producers or harvesters of aquatic products is discussed in an addendum to this Annual Report.

Equal Employment Opportunity

We are an equal opportunity employer. It is our policy to provide equal employment opportunity to all persons regardless of race, color, religion, national origin, sex, age, disability, veteran status, genetic information, sexual orientation, creed, marital status, status with regard to public assistance, membership or activity involving a local human rights commission, or any other characteristic protected by law. We comply with all state and local equal employment opportunity regulations. We conduct all personnel decisions and processes relating to our employees and job applicants in an environment free of discrimination and harassment.

FUNDS HELD PROGRAM

Progressive Farm Credit Services, ACA

The Association offers a Funds Held Program ("Funds Held") that provides for customers to make advance payments on designated real estate loans and intermediate term loans. The following terms and conditions apply to all Funds Held unless the loan agreement, or related documents, between the Association and customer provide for other limitations.

Payment Application

Loan payments received by the Association before the loan has been billed will normally be placed into Funds Held and applied against the next installment due. Loan payments received after the loan has been billed will be directly applied to the installment due on the loan and related charges, if any. Funds received in excess of the billed amount will be placed into Funds Held unless the customer has specified the funds to be applied as a special or early prepayment of principal.

When a loan installment becomes due, monies in Funds Held for the loan will be automatically applied toward the installment on the due date. Any accrued interest on Funds Held will be applied first. If the balance in Funds Held does not fully satisfy the entire installment, the customer must pay the difference by the installment due date.

Account Maximum

The amount in Funds Held may not exceed 50% of the unpaid principal balance of the loan.

Interest Rate

Interest will accrue on Funds Held at a simple rate of interest determined by the Association, but may never exceed the interest rate charged on the related loan. The Association may change the interest rate from time to time, and may provide for different rates for different categories of loans. The current interest rate paid on all funds held accounts is equal to the interest rate accruing on the related loan.

Interest rates are currently reported on each customer's year-end loan statement.

Withdrawals

The Association may permit borrowers to withdraw funds from a voluntary funds held account, on an exception basis, up to four times per year. The minimum amount that may be withdrawn at any one time is limited to the lesser of $500 or the balance remaining in the funds held account.

Any requests for withdrawal of funds must be submitted for Association approval.

Association Options

In the event of default on any loan, or if Funds Held exceeds the maximum limit as established above, or if the Association discontinues its Funds Held program, the Association may apply funds in the account to the unpaid loan balance and other amounts due, and shall return any excess funds to the customer.

Uninsured Account

Funds Held is not a depository account and is not insured. In the event of Association liquidation, customers having balances in Funds Held shall be notified according to regulations.

Questions

Please direct any questions regarding Funds Held to your local FCS representative.

YOUNG, BEGINNING, AND SMALL FARMERS AND RANCHERS

Progressive Farm Credit Services, ACA

We have specific programs in place to serve the credit and related needs of young, beginning, and small farmers and ranchers (YBS) in our territory. The definitions of young, beginning and small farmers and ranchers follow:

- Young: A farmer, rancher, or producer or harvester of aquatic products who is age 35 or younger as of the loan transaction date.
- Beginning: A farmer, rancher, or producer or harvester of aquatic products who has 10 years or less farming or ranching experience as of the loan transaction date.
    - A loan to a "young" or "beginning" borrower qualifies if the young or beginning borrower is obligated on the note or is an owner of the closely held entity financed. A loan to a publicly held entity or other entity that is not closely held does not qualify.
- Small: A farmer, rancher, or producer or harvester of aquatic products who normally generates less than $250 thousand in annual gross sales of agricultural or aquatic products.

Demographics

Based on the United States Department of Agriculture (USDA) 2007 Census of Agriculture, 6.12% of the farmers in our 12 county territory are young farmers (up to age 34); 24.73% of the farmers in the territory are beginning farmers (up to 9 years 'on the present farm'); and 74.99% of the farms are small farms ($1,000 to $249,000 gross farm income).

The USDA Census definitions are in parentheses above. Please note that the USDA Census definitions do not exactly match the accepted YBS definitions widely used in the Farm Credit System as listed in the previous section and therefore the Census percentages are not necessarily comparable to the associations' percentages.

Mission Statement

Young, beginning, and small farmers, ranchers and producers or harvesters of aquatic products are valued customers of our Association. It is our mission to provide sound and constructive credit and services to young, beginning, and small farmers, ranchers and producers or harvesters of aquatic products to the maximum extent possible consistent with safe and sound business practices and within our risk-bearing capacity.

Quantitative Goals and Results

Below are the 2012 targets and actual results for our young, beginning, and small farmers and ranchers program:

2012 Target	2012 Actual Results
15% by Number	18.9% Young Farmers (all existing)
15% by Number	19.7% Young Farmers (new loans in 2012)
10% by Volume	18.5% Young Farmers (all existing)
10% by Volume	20.4% Young Farmers (new loans in 2012)
15% by Number	22.4% Beginning Farmers (all existing)
15% by Number	25.2% Beginning Farmers (new loans in 2012)
10% by Volume	23.4% Beginning Farmers (all existing)
10% by Volume	30.4% Beginning Farmers (new loans in 2012)
35% by Number	24.4% Small Farmers (all existing)
35% by Number	15.0% Small Farmers (new loans in 2012)
20% by Volume	9.5% Small Farmers (all existing)
20% by Volume	3.1% Small Farmers (new loans in 2012)

The following tables detail the level of new business generated in 2012 plus the level of business outstanding as of December 31, 2012, both by number of loans and by volume for young and beginning farmers and ranchers:

Young and Beginning Farmers and Ranchers – Gross New Business During The Year Number/Volume of Loans				
Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total gross new loans and commitments made during the year	1,312	100.0%	$349,967	100.0%
2. Total loans and commitments made to young farmers and ranchers	259	19.7%	$71,404	20.4%
3. Total loans and commitments made to beginning farmers and ranchers	330	25.2%	$106,287	30.4%

Young and Beginning Farmers and Ranchers - Number/Volume of Loans Outstanding				
Category	Number of Loans	Percent of Total	Volume Outstanding	Percent of Total
1. Total loans and commitments outstanding at year end	4,225	100.0%	$673,217	100.0%
2. Young farmers and ranchers	800	18.9%	124,322	18.5%
3. Beginning farmers and ranchers	948	22.4%	157,423	23.4%

The following tables detail the level of new business generated in 2012 plus the level of business outstanding as of December 31, 2012, both by number of loans and by volume for small farmers and ranchers:

Small Farmers and Ranchers* - Gross New Business by Loan Size December 31, 2012				
Number/Volume Outstanding	$0 - $50,000	$50,001 - $100,000	$100,001 - $250,000	$250,001 and greater
Total number of new loans and commitments made during 2012	441	224	268	379
Total number of loans made to small farmers and ranchers during 2012	129	41	24	3
Percentage	29.3%	18.3%	9.0%	0.8%
Total gross loan volume of all new loans and commitments made during 2012	$10,093	$16,664	$44,849	$278,361
Total gross loan volume to small farmers and ranchers	$2,797	$3,071	$3,485	$1,573
Percentage	27.7%	18.4%	7.8%	0.6%

Small Farmers and Ranchers*- Number/Volume of Loans Outstanding by Loan Size				
Number/Volume Outstanding	$0 - $50,000	$50,001 - $100,000	$100,001 - $250,000	$250,001 and greater
1. Total number of loans and commitments outstanding at year end	1,975	736	802	712
2. Total number of loans to small farmers and ranchers	670	179	144	39
3. Number of loans to small farmers and ranchers as a % of total number of loans	33.9%	24.3%	18.0%	5.5%
4. Total loan volume outstanding at year end	$39,631	$53,402	$130,042	$450,142
5. Total loan volume to small farmers and ranchers	$12,703	$12,617	$22,021	$16,694
6. Loan volume to small farmers and ranchers as a % of total loan volume	32.1%	23.6%	16.9%	3.7%

* Less than $250,000 in annual gross sales.

Qualitative Goals and Outreach Programs

We set the following six qualitative goals for 2012:

- Offer credit and related services in coordination with FSA and State programs.
- Offer differential loan underwriting standards.
- Make use of loan guarantees, subordinations and co-signers.
- Offer business and financial skills training.
- Offer insurance products.
- Promote use of Missouri Linked Deposit Program funding with lower customer interest rates.

Based on our goals for the young, beginning, and small farmers and ranchers program, the results were as follows:

- Sponsored meetings to educate YBS farmers on crop marketing techniques including futures and options.
- Sponsored meetings to educate YBS farmers on crop insurance services.
- Sponsored meetings tailored to educate YBS farmers on how to join marketing techniques with crop insurance services.
- Offered crop protection insurance and life insurance to YBS farmers and discussed the benefits with them individually, in meetings and via radio advertising.
- Met with YBS farmers to show them the support that could be made by using FSA 90/10 guarantees.
- Helped YBS farmers obtain lower interest loans using the Missouri Linked Deposit program.
- Shared Farm Financial Checkup results with borrowers.
- Met with FSA to obtain information to provide to young farmers on programs that would benefit them, including guarantee and subordination programs.
- Counseled YBS farmers in the office on good financial practices.
- Ran ads on radio stations pertaining to YBS programs.
- Ran ads to promote the association's irrigation and grain bin loan programs which resulted in an added interest rate discount for YBS farmers.
- Attended semi-annual meetings on the Three Rivers Junior College Ag Committee to discuss educational needs of Ag students.
- Offered a streamlined scorecard approval service for small farmers to significantly reduce paperwork.
- Encouraged YBS farmers to use marketing consultants, scouting services, and financial guidance counselors.
- Encouraged YBS farmers to keep adequate financial records and for their accountant to prepare full disclosure year-end financial statements including a Statement of Cash Flows to better analyze and manage their finances.
- Offered financial and informational support to Southland and Campbell schools.
- Met with FSA officials to identify YBS farmers that may be able to graduate from FSA and qualify for loans from Progressive FCS.
- Visited with county extension personnel to seek their input on young farmers who we may not have identified.
- Invited FSA loan officer to be special guest speaker at annual customer appreciation dinner to discuss programs and opportunities for YBS farmers.
- Made FSA guaranteed loans with YBS farmers.
- Made FSA subordinated loans to YBS farmers and continued to work with the FSA loan officer on possible new loans for them.
- Served as a judge for District FFA Speech contest.
- Buyer of livestock at Stoddard Co 4H livestock auction.
- Met with SEMO University students to help with class assignments on marketing.
- Met with SEMO University students to help with class assignments on business meetings.

PARTICIPATED IN VARIOUS SPONSORSHIPS:

- MO Rice Research Field Day
- MO Delta Center Field Day
- Missouri Farm Bureau Foundation for YBS farmers
- Farmers Recognition Banquet for the Charleston & Kelly High School Districts
- Meal for SEMO District Ag Teachers meeting
- Missouri Farm Bureau Foundation golf tournament
- Butler County fair
- Ag Expo tractor driving contest
- Several high school athletic teams and events
- SEMO district fair 4H & FFA livestock show
- Local FFA Chapters for awards

Safety and Soundness of the Program

In order to provide for extension of sound and constructive credit to young, beginning, and small farmers and ranchers, consistent with our mission statement and business objectives, we set standards and guidelines related to character, capacity, capital, and collateral.

The following standards and guidelines applied to our young, beginning, and small farmers and ranchers:

YBS Standards and Guidelines		
Character:	Must be satisfactory	(same as regular standard)
Capacity:	115% Capital debt repayment capacity	(same as regular standard)
Capital:	Liquidity: 0% working capital divided by avg. gross income	(vs 15% regular standard)
	Solvency: 40% owners' equity	(vs 50% regular standard)
Collateral:	85% Loan to appraised value for PCA	(vs 75% regular standard)
	75% Loan to appraised value for FLCA	(vs 65% regular standard)

As indicated by these standards, primary emphasis will be on the character and capacity standards. Exceptions may be granted if there are offsetting strengths. All terms of repayment or advances will be consistent with our existing lending standards and policy. Obtaining co-signers or guarantors will be encouraged where applicable in order to maintain credit standards, but is not necessarily a requirement. Whenever possible, maximum coordination will occur between us and with governmental and other private sources of credit to provide the best credit package for the customer. Applicants are expected to have the capability to manage and perform at or above average enterprise standards of earnings.

To minimize credit and profit risk exposure when less restrictive minimum credit criteria are required than for other customers, supplemental services or incentives not offered to other customers are available, or qualifying farmers receive preferred interest rates, we have set a maximum portfolio concentration not to exceed 200% of our risk funds. This maximum portfolio concentration is the total outstanding principal balances of loans to young, beginning, and small farmers and ranchers which have one or more exceptions to the core underwriting standards for regular loans (i.e., 50% owners' equity, 15% working capital divided by average gross income, 115% capital debt repayment capacity, and 75% loan to appraised value for the PCA or 65% loan to appraised value for the FLCA – as traditionally analyzed, or loans scoring less than 200 if scorecard processed).

Management will ensure that loans made under these programs are identified and reported to the Board quarterly and to AgriBank, FCB annually, or more frequently as required. Such reports will provide a summary of actual results compared to the quantitative and qualitative program targets and goals as set forth in our operational and strategic business plan. Reports on these programs will also be provided to regulatory agencies, as required.

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